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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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 a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your Shares in the Company, you should at once hand this circular and the accompanying form of proxy to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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### HUA HONG SEMICONDUCTOR LIMITED

華虹半導體有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01347)**

- (1) MAJOR AND CONNECTED TRANSACTION – ACQUISITION OF  
SHARE CAPITAL OF THE TARGET INVOLVING THE ISSUE OF  
CONSIDERATION SHARES UNDER SPECIFIC MANDATE;  
(2) APPLICATION FOR WHITEWASH WAIVER;  
(3) PROPOSED NON-PUBLIC ISSUANCE OF RMB SHARES TO  
RAISE SUPPORTING FUNDS;  
(4) SPECIAL DEAL;  
AND  
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Hong Kong Independent Financial Adviser to the Independent Board Committee, the  
Takeovers Code Independent Shareholders and the Proposed Acquisition LR  
Independent Shareholders**



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Capitalized terms used in this cover shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 10 to 56 of this circular and the letter from the Independent Board Committee is set out on pages 57 to 58 of this circular. A letter from the Hong Kong Independent Financial Adviser containing its advice to the Independent Board Committee, the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders is set out on page 59 to 125 of this circular.

A notice convening the EGM to be held as a hybrid meeting at 2:30 p.m. on 10 February 2026 with a combination of a physical meeting at No. 288, Halei Road, Zhangjiang Hi-Tech Park, Shanghai, PRC and a virtual meeting online, is set out on pages EGM-1 to EGM-5 of this circular.

If you intend to appoint a proxy to attend the EGM, please complete the enclosed form(s) of proxy in accordance with the instructions printed thereon and return the same to Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or via the designated URL (<https://evoting.vistra.com/>) using the username and password provided on the notification letter sent by the Company on 22 January 2026 not less than 48 hours before the time appointed for holding the EGM (that is, not later than 2:30 p.m. on 7 February 2026) or any adjournment thereof in person or by post. Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish, but in such event the form(s) of proxy shall be deemed to be revoked.

22 January 2026

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## DEFINITIONS

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

“Acquisition Agreement”	the agreement dated 29 August 2025 entered into between the Company and the Vendor in relation to the Proposed Acquisition
“acting in concert”	has the meaning as ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 31 August 2025 in relation to, among other things, (i) the Proposed Acquisition; (ii) the Proposed Non-public Issuance of RMB Shares; and (iii) the Whitewash Waiver
“Articles of Association”	the articles of association of the Company from time to time
“Asset Valuation Report”	the asset valuation report dated 29 December 2025 in respect of the Target Assets issued by the Valuer, the full text of which is set out in Appendix V to this circular
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Average Trading Price”	the average trading price of the RMB Shares during the 20 trading days immediately preceding the Price Determination Date, which is calculated by dividing the total turnover of the RMB Shares by the total trading volume of the RMB Shares during the 20 trading days immediately preceding the Price Determination Date
“Board”	the board of directors of the Company
“China IC Fund”	China Integrated Circuit Industry Investment Fund Co., Ltd.* (國家集成電路產業投資基金股份有限公司), a company incorporated in the PRC on 26 September 2014 and a 3.59% shareholder of the Company

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## DEFINITIONS

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“China IC Fund II”	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.* (國家集成電路產業投資基金二期股份有限公司), a company established in the PRC on 22 October 2019 and a connected person of the Company at subsidiary level, one of the Vendors and a member of the Huahong Concert Group. For details of its ownership structure, please refer to the section of the Letter from the Board headed “II. Major and Connected Transaction – Proposed Acquisition – 4. Information on the parties to the Acquisition Agreement” of this circular
“Company”	Hua Hong Semiconductor Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 01347) and the STAR Board (stock code: 688347)
“Compensation Agreement”	the performance compensation agreement dated 31 December 2025 entered into between the Company and Huahong Group in relation to the performance guarantees and related compensation provided by Huahong Group in respect of the Target Company
“Completion”	completion of the Proposed Acquisition (including the issue of Consideration Shares)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration Share(s)”	the 190,768,392 new RMB Share(s) to be allotted and issued by the Company to the Vendors pursuant to the Acquisition Agreement and the Supplemental Agreement
“Consideration Share Issuance”	the issuance of the Consideration Shares by the Company to the Vendors pursuant to the Acquisition Agreement
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened at 2:30 p.m. on 10 February 2026 at No. 288, Halei Road, Zhangjiang Hi-Tech Park, Shanghai, PRC to consider and, if thought fit, approve, among other things, (i) the Proposed Acquisition; (ii) the Proposed Non-public Issuance of RMB Shares; (iii) the Specific Mandate; (iv) the Whitewash Waiver; and (v) the Special Deal
“Enlarged Group”	the Group as enlarged by the Proposed Acquisition
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegates of the Executive Director
“Group”	the Company and its subsidiaries
“Guotou IC Fund”	Shanghai Guotou IC Fund Leading Integrated Circuit Private Equity Investment Fund Partnership (Limited Partnership)* (上海國投先導集成電路私募投資基金合夥企業(有限合夥)), one of the Vendors and a member of the Huahong Concert Group. Shanghai SASAC owns approximately 67.7762% of the partnership interest in Guotou IC Fund in aggregate. For details of its ownership structure, please refer to the section of the Letter from the Board headed “II. Major and Connected Transaction – Proposed Acquisition – 4. Information on the parties to the Acquisition Agreement” of this circular
“HHGrace”	Shanghai Huahong Grace Semiconductor Manufacturing Corporation (上海華虹宏力半導體製造有限公司), a company incorporated in the PRC on 24 January 2013 and a wholly-owned subsidiary of our Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Independent Financial Adviser”	Innovax Capital Limited, an independent financial adviser appointed by the Company to advise the Independent Board Committee, the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders in respect of the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal

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## DEFINITIONS

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“Hong Kong Shares”	ordinary Share(s) which are listed on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huahong Concert Group”	Huahong Group and parties acting in concert with it (including Shanghai IC Fund, China IC Fund II, Guotou IC Fund and SAIL)
“Huahong Group”	Shanghai Huahong (Group) Co., Ltd. (上海華虹(集團)有限公司), one of the Vendors. It is a company incorporated in the PRC on 9 April 1996 as Shanghai Hua Hong Microelectronics Co., Ltd. and renamed as Shanghai Huahong (Group) Co., Ltd. in 1998, and a substantial Shareholder of the Company. It is ultimately owned as to 51.74%, 15.29%, 15.29%, 9.73% and 7.96% by Shanghai SASAC and its subsidiaries, namely Shanghai International Group Corporation Limited (上海國際集團有限公司), Shanghai Guosheng Group Co., Ltd (上海國盛(集團)有限公司) and INESA (Group) Co., Ltd. (上海儀電(集團)有限公司), being wholly-owned subsidiaries of Shanghai SASAC, and Shanghai Lingang Economic Development (Group) Co., Ltd. (上海臨港經濟發展(集團)有限公司)), being a non-wholly owned subsidiary of Shanghai SASAC, respectively
“Hua Hong Manufacturing”	Hua Hong Semiconductor Manufacturing (Wuxi) Co., Ltd.* (華虹半導體製造(無錫)有限公司), a company incorporated in the PRC on 17 June 2022 and a non-wholly owned subsidiary of the Company held as to approximately 21.90%, 29.10%, 20.00% and 29.00% by the Company, HHGrace, Wuxi Xi Hong Lian Xin and China IC Fund II, respectively
“Hua Hong Wuxi”	Hua Hong Semiconductor (Wuxi) Limited, a company incorporated in the PRC on 10 October 2017 and a non-wholly-owned subsidiary of the Company held as to approximately 22.22%, 28.78%, 20.00%, 20.58% and 8.42% by the Company, HHGrace, Wuxi Xi Hong Guo Xin, China IC Fund and China IC Fund II, respectively

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors who have no direct or indirect interest in the Proposed Acquisition, the Whitewash Waiver and the Special Deal, namely Mr. Stephen Tso Tung Chang, Mr. Kwai Huen Wong, JP and Mr. Songlin Feng, established pursuant to the requirements of the Listing Rules and the Takeovers Code to advise the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders on the Proposed Acquisition (including the grant of the Proposed Acquisition Specific Mandate and the approval of the Acquisition Agreement), the Whitewash Waiver and the Special Deal
“Independent Third Party(ies)”	person(s) which is not a connected person of the Company
“Latest Practicable Date”	19 January 2026, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Non-public Issuance Benchmark Price”	Not lower than 80% of the Average Trading Price
“Non-public Issuance Independent Shareholders”	Shareholders other than (i) the Huahong Concert Group, (ii) Shareholders who have indicated to participate in the Non-public Issuance of RMB Shares before the EGM and their close associates (as defined under the Listing Rules), (iii) Shareholders who are involved in or interested in the Proposed Non-public Issuance of RMB Shares (otherwise than solely as Shareholders of the Company) and (iv) such other Shareholders who shall abstain from voting pursuant to applicable laws, rules and regulations
“Non-Public Issuance Specific Mandate”	the specific mandate to be sought at the EGM to issue RMB Shares pursuant to the Proposed Non-public Issuance of RMB Shares
“Offering Period”	the period commencing the Proposed Non-public Issuance of RMB Shares as determined by the Company

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## DEFINITIONS

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“PRC”	the People’s Republic of China, and for the sole purpose of this circular, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Price Determination Date”	the first day of the Offering Period of the Proposed Non-public Issuance of RMB Shares
“Pricing Benchmark Date”	the date of the announcement of the resolutions of the Board in respect of the Proposed Acquisition on the Shanghai Stock Exchange, being 31 August 2025
“Proposed Acquisition”	the proposed acquisition of the Target Assets from the Vendors pursuant to the Acquisition Agreement
“Proposed Acquisition LR Independent Shareholders”	Shareholders, other than Huahong Group, China IC Fund and China IC Fund II and its associates, which do not have a material interest in the Proposed Acquisition and the Proposed Acquisition Specific Mandate who are not required to abstain under the Listing Rules, the Shanghai Listing Rules and the relevant PRC laws and regulations
“Proposed Acquisition Specific Mandate”	the specific mandate to be sought at the EGM to issue the Consideration Shares pursuant to the Acquisition Agreement
“Proposed Non-public Issuance of RMB Shares”	the proposed non-public Issuance of RMB Shares to not more than 35 specific target subscribers
“Relevant Period”	the period commencing from 28 February 2025, being 6 months preceding the date of the Announcement, and ending on the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“RMB Share(s)”	the RMB share(s) of the Company, which are listed on the STAR Board of the Shanghai Stock Exchange in the PRC
“SAIL”	Shanghai Alliance Investment Limited (上海聯和投資有限公司), a substantial shareholder directly and indirectly holding approximately 10.87% of the Shares of our Company, and a member of the Huahong Concert Group. It was incorporated in the PRC on 26 September 1994 and is currently wholly-owned by Shanghai SASAC



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## DEFINITIONS

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“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shanghai IC Fund”	Shanghai Integrated Circuit Industry Investment Fund Co., Ltd.* (上海集成電路產業投資基金股份有限公司), a company established under the laws of the PRC, one of the Vendors and a member of the Huahong Concert Group. Shanghai IC Fund is owned approximately 30.70% by Shanghai Science and Technology Venture Capital (Group) Co., Ltd.* (上海科技創業投資(集團)有限公司) which is in turn ultimately owned by Shanghai SASAC. For details of its ownership structure, please refer to the section of the Letter from the Board headed “II. Major and Connected Transaction – Proposed Acquisition – 4. Information on the parties to the Acquisition Agreement” of this circular
“Shanghai Listing Rules”	the Rules Governing the Listing of Stocks on the Science and Technology Innovation Board of Shanghai Stock Exchange 《上海證券交易所科創板股票上市規則》 (as amended from time to time)
“Shanghai SASAC”	Shanghai Municipal State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
“Share(s)”	ordinary shares in the capital of the Company
“Shareholder(s)”	holders of ordinary shares in the capital of the Company
“Sino IC Capital”	Sino IC Capital Co., Ltd.* (華芯投資管理有限責任公司), the fund manager of China IC Fund and China IC Fund II. Its ultimate beneficial owner is the Ministry of Finance of the PRC, which is an Independent Third Party of the Company. For further details, see the section of the Letter from the Board headed “II. Major and Connected Transaction – Proposed Acquisition – 4. Information on the parties to the acquisition agreement” of this circular.
“Special Deal”	the Proposed Non-public Issuance of RMB Shares which constitutes a special deal under Rule 25 of the Takeovers Code

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## DEFINITIONS

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“Specific Mandate(s)”	the Proposed Acquisition Specific Mandate and the Non-Public Issuance Specific Mandate
“STAR Board”	the Science and Technology Innovation Board of the Shanghai Stock Exchange
“Supplemental Agreement”	the supplemental agreement to the Acquisition Agreement dated 31 December 2025 entered into between the Company and the Vendors
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Takeovers Code Independent Shareholders”	Shareholders other than (i) Huahong Concert Group and (ii) those who are interested in or involved in the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal
“Target Assets”	97.4988% of the equity interests in the Target Company
“Target Company” or “Target”	Shanghai Huali Microelectronics Corporation* (上海華力微電子有限公司), a company established in the PRC with limited liability, of which the Vendors hold in aggregate 97.4988% as at the Latest Practicable Date
“Total Consideration”	the consideration payable by the Company to the Vendors for the Proposed Acquisition, and pursuant to the Supplemental Agreement, shall be an aggregate of 190,768,392 Consideration Shares
“trading day(s)”	a day on which the Shanghai Stock Exchange is open for dealing or trading in securities
“Transitional Period”	the period commencing from the date immediately after the Valuation Benchmark Date to the month end date of the month in which Completion has taken place
“Update Announcement”	the announcement of the Company dated 31 December 2025 in relation to, among other things, the update on the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares
“US\$”	United States dollar(s), the lawful currency of the United States of America

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## DEFINITIONS

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“Valuation Benchmark Date”	31 August 2025
“Valuer”	Shanghai Orient Appraisal Co., Ltd (上海東洲資產評估有限公司), a qualified asset appraisal agency in the PRC
“Vendor(s)”	Huahong Group, Shanghai IC Fund, China IC Fund II and Guotou IC Fund
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of Huahong Group to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by Huahong Group which would otherwise arise as a result of the issue of the Consideration Shares under the Proposed Acquisition
“Wuxi Xi Hong Guo Xin”	Wuxi Xi Hong Guo Xin Investment Co., Ltd.* (無錫錫虹國芯投資有限公司), a professional investment company incorporated in the PRC on 16 January 2023, jointly controlled by municipal and district-level state-owned enterprises, holding 20.00% of the shares of Hua Hong Wuxi, a non-wholly owned subsidiary of the Company
“Wuxi Xi Hong Lian Xin”	Wuxi Xi Hong Lian Xin Investment Co., Ltd.* (無錫錫虹聯芯投資有限公司), a professional investment company incorporated in the PRC on 19 December 2017, jointly established by municipal and district-level state-owned enterprises, holding 20.00% of the shares of Hua Hong Manufacturing, a non-wholly owned subsidiary of the Company
“%”	per cent

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LETTER FROM THE BOARD

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**HUA HONG SEMICONDUCTOR LIMITED**

**華虹半導體有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01347)**

*Executive Director*

Peng Bai (*Chairman and President*)

*Non-executive Directors*

Jun Ye

Guodong Sun

Bo Chen

Chengyan Xiong

*Independent non-executive Directors*

Stephen Tso Tung Chang

Kwai Huen Wong, JP

Songlin Feng

*Registered Office*

Room 2212, Bank of America Tower

12 Harcourt Road, Central

Hong Kong, PRC

*Principal Place of Business*

No. 288, Halei Road

Zhangjiang Hi-Tech Park

Shanghai

PRC

22 January 2026

*To Shareholders*

Dear Sir or Madam,

- (1) MAJOR AND CONNECTED TRANSACTION – ACQUISITION OF  
SHARE CAPITAL OF THE TARGET INVOLVING THE ISSUE OF  
CONSIDERATION SHARES UNDER SPECIFIC MANDATE;  
(2) APPLICATION FOR WHITEWASH WAIVER;  
(3) PROPOSED NON-PUBLIC ISSUANCE OF RMB SHARES TO  
RAISE SUPPORTING FUNDS;  
(4) SPECIAL DEAL  
AND  
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**I. INTRODUCTION**

References are made to the Announcement and the Update Announcement, in relation to, among other things, (i) the Proposed Acquisition; (ii) the Proposed Non-public Issuance of RMB Shares; (iii) the Whitewash Waiver; and (iv) the Special Deal.

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## LETTER FROM THE BOARD

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As disclosed in the Announcement, on 29 August 2025, the Company and the Vendors entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, a total of 97.4988% of the share capital of the Target. In addition, the Company and the Vendors further entered into the Supplemental Agreement in relation to the Proposed Acquisition on 31 December 2025, pursuant to which the final Total Consideration of the Proposed Acquisition is determined to be RMB8,267,902,153.26, and the number of the Consideration Shares proposed to be issued shall be 190,768,392 RMB Shares.

In addition to the Proposed Acquisition, on 29 August 2025, the Board approved the Proposed Non-public Issuance of RMBShares to raise supporting funds. The total amount of supporting funds to be raised thereunder shall be RMB7,556,286,000 (being not exceeding 100% of the final Total Consideration for the Proposed Acquisition) and the number of RMBShares to be issued shall not exceed 30% of the total issued share capital of the Company upon Completion.

The purpose of this circular is to provide you with, among other things, further details of (i) the Proposed Acquisition, (ii) the Proposed Non-public Issuance of RMB Shares, (iii) the Specific Mandate, (iv) the Whitewash Waiver, and (v) the Special Deal and the transactions contemplated thereunder, together with other information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolutions to be proposed at the EGM.

At the EGM, resolutions will be proposed to approve, among other things, (i) Proposed Acquisition; (ii) the Proposed Non-public Issuance of RMB Shares; (iii) the Specific Mandate; (iv) the Whitewash Waiver, and (v) the Special Deal and the transactions contemplated thereunder.

## II. MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION

### 1. Acquisition Agreement (as supplemented by the Supplemental Agreement)

The principal terms of the Acquisition Agreement (as supplemented by the Supplemental Agreement) are set out below:

<b>Date</b>	29 August 2025 (as supplemented by the Supplemental Agreement dated 31 December 2025)
<b>Parties</b>	(1) the Company, as purchaser; and (2) Huahong Group; (3) Shanghai IC Fund; (4) China IC Fund II; (5) Guotou IC Fund, as vendors.

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## LETTER FROM THE BOARD

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**Subject matter**

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase, and Vendors have conditionally agreed to sell, the Target Assets, being 97.4988% of the equity interests in the Target Company, at the Total Consideration.

**Consideration**

Pursuant to the relevant laws, rules and regulations in the PRC, the parties have agreed to engage the Valuer, a qualified asset appraisal agency in the PRC, to conduct a valuation on the Target Company and issue the Asset Valuation Report with the Valuation Benchmark Date as of 31 August 2025. In compliance with the requirement under Rule 11.4 of the Takeovers Code, the Valuer has confirmed that there is no material difference in the Valuation between the Valuation Benchmark Date and the date of the Valuation Report. Please refer to Appendix V to this circular for further details.

According to the Asset Valuation Report, the appraised value of the Target Company as at the Valuation Benchmark Date, which were primarily determined based on the market approach, is RMB8,480 million. The amount of final Total Consideration shall be RMB8,267,902,153.26. In considering the Total Consideration, even though the net asset value of the Target Group (approximately RMB2,002 million as set out in Appendix II to this circular) is smaller than that of the appraised value based on the Asset Valuation Report, the Board understood that the difference lies in particular in the full depreciation of fixed assets under accounting standards.

The wafer foundry industry in which the Target Company operates is characterized by its capital-intensive nature. Semiconductor equipment is depreciated over a financial period of seven years, which is significantly shorter than its actual economic useful life. At present, the Target Company's fixed assets have only recently completed their financial depreciation cycle, resulting in a relatively low book value and asset renewal ratio. However, this is merely a temporary accounting phenomenon and does not materially affect its actual production capacity. The Target Company's ability to continue as a going concern remains stable.

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## LETTER FROM THE BOARD

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The Target Company's net asset scale is at a relatively low point in its corporate lifecycle, while its financial position as at 31 August 2025 has recovered in line with the industry rebound. As a result, its return on equity (ROE) for the year 2024 and eight months ended 31 August 2025 is significantly higher than the industry average. Please refer to Appendix II to this circular for the audited financial information of the Target Company for the two years ended 31 December 2024 and the eight months ended 31 August 2025.

Having discussed with the Valuer to understand the justification of selection of the valuation method, the assumptions and bases of valuation, the Board noted that the net asset value of the Target Company, which mainly represents the historical accounting value of its assets and liabilities, may not fully reflect its underlying fair value and business prospects and thus may not be an appropriate basis of valuation of a business of an operating nature. The Board considers that a significant portion of the future demand for the Target Company's products is expected to be driven by the growth of AI and next-generation technologies. The adoption of the market approach by the Valuer, which captures the market's assessment of value through the trading multiples of comparable listed companies, is therefore more appropriate than relying solely on book value for the purpose of the Target Company's valuation.

Based on the foregoing, the Board (including members of the Independent Board Committee comprising the independent non-executive Directors only whose views are set out in the letter from the Independent Board Committee in this circular), considers that the transaction amount (and thus the final Consideration) is fair and reasonable and in the best interests of the shareholders.

Upon arms' length negotiations between the parties taking into account, amongst others, the appraised value of the Target Assets under the Asset Valuation Report, it has been agreed that the final Total Consideration shall comprise 190,768,392 Consideration Shares (together with such cash consideration in lieu of fractional Shares), to be issued to the Vendors in the following proportion.

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## LETTER FROM THE BOARD

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Vendor	Target Asset sold (%)	Corresponding value in the Target Asset (RMB)	Consideration Shares to be issued	Cash consideration in lieu of fractional Shares (RMB)
Huahong Group	63.5443	5,388,551,195.69	124,332,053	18.67
Shanghai IC Fund	15.7215	1,333,186,465.21	30,761,109	1.15
China IC Fund II	10.2503	869,227,665.01	20,056,014	18.25
Guotou IC Fund	7.9827	676,936,827.35	15,619,216	5.91
<b>Total</b>	<b>97.4988</b>	<b>8,267,902,153.26</b>	<b>190,768,392</b>	<b>43.98</b>

Further, the parties have considered the significant increase in price in the RMB Shares of the Company since the Announcement, the available cash reserve of the Company, the working capital requirements and tax obligations of the Vendors, it has been decided that the Total Consideration shall not comprise any cash element (except for such cash consideration in lieu of fractional shares). Notwithstanding the Group's substantial cash and bank balance, (i) the Group has substantive capital expenditure needs arising from its future business development plans in the upcoming years, including expansion and developments of the 8-inch and 12-inch foundry fabs of HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing, and (ii) a substantial portion of the Group's cash possessed by the Group has been budgeted for dedicated long-term strategic purposes, as the semiconductor industry is a sector with intensive need for capital and talent acquisition, with rapid iteration of technologies from wafer manufacturing processes to downstream product demands. Having considered the need of cash set out above, the Board has decided to settle the Total Consideration by issuing new RMB Shares instead of using the Group's cash reserve.

The Consideration Shares amount to approximately 10.98% to the Company's total existing issued Shares as at the Latest Practicable Date and approximately 9.89% to the Company's enlarged issued share capital upon the Completion (assuming that there will be no change in the total issued share capital of the Company since the Latest Practicable Date).



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Please refer to Appendix V to this circular for the full text of the Asset Valuation Report issued by Valuer. Pursuant to Rule 11.1(b) of the Takeovers Code, the Hong Kong Independent Financial Adviser has reported on the Asset Valuation Report and confirmed that the Valuer is suitably qualified and experienced to undertake the valuation of the Target Assets. Please refer to Appendix VI to this circular for the letter of confirmation issued by the Hong Kong Independent Financial Adviser in this regard.

### **Issue of Consideration Shares**

In accordance with the relevant PRC laws and regulations, the issue price of the Consideration Shares shall be RMB43.34 per Consideration Share, representing not less than 80% of the Average Trading Price of the RMB Shares for the 120 trading days prior to the Pricing Benchmark Date. Notwithstanding the fact that the 120-day average price presented a lower average price, the 120 trading days was selected as the pricing determination basis in light of the price fluctuation of the RMB Shares prior to the signing of the Acquisition Agreement, as a result, a longer reference period (i.e. 120 trading days, instead of the other reference period 20 trading days or 60 trading days), was chosen by the parties, as it neutralized the impact of the price rally prior to the signing of the Acquisition Agreement to achieve a fair and reasonable pricing basis.

The issue price of RMB43.34 per Consideration Shares represents:

- (1) a discount of approximately 44.79% to the closing price per RMB Share of RMB78.50 as quoted on the Shanghai Stock Exchange on the date of the Acquisition Agreement;
- (2) a discount of approximately 59.82% to the closing price per RMB Share of RMB107.87 as quoted on the Shanghai Stock Exchange on the date of the Supplemental Agreement;
- (3) a discount of approximately 44.79% to the closing price per RMB Share of RMB78.50 as quoted on the Shanghai Stock Exchange on the last trading day prior to the Pricing Benchmark Date;

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## LETTER FROM THE BOARD

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- (4) a discount of approximately 31.78% to the average trading price per RMB Share of RMB63.53 based on the prices as quoted on the Shanghai Stock Exchange of the last 20 trading days immediately prior to the Pricing Benchmark Date;
- (5) a discount of approximately 24.94% to the average trading price per RMB Share of RMB57.74 based on the prices as quoted on the Shanghai Stock Exchange of the last 60 trading days immediately prior to the Pricing Benchmark Date;
- (6) a discount of approximately 19.99% to the average trading price per RMB Share of RMB54.17 based on the prices as quoted on the Shanghai Stock Exchange of the last 120 trading days immediately prior to the Pricing Benchmark Date;
- (7) a premium of approximately 65.85% over the audited net asset value attributable to the Shareholders of approximately US\$3.64 per Share as at 31 December 2024, based on the exchange rate of US\$1 to RMB7.1884 on 31 December 2024 as announced by People's Bank of China;
- (8) a premium of approximately 65.97% over to the unaudited net asset value attributable to the Shareholders of approximately US\$3.65 per Share as at 30 June 2025, based on the exchange rate of US\$1 to RMB7.1586 on 30 June 2025 as announced by People's Bank of China; and
- (9) a discount of approximately 67.92% to the closing price per RMB Share of RMB135.08 as quoted on the Shanghai Stock Exchange on the Latest Practicable Date.

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## LETTER FROM THE BOARD

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During the period between the Pricing Benchmark Date and the date of issue of the Consideration Shares, in case of any ex-rights or ex-dividends events of the Company such as distribution of cash dividends, bonus issues, rights issues, allotment of shares, conversion of share premium into share capital or capitalization issues, the issue price of the Consideration Shares will be adjusted in accordance with the relevant PRC laws and regulations in the following manner:

- (1) In the event of bonus issues, capitalization issues or conversion of share premium into share capital:

$$P1 = P0/(1 + n)$$

- (2) In the event of rights issues or allotment of shares:

$$P1 = (P0 + A \times k)/(1 + k)$$

- (3) In the event of simultaneous (i) bonus issues, capitalization issues or conversion of share premium into share capital and (ii) rights issues or allotment of shares;

$$P1 = (P0 + A \times k)/(1 + n + k)$$

- (4) In the event of distribution of cash dividends:

$$P1 = P0 - D$$

- (5) In the event of simultaneous (i) bonus issues, capitalization issues or conversion of share premium into share capital; (ii) rights issues or allotment of shares; and (iii) distribution of cash dividends:

$$P1 = (P0 - D + A \times k)/(1 + n + k)$$

where,

- (i)  $P0$  is the issue price of the Consideration Shares before adjustment;
- (ii)  $n$  is the number of bonus shares or shares to be issued upon capitalization issue or conversion of share premium into share capital per Share;

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## LETTER FROM THE BOARD

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- (iii)  $k$  is the number of new Shares to be allotted per Share under rights issue or the allotment of Shares;
- (iv)  $A$  is the issue price per new Share under rights issue or allotment of shares;
- (v)  $D$  is the amount of cash dividend per Share; and
- (vi)  $P_1$  is the issue price of the Consideration Shares after adjustment.

The Consideration Shares will be issued under the Proposed Acquisition Specific Mandate to be sought at the EGM.

For information of the potential dilution effect of the issuance of Consideration Shares, please refer to the tables in the section 4 of the Letter from the Board headed “Effects on the Shareholding Structure of the Company” of this circular.

### **Lock-up period**

Huahong Group has undertaken that it shall not transfer any of the Consideration Shares within 36 months from the date of issue of the Consideration Shares. In the event that (i) the average closing price of the Shares for any 20 consecutive days within 6 months of Completion or (ii) the closing price of the Shares at the end of the 6-month period after the Completion is lower than the Consideration Shares issue price, the lock-up period on the Consideration Shares obtained by Huahong Group shall automatically extend for an additional 6-month period.

Shanghai IC Fund has undertaken that it shall not transfer any of the Consideration Shares within 12 months from the date of issue of the Consideration Shares. In the event that Shanghai IC Fund is regarded as a private equity fund under the applicable laws and has held its interests in the Target Assets for 48 months at the time when it obtains the Consideration Shares, and provided that (i) it is not the Company’s controlling shareholder, ultimate beneficial owner or their respective associates, and (ii) it has not obtained control over the Company through the Proposed Acquisition, the lock-up period on the Consideration Shares obtained by Shanghai IC Fund shall be shortened to 6 months.

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## LETTER FROM THE BOARD

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Each of China IC Fund II and Guotou IC Fund has undertaken that it shall not transfer any of the Consideration Shares within 12 months from the date of issue of the Consideration Shares. In the event that any of China IC Fund II and Guotou IC Fund has not held its interests in the Target Assets for 12 months at the time when it obtains the Consideration Shares, the lock-up period on the Consideration Shares obtained by such Vendor shall be extended to 36 months.

The final adjusted lock-up period of each of the Vendors will be determined at the Completion of the Proposed Acquisition and will be disclosed in the announcement in relation thereto. The lock-up undertaking shall also be applicable to any additional RMB Shares received by the Vendors as a result of bonus issues, capitalization issues, and/or conversion of share premium into share capital after completion of the Consideration Share Issuance.

**Conditions precedent  
to the effectiveness  
of the Acquisition  
Agreement and the  
Supplemental  
Agreement**

The effectiveness of the Acquisition Agreement and Supplemental Agreement is conditional upon the fulfilment of all the following conditions:

- (i) the approval of the Proposed Acquisition by the Board and the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders at the EGM of the Company;
- (ii) the approval of the Proposed Acquisition by the internal and external competent governing bodies of the Vendors;
- (iii) the approval of Proposed Acquisition by the shareholders of the Target Company, and the waiver of the first right of refusal by the shareholders of the Target Company having been obtained;
- (iv) the approval of the Proposed Acquisition by the state-owned assets supervision and administration authorities;
- (v) the granting of a Whitewash Waiver by the Executive and the approval of the same by the Takeovers Code Independent Shareholders at the EGM of the Company;

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## LETTER FROM THE BOARD

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- (vi) the approval of the Proposed Acquisition by the Shanghai Stock Exchange and registration by the CSRC;
- (vii) the Proposed Acquisition having obtained other necessary prior approvals, approvals or consents (if any) as required by laws, regulations and regulatory authorities.

There is no long stop date under the Acquisition Agreement in respect of the fulfilment and/or waiver of the conditions precedent, which is consistent with similar transactions undertaken by other A+H companies. Notwithstanding the lack of long stop date, the Company is of the view that the transaction terms, on the whole, are fair and reasonable given (1) the final Consideration shall be supported by a valuation, and the parties to the transactions have also considered other factors (such as price fluctuation, certainty of the transaction) when determining the pricing of the Consideration Shares; (2) after the completion of the Proposed Acquisition, the shareholders' equity attributable to the parent company, the net profit attributable to the owners of the parent company and the basic earnings per share of the Company will increase, evidencing that is be no harm to the interests of minority shareholders; (3) the setting of a long stop date may also increase the uncertainty of the Proposed Acquisition, causing market confusion and may in turn harm the interests of the minority shareholders; (4) in the event that the Proposed Acquisition is not completed within 12 months of the EGM (i.e. the validity period of the relevant resolution), the Company shall be required to convene another extraordinary general meeting, and the shareholders shall then be entitled to vote to decide whether to proceed with the Proposed Acquisition. The parties will however endeavor to take necessary steps to procure the fulfillment of the conditions precedent and proceed with Completion.

In respect of the condition set out in paragraph (vii) above, as at the Latest Practicable Date, the Company is not aware of any other approval and/or filings which are required to be obtained by it in respect of the Proposed Acquisition.

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## LETTER FROM THE BOARD

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None of the above conditions precedent may be waived by any party to the Acquisition Agreement. Other than conditions set out in paragraph (i) (in respect of the approval by the Board), (ii) and (iii) above, none of the other conditions precedent has been fulfilled as at the Latest Practicable Date. The Proposed Acquisition will not proceed if the Whitewash Waiver is not obtained or if the Whitewash Waiver is not approved by the Takeovers Code Independent Shareholders.

Condition (vi) in respect of the approval of the Proposed Acquisition by the Shanghai Stock Exchange and the CSRC will only be fulfilled after the EGM in accordance with the relevant PRC laws and regulations. Further announcement(s) will be made as and when appropriate if the condition(s) set out in above has been satisfied.

The Supplemental Agreement shall become effective upon the Acquisition Agreement becoming effective.

**Entitlement to the profits or losses of the Target Company pending Completion**

The Company as the purchaser is entitled to the profits or losses generated from the Target Assets in the course of the business of the Target Company from (but excluding) the Valuation Benchmark Date to (including the date of) Completion.

**Completion**

Upon registration of the Proposed Acquisition with the CSRC, the parties agree to cooperate and complete the necessary steps in respect of completion in accordance with applicable laws and regulations within the validity period of the registration. Completion of the Proposed Acquisition shall take place upon completion registration of the Target Assets with the relevant administration of market regulation of the PRC, which is expected to be within one year from the date of the CSRC's agreement to register.

**Completion audit**

The parties agree that an auditor with appropriate qualifications will be appointed to conduct a completion audit of the Target Assets as at the nearest month end before the date of the completion.

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## LETTER FROM THE BOARD

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### **Termination**

The Acquisition Agreement shall be terminated in the following circumstances:

- (i) If the parties mutually agree to terminate the Acquisition Agreement in writing prior to the date of Completion;
- (ii) If the Acquisition Agreement is terminated, revoked, or deemed invalid due to objections to the content and performance of the Acquisition Agreement by the competent regulatory authorities, government authorities, securities registration or trading authorities, or judicial authorities, or the inability to perform the major terms and provisions of the Acquisition Agreement, which seriously affects the purpose of the Acquisition Agreement;
- (iii) If the competent regulatory authorities, government authorities, securities registration or trading authorities, or judicial authorities expressly disagree with certain terms of the Acquisition Agreement which have a substantive impact on the Proposed Acquisition and would seriously affect the purpose of the Acquisition Agreement;
- (iv) If there is a change in laws, regulations and rules on which the Acquisition Agreement is relied upon, rendering the key content of the Acquisition Agreement illegal, or as a result of national policies and orders, any party to the Acquisition Agreement becomes unable to perform its main obligations under the Acquisition Agreement;
- (v) If any of the warranties and undertakings made by any party in the Acquisition Agreement becomes untrue or inaccurate in any material respect.



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## LETTER FROM THE BOARD

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### 2. Compensation Agreement

Pursuant to the Guidance on the Application of Regulatory Rules – Listing Category No. 1. (監管規則適用指引–上市類第1號) issued by the CSRC (“**CSRC Listing Guidance Category No. 1**”), where a listed company acquires asset(s) from its controlling shareholder (as defined under the Shanghai Listing Rules) which involve cash consideration or issuance of consideration shares, the controlling shareholder shall compensate the listed company for any impairment of target asset. Accordingly, on 31 December 2025, the Company and Huahong Group entered into the Compensation Agreement, pursuant to which, for a period of three financial years (including the year in which the Proposed Acquisition is completed and the two subsequent financial years, a period which follows the CSRC Listing Guidance Category No. 1), the Company shall conduct an impairment test on the total value of the assets of the Target Assets upon the end of the financial year, based on a valuation conducted by a qualified valuer under the PRC Securities Laws with the valuation method to be determined.

In the event of an impairment in the Target Assets in any of the three financial years, Huahong Group shall compensate the Company for the impairment value, multiplied by the proportion of Huahong Group’s share in the Total Consideration (representing approximately 65.2%) by way of (i) subject to compliance with laws, rules and regulations, the Company’s repurchase of a corresponding number of Consideration Shares held by Huahong Group in consideration of RMB1; and (ii) cash. The Company shall within 30 working days of the impairment report, make an announcement on the compensation arrangement setting out the impairment loss recorded and the compensation received from Huahong Group (if any) in compliance with its obligation thereunder, after which, Huahong Group shall settle such compensation within 30 working days of the announcement. The amount of impairment made and compensation received/receivable shall be disclosed in the Company’s annual report.

As the Compensation Agreement has been entered into upon arm’s length negotiation with Huahong Group in accordance with the requirements of the CSRC Listing Guidance Category No. 1 and allows the Company to hedge against the commercial and financial risks of impairment loss arising from the Proposed Acquisition and the conduct of the Target’s business going forward, the Board (including members of the Independent Board Committee comprising the independent non-executive Directors only whose views are set out in the letter from the Independent Board Committee in this circular) considers that the terms of the Compensation Agreement are fair and reasonable and in the best interests of the Shareholders. The Company shall disclose (i) whether the Target Company has recorded any impairment loss in each of the financial years covered by the Compensation Agreement, (ii) whether the compensation mechanism is triggered and (iii) the amount of compensation received thereunder, as and when appropriate.

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## LETTER FROM THE BOARD

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### 3. Information on the Target Company

The audited total asset value and net asset value of the Target Company (i) as at 31 December 2024 prepared under the Hong Kong Financial Reporting Standards were RMB6,258,892,000 and RMB1,266,932,000 respectively; and (ii) as at 31 August 2025 prepared under the Hong Kong Financial Reporting Standards were RMB7,258,503,000 and RMB2,001,914,000 respectively.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial information of the Target Company will be consolidated into the consolidated financial statements of the Group.

The Target Company is a limited liability company established in the PRC on 18 January 2010. The Target Company is principally engaged in the business of 12-inch integrated circuit wafer foundry services in the PRC.

The Target Company's shareholding structure as at the Latest Practicable Date is set out as follows:

<b>Parties</b>	<b>Equity interest as at the Latest Practicable Date</b>	<b>Registered capital of the Target (RMB million)</b>	<b>Date of becoming a holder of Target's equity interest</b>
Huahong Group	63.5443%	1,293.88	January 2010
Shanghai IC Fund	15.7215%	320.12	December 2016
China IC Fund II	10.2503%	208.71	November 2023
Guotou IC Fund	7.9827%	162.54	April 2025
HHGrace	2.5012%	50.93	January 2010
<b>Total</b>	<b>100.0000%</b>	<b>2,036.19</b>	

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## LETTER FROM THE BOARD

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The audited financial information of the Target Company for the two financial years ended 31 December 2023 and 2024, and the eight months ended 31 August 2025, prepared in accordance with the Hong Kong Financial Reporting Standards, were as follows:

	<b>For the year ended 31 December 2023 (audited) RMB million</b>	<b>For the year ended 31 December 2024 (audited) RMB million</b>	<b>For the eight months ended 31 August 2025 (audited) RMB million</b>
<b>Net profit before taxation</b>	(372.29)	521.52	514.64
<b>Net profit after taxation</b>	(372.29)	521.52	514.64

The subscribed capital by Huahong Group, Shanghai IC Fund, China IC Fund II and Guotou IC Fund in the Target Company was in aggregate approximately RMB1.99 billion.

#### **4. Information on the parties to the Acquisition Agreement**

##### **(i) The Company**

The Company is a limited liability company incorporated in Hong Kong on 21 January 2005. The Company primarily focuses on embedded non-volatile memory, power discrete, analog & power management, logic & RF and other specialty technology manufacturing platforms.

##### **(ii) Huahong Group**

Huahong Group is a high-tech industry group which primarily focuses on IC manufacturing, research and development of advanced IC manufacturing process, IC systems integration and application services, sale of electronic components and overseas venture capital investment. It is ultimately owned as to 51.74%, 15.29%, 15.29%, 9.73% and 7.96% by Shanghai SASAC, and its subsidiaries, namely, Shanghai International Group Corporation Limited (上海國際集團有限公司) (“**Shanghai International**”), Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司) (“**Shanghai Guosheng**”), INESA (Group) Co., Ltd. (上海儀電(集團)有限公司), being wholly-owned subsidiaries of Shanghai SASAC, and Shanghai Lingang Economic Development (Group) Co., Ltd. (上海臨港經濟發展(集團)有限公司), respectively, being a non-wholly owned subsidiary of Shanghai SASAC.

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## LETTER FROM THE BOARD

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### *(iii) Shanghai IC Fund*

Shanghai IC Fund is the local integrated circuit industry investment fund established by Shanghai Municipal Government to implement the national integrated circuit development program and Shanghai municipal IC industry development strategy, the investors of which include Shanghai's important state-owned investment groups, industrial groups and financial institutions. Shanghai IC Fund is owned approximately 30.70% by Shanghai Science and Technology Venture Capital (Group) Co., Ltd.\* (上海科技創業投資(集團)有限公司) (“**Shanghai Science & Tech VC**”). Shanghai SASAC is the ultimate beneficial owner of Shanghai Science & Tech VC and thus Shanghai IC Fund. The other shareholders holding 10% or more of its shares are China Life Asset Management Company Limited (approximately 30.26%), an Independent Third Party wholly owned by China Life Insurance Company Limited (a company listed on the Main Board of the Stock Exchange (stock code: 2628)), and China IC Fund (approximately 10.53%). The remaining minority shareholders each holding around 1-7% of shares are Shanghai Pudong Emerging Industries Investment Co., Ltd.\* (上海浦東新興產業投資有限公司), Shanghai International Trust Co., Ltd.\* (上海國際信託有限公司), CBIC Zhijixin (Jiaxing) Equity Investment Partnership (Limited Partnership)\* (中保投智集芯(嘉興)股權投資合夥企業(有限合夥)), CBIC Qixin (Jiaxing) Integrated Circuit Industry Investment Co., Ltd.\* (中保投齊芯(嘉興)集成電路產業投資有限責任公司), China CITIC Financial Asset Management Co., Ltd.\* (中國中信金融資產管理股份有限公司) and Shanghai Jiading Venture Capital Management Co., Ltd.\* (上海嘉定創業投資管理有限公司).

### *(iv) China IC Fund II*

China IC Fund II mainly invests via equity investment in the value chain of integrated circuit industry, primarily in integrated circuit chip manufacturing as well as chip designing, packaging, testing and equipment and materials. China IC Fund II is not regarded as a subsidiary of its single largest shareholder, the Ministry of Finance. There is no ultimate beneficial owner who controls, directly or indirectly, one-third or more of the equity interest in China IC Fund II. China IC Fund II is managed by Sino IC Capital.

As at the Latest Practicable Date and based on the information provided by China IC Fund II, there were 27 fund investors in China IC Fund II, as set out below:

Fund investor	Percentage of equity interest
Ministry of Finance <sup>#(1)</sup>	11.02%
China Development Bank Capital Co., Ltd. (國開金融有限責任公司) (“ <b>CDB Capital</b> ”) <sup>#(2)</sup>	10.78%
Chongqing Strategic Emerging Industry Equity Investment Fund Partnership (Limited Partnership) (重慶戰略性新興產業股權投資 基金合夥企業(有限合夥)) <sup>(3)</sup>	7.35%
Chengdu Tianfu Guoji Investment Co., Ltd. (成都天府國集投資有限 公司) <sup>(4)</sup>	7.35%

## LETTER FROM THE BOARD

Fund investor	Percentage of equity interest
Wuhan Optics Valley Financial Holding Group Co., Ltd. (武漢光谷金融控股集團有限公司) <sup>(5)</sup>	7.35%
Zhejiang Fuzhe Integrated Circuit Industry Development Co., Ltd. (浙江富浙集成電路產業發展有限公司) <sup>(6)</sup>	7.35%
China National Tobacco Corporation (中國煙草總公司) <sup>##(7)</sup>	7.35%
Shanghai Guosheng <sup>##(8)</sup>	7.35%
Beijing E-Town International Investment & Development Co., Ltd. (北京亦莊國際投資發展有限公司) <sup>##(9)</sup>	4.90%
Jiangsu Wanquan Integrated Circuit Industry Investment Co., Ltd. (江蘇惠泉集成電路產業投資有限公司) <sup>(10)</sup>	4.90%
Beijing Guoyi Hospital Co., Ltd. (北京國誼醫院有限公司) <sup>(11)</sup>	4.90%
China Mobile Capital Holding Co., Ltd. (中移資本控股有限責任公司) <sup>##(12)</sup>	4.90%
Anhui Xinhua IC Industry Investment Partnership (Limited Partnership) (安徽省芯火集成電路產業投資合夥企業(有限合夥))	3.67%
Anhui Wantou Anhua Modern Industrial Investment Partnership (Limited Partnership) (安徽皖投安華現代產業投資合夥企業(有限合夥))	3.67%
Guangzhou Industrial Investment Fund Management Co., Ltd. (廣州產業投資基金管理有限公司)	1.47%
Fujian State Owned Integrated Circuit Investment Co., Ltd. (福建省國資集成電路投資有限公司)	1.47%
Shenzhen Shenchao Technology Integrated Circuit Industry Investment Partnership Enterprise (Limited Partnership) (深圳市深超科技積體電路產業投資合夥(有限合夥))	1.47%
Huangpu Investment Holding (Guangzhou) Co., Ltd. (黃埔投資控股(廣州)有限公司)	0.98%
China Telecommunications Corporation (中國電信集團有限公司) <sup>#</sup>	0.73%
Unicom Capital Investment Holding Co., Ltd. (聯通資本投資控股有限公司) <sup>#</sup>	0.49%
Zhongdian Jintou Holdings Co., Ltd. (中電金投控股有限公司) <sup>#</sup>	0.24%
Sino IC Capital <sup>##(13)</sup>	0.07%
Shanghai Siqi Enterprise Management Partnership (Limited Partnership) (上海矽啟企業管理合夥企業(有限合夥)) <sup>#</sup>	0.05%
Beijing Jianguang Asset Management Co., Ltd. (北京建廣資產管理有限公司)	0.05%
Fujian San'an Group Co., Ltd. (福建三安集團有限公司) <sup>#</sup>	0.05%
Beijing Unis Communications Technology Group Ltd. (北京紫光通信科技集團有限公司) <sup>#</sup>	0.05%
GCL Capital Management Co., Ltd. (協鑫資本管理有限公司)	0.05%
<b>Total:</b>	<b>100.00%</b>

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## LETTER FROM THE BOARD

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*Notes:*

- # denotes an overlapping shareholder of China IC Fund and China IC Fund II.
- (1) a department of the Central People's Government of the PRC.
- (2) a wholly-owned subsidiary of China Development Bank, which is in turn ultimately owned by the Ministry of Finance of the PRC.
- (3) the largest limited partner owning more than 50% of the limited partnership interest is Chongqing Yuzi Optoelectronic Industry Investment Co., Ltd. (重慶渝資光電產業投資股份有限公司), which is in turn ultimately owned by Chongqing Municipal State-owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會).
- (4) shareholders holding 30% or more of the shares are (i) Chengdu Advanced Manufacturing Industry Investment Co., Ltd. (成都先進製造產業投資股份有限公司), which is in turn ultimately owned by Chengdu Municipal State-owned Assets Supervision and Administration Commission (成都市國有資產監督管理委員會), and (ii) Chengdu High-tech Investment Group Co., Ltd. (成都高新投資集團有限公司), which is in turn ultimately owned by Chengdu High-tech Industrial Development Zone Finance and State-owned Assets Supervision and Administration Bureau (成都高新技術產業開發區財政國資局).
- (5) shareholders holding 30% or more of the shares are (i) Hubei Provincial Science and Technology Investment Group Co., Ltd. (湖北省科技投資集團有限公司) and (ii) Wuhan High-Tech State-Owned Holding Group Co., Ltd. (武漢高科國有控股集團有限公司), both of which are in turn ultimately owned by Wuhan East Lake High-tech Development Zone Management Committee (武漢東湖新技術開發區管理委員會).
- (6) none of its shareholders holds 30% or more of the shares.
- (7) a state-owned enterprise wholly-owned by the State Council of the PRC.
- (8) ultimately owned by Shanghai SASAC.
- (9) ultimately owned by Beijing Economic-Technological Development Area Finance and State-owned Assets Supervision and Administration Commission (北京經濟技術開發區財政國資局).
- (10) the only shareholder holding 30% or more of the shares is Jiangsu Provincial Government Investment Fund (Limited Partnership) (江蘇省政府投資基金(有限合夥)), which is in turn ultimately owned by Jiangsu Provincial Department of Finance (江蘇省財政廳).
- (11) ultimately owned by Beijing Municipal State-owned Assets Supervision and Administration Commission (北京市國有資產監督管理委員會).
- (12) ultimately owned by State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會).
- (13) the only shareholder holding 30% or more of the shares is CDB Capital (45%) which is in turn ultimately owned by the Ministry of Finance of the PRC (see Note 2 above). All other shareholders of Sino IC capital hold less than 30% of the shares therein, namely (i) Yingfutai Venture Capital Co., Ltd. (盈富泰克創業投資有限公司), (ii) Beijing CCID Venture Capital Co., Ltd. (北京賽迪創業投資有限公司), (iii) Suzhou Yuanhe Holding Co., Ltd. (蘇州元禾控股股份有限公司), (iv) Beijing CCID Innovation Technology Co., Ltd. (北京賽迪科創技術有限公司), each of which holding 10% of the share capital of Sino IC Capital, and (v) China Mobile Communications Group Co., Ltd. (中國行動通訊集團有限公司), (vi) Shanghai Pudong Science and Technology Innovation Group Co., Ltd. (上海浦東科創集團有限公司) and (vii) Beijing Yizhuang International Investment and Development Co., Ltd. (北京亦莊國際投資發展有限公司), each of which holding 5% of the share capital of Sino IC Capital. Sino IC Capital also held 0.12% shareholding interest in China IC Fund as at the Latest Practicable Date.



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## LETTER FROM THE BOARD

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China IC Fund II is also a shareholder of Target Company, and is jointly involved in the Proposed Acquisition as one of the Vendors alongside Huahong Group. Therefore, it is considered to be a member of the Huahong Concert Group.

For avoidance of doubt, China IC Fund, another shareholder of the Company, is not a party to the Proposed Acquisition and is not a party acting in concert with China IC Fund II and/or Huahong Group under the Takeovers Code.

Based on the information provided by China IC Fund and China IC Fund II, both China IC Fund and China IC Fund II are managed by Sino IC Capital. The voting right of Sino IC Capital (as a shareholder but not as the fund manager) at shareholders' meetings of China IC Fund and China IC Fund II is proportional to its respective shareholding interests in China IC Fund and China IC Fund II. However, each of them is not regarded as a subsidiary of its single largest shareholder, the Ministry of Finance of the PRC. There is no ultimate beneficial owner who controls, directly or indirectly, 20% or more of the equity interest in both China IC Fund and China IC Fund II.

Sino IC Capital does not control China IC Fund nor China IC Fund II because: (i) there is no ultimate beneficial owner directly or indirectly controlling China IC Fund II; (ii) China IC Fund and China IC Fund II are not regarded as subsidiaries of their single largest shareholder, Ministry of Finance, (iii) none of the 13 overlapping shareholders of China IC Fund and China IC Fund II can exert majority control over both China IC Fund and China IC Fund II; (iv) Sino IC Capital manages the investments of China IC Fund and China IC Fund II in accordance with the respective mandates it entered into with China IC Fund and China IC Fund II separately; and (v) China IC Fund and China IC Fund II have established independent investment policies and management processes, appointed independent committee members in their respective investment committees to ensure independence in investment decisions, and each has its separate accounts with independent financial accounting treatments.

**(v) *Guotou IC Fund***

The initial committed capital of Guotou IC Fund is RMB45.01 billion, with Shanghai SASAC being the ultimate beneficial owner, through Shanghai Guojing Investment Development Co., Ltd.\* (上海國經投資發展有限公司) (“**Shanghai Guojing**”), Shanghai State-owned Capital Investment Co., Ltd.\* (上海國有資本投資有限公司), Shanghai International and Shanghai Guosheng, holding approximately 67.7762% of the partnership interest in aggregate. Shanghai Pudong Innovation Investment Development (Group) Co., Ltd.\* (上海浦東創新投資發展(集團)有限公司), an Independent Third Party, holds approximately 22.2217% of the partnership interest. The remaining minority investors are Haitong Innovation Securities Investment Co., Ltd.\* (海通創新證券投資有限公司), Guotai Junan Zhenyu Investment Co., Ltd.\* (國泰君安證裕投資有限公司), Shanghai Shenneng Chengyi Equity Investment Co., Ltd.\* (上海申能誠毅股權投資有限公司) and Shanghai International Trust Co., Ltd.\* (上海國際信託有限公司). Guotou IC Fund focuses on investing in integrated circuit-related fields including but not limited to integrated circuit design, manufacturing and packaging and testing, equipment materials and components.

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## LETTER FROM THE BOARD

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### III. PROPOSED NON-PUBLIC ISSUANCE OF RMB SHARES TO RAISE SUPPORTING FUNDS

On 29 August 2025, the Board has approved the Proposed Non-public Issuance of RMB Shares to raise supporting funds.

The Proposed Non-public Issuance of RMB Shares is subject to the approval of the Shanghai Stock Exchange and registration by CSRC and Completion, but the Proposed Acquisition is not conditional on completion of the Proposed Non-public Issuance of RMB Shares.

#### 1. Details of the Proposed Non-public Issuance of RMB Shares

The details of the Proposed Non-public Issuance of RMB Shares are set out below:

<b>Class of Shares to be issued</b>	RMB Shares
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<b>Target subscribers</b>	The Proposed Non-public Issuance of RMB Shares will be carried out by way of non-public issue of RMB Shares to not more than 35 specific target subscribers, excluding (i) Huahong Group, SAIL and China IC Fund II which have indicated that they will not participate in the Proposed Non-public Issuance of RMB Shares and (ii) certain other Shareholders such as controlling shareholders and its related parties pursuant to the requirement of the Shanghai Listing Rules (both terms as defined thereunder. Such specific target subscribers may include, but not limited to, institutional investors such as securities investment fund management company, securities firm, financial services company, asset management company, insurance company, and other legal person or natural person investors in the PRC that comply with the regulations of the CSRC and the Shanghai Stock Exchange.
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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Company has not entered into any agreement with any potential subscribers in respect of the Proposed Non-public Issuance of RMB Shares, nor has the Company received any persons' indication to participate in the Proposed Non-public Issuance of RMB Shares. Please refer to the section headed "XI – Implications under the Takeovers Code – 2. Special Deal in relation to the Proposed Non-public Issuance of RMB Shares" below for further details. It is currently expected that the subscribers under the Proposed Non-public Issuance of RMB Shares will not be the connected persons of the Company and the subscription by those subscribers under the Proposed Non-public Issuance of RMB Shares will not trigger a general offer obligation of those subscribers under the Takeovers Code.

In addition, the identity of the target subscribers cannot be pre-determined as at the Latest Practicable Date and will only be determined after (i) obtaining the approval in respect of the Proposed Non-public Issuance of RMB Shares from the Shareholders at the EGM, the Shanghai Stock Exchange and the CSRC, and (ii) the commencement of the Offering Period of the Proposed Non-public Issuance of RMB Shares in accordance with the relevant PRC laws and regulations. The Company shall make further announcement on the identity of the subscribers if they become substantial shareholders of the Company upon the completion of the Proposed Non-public Issuance of RMB Shares.

**Number of RMB  
Shares to be issued**

Having considered the Company's future funding needs, the total amount of supporting funds to be raised under the Proposed Non-public Issuance of RMB Shares shall be RMB7,556,286,000, being (i) not exceeding 100% of the final Total Consideration for the Proposed Acquisition, and (ii) the number of RMB Shares to be issued shall not exceed 30% of the total issued share capital of the Company upon Completion, both thresholds following that of applicable PRC rules and regulations (i.e. Administrative Measures for Major Asset Restructuring of Listed Companies (《上市公司重大資產重組管理辦法》) and The Measures for the Administration of Registration of Securities Offering by Listed Companies (《上市公司證券發行註冊管理辦法》)) governing the issuance.

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## LETTER FROM THE BOARD

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The number of RMB Shares to be issued shall be calculated by dividing the total amount of supporting funds to be raised, by the issue price to be determined according to the paragraph headed “Price Determination Date, pricing principles and issue price “(rounded down to the nearest share), as adjusted in the event of any ex-right or ex-dividend event in accordance with applicable PRC laws and regulations.

**Price Determination  
Date, pricing  
principles and issue  
price**

The issue price shall not be lower than 80% of the Average Trading Price of the RMB Shares for the 20 trading days prior to the Price Determination Date and no less than RMB52 (i.e. the price of the Company’s initial public offering of RMB Shares) pursuant to CSRC Measures to Balance Primary and Secondary Markets and Optimize IPO/Refinancing Regulation (《統籌一二級市場平衡優化IPO、再融資監管安排》).

The Offering Period, the Price Determination Date and the specific time of Issuance of the Proposed Non-public Issuance of RMB Shares shall be determined by the Company and the PRC independent financial adviser (the lead underwriter) having due regards to the market conditions and the proposal for use of proceeds, and shall be subject to approval by the Shanghai Stock Exchange and the CSRC.

The Offering Period shall commence after the Completion of the Proposed Acquisition. The Price Determination Date shall be the first day of the Offering Period of the Issuance of the Proposed Non-public Issuance of RMB Shares, and shall be a date falling within 12 months of the CSRC registration. The final issue price will be determined by the Board and the authorized persons of the Board and the lead underwriter according to the bookbuilding results in accordance with the authorization of the general meeting of shareholders, the provisions of relevant laws and regulations (i.e. The Measures for the Administration of Registration of Securities Offering by Listed Companies (《上市公司證券發行註冊管理辦法》)) and the requirements of regulatory authorities (including the CSRC and the Shanghai Stock Exchange).

All the target subscribers will subscribe for the RMB Shares under the Proposed Non-public Issuance of RMB Shares at the same issue price in cash.

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## LETTER FROM THE BOARD

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According to the annual results announcement of the Company for the year ended 31 December 2024 published on the Shanghai Stock Exchange, the audited net asset per Share attributable to the Shareholders of the Company prepared in accordance with China Accounting Standards for Business Enterprises as at 31 December 2024 was approximately RMB25.37.

The final issue price, i.e. Non-Public Issuance Benchmark Price, will be determined by negotiations between the Board and its authorized person(s) with the authorization by the Shareholders at the EGM and the PRC independent financial adviser (the lead underwriter) based on the price inquiry results in accordance with the relevant PRC laws and regulations (e.g. Detailed Rules for the Implementation of the Offering and Underwriting Business for Securities of Listed Companies on the Shanghai Stock Exchange (《上海證券交易所上市公司證券發行與承銷業務實施細則(2025年修訂)》) and The Measures for the Administration of Registration of Securities Offering by Listed Companies (《上市公司證券發行註冊管理辦法》)), which, amongst others, laid out requirements on the Company and the lead underwriter, having considered the valid applications and their quotation, to determine the issue price and the target investors reasonably based on principle of price priority (and other principles as decided by the Board, if any). The principles determined by the Board shall be fair, impartial and in line with the interest of the Company and its shareholders in its entirety. The lead underwriter's report on the issuance process and the compliance of subscription targets shall include a detailed disclosure of the entire issuance process, list the subscription quotations of eligible specific investors and the allocation results, and express an opinion on whether the issuance outcome is fair and impartial and whether it complies with the relevant regulations governing the issuance of shares to specific investors. Where specific investors who submitted quotations above the issue price did not receive allocations or had their allocation quantities reduced, the lead underwriter shall provide those investors with a full explanation of the reasons and disclose the circumstances in the report.

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## LETTER FROM THE BOARD

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The Non-public Issuance Benchmark Price will be adjusted if there occurs any ex-right or ex-dividend event (such as distribution of cash dividend, bonus issue, rights issues, allotment of shares, conversion of share premium into share capital or capitalization issues) between the Price Determination Date and the date of issuance of the Proposed Non-public Issuance of RMB Shares in accordance with the applicable PRC laws and regulations.

The Company will publish supplemental announcement as and when the final issue price and final number of RMB shares to be issued are confirmed.

**Conditions precedent  
of the Proposed Non-  
public Issuance of  
RMB Shares**

The Proposed Non-public Issuance of RMB Shares is conditional upon:

- (i) Completion;
- (ii) the approval of the Proposed Non-public Issuance of RMB Shares by the Board and the Non-public Issuance Independent Shareholders at the EGM;
- (iii) the consent to the Special Deal from the Executive and the approval of the Special Deal by the Takeovers Code Independent Shareholders;
- (iv) the approval of the Proposed Acquisition and the Proposed Non- public Issuance of RMB Shares by the competent state-owned assets supervision and administrative authorities or its authorized entities;
- (v) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares by the Shanghai Stock Exchange and the registration of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares by the CSRC; and
- (vi) the obtaining of any other necessary approval and/or filings in respect of the Proposed Non-public Issuance of RMB Shares from any applicable regulatory authorities.

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## LETTER FROM THE BOARD

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None of the conditions above may be waived by any party to the Proposed Non-public Issuance of RMB Shares and therefore, if any of the conditions above is not satisfied, the Company will not proceed with the Proposed Non-public Issuance of RMB Shares.

Other than the condition precedent set out in paragraph (ii) (in respect of approval by the Board only) above, none of the conditions precedent has been fulfilled as at the Latest Practicable Date.

In respect of the condition set out in paragraph (v) above, as at the Latest Practicable Date, the Company is not aware of any other approval and/or filings which are required to be obtained by it in respect of the Proposed Non-public Issuance of RMB Shares.

### **Lock-up period**

All target subscribers shall not transfer the RMB Shares subscribed under the Proposed Non-public Issuance of RMB Shares within six months from the date of completion of the Proposed Non-public Issuance of RMB Shares, provided that if any applicable regulatory authorities of the PRC require a lock-up period of different length to be imposed, the lock-up period shall be the one as required by such regulatory authorities.

The lock-up undertaking shall also be applicable to any additional RMB Shares received by the target subscribers in respect of the relevant RMB Shares subscribed under the Proposed Non-public Issuance of RMB Shares as a result of bonus issues, conversion of share premium into share capital, capitalization issues and/or rights issue of the Company after completion of the Proposed Non-public Issuance of RMB Shares.

### **Place of listing of the RMB Shares to be issued**

The RMB Shares to be issued under the Proposed Non-public Issuance of RMB Shares will be listed and traded on the STAR Board of Shanghai Stock Exchange.

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## LETTER FROM THE BOARD

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### Use of proceeds

The net proceeds from the Proposed Non-public Issuance of RMB Shares (after deducting all applicable costs and expenses incurred in connection with the Proposed Non-public Issuance of RMB Shares) are intended to be used in the subsequent five years after the completion of the Proposed Non-public Issuance of RMB Shares to (i) finance the Target's technology upgrades and renovations, and (ii) research and development and industrialization of the Target's specialized process and (iii) replenish the working capital of the Group, the repayment of debt, payment of fees of intermediaries in connection with the Proposed Acquisition in the following manner:

Use of proceeds	Intended allocation of proceeds	Intended percentage of proceeds from the Proposed Non-public Issuance of RMB Shares allocated for such purposes
		(%)
Upgrade and renovation of the Target Company's technology	3,294,760,000	43.60
Research and development (R&D) and industrialization of the Target Company's specialized process	561,526,000	7.43
Replenish (i) the working capital of the Group, (ii) the repayment of debt, (iii) payment of fees of intermediaries (including PRC independent financial advisers, underwriting fees, legal fees for PRC and overseas counsel, accounting fees for accountants, and other intermediary expenses) in connection with the Proposed Acquisition	3,700,000,000	48.97
<b>Total</b>	<b>7,556,286,000</b>	<b>100.00 %</b>

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## LETTER FROM THE BOARD

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More specifically on the above,, the Target Company is primarily engaged in 12-inch wafer foundry operations. Approximately 51.03% of net proceeds will be allocated to two aspects:

- (1) ***Upgrading and renovating the Target Company's technology:*** Having assessed market landscape, it is considered that the Target Company has pressing need to comprehensively upgrade the technological specifications of its 12-inch production line by way of replacing and updating the equipment. This will foster the Target Company's adaptation to the market's demand of various specialty processes, thereby optimizing the existing factory production lines, expanding production capacity and further enhancing the Company's core competitiveness amid market fluctuations. The net proceeds will also be used for maintenance costs of the production line. This limb takes up a larger trunk of the net proceeds since the new equipment with advanced technological specifications and an overhaul and renovation of the entire production line are inherently capital-intensive, based on the Company's and the Target Company's preliminary assessment. Before commencement of the renovation work, the Company and the Target Company shall conduct a comprehensive study of the technological specifications which best suit its future needs and conduct a robust selection of suppliers through its standard procurement procedure.
- (2) ***Research and development (R&D) and industrialization of the Target Company's specialized process:*** The diversity of specialized process platforms is an important factor in assessing the overall strength of a semiconductor wafer foundry. The Target Company urgently needs to enhance the depth and breadth of its process platform products through developing new products. The proceeds will serve as an important source of funds for the R&D expenses of the Target Company in the upcoming years. This project entails an investment in R&D which seeks to explore new markets, and is different from the first limb which focuses on enhancing hardware, equipment and production capacity. The allocation between the two limbs has been determined having balanced the need for capital and cost-efficiency of each project.

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## LETTER FROM THE BOARD

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Further, as stated in section II paragraph 1 above, in view of the capital expenditure requirements in the upcoming three years arising from (i) the Company's future business development plans such as the expansion and developments of the 8-inch and 12-inch foundry fabs of HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing, including but not limited to upgrading of equipment and building of new factory and (ii) the Company's budget for dedicated long-term strategic purpose, the Company is expected to incur a substantial amount of expenses. As a result, the existing cash and bank balance of the Group has already been budgeted for the development of the Group as aforementioned, and the Company shall require proceeds from the Proposed Non-public Issuance of RMB Shares to replenish its working capital to reserve cash for its business operations and development plans in the future (and the development of the Target Company which has not been previously budgeted by the Group) and maintain liquidity for the sustainable operations of the Group. Moreover, the net proceeds shall be used to (x) settle liabilities as they fall due as appropriate and (y) pay the fees of intermediaries (including PRC independent financial advisers, underwriting fees, legal fees for PRC and overseas counsel, accounting fees for accountants, and other intermediary expenses) in connection with the Proposed Acquisition. As the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares are still in progress, the professional fees of the intermediaries could not be fully determined as at the Latest Practicable Date and could only be confirmed once the Proposed Non-public Issuance of RMB Shares has been completed.

If the Proposed Non-public Issuance of RMB Shares does not proceed or the actual proceeds to be raised from the Proposed Non-public Issuance of RMB Shares are less than the proposed use of proceeds, the Company will make up for the shortfall by utilizing its internal resources or other means of financing. The Company may make appropriate adjustments as to the order of priority, allocation amount and methods in respect of the proposed use of proceeds based on the net proceeds actually raised and make a supplemental announcement as appropriate.



## LETTER FROM THE BOARD

**Specific mandate to issue RMB Shares**      The Company will issue the RMB Shares under Proposed Non-public Issuance of RMB Shares pursuant to the Non-public Issuance the Specific Mandate to be sought from the Non-public Issuance Independent Shareholders at the EGM.

**Rights of the RMB Shares to be issued**      The RMB Shares to be issued under the Proposed Non-public Issuance of RMB Shares, when fully paid and issued, will rank pari passu in all respects amongst themselves and with the RMB Shares in issue at the time of the issuance of such RMB Shares.

The Company will adjust the terms and conditions of the Proposed Non-public Issuance of RMB Shares in accordance with the latest requirements under the applicable PRC laws and regulations in the event of any inconsistency.

#### IV. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the total issued share capital of the Company is 1,737,619,193 Shares, which comprises 407,750,000 RMB Shares and 1,329,869,193 Hong Kong Shares.

For illustration purpose, set out below is the shareholding structure of the Company:

(i) as at the Latest Practicable Date;

Shareholders	Shareholding as at Latest Practicable Date					
	Hong Kong Shares held	Percentage of Hong Kong Shares held	RMB Shares held	Percentage of RMB Shares held	Total Shares held	Percentage of issued Share capital (Note 2)
Huahong Group (Note 1)	347,605,650	26.14%	1,198,517	0.29%	348,804,167	20.07%
SAIL (Note 1)	188,961,147	14.21%	–	–	188,961,147	10.87%
Shanghai IC Fund	–	–	–	–	–	–
Guotou IC Fund	–	–	–	–	–	–
China IC Fund II	–	–	48,334,249	11.85%	48,334,249	2.78%
Others (Note 1)	–	–	16,856,987	4.13%	16,856,987	0.97%
<i>Huahong Concert</i>						
Group sub-total	536,566,797	40.35%	66,389,753	16.28%	602,956,550	34.70%
China IC Fund (Note 3)	62,351,603	4.69%	–	–	62,351,603	3.59%
Other public Shareholders	730,950,793	54.96%	341,360,247	83.72%	1,072,311,040	61.71%
<b>Total</b>	<b>1,329,869,193</b>	<b>100%</b>	<b>407,750,000</b>	<b>100%</b>	<b>1,737,619,193</b>	<b>100.00%</b>

## LETTER FROM THE BOARD

- (ii) immediately after Completion (assuming that (a) there will not be any further adjustments to the issue price of the Consideration Shares of RMB43.34 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company since the Latest Practicable Date save for the issue of the RMB Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement); and

Shareholders	Shareholding immediately after Completion of the Proposed Acquisition					
	Hong Kong Shares held	Percentage of Hong Kong Shares held	RMB Shares held	Percentage of RMB Shares held	Total Shares held	Percentage of issued Share capital (Note 2)
Huahong Group						
(Note 1)	347,605,650	26.14%	125,530,570	20.97%	473,136,220	24.54%
SAIL (Note 1)	188,961,147	14.21%	–	–	188,961,147	9.80%
Shanghai IC Fund	–	–	30,761,109	5.14%	30,761,109	1.60%
Guotou IC Fund	–	–	15,619,216	2.61%	15,619,216	0.81%
China IC Fund II	–	–	68,390,263	11.43%	68,390,263	3.55%
Others (Note 1)	–	–	16,856,987	2.82%	16,856,987	0.87%
Huahong Concert						
Group sub-total	536,566,797	40.35%	257,158,145	42.97%	793,724,942	41.16%
China IC Fund						
(Note 3)	62,351,603	4.69%	–	–	62,351,603	3.23%
Other public						
Shareholders	730,950,793	54.96%	341,360,247	57.03%	1,072,311,040	55.61%
<b>Total</b>	<b>1,329,869,193</b>	<b>100%</b>	<b>598,518,392</b>	<b>100%</b>	<b>1,928,387,585</b>	<b>100.00%</b>

As illustrated in the table above, the shareholding of the public Shareholders would decrease from approximately 61.71% to approximately 55.61% immediately upon Completion, representing a dilution effect of approximately 6.10%.

- (iii) immediately after Completion and the Proposed Non-public Issuance of RMB Shares (assuming that (a) the total amount of supporting funds to be raised under the Proposed Non-public Issuance of RMB Shares is RMB7,556,286,000; (b) there will not be any further adjustments to the issue price of the Consideration Shares of RMB43.34 per Consideration Share; (c) the issue price of the Proposed Non-public Issuance of RMB Shares shall be RMB95.85 per RMB Share (assuming the price determination date is the Latest Practicable Date); (d) the subscribers of the Proposed Non-public Issuance of RMB Shares are and remain as public Shareholders of the Company; and (e) there will be no change in the total issued share capital of the Company since the Latest Practicable Date save for the issue of the RMB Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement) and under the Proposed Non-public Issuance of RMB Shares):

## LETTER FROM THE BOARD

Shareholding immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares						
Shareholders	Hong Kong Shares held	Percentage of Hong Kong Shares held	RMB Shares held	Percentage of RMB Shares held	Total Shares held	Percentage of issued Share capital (Note 2)
Huahong Group (Note 1)	347,605,650	26.14%	125,530,570	18.53%	473,136,220	23.57%
SAIL (Note 1)	188,961,147	14.21%	–	–	188,961,147	9.41%
Shanghai IC Fund	–	–	30,761,109	4.54%	30,761,109	1.53%
Guotou IC Fund	–	–	15,619,216	2.31%	15,619,216	0.78%
China IC Fund II	–	–	68,390,263	10.10%	68,390,263	3.41%
Others (Note 1)	–	–	16,856,987	2.49%	16,856,987	0.84%
<i>Huahong Concert Group sub-total</i>	<i>536,566,797</i>	<i>40.35%</i>	<i>257,158,145</i>	<i>37.97%</i>	<i>793,724,942</i>	<i>39.54%</i>
China IC Fund (Note 3)	62,351,603	4.69%	–	–	62,351,603	3.11%
Other public Shareholders	730,950,793	54.96%	420,194,738	62.03%	1,151,145,531	57.35%
<b>Total</b>	<b>1,329,869,193</b>	<b>100%</b>	<b>677,352,883</b>	<b>100%</b>	<b>2,007,222,076</b>	<b>100.00%</b>

*Notes:*

1. The shareholding of Huahong Group includes Shanghai Hua Hong International, Inc., its wholly-owned subsidiary. The shareholding of SAIL includes Wisdom Power Technology Limited, its wholly-owned subsidiary. Others include Haitong Innovation Securities Investment Co., Ltd. (海通創新證券投資有限公司), Guotai Junan Zhengyu Investment Co., Ltd. (國泰君安證裕投資有限公司) and Shanghai Technology Venture Investment (Group) Co., Ltd. (上海科技創業投資(集團)有限公司).
2. Percentage holdings are subject to rounding adjustments and may not add up to the aggregate figures shown or 100%.
3. China IC Fund is not one of the Vendors, and is not considered to be part of the Huahong Concert Group given it is not a party acting in concert with Huahong Group nor China IC Fund II to consolidate control over the Company, based on its historical investment in the Company and different compositions of fund investors and decision-making process vis-à-vis China IC Fund II.

The Company will ensure the compliance with the applicable public float and free float requirements under the Listing Rules upon the Completion and the Proposed Non-public Issuance of RMB Shares, and will scale down the number of RMB Shares to be issued under the Proposed Non-public Issuance of RMB Shares as appropriate, if and to the extent such issuance will result in non-compliance of the applicable public float and free float requirements under the Listing Rules. Based on (iii) above, the Hong Kong Shares held by the public upon the completion of the Proposed Non-public Issuance of RMB Shares is expected to have a market value of over HK\$50 billion, and is expected to amount to approximately 39.52% of the total issued shares of the Company.

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## LETTER FROM THE BOARD

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### V. SPECIAL DEAL

The price determination date and the specific time of issuance of the Proposed Non-public Issuance of RMB Shares shall be determined by the Company and the PRC independent financial adviser (the lead underwriter) taking into account the proposal for use of proceeds and market conditions and shall be subject to approval by the Shanghai Stock Exchange and the registration with CSRC.

Further, since the Proposed Non-public Issuance of RMB Shares may involve a potential arrangement between the Company and certain shareholders (as outlined in the section headed “XI – Implications under the Takeovers Code – 2. Special Deal in relation to the Proposed Non-public Issuance of RMB Shares” below), which is not capable of being extended to all Shareholders, the Proposed Non-public Issuance of RMB Shares constitutes a special deal of the Company under Rule 25 of the Takeovers Code and requires the consent of the Executive. An application for consent has been made to the Executive under Rule 25 of the Takeovers Code in relation to each of the Special Deal. Such consent, if granted, will be subject to (i) the Hong Kong Independent Financial Adviser publicly stating that in its opinion, the terms of the Special Deal are fair and reasonable as far as the Takeovers Code Independent Shareholders are concerned; and (ii) the approval of the Special Deal by the Takeovers Code Independent Shareholders by way of poll at the EGM.

### VI. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Other than the Proposed Non-public Issuance of RMB Shares which was first announced in the announcement of the Company dated 31 August 2025, the Company has not conducted any equity fund raising exercises during the 12 months immediately preceding the Latest Practicable Date.

### VII. FINANCIAL EFFECTS OF PROPOSED ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the results and assets and liabilities of the Target Company will be consolidated to the financial statements of the Group.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, for illustration purpose only:

- (i) the total assets of the Group as at 30 June 2025 would have increased by approximately US\$795,160,000, from approximately US\$12,237,080,000 to approximately US\$13,032,240,000, assuming Completion had taken place on 30 June 2025; and

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## LETTER FROM THE BOARD

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- (ii) the total liabilities of the Group as at 30 June 2025 would have increased by approximately US\$662,530,000, from approximately US\$3,363,437,000 to approximately US\$4,025,967,000, assuming Completion had taken place on 30 June 2025.

For further details of the financial effects of the Proposed Acquisition as described above, please refer to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular.

### **VIII. REASONS FOR AND BENEFITS OF PROPOSED ACQUISITION AND PROPOSED NON- PUBLIC ISSUANCE OF RMB SHARES**

#### **Proposed Acquisition**

The Target Company is principally engaged in the business of 12-inch integrated circuit wafer foundry services in the PRC. It focuses on developing logic processes and specialty processes, and offers a comprehensive set of technical solutions for customers in communications and consumer electronics, etc.

The Company is a global leader in specialty process wafer foundry services and operates the most comprehensive specialty process platform in the industry. Anchored in its strategic objective of advancing “Specialty IC + Power Devices,” the Company focuses on expanding specialty process technologies and provides diversified wafer foundry and related services across multiple specialty platforms, including embedded/standalone non-volatile memory, power devices, analog and power management, logic, and radio frequency.

Upon Completion, the Company expects to further enhance its 12-inch wafer foundry capacity. The strengths of process platforms of the Company and the Target Company are highly complementary, which facilitate development of more comprehensive wafer foundry and supporting services covering a wider range of application scenarios and technical specifications. In addition, by way of consolidating its control over the Target Company, the Company could benefit from integrated management, process platforms, R&D resources, bespoke design and supply chain between the two companies. The Company believes that this could generate synergies to achieve cost reduction, improved market share and economies of scale.

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## LETTER FROM THE BOARD

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The Company intends to implement further integration with the Target Company in respect of business, assets, finance, personnel, and organizational structure, based on considerations of operations and resource allocation. The integration aspects are as follows:

***(1) Business Integration***

Prior to completion of this transaction, the Target Company and the Company were competitors. Upon completion, the Target Company will become a controlled subsidiary of the Company, and its production and operations will be managed under the Company's governance framework. The two companies will achieve comprehensive resource sharing and complementary advantages in procurement, production, R&D, and sales, thereby driving coordinated business development.

***(2) Asset Integration***

Following completion, the Target Company will remain an independent legal entity with its own property rights, and its assets will remain separate. The Target Company will formulate plans for the purchase and disposal of significant assets based on its capacity requirements and will comply with the Company's approval procedures. Leveraging its management expertise and capital operation capabilities, the Company will optimize resource allocation in light of the Target Company's market prospects and actual conditions to improve asset utilization and strengthen the combined competitiveness of both companies.

***(3) Financial Integration***

After completion, the Company plans to appoint a chief financial officer and other necessary finance personnel to the Target Company to oversee accounting and financial management. The Target Company will be incorporated into the Company's financial management system, aligning its financial systems, accounting practices, and internal control procedures with those of the Company. All financial arrangements and approval processes will be centrally managed to ensure effective implementation of the Company's standards.

***(4) Personnel Integration***

To maintain stability and preserve the competitive strengths of the Target Company's existing team, the Company will retain its current business team. At the same time, to enhance the Target Company's capabilities and support business expansion, the Company will introduce high-caliber talent as appropriate.

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## LETTER FROM THE BOARD

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### **(5) *Organizational Integration***

Upon completion, the Target Company will become a controlled subsidiary of the Company. While maintaining relative organizational independence, its daily operations and governance will strictly comply with the PRC Company Law, PRC Securities Law, the Company's management and internal control systems, its Articles of Association, and the requirements of the Shanghai Stock Exchange and the CSRC. The Company will gradually unify management mechanisms while preserving the Target Company's existing structure, strengthening oversight in business, finance, and compliance, ensuring decision-making authority over significant matters, reducing internal control risks, and improving overall governance and operational standards.

The Company and the Target Company both operate in the wafer foundry sector and belong to the same industry. The two exhibit significant synergies across process technology platforms, customer resources, supply chain management, technology, and production capacity in the following manner:

#### **(1) *Process Technology Platforms***

The Target Company's 65/55nm and 40nm platforms cover standalone non-volatile memory, embedded non-volatile memory, logic and radio frequency, and high-voltage processes. Upon completion of the transaction, the Company will further enrich its range of process platforms to meet diverse market demands.

#### **(2) *Customers and Suppliers***

Different customers have varying requirements for wafer foundry services. Following completion, the Company's expanded process platforms and technologies will enable it to better satisfy diverse customer needs and enhance overall competitiveness. Given the high global concentration of semiconductor equipment and material suppliers, the enlarged scale of the Company post-transaction will strengthen its position within the industry value chain.

#### **(3) *Technology and Capacity***

The transaction will allow the Company to broaden its technological capabilities in 65/55nm and 40nm processes, accelerating product iteration and development. The Target Company currently has a monthly capacity of approximately 38,000 wafers; upon completion, the Company's total capacity will increase further, enabling it to meet growing customer demand.

In summary, the Company and the Target Company will achieve synergies in process technology platforms, customer resources, supply chain management, technology, and production capacity. The transaction will improve the Company's asset quality, and safeguard the interests of minority shareholder.

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## LETTER FROM THE BOARD

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Further, during the Company's listing on the STAR Board on the Shanghai Stock Exchange, Huahong Group had undertaken to, in accordance with the national strategic deployment arrangement, after performing the approval procedures of the competent government departments, Huahong Group will inject the Target into the Company within three years of the listing. As such, this Proposed Acquisition is a demonstration of Huahong Group's commitment to the Company's listing, which is in line with market expectations.

The terms of the Acquisition Agreement and the transactions contemplated thereunder were agreed after arm's length negotiations between the parties thereto. The Directors (including members of the Independent Board Committee comprising the independent non-executive Directors only whose views are set out in the letter from the Independent Board Committee in this circular) consider that the Acquisition Agreement, the Supplemental Agreement, the Compensation Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

### **Proposed Non-public Issuance of RMB Shares**

The proceeds to be raised from the Proposed Non-public Issuance of RMB Shares are proposed to be used for, amongst others, replenishing the working capital of the Group and the repayment of debt, financing technology update and renovation of the Target, and funding the research and development of the Target's specialized process, which would improve the overall financial position and facilitate the future development of the Group.

### **Intention of Huahong Group regarding the Company**

As at the Latest Practicable Date, Huahong Group intends for the Group to continue its existing businesses and had no intention to introduce any major changes in the business of the Company, including any redeployment of fixed assets of the Company, or to discontinue the employment of the employees of the Group, in each case other than in the ordinary course of business of the Group.

## **IX. IMPLICATIONS UNDER THE LISTING RULES**

### **Proposed Acquisition**

As one or more of the applicable percentage ratios in respect of the Proposed Acquisition in accordance with the Listing Rules exceed 25% but are less than 100%, the Proposed Acquisition constitutes a major transaction of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As HHGrace (a wholly-owned subsidiary of the Company) holds the remaining approximately 2.5012% of the share capital of the Target, upon completion, the Company is expected to hold, directly and indirectly, the entire share capital of the Target.



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## LETTER FROM THE BOARD

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As at the Latest Practicable Date,

- (i) Huahong Group, one of the Vendors, is a substantial shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules; and
- (ii) China IC Fund II, one of the Vendors, holds 29% of the equity interests in Hua Hong Manufacturing, a subsidiary of the Company. China IC Fund II also held 48,334,249 RMB Shares as at the Latest Practicable Date, representing approximately 2.78% of the total issued share capital of the Company. Accordingly, China IC Fund II is a connected person of the Company at subsidiary level under Chapter 14A of the Listing Rules.

Therefore, as one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition exceeds 5%, the Proposed Acquisition constitutes a connected transaction of the Company which is subject to the reporting, announcement and Proposed Acquisition LR Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Save for the Directors who are considered to have material interests in the Proposed Acquisition under the Listing Rules and the Takeovers Code and have abstained from voting on the board resolutions, namely (i) Mr. Jun Ye who is also the Chairman of SAIL (a member of the Huahong Concert Group); (ii) Mr. Guodong Sun who was also a director of Shanghai IC Fund (being one of the Vendors and a member of the Huahong Concert Group) and holds certain position in Sino-IC Capital which in turn manages the China IC Fund II (being one of the Vendors and a member of the Huahong Concert Group); (iii) Mr. Bo Chen who is the vice president of Huahong Group and (iv) Ms. Chengyan Xiong who is the director of the capital and finance department of Huahong Group, none of the Directors is required to abstain from voting on the board resolutions approving the Proposed Acquisition and the transactions contemplated thereunder.

### **Proposed Non-public Issuance of RMB Shares**

It is currently expected that the subscribers under the Proposed Non-public Issuance of RMB Shares will not be the connected persons of the Company and will not constitute a connected transaction under Chapter 14A of the Listing Rules.

### **Waivers from strict compliance with certain provisions of the Listing Rules**

For the purpose of the issuance of the Consideration Shares under the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares, in light of the fact that (a) the RMB Shares and the Hong Kong Shares will not be fungible (even though the RMB Shares are the same class as the Hong Kong Shares) and the RMB Shares to be issued will not be listed on the Hong Kong Stock Exchange; and (b) the Hong Kong Shares has a clear open market as demonstrated in the section headed "V. Effects on the Shareholding Structure of the Company" in this circular, the Company has applied for, and the Stock Exchange has granted, a one-off

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## LETTER FROM THE BOARD

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waiver from strict compliance with Rules 8.20 and 13.26(1) of the Listing Rules such that there is no need to seek listing in respect of the Consideration Shares and the Proposed Non-public Issuance of RMB Shares on the Hong Kong Stock Exchange under Rules 8.20 and 13.26(1) of the Listing Rules, on the following basis:

- (i) Rule 6.11 of the Hong Kong Stock Exchange Listing Rules is modified such that the requirements of obtaining the prior approval of shareholders and holders of any other class of listed securities (where applicable) for voluntary withdrawal of listing on the Hong Kong Stock Exchange shall apply to holders of the Hong Kong Shares only;
- (ii) Rule 6.12 of the Listing Rules is modified such that the requirement of obtaining the prior approval of shareholders for voluntary withdrawal of listing on the Hong Kong Stock Exchange by (i) at least 75% of the votes attaching to any class of listed securities held by holders voting either in person or by proxy at the meeting before voluntarily withdrawing its listing on the Hong Kong Stock Exchange; and (ii) the number of votes cast against the resolution is not more than 10% of the votes attaching to any class of listed securities held by holders permitted under Rule 6.12(1) of the Listing Rules to vote in person or by proxy at the meeting, shall apply to holders of the Hong Kong Shares only;
- (iii) Rule 6.15 of the Listing Rules is modified such that the requirement of fulfilling shareholders' approval requirements under the Takeovers Code for voluntary withdrawal of listing on the Hong Kong Stock Exchange shall apply to holders of the Hong Kong Shares only;
- (iv) Rule 13.36(2)(b) of the Listing Rules is further modified such that the Shareholders (including both holders of Hong Kong Shares and holders of RMB Shares) can by ordinary resolution in general meeting give a repurchase mandate to the Directors under which (i) only the Hong Kong Shares may be repurchased; and (ii) the maximum number of Hong Kong Shares repurchased by the Company will be 10% of the number of the issued Hong Kong Shares as at the date of the resolution granting the repurchase mandate.

Given this is a one-off waiver for the issuance of the Consideration Shares under the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares, the Company would need to apply for waiver from Rules 8.20 and 13.26 of the Listing Rules for any further issue of new RMB Shares.

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## LETTER FROM THE BOARD

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### **X. IMPLICATIONS UNDER THE TAKEOVERS CODE**

#### **1. Application for Whitewash Waiver**

As at the Latest Practicable Date, Huahong Group holds directly and indirectly 348,804,167 Shares (comprising 1,198,517 RMB Shares and 347,605,650 Hong Kong Shares), representing approximately 20.07% of the total issued share capital of the Company. In addition, as at the Latest Practicable Date, the Huahong Concert Group holds directly and indirectly 602,956,550 Shares (comprising 66,389,753 RMB Shares and 536,566,797 Hong Kong Shares), representing approximately 34.70% of the total issued share capital of the Company.

If the Proposed Acquisition materializes, it is expected that immediately after completion of the issuance of the Consideration Shares, the voting rights held by Huahong Concert Group in the Company will increase to approximately 41.16% (assuming (i) there will not be any further adjustment to the issue price of the Consideration Shares, (ii) there will not be any change in the total issued share capital of the Company since the Latest Practicable Date up to and including the date of issuance of the Consideration Shares and (iii) the Proposed Non-public Issuance of RMB Shares has not been completed). Accordingly, upon Completion, pursuant to Rule 26.1 of the Takeovers Code, Huahong Concert Group will be required to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Huahong Concert Group, unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is obtained from the Executive.

Further, Huahong Group, SAIL and China IC Fund II, being the top 20 shareholders of the Company among the Huahong Concert Group, have indicated that they will not participate in the Proposed Non-public Issuance of RMB Shares, and the Company has not received any indication from other parties in the Huahong Concert Group that any of them will participate in the Proposed Non-public Issuance of RMB Shares, and on such basis, if the Proposed Non-public Issuance of RMB Shares materializes, it is expected that the voting rights held by the Huahong Concert Group in the Company will be diluted accordingly. For illustration purpose, the voting rights held by Huahong Concert Group in the Company shall be decreased to approximately 39.54% (subject to the assumptions set out at paragraph (iii) of section 3 headed “Effects on the Shareholding Structure of the Company” above. The Company shall include the Huahong Concert Group’s voting rights in the Company in its announcement upon the completion of the Proposed Non-public Issuance of RMB Shares.

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## LETTER FROM THE BOARD

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As such, Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Takeovers Code Independent Shareholders. An application has been made by Huahong Group (on behalf of itself and Huahong Concert Group) to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by Takeovers Code Independent Shareholders either in person or by proxy at the EGM; and (ii) the approval of the Proposed Acquisition by more than 50% of the votes cast by Takeovers Code Independent Shareholders either in person or by proxy at the EGM as required under the Takeovers Code. As at the Latest Practicable Date, the Executive has indicated that it is minded to grant the Whitewash Waiver. The Proposed Acquisition will not proceed if the Whitewash Waiver is not obtained or if the Whitewash Waiver is not approved by the Takeovers Code Independent Shareholders.

As at the Latest Practicable Date, the Company does not believe that the Proposed Acquisition gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed Acquisition does not comply with other applicable rules and regulations.

### **2. Special Deal in relation to the Proposed Non-public Issuance of RMB Shares**

Pursuant to Article 41 of the Detailed Rules for the Implementation of Securities Issuance and Underwriting by Listed Companies on the Shanghai Stock Exchange 《上海證券交易所上市公司證券發行與承銷業務實施細則》, on the business day immediately preceding the start date of the issuance period, the listed company and the lead underwriter may provide subscription invitation letters to eligible specific parties. The recipients of the subscription invitation letters shall include investors who have submitted letters of intent after the announcement of the board resolution and the company's top 20 shareholders (but excluding (i) Huahong Group, SAIL and China IC Fund II which have indicated that they will not participate in the Proposed Non-public Issuance of RMB Shares and (ii) certain other Shareholders such as controlling shareholders and its related parties pursuant to the requirement of the Shanghai Listing Rules (both terms as defined thereunder)), and shall also include the following investors: (i) no fewer than 20 securities investment fund management companies; (ii) no fewer than 10 securities firms; (iii) no fewer than 5 insurance institutional investors.

The recipients of the subscription invitation letters must also comply with the relevant provisions of the Shanghai Stock Exchange. The listed company and the lead underwriter shall, in accordance with the relevant regulation set out above and the principles agreed upon in the subscription invitation letter, negotiate and determine the recipients of the subscription invitation letter.

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## LETTER FROM THE BOARD

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The scope of targeted subscribers under the Proposed Non-public Issuance of RMB Shares will include not more than 35 specific target subscribers. Such specific target subscribers may include, but not limited to, institutional investors such as securities investment fund management company, securities firm, asset management company, insurance company, and other legal person or natural person investors in the PRC that comply with the regulations of the CSRC and the Shanghai Stock Exchange.

In addition, the identity of the target subscribers (and whether the target subscribers include existing RMB Shareholders) cannot be pre-determined as of the Latest Practicable Date. Therefore, given (i) the Proposed Non-public Issuance of RMB Shares may take place shortly after the completion of the Proposed Acquisition, (ii) the top 20 Shareholders of the Company may be approached pursuant to the above PRC regulatory requirements for invitation to subscribe for RMB Shares under the Proposed Non-public Issuance of RMB Shares, and (iii) their subscription (or any other subscriber who is a Shareholder) may be accepted by the Company, the Proposed Non-public Issuance of RMB Shares will potentially constitute a Special Deal under Rule 25 of the Takeovers Code which is not capable of being extended to all Shareholders and requires the consent of the Executive. Such consent, if granted, is expected to be subject to, among other things, (i) the Hong Kong Independent Financial Adviser publicly stating that in its opinion, the terms of the Special Deal are fair and reasonable and (ii) the approval of the Special Deal by the Takeovers Code Independent Shareholders by way of poll at the EGM.

Accordingly, the resolution in respect of the Special Deal will be submitted for Takeovers Code Independent Shareholders' consideration and approval at the EGM. (i) The Huahong Concert Group, (ii) Shareholders who have indicated to participate in the Non-public Issuance of RMB Shares before the EGM and their close associates (as defined under the Listing Rules), (iii) Shareholders who are involved in or interested in the Proposed Non-public Issuance of RMB Shares (otherwise than solely as Shareholders of the Company) and (iv) such other Shareholders who shall abstain from voting pursuant to the applicable laws, rules and regulations abstain from voting on the resolution to be proposed at the EGM to approve the Special Deal.

An application has been made by the Company to the Executive for its consent to the Special Deal pursuant to Rule 25 of the Takeovers Code. Such consent, if granted, is expected to be subject to, among other things, (i) the Hong Kong Independent Financial Adviser publicly stating that in its opinion, the terms of the Special Deal are fair and reasonable as far as the Takeovers Code Independent Shareholders are concerned, and (ii) the approval of the Special Deal by the Takeovers Code Independent Shareholders by way of poll at the EGM.

It is currently expected that the subscription by the subscribers under the Proposed Non-public Issuance of RMB Shares will not trigger a general offer obligation of those other subscribers under the Takeovers Code. If such consent from the Executive is not obtained or if the Special Deal is not approved by the Takeovers Code Independent Shareholders, the Proposed Non-public Issuance of RMB Shares will not proceed.

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## LETTER FROM THE BOARD

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### **XI. INDEPENDENT BOARD COMMITTEE AND HONG KONG INDEPENDENT FINANCIAL ADVISER**

Pursuant to the Listing Rules and Rule 2.8 of the Takeovers Code, the Independent Board Committee (comprising all the independent non-executive Directors, namely Mr. Stephen Tso Tung Chang, Mr. Kwai Huen Wong, JP and Mr. Songlin Feng, who have no direct or indirect interest in the Proposed Acquisition, the Whitewash Waiver and the Special Deal) has been formed to advise the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders on the Proposed Acquisition (including the grant of the Proposed Acquisition Specific Mandate and the approval of the Acquisition Agreement and the Supplemental Agreement), the Whitewash Waiver and the Special Deal. As (i) Mr. Jun Ye is the Chairman of SAIL (a member of the Huahong Concert Group); (ii) Mr. Guodong Sun was a director of Shanghai IC Fund (being one of the Vendors and a member of the Huahong Concert Group) and holds certain position in Sino-IC Capital which in turn manages the China IC Fund II (being one of the Vendors and a member of the Huahong Concert Group); (iii) Mr. Bo Chen is the vice president of Huahong Group and (iv) Ms. Chengyan Xiong is the director of the capital and finance department of Huahong Group, each of them is not considered as independent for the purposes of giving advice or recommendations to the Takeovers Code Independent Shareholders under the Takeovers Code.

In this connection, Innovax Capital Limited has been appointed as the Hong Kong Independent Financial Adviser to advise the Independent Board Committee, the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders in respect of the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal. Such appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

### **XII. EGM**

The EGM will be convened to consider and, if thought fit, approve, among other things, (i) the Proposed Acquisition; (ii) the Proposed Non-public Issuance of RMB Shares; (iii) the Specific Mandate; (iv) the Whitewash Waiver; and (v) the Special Deal.

The voting in relation to the Proposed Acquisition, the Proposed Non-public Issuance of RMB Shares, the Specific Mandate, the Whitewash Waiver and the Special Deal at the EGM will be conducted by way of poll.

In respect of the Proposed Acquisition and the Proposed Acquisition Specific Mandate, (i) with respect to the approvals required under the Listing Rules, Huahong Group and China IC Fund II and its associates, and China IC Fund (by virtue of its 10.53% holding in Shanghai IC Fund) and any Shareholders which have a material interest in the Proposed Acquisition and the Proposed Acquisition Specific Mandate under the Listing Rules and/or the Shanghai Listing Rules will be required to abstain from voting on the relevant resolutions to be proposed at the EGM; and (ii) with respect to the approvals required under the Takeovers Code, the Huahong Concert Group (holding approximately 34.70% of the Shares in issue as at the Latest



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## LETTER FROM THE BOARD

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Practicable Date) and those who are involved in or interested in the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal under the Listing Rules, the Takeovers Code and/or the Shanghai Listing Rules will be required to abstain from voting on the relevant resolutions to be proposed at the EGM.

In respect of the Whitewash Waiver, the Huahong Concert Group and those who are involved in or interested in the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal under the Listing Rules, the Takeovers Code and/or the Shanghai Listing Rules will be required to abstain from voting on the relevant resolutions to be proposed at the EGM. As at the Latest Practicable Date, Huahong Concert Group and China IC Fund held in aggregate 665,308,153 Shares (approximately 38.29% of the Shares in issue as at the Latest Practicable Date) and shall abstain from voting on the relevant resolutions to be proposed at the EGM.

In respect of the Special Deal, the Proposed Non-public Issuance of RMB Shares and the Non-public Issuance Specific Mandate, the Huahong Concert Group (holding approximately 34.70% of the Shares in issue as at the Latest Practicable Date), Shareholders who are involved in or interested in the Proposed Non-public Issuance of RMB Shares (otherwise than solely as Shareholders of the Company) and other Shareholders who are required to abstain from voting pursuant to the Listing Rules, the Shanghai Listing Rules, the Takeovers Code and other applicable laws, rules and regulations shall abstain from voting on the relevant resolutions to be proposed at the EGM. Under Shanghai Listing Rules, (i) a Shareholder who controls or is controlled by, directly or indirectly, or under common control with, the Vendors, (ii) a Shareholder holding a position at any of the Vendors or entities controlled by the Vendors; (iii) a Shareholder who is a family member of the Vendors or its direct or indirect controllers, (iv) a Shareholder who is restricted from exercising its voting rights as a share transfer agreement or other agreement(s) with any of the Vendors or their affiliates has not been completed and (v) a Shareholder who the CSRC or the Shanghai Stock Exchange deems to be potentially biased. In the event that a Shareholder has indicated to participate in the Proposed Non-public Issuance of RMB Shares before the EGM, such Shareholder and his/her/its close associates (as defined under the Listing Rules) will also be required to abstain from voting on the relevant resolutions to be proposed at the EGM.

As at the Latest Practicable Date, no Shareholder has indicated an intention to participate in the Proposed Non-Public Issuance of RMB Shares.

Save as aforementioned, no other Shareholder, is required to abstain from voting at the EGM.

Subject to passing of the relevant resolutions in the EGM, the Specific Mandates shall be valid for 12 months from the date the Specific Mandates are approved in the EGM. In the event that the Proposed Acquisition and/or the Non-public Issuance has not been completed within the validity period, the Company shall seek further approval on the Specific Mandates from the Shareholders at a general meeting.

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## LETTER FROM THE BOARD

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The Company will conduct a hybrid extraordinary general meeting with the combination of a physical meeting and a virtual meeting online. Shareholders will have the option of joining the EGM either (a) through the physical meeting at No. 288, Halei Road, Zhangjiang Hi-Tech Park, Shanghai, PRC; or (b) through the Internet by using their computer, tablet device or smartphone.

Registered Shareholders will be able to attend the EGM, vote and submit questions online. Non-registered Shareholders whose Shares are held in the Central Clearing and Settlement System through banks, brokers, custodians or Hong Kong Securities Clearing Company Limited may also be able to attend the EGM, vote and submit questions online. In this regard, you should consult directly with your banks, brokers, custodians, nominees or HKSCC Nominees Limited through which your shares are held (as the case may be) (collectively the “**Intermediary**”) and instruct the Intermediary to appoint you as proxy or corporate representative to attend and vote at the EGM electronically and in doing so, you will be asked to provide your email address, before the time limit required by the relevant Intermediary. Details regarding the e-Meeting System including the login details will be emailed to you by the Company’s share registrar, Tricor Investor Services Limited. A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.huahonggrace.com](http://www.huahonggrace.com)). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited at the Company’s share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. In calculating the aforesaid 48 hours period, no account will be taken of any part of a day that is a public holiday. Accordingly, the form of proxy must be delivered not later than 2:30 p.m. on 7 February 2026. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM if you so wish.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 5 February 2026 to Tuesday, 10 February 2026 (both days inclusive), during which period no transfer of Shares in the Company will be registered. In order to qualify for attending and voting at the EGM, all transfers, accompanied by the relevant certificates, must be lodged with the Company’s share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by no later than 4:30 p.m. on Wednesday, 4 February 2026. All persons who are registered holders of the Shares on Tuesday, 10 February 2026, the record date for the EGM, will be entitled to attend and vote at the EGM.



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## LETTER FROM THE BOARD

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### XIII. RECOMMENDATIONS

Innovax Capital Limited has been appointed as the Hong Kong Independent Financial Adviser to advise the Independent Board Committee, the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders in respect of the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal. Your attention is drawn to the letter of advice from the Hong Kong Independent Financial Adviser to the Independent Board Committee, the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders set out on pages 59 to 125 of this circular in connection with the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal, and the principal factors and reasons considered by the Hong Kong Independent Financial Adviser in arriving at such advice.

The Independent Board Committee, having considered the terms of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares and the advice of the Hong Kong Independent Financial Adviser, is of the view that while the Proposed Acquisition is not conducted in the ordinary and usual course of business of the Group, (i) the Proposed Acquisition is on normal commercial terms; and (ii) the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders are concerned and in the interests of the Company, the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM to approve the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal.

The Board recommends the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM to approve the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal.

In addition, the Board considers that all the resolutions proposed at the EGM are in the interests of the Company and its Shareholders as a whole. As such, the Board recommends the Shareholders to vote in favour of all the resolutions proposed at the EGM.

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## LETTER FROM THE BOARD

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### XIV. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 57 to 58 of this circular, containing its recommendation in respect of the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal; (ii) the letter from the Hong Kong Independent Financial Adviser to the Independent Board Committee, the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders set out on pages 59 to 125 of this circular, containing its recommendation in respect of the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal; and (iii) the additional information set out in the appendices to this circular.

The Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolutions approving, among other things, the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal.

By order of the Board  
**Hua Hong Semiconductor Limited**  
**Mr. Peng Bai**  
*Chairman and Executive Director*

\* *For identification purpose only.*



**HUA HONG SEMICONDUCTOR LIMITED**

**華虹半導體有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01347)**

22 January 2026

*To the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders*

Dear Sir or Madam,

- (1) MAJOR AND CONNECTED TRANSACTION – ACQUISITION OF  
SHARE CAPITAL OF THE TARGET INVOLVING THE ISSUE OF  
CONSIDERATION SHARES UNDER SPECIFIC MANDATE;  
(2) APPLICATION FOR WHITEWASH WAIVER;  
(3) PROPOSED NON-PUBLIC ISSUANCE OF RMB SHARES TO  
RAISE SUPPORTING FUNDS;  
(4) SPECIAL DEAL  
AND  
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular of the Company dated 22 January 2026 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders in respect of the Proposed Acquisition (including the grant of the Proposed Acquisition Specific Mandate and the approval of the Acquisition Agreement), the Whitewash Waiver and the Special Deal, details of which are set out in the “Letter from the Board” in the Circular. Innovax Capital Limited has been appointed as the Hong Kong Independent Financial Adviser to advise the Independent Board Committee and the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders with the approval of the Independent Board Committee in this regard.

We wish to draw your attention to the “Letter from the Board” set out on pages 10 to 56 of the Circular, the “Letter from the Hong Kong Independent Financial Adviser” set out on pages 59 to 125 of the Circular and the additional information set out in the appendices thereto.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Hong Kong Independent Financial Adviser as set out in the “Letter from the Hong Kong Independent Financial Adviser” in the Circular, we concur with the view of the Hong Kong Independent Financial Adviser and consider that while the Proposed Acquisition is not conducted in the ordinary and usual course of business of the Group, (i) the Proposed Acquisition is on normal commercial terms; and (ii) the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal are fair and reasonable so far as the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders are concerned and in the interests of the Company, the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders as a whole.

Accordingly, we recommend the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders to vote in favour of the resolutions in relation to the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal to be proposed at the EGM.

Yours faithfully,  
**Independent Board Committee**  
**Mr. Stephen Tso Tung Chang**  
**Mr. Kwai Huen Wong, JP**  
**Mr. Songlin Feng**  
*Independent non-executive Directors*

\* *For identification purpose only.*

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# LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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The following is the full text of a letter of advice from Innovax Capital to the Independent Board Committee, the Takeovers Code Independent Shareholders, and the Proposed Acquisition LR Independent Shareholders in respect of the Proposed Acquisition, the Whitewash Waiver and the Special Deal in relation to the Proposed Non-public Issuance of RMB Shares, which has been prepared for the purpose of inclusion in this circular.



22 January 2026

*To: The Independent Board Committee, the Takeovers Code Independent Shareholders, and the Proposed Acquisition LR Independent Shareholders of Hua Hong Semiconductor Limited*

Dear Sirs,

**(1) MAJOR AND CONNECTED TRANSACTION – ACQUISITION  
OF SHARE CAPITAL OF THE TARGET INVOLVING  
THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE;  
(2) APPLICATION FOR WHITEWASH WAIVER;  
(3) PROPOSED NON-PUBLIC ISSUANCE OF RMB SHARES TO RAISE  
SUPPORTING FUNDS; AND  
(4) SPECIAL DEAL**

## INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee, the Takeovers Code Independent Shareholders, and the Proposed Acquisition LR Independent Shareholders in respect of (i) the proposed acquisition of share capital of Shanghai Huali Microelectronics Corporation (the “**Target Company**”) involving the issue of consideration shares under specific mandate contemplated thereunder (the “**Proposed Acquisition**”); (ii) the Whitewash Waiver; and (iii) the Special Deal in relation to the Proposed Non-issuance of RMB Shares, details of which are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 22 January 2026 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context requires otherwise.

References are made to the announcements of the Company dated 31 August 2025, 16 October 2025 and 31 December 2025 in relation to, among others, the Acquisition Agreement, the Supplemental Agreement and the Compensation Agreement entered into with the Vendors. As disclosed in the Announcement, on 29 August 2025, the Company and the Vendors entered into the Acquisition Agreement, pursuant to which the Company conditionally agreed to purchase, and the Vendors conditionally agreed to sell, a total of 97.4988% of the share capital of the Target Company. Subsequently, as disclosed in the Update Announcement, the Company and the Vendors entered into the Supplemental Agreement on 31 December 2025, which set out further details of the Proposed Acquisition and, pursuant thereto, the final Total Consideration was determined to be RMB8,267,902,153.26, to be satisfied by the allotment and issuance of 190,768,392 Consideration Shares (RMB Shares) to the Vendors at an issue price of RMB43.34 per share.

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## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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In addition to the Proposed Acquisition, on 29 August 2025, the Board approved the Proposed Non-public Issuance of RMB Shares to raise supporting funds. The total amount of supporting funds to be raised thereunder shall be RMB7,556,286,000 (being not exceeding 100% of the final Total Consideration for the Proposed Acquisition) and the number of RMB Shares to be issued shall not exceed 30% of the total issued share capital of the Company upon Completion.

### LISTING RULES IMPLICATIONS

#### Proposed Acquisition

As one or more of the applicable percentage ratios in respect of the Proposed Acquisition in accordance with the Listing Rules exceed 25% but are less than 100%, the Proposed Acquisition constitutes a major transaction of the Company which is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As HH Grace (a wholly-owned subsidiary of the Company) holds the remaining approximately 2.5012% of the share capital of the Target Company, upon completion, the Company is expected to hold, directly and indirectly, the entire share capital of the Target Company.

As at the Latest Practicable Date,

- (i) Huahong Group, one of the Vendors, is a substantial shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules; and
- (ii) China IC Fund II, one of the Vendors, holds 29% of the equity interests in Hua Hong Manufacturing, a subsidiary of the Company. China IC Fund II also holds 48,334,249 RMB Shares as at the Latest Practicable Date, representing approximately 2.78% of the total issued share capital of the Company. Accordingly, China IC Fund II is a connected person of the Company at subsidiary level under Chapter 14A of the Listing Rules.

Therefore, as one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition exceeds 5%, the Proposed Acquisition constitutes a connected transaction of the Company which is subject to the reporting, announcement and Proposed Acquisition LR Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Save for the Directors who are considered to have material interests in the Proposed Acquisition under the Listing Rules and the Takeovers Code and have abstained from voting on the board resolutions, namely (i) Mr. Jun Ye who is also the Chairman of SAIL (a member of the Huahong Concert Group); (ii) Mr. Guodong Sun who was also a director of Shanghai IC Fund (being one of the Vendors and a member of the Huahong Concert Group) and holds certain position in Sino-IC Capital which in turn manages the China IC Fund II (being one of

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## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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the Vendors and a member of the Huahong Concert Group); (iii) Mr. Bo Chen who is the vice president of Huahong Group and (iv) Ms. Chengyan Xiong who is the director of the capital and finance department of Huahong Group, none of the Directors is required to abstain from voting on the board resolutions approving the Proposed Acquisition and the transactions contemplated thereunder.

### **Proposed Non-public Issuance of RMB Shares**

It is currently expected that the subscribers under the Proposed Non-public Issuance of RMB Shares will not be the connected persons of the Company and will not constitute a connected transaction under Chapter 14A of the Listing Rules.

### **TAKEOVERS CODE IMPLICATION**

#### **Application for Whitewash Waiver**

As at the Latest Practicable Date, Huahong Group holds directly and indirectly 348,804,167 Shares (comprising 1,198,517 RMB Shares and 347,605,650 Hong Kong Shares), representing approximately 20.07% of the total issued share capital of the Company. In addition, as at the Latest Practicable Date, the Huahong Concert Group holds directly and indirectly 602,956,550 Shares (comprising 66,389,753 RMB Shares and 536,566,797 Hong Kong Shares), representing approximately 34.70% of the total issued share capital of the Company.

If the Proposed Acquisition materializes, it is expected that immediately after completion of the issuance of the Consideration Shares, the voting rights held by Huahong Concert Group in the Company will increase to approximately 41.16% (assuming (i) there will not be any further adjustment to the issue price of the Consideration Shares, (ii) there will not be any change in the total issued share capital of the Company since the Latest Practicable Date up to and including the date of issuance of the Consideration Shares and (iii) the Proposed Non-public Issuance of RMB Shares has not been completed). Accordingly, upon Completion, pursuant to Rule 26.1 of the Takeovers Code, Huahong Concert Group will be required to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Huahong Concert Group, unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is obtained from the Executive.

Further, Huahong Group, SAIL and China IC Fund II, being the top 20 shareholders of the Company among the Huahong Concert Group, have indicated that they will not participate in the Proposed Non-public Issuance of RMB Shares, and the Company has not received any indication from other parties in the Huahong Concert Group that any of them will participate in the Proposed Non-public Issuance of RMB Shares. On such basis, if the Proposed Non-public Issuance of RMB Shares materializes, it is expected that the voting rights held by the Huahong Concert Group in the Company will be diluted accordingly. For illustration

purpose, the voting rights held by Huahong Concert Group in the Company shall be decreased to approximately 39.35% (subject to the assumptions set out in the section headed “11. Potential dilution effect on shareholding interests” below).

As such, the Completion is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Takeovers Code Independent Shareholders. An application has been made by Huahong Group (on behalf of itself and Huahong Concert Group) to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by Takeovers Code Independent Shareholders either in person or by proxy at the EGM; and (ii) the approval of the Proposed Acquisition by more than 50% of the votes cast by Takeovers Code Independent Shareholders either in person or by proxy at the EGM as required under the Takeovers Code. As at the Latest Practicable Date, the Executive has indicated that it is minded to grant the Whitewash Waiver. The Proposed Acquisition will not proceed if the Whitewash Waiver is not obtained or if the Whitewash Waiver is not approved by the Takeovers Code Independent Shareholders.

#### **Special Deal in relation to the Proposed Non-public Issuance of RMB Shares**

Pursuant to Article 41 of the Detailed Rules for the Implementation of Securities Issuance and Underwriting by Listed Companies on the Shanghai Stock Exchange 《上海證券交易所上市公司證券發行與承銷業務實施細則》, on the business day immediately preceding the start date of the issuance period, the listed company and the lead underwriter may provide subscription invitation letters to eligible specific parties. The recipients of the subscription invitation letters shall include investors who have submitted letters of intent after the announcement of the board resolution and the company’s top 20 shareholders (but excluding (i) Huahong Group, SAIL and China IC Fund II which have indicated that they will not participate in the Proposed Non-public Issuance of RMB Shares and (ii) certain other Shareholders such as controlling shareholders and its related parties pursuant to the requirement of the Shanghai Listing Rules (both terms as defined thereunder)), and shall also include the following investors: (i) no fewer than 20 securities investment fund management companies; (ii) no fewer than 10 securities firms; (iii) no fewer than 5 insurance institutional investors.

The recipients of the subscription invitation letters must also comply with the relevant provisions of the Shanghai Stock Exchange. The listed company and the lead underwriter shall, in accordance with the relevant regulation set out above and the principles agreed upon in the subscription invitation letter, negotiate and determine the recipients of the subscription invitation letter.

The scope of targeted subscribers under the Proposed Non-public Issuance of RMB Shares will include not more than 35 specific target subscribers. Such specific target subscribers may include, but not limited to, institutional investors such as securities investment



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## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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fund management company, securities firm, asset management company, insurance company, and other legal person or natural person investors in the PRC that comply with the regulations of the CSRC and the Shanghai Stock Exchange.

In addition, the identity of the target subscribers (and whether the target subscribers include existing RMB Shareholders) cannot be pre-determined as of the Latest Practicable Date. Therefore, given (i) the Proposed Non-public Issuance of RMB Shares may take place shortly after the completion of the Proposed Acquisition, (ii) the top 20 Shareholders of the Company may be approached pursuant to the above PRC regulatory requirements for invitation to subscribe for RMB Shares under the Proposed Non-public Issuance of RMB Shares, and (iii) their subscription (or any other subscriber who is a Shareholder) may be accepted by the Company, the Proposed Non-public Issuance of RMB Shares will potentially constitute a Special Deal under Rule 25 of the Takeovers Code which is not capable of being extended to all Shareholders and requires the consent of the Executive. Such consent, if granted, is expected to be subject to, among other things, (i) the Hong Kong Independent Financial Adviser publicly stating that in its opinion, the terms of the Special Deal are fair and reasonable and (ii) the approval of the Special Deal by the Takeovers Code Independent Shareholders by way of poll at the EGM.

Accordingly, the resolution in respect of the Special Deal will be submitted for Takeovers Code Independent Shareholders' consideration and approval at the EGM. (i) The Huahong Concert Group, (ii) Shareholders who have indicated to participate in the Non-public Issuance of RMB Shares before the EGM and their close associates (as defined under the Listing Rules), (iii) Shareholders who are involved in or interested in the Proposed Non-public Issuance of RMB Shares (otherwise than solely as Shareholders of the Company) and (iv) such other Shareholders who shall abstain from voting pursuant to the applicable laws, rules and regulations abstain from voting on the resolution to be proposed at the EGM to approve the Special Deal.

An application has been made by the Company to the Executive for its consent to the Special Deal pursuant to Rule 25 of the Takeovers Code. Such consent, if granted, is expected to be subject to, among other things, (i) the Hong Kong Independent Financial Adviser publicly stating that in its opinion, the terms of the Special Deal are fair and reasonable as far as the Takeovers Code Independent Shareholders are concerned, and (ii) the approval of the Special Deal by the Takeovers Code Independent Shareholders by way of poll at the EGM.

### THE INDEPENDENT BOARD COMMITTEE

Pursuant to the Listing Rules and Rule 2.8 of the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors (namely Mr. Stephen Tso Tung Chang, Mr. Kwai Huen Wong, JP and Mr. Songlin Feng) has been established by the Company for the purpose of advising the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders on the Proposed Acquisition (including the grant of the Proposed Acquisition Specific Mandate and the approval of the Acquisition Agreement and the Supplemental Agreement), the Whitewash Waiver and the Special Deal. As

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## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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(i) Mr. Jun Ye is the Chairman of SAIL (a member of the Huahong Concert Group); (ii) Mr. Guodong Sun was a director of Shanghai IC Fund (being one of the Vendors and a member of the Huahong Concert Group) and holds certain position in Sino-IC Capital which in turn manages the China IC Fund II (being one of the Vendors and a member of the Huahong Concert Group); (iii) Mr. Bo Chen is the vice president of Huahong Group and (iv) Ms. Chengyan Xiong is the director of the capital and finance department of Huahong Group, each of them is not considered as independent for the purposes of giving advice or recommendations to the Takeovers Code Independent Shareholders under the Takeovers Code.

We, Innovax Capital Limited, have been appointed as the Hong Kong Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee, the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders, in respect of the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, the Huahong Concert Group, or any other parties that could reasonably be regarded as relevant in assessing our independence. In the previous two years from the date of the Circular, we have not acted as an independent financial adviser to the Independent Board Committee, the Takeovers Code Independent Shareholders, and the Proposed Acquisition LR Independent Shareholders of the Company for any transaction. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, the Takeovers Code Independent Shareholders, and the Proposed Acquisition LR Independent Shareholders, we have reviewed, amongst other things, (i) the annual reports of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”); (ii) the annual report of the Company for the year ended 31 December 2024 (the “**2024 Annual Report**”); (iii) the interim report of the Company for the six months ended 30 June 2025 (the “**2025 Interim Report**”); (iv) the Acquisition Agreement and the Supplemental Agreement; (v) the Asset Valuation Report; and (vi) the prospectus for Huahong Semiconductor Limited’s listing on the Shanghai Stock Exchange dated July 2023 (the “**SSE Prospectus**”).

We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the

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## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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Circular, which have been provided by the Company, the Directors and the Management (for which they are solely and wholly responsible), were true and accurate at the time they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. The Directors have confirmed to us that no material facts have been withheld or omitted from the information provided, representations made or opinions expressed. We have no reason to suspect that any material facts or information has 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 Directors and the Management. We believe that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group. The Shareholders will be notified of any material changes to such information and representations or any change to our opinion as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Circular have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omission of which would make any statement in this Circular misleading.

This letter is issued for the information of the Independent Board Committee, the Takeovers Code Independent Shareholders, and the Proposed Acquisition LR Independent Shareholders solely in connection with their consideration of the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation to the Independent Board Committee, the Takeovers Code Independent Shareholders, and the Proposed Acquisition LR Independent Shareholders, we have taken the following principal factors and reasons into consideration:

#### **1. Background information of the Group**

##### ***1.1 Principal activities of the Group***

The Group is one of the global leaders in specialty process wafer foundry services and operates the most comprehensive specialty process platform in the industry. Established on 21 January 2005 and headquartered in Shanghai, the Company was listed on the Stock Exchange in 2014 and later on the Shanghai STAR Board in 2023. As a subsidiary of Huahong Group, which is ultimately controlled by Shanghai SASAC through a 51.74% direct stake and as to 15.29%, 15.29%, 9.73% and 7.96% by Shanghai SASAC and its subsidiaries, namely Shanghai International Group Corporation Limited (上海國際集團有限公司), Shanghai Guosheng Group

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Co., Ltd (上海國盛(集團)有限公司) and INESA (Group) Co., Ltd. (上海儀電(集團)有限公司), being wholly-owned subsidiaries of Shanghai SASAC, and Shanghai Lingang Economic Development (Group) Co., Ltd. (上海臨港經濟發展(集團)有限公司)), being a non-wholly owned subsidiary of Shanghai SASAC, respectively. The Group operates advanced 8-inch and 12-inch wafer fabrication plants, focusing on high-reliability and specialty applications.

Anchored in its strategic objective of advancing “Specialty IC + Power Devices,” the Group focuses on expanding specialty process technologies and provides diversified wafer foundry and related services across multiple specialty platforms in the following:

- Embedded/Standalone Non-Volatile Memory (NVM): Manufacturing solutions for memory chips used in automotive, industrial control, and consumer electronics.
- Power Devices: Production of MOSFETs, IGBTs, and other power management components for energy-efficient applications.
- Analog and Power Management: Production of a broad portfolio of analog ICs and power management solutions across multiple voltage levels and process nodes for diverse applications.
- Logic and RF: specialized manufacturing processes for communication chips (like Wi-Fi and Bluetooth) and image sensors, serving smartphones, tablets, and other smart devices.

These platforms cater to high-reliability sectors such as new energy vehicles, green energy, the Internet of Things (IoT), and automotive chips, supported by a “one-stop” service model that encompasses design, mask manufacturing, packaging, and testing. The Group leverages technical collaborations, such as licensing 65nm/55nm CMOS technology from the Target Company via HHGrace, to bolster its R&D and production capabilities, driving revenue growth during recent reporting periods.

### *Capital-intensive nature of semiconductor foundry industry*

The semiconductor foundry industry exemplifies a business sector defined by its highly capital-intensive nature, requiring vast and sustained capital expenditure (“CAPEX”) primarily focused on manufacturing infrastructure. This intensive investment is essential for the Group to maintain its competitive position, leverage its “8-inch + 12-inch” specialty process advantages, and drive capacity expansion. The core business revolves around the specialized manufacture and sale of semiconductor products.

The necessity for such high CAPEX stems from two primary strategic drivers: capacity expansion and technology migration. Continuous, massive spending is required to build and ramp up new production facilities to meet anticipated demand. Key capacity projects include the significant ramp-up of Fab 9, the Group’s second 12-inch fabrication facility, which requires substantial spending (estimated, for example, at USD3.2 billion for equipment move-in in 2026). Management is committed to continuous capacity growth, expecting to

## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

initiate the second-phase capacity deployment for the second 12-inch production line located in Wuxi (the “**Hua Hong Manufacturing Project**”) ahead of schedule by the end of 2025, alongside Fab 5 of the Target Company in the Proposed Acquisition to quickly increase scale.

Beyond scaling, a significant portion of CAPEX is directed toward maintaining technological leadership and upgrading process platforms. This funding supports essential process migration, such as transitioning from 90nm to 55nm/40nm, and progressive migration to more advanced process nodes as market conditions and technological requirements continue to evolve in the future. Furthermore, funds are consistently committed to innovation through specific initiatives like the Specialty Technological Innovation, Research and Development Project.

### 1.2 Historical financial performance and financial position of the Group

#### *Financial performance*

Set out below is the summary of the consolidated financial information of the Company as extracted from the 2023 Annual Report, 2024 Annual Report, and 2025 Interim Report.

	For the year ended 31 December			For the six months ended 30 June	
	2022	2023	2024	2024	2025
	US\$	US\$	US\$	US\$	US\$
	million	million	million	million	million
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	2,475	2,286	2,004	939	1,107
Gross profit	844	487	205	80	112
<b>Profit/(Loss)</b>					
<b>for the year/</b>					
<b>period</b>	407	126	(140)	(67)	(85)

*Note:* Certain financial information set out herein has been extracted from the accountants’ report and rounded to the nearest million. Accordingly, figures shown may not add up precisely due to rounding differences. Readers are advised to refer to the relevant annual reports and interim reports of the Company for detailed financial information.

*For the six months ended 30 June 2025 (“1H2025”) and 30 June 2024 (“1H2024”)*

The Group reported revenue of US\$1,107 million, representing an 18.0% increase from US\$939 million in 1H2024, primarily driven by higher wafer shipments. By process platform, the Analog & Power Management segment delivered the strongest performance with double-digit year-on-year and quarter-on-quarter growth, supported by domestic supply chain localization and sustained artificial intelligence (“AI”) server demand. The Embedded NVM platform advanced with the 55nm eFlash MCU entering volume production, targeting IoT, security, and automotive applications, while the Standalone

NVM platform's 48nm NOR Flash products also entered large-scale production. In addition, the Deep-Trench Super-Junction MOSFET platform achieved double-digit growth, driven by demand in the new energy and consumer electronics markets.

Gross profit rose to US\$112 million, a 40.0% increase from US\$80 million in 1H2024, supported by higher wafer shipments and improved production capacity utilization, though partially offset by increased depreciation charges. Gross margin improved from 8.5% to 10.1%, with both 8-inch and 12-inch lines operating at full utilization.

Nevertheless, the Group reported a net loss of US\$85 million, compared with a net loss of US\$67 million in 1H2024, representing a 26.7% increase. The widened loss reflected higher engineering wafer costs mainly from the Hua Hong Manufacturing Project, foreign exchange losses, and a reduced reversal of dividend withholding tax, which collectively drove up administrative expenses, other expenses, and income tax charges, offsetting the improvement in gross profit.

*For the year ended 31 December 2024 ("FY2024") and 31 December 2023 ("FY2023")*

Revenue declined to US\$2,004 million, a 12.3% decrease from US\$2,286 million in FY2023, reflecting an environment of falling average selling prices despite higher shipment volumes. While the global semiconductor market achieved moderate growth, supported by rapid AI sector expansion and a partial recovery in consumer electronics, intensified competition from newly released domestic supply exerted downward pressure on wafer foundry pricing.

Within this environment, the Analog & Power Management and Logic & RF platforms managed to achieve double-digit revenue growth, driven by AI-related applications and recovering consumer electronics demand. Leveraging its technological expertise and proactive sales strategies, the Group sustained an average annual capacity utilization rate close to 100%, securing a leading position among global wafer foundry peers.

However, profitability deteriorated sharply. Gross profit fell by 57.9% to US\$205 million from US\$487 million in FY2023, with the gross margin declining from 21.3% to 10.2%. The margin contraction was primarily due to pricing pressure, higher depreciation charges, and increased costs associated with new fab start-ups. Coupled with higher administrative expenses, reflecting increased R&D spending, the Group reported a net loss of US\$140 million, compared with a net profit of US\$126 million in FY2023.



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## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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*For the year ended 31 December 2023 (“FY2023”) and 31 December 2022 (“FY2022”)*

The Group recorded revenue of US\$2,286 million, representing a 7.6% decline from US\$2,475 million in FY2022, primarily due to lower average selling prices. Higher provisions for inventories, along with increased depreciation and utility costs, led to a 42.3% decrease in gross profit, from US\$844 million in FY2022 to US\$487 million in FY2023.

FY2023 was marked by a confluence of external challenges, including a global economic slowdown, weakened semiconductor demand, and rising raw material and labor costs. Based on our market research on the PRC foundry industry and discussion with the Management, the deterioration in performance was mainly attributed to subdued post-pandemic market demand. During the pandemic years, strict lockdown measures drove extraordinary demand for consumer electronics such as laptops, tablets, and smartphones, resulting in widespread over-ordering and excessive inventory accumulation across the supply chain. However, as economies reopened in 2023, consumer spending patterns shifted rapidly from goods to services, including travel, entertainment, and dining, leading to a sharp contraction in demand for electronic devices. At the same time, persistent inflation, higher interest rates, and global macroeconomic uncertainty dampened consumer confidence and business investment, particularly in sectors such as personal computing and smartphones, which together account for a significant portion of semiconductor demand. According to Gartner, a NYSE-listed global research and advisory firm founded in 1979, the global semiconductor market contracted by an estimated 11.1% in 2023, reflecting weakness in end-consumer markets and intensified pricing pressure across the supply chain.

In addition to weak market demand, the semiconductor industry in China was further constrained by the geopolitical environment. The export controls introduced by the U.S. Department of Commerce’s Bureau of Industry and Security in October 2022, which restricted the export of advanced semiconductor manufacturing equipment to China, had a far-reaching impact in 2023. These restrictions limited access to critical tools and components from key suppliers, thereby capping domestic foundries’ technological advancement at around the 7nm node and impeding further progress to 5nm and below. Even for existing production lines, the inability to secure timely parts and maintenance services constrained yields and efficiency, further exacerbating the sector’s challenges amid already weak demand. As a result of the above, most of the Group’s business segments recorded revenue declines, except the power discrete segment, which achieved double-digit growth driven by robust demand in the new energy vehicle and industrial sectors. Overall, the Group’s gross margin narrowed by 12.8 percentage points to 21.3% compared with FY2022.

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Despite these pressures, the Group remained resilient, refining its strategic plan, strengthening internal management, and stepping up investment in R&D to position itself for recovery. It ultimately achieved a net profit of US\$126 million, though this represented a 69.0% decrease from US\$407 million in FY2022, also reflecting reduced government R&D grants, higher engineering wafer costs, and increased finance costs.

### *Financial position*

The following table sets out a summary of the consolidated statements of the financial position of the Group as at 31 December 2022, 2023, and 2024, and as at 30 June 2025, as extracted from the 2023 Annual Report, 2024 Annual Report, and 2025 Interim Report.

	As at 31 December			As at 30 June
	2022	2023	2024	2025
	US\$	US\$	US\$	US\$
	million	million	million	million
	(audited)	(audited)	(audited)	(unaudited)
Non-current Assets	3,979	4,373	6,583	6,892
Current assets	3,075	6,569	5,832	5,345
<i>Cash and cash equivalents</i>				
	2,009	5,585	4,459	3,847
Total assets	7,054	10,943	12,415	12,237
Non-current liabilities	1,537	1,956	1,946	1,952
Current liabilities	1,382	972	1,562	1,411
Total liabilities	2,919	2,928	3,508	3,364
<b>Net assets</b>	4,135	8,015	8,907	8,874
<b>Share in Issue</b>	1,307	1,717	1,718	1,727
<b>NAV per Share (USD)</b>	3.16	4.67	5.18	5.14

*Note:* Certain financial information set out herein has been extracted from the accountants' report and rounded to the nearest million. Accordingly, figures shown may not add up precisely due to rounding differences. Readers are advised to refer to the relevant annual reports and interim reports of the Company for detailed financial information.

### *As at 30 June 2025 and 31 December 2024*

The Group's total assets remained relatively stable with a slight decrease of 1.4% from US\$12,415 million as at 31 December 2024 to US\$12,237 million as at 30 June 2025, while the total liabilities of the Group decreased slightly, with a decrease of 4.1% from US\$3,508 million as at 31 December 2024 to US\$3,364 million as at 30 June 2025.

The change in total assets was primarily attributable to a net increase of US\$267 million in property, plant and equipment, mainly driven by the Hua Hong Manufacturing Project. The project has completed the move-in, installation, and qualification of the first batch of process and metrology equipment required for production, resulting in an



increase in non-current assets. This was partially offset by a decrease of US\$612 million in cash and cash equivalents. Such decrease reflected the Group's rising net flows used in investing activities, amounting to approximately US\$2,672 million for the year ended 31 December 2024 and approximately US\$880 million for the first half of 2025, respectively, partially offset by its net cash flow generated from operating and financing activities.

The changes on the total liabilities were mainly due to a 9.7% decrease in current liabilities from US\$1,562 million to US\$1,411 million. This is primarily due to decreased payable for capital expenditures.

*As at 31 December 2024 and 31 December 2023*

The Group's total assets recorded a 13.5% increase from US\$10,943 million as at 31 December 2023 to US\$12,415 million as at 31 December 2024, while the total liabilities had a 19.8% increase from US\$2,928 million as 31 December 2023 to US\$3,508 million as at 31 December 2024.

The increase in total assets was primarily driven by growth in non-current assets, notably a US\$2,340 million increase in property, plant and equipment, partially offset by a reduction in current assets. The rise in property, plant and equipment was mainly attributable to continued capital investment in production capacity expansion, particularly the Hua Hong Manufacturing Project. In addition, other current assets increased by US\$373 million, mainly due to increased value-added tax credits. These increases were offset by a US\$1,126 million decrease in cash and cash equivalents. The decline in cash and cash equivalents was mainly due to US\$2,672 million of outflows for investing activities, partly offset by US\$1,182 million of capital contributions from non-controlling interests and US\$459 million of operating cash inflows during the period.

Total liabilities increased, mainly due to a 60.7% rise in current liabilities from US\$972 million to US\$1,562 million. The increase was primarily driven by higher payables for capital expenditures, reflected in a US\$421 million increase in other current liabilities, together with an US\$88 million increase in the current portion of interest-bearing bank borrowings and a US\$63 million increase in trade payables, which was attributable to increased purchase of materials.

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## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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*As at 31 December 2023 and 31 December 2022*

The Group's total assets recorded a strong 55.1% increase from US\$7,054 million as at 31 December 2022 to US\$10,943 million as at 31 December 2023, while the total liabilities maintained at a stable level from US\$2,919 million as at 31 December 2022 to US\$2,928 million as 31 December 2023.

The increase in total assets was attributable to growth in both current and non-current assets. The rise in non-current assets was mainly driven by a US\$152 million increase in property, plant and equipment following the commencement of the Hua Hong Manufacturing Project, a US\$92 million increase in equity instruments designated at fair value through other comprehensive income, and a US\$142 million increase in long-term prepayments. Current assets also increased, primarily due to higher cash and cash equivalents. This was mainly supported by the US\$2,942 million proceeds from the issuance of shares on the STAR Board, US\$788 million capital contributions from non-controlling interests, and US\$642 million net cash inflows from operating activities, partially offset by US\$907 million of capital expenditure outflows.

Total liabilities recorded a net decrease during the year. Current portions of interest-bearing bank borrowings declined by US\$234 million following the repayment of bank loans, while other payables and accruals decreased by US\$163 million due to lower advance payments from customers. These decreases were partially offset by the drawdown of bank borrowings, which increased the long-term portion of interest-bearing bank borrowings by US\$425 million.

### *Statement of cashflow*

Set out below is the summary of the condensed consolidated statement of cash flows of the Company as extracted from the 2023 Annual Report, 2024 Annual Report, and 2025 Interim Report.

	For the year ended 31 December			For the six months ended	
	2022	2023	2024	30 June	2025
	US\$	US\$	US\$	US\$	US\$
	million	million	million	million	million
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Net cash flows generated from operating activities	751	642	459	138	220

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	For the year ended 31 December			For the six months ended	
	2022	2023	2024	30 June 2024	2025
	US\$	US\$	US\$	US\$	US\$
	million	million	million	million	million
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Net cash flows					
used in investing					
activities	(930)	(833)	(2,672)	(471)	(880)
Net cash flows					
generated from					
financing					
activities	672	3,782	1,150	1,206	34
Net (decrease)/					
increase in cash					
and cash					
equivalents	493	3,590	(1,062)	873	(626)

*Note:* Certain financial information set out herein has been extracted from the accountants' report and rounded to the nearest million. Accordingly, figures shown may not add up precisely due to rounding differences. Readers are advised to refer to the relevant annual reports and interim reports of the Company for detailed financial information.

As illustrated above, from 2022 to the first half of 2025, the Group's business remained highly capital-intensive. Significant cash outflows were incurred for capacity expansion and the upgrade of specialized process technologies, which were recorded under investing activities (including capital expenditure on property, plant and equipment and intangible assets). In addition, substantial R&D investments, although expensed through profit or loss as part of operating activities, further reduced the net operating cash inflows generated by the Group's business operations. As a result, the net cash generated from operating activities was insufficient to cover the sizable investing cash outflows over the period.

To bridge the funding gap and support the Group's ongoing capital investments and R&D initiatives, the Group relied on financing activities. This included, for example, the net proceeds raised from the issuance of shares on the STAR Board of the Shanghai Stock Exchange in 2023. As advised by Management, the continued and significant increase in net cash used in investing activities primarily reflected the Group's strategic plan to undertake substantial capital expenditure for the upgrade and expansion of its existing production facilities, the development and ramp-up of new production capacities, and the enhancement of specialized process technologies through R&D innovation.

## **2. Reasons for and benefits of the Proposed Acquisition**

### ***Proposed Acquisition***

As stated in the Letter from the Board, upon Completion, the Company expects to further enhance its 12-inch wafer foundry capacity. The strengths of process platforms of the Company and the Target Company are highly complementary, which facilitate development of more comprehensive wafer foundry and supporting services covering a wider range of application scenarios and technical specifications. In addition, by way of consolidating its control over the Target Company, the Company could benefit from integrated management, process platforms, R&D resources, bespoke design and supply chain between the two companies. The Company believes that this could generate synergies to achieve cost reduction, improved market share and economies of scale.

The Company intends to implement further integration with the Target Company in respect of business, assets, finance, personnel, and organizational structure, based on considerations of operations and resource allocation. The integration aspects are as follows:

#### ***(1) Business Integration***

Prior to completion of this transaction, the Target Company and the Company were competitors. Upon completion, the Target Company will become a controlled subsidiary of the Company, and its production and operations will be managed under the Company's governance framework. The two companies will achieve comprehensive resource sharing and complementary advantages in procurement, production, R&D, and sales, thereby driving coordinated business development.

#### ***(2) Asset Integration***

Following completion, the Target Company will remain an independent legal entity with its own property rights, and its assets will remain separate. The Target Company will formulate plans for the purchase and disposal of significant assets based on its capacity requirements and will comply with the Company's approval procedures. Leveraging its management expertise and capital operation capabilities, the Company will optimize resource allocation in light of the Target Company's market prospects and actual conditions to improve asset utilization and strengthen the combined competitiveness of both companies.

#### ***(3) Financial Integration***

After completion, the Company plans to appoint a chief financial officer and other necessary finance personnel to the Target Company to oversee accounting and financial management. The Target Company will be incorporated into the Company's financial management system, aligning its financial systems, accounting practices, and internal control procedures with those of the Company. All financial arrangements and approval processes will be centrally managed to ensure effective implementation of the Company's standards.

*(4) Personnel Integration*

To maintain stability and preserve the competitive strengths of the Target Company's existing team, the Company will retain its current business team. At the same time, to enhance the Target Company's capabilities and support business expansion, the Company will introduce high-caliber talent as appropriate.

*(5) Organizational Integration*

Upon completion, the Target Company will become a controlled subsidiary of the Company. While maintaining relative organizational independence, its daily operations and governance will strictly comply with the PRC Company Law, PRC Securities Law, the Company's management and internal control systems, its Articles of Association, and the requirements of the Shanghai Stock Exchange and the CSRC. The Company will gradually unify management mechanisms while preserving the Target Company's existing structure, strengthening oversight in business, finance, and compliance, ensuring decision-making authority over significant matters, reducing internal control risks, and improving overall governance and operational standards.

The Company and the Target Company both operate in the wafer foundry sector and belong to the same industry. The two exhibit significant synergies across process technology platforms, customer resources, supply chain management, technology, and production capacity in the following manner:

*(1) Process Technology Platforms*

The Target Company's 65/55nm and 40nm platforms cover standalone non-volatile memory, embedded non-volatile memory, logic and radio frequency, and high-voltage processes. Upon completion of the transaction, the Company will further enrich its range of process platforms to meet diverse market demands.

*(2) Customers and Suppliers*

Different customers have varying requirements for wafer foundry services. Following completion, the Company's expanded process platforms and technologies will enable it to better satisfy diverse customer needs and enhance overall competitiveness. Given the high global concentration of semiconductor equipment and material suppliers, the enlarged scale of the Company post-transaction will strengthen its position within the industry value chain.

(3) *Technology and Capacity*

The transaction will allow the Company to broaden its technological capabilities in 65/55nm and 40nm processes, accelerating product iteration and development. The Target Company currently has a monthly capacity of approximately 38,000 wafers; upon completion, the Company's total capacity will increase further, enabling it to meet growing customer demand.

In summary, the Company and the Target Company will achieve synergies in process technology platforms, customer resources, supply chain management, technology, and production capacity. The transaction will improve the Company's asset quality, and safeguard the interests of minority shareholder.

Further, during the Company's listing on the STAR Board on the Shanghai Stock Exchange, Huahong Group had undertaken to, in accordance with the national strategic deployment arrangement, after performing the approval procedures of the competent government departments, Huahong Group will inject the Target Company into the Company within three years of the listing. As such, this Proposed Acquisition is a demonstration of Huahong Group's commitment to the Company's listing, which is in line with market expectations.

The terms of the Acquisition Agreement and the transactions contemplated thereunder were agreed after arm's length negotiations between the parties thereto. The Directors consider that the Acquisition Agreement, the Supplemental Agreement, the Compensation Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders as a whole.

In arriving at our view, we have taken into account the aforementioned factors. In addition, we have reviewed the Company's SSE Prospectus and financial reports, conducted market research on the foundry industry, engaged in discussions with the Management. Based on the above, we have taken into account the following factors:

- (i) **Strategic Consolidation of Complementary Technologies:** According to the SSE Prospectus, both the Target Company and the Group provide foundry services on certain overlapping process platforms at the 65/55nm process node, specifically across three process platforms: standalone NVM, embedded NVM, and logic & RF. As disclosed in the SSE Prospectus, Huahong Group has made clear business delineation commitments, including keeping the overlapping portion below 30%. The Proposed Acquisition would allow the Group to integrate its specialty process capabilities with the Target Company's advanced 65/55nm CMOS and logic/RF technologies, thereby enhancing the Group's

product and technology offering. This integration is expected to expand the Group's portfolio in key growth markets such as new energy, customer electronics, IoT, automotive, and industrial applications;

- (ii) **Operational and Cost Efficiencies:** The current operational ties, such as the Target leasing facilities from HH Grace, the Group settling utility costs on behalf of the Target, and the technology licensing arrangement could be streamlined under a single entity, reducing administrative overhead and optimising resource allocation. This would eliminate intercompany transactions (e.g., utility payments, leasing of production facilities, technology licensing), lowering costs and enhancing efficiency across the 12-inch wafer fabs;
- (iii) **Resolution of Potential Competition:** Despite mitigated overlaps, the acquisition would eliminate any residual competitive risks in logic/RF and NVM segments, aligning with the Group's commitment to inject the Target Company into the Group. This move would fulfill the Group's pledge to prioritize business opportunities for the Group, ensuring long-term market stability;
- (iv) **Favorable Industry Prospects:** The global semiconductor foundry industry is entering a new growth cycle, supported by strong demand from AI, high-performance computing, and automotive electronics. According to Semiconductor Equipment and Materials International (the "SEMI"), the global industry association for electronics supply chains, worldwide semiconductor sales are expected to grow at a compound annual growth rate of approximately 9% between 2025 and 2030, reaching USD1 trillion by 2030. Concurrently, mature process nodes, which underpin automotive, industrial applications, communications and consumer electronics are forecasted to grow steadily. According to the SEMI, wafer fab equipment sales for foundry and logic applications are forecasted to grow annually at around 6%, reaching US\$69.0 billion in 2026. Yole Group, a leading market research and consulting firm specializing in semiconductor industry, forecasts China to dominate the global foundry landscape by 2030, accounting for 30% of installed capacity, outpacing Taiwan, South Korea, and Japan. Against this backdrop, the Group's consolidation of advanced and specialty process capabilities positions it to capitalize on both high-growth advanced applications and resilient demand for mature technologies, thereby aligning its long-term strategy with favorable industry trends and enhancing its competitive resilience.

- (v) **Industry Challenges and Competitive Positioning:** While the long-term prospects of the semiconductor foundry industry are favorable, the market is also facing intensified competition and oversupply pressures, particularly in China where substantial new mature-node capacity has been released. These dynamics have exerted downward pressure on wafer pricing, compressing margins across the industry. The Proposed Acquisition would better equip the Group to navigate these challenges by expanding its technology and product portfolio, consolidating advanced and specialty process platforms, and strengthening economies of scale. The integration would enable the Group to compete on differentiation, through embedded and standalone NVM, logic/RF, and specialty power devices, rather than purely on price, thereby enhancing resilience against cyclical downturns. In this way, the Group will be better positioned to sustain profitability, defend market share, and continue its leadership role in China's foundry industry despite a more competitive supply landscape.

Taking into account the above, we concur with the Board that the Proposed Acquisition is expected to benefit the long-term development of the Group through enhancing its financial performance and further strengthening the Group's market position in the semiconductors industry, and are in the interests of the Company and the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders as a whole.

### **3. Principal terms of the Agreement**

Set out below are the summaries of the principal terms of the Acquisition Agreement (as supplemented by the Supplemental Agreement). Shareholders and potential investors are advised to read in full further details of the Acquisition Agreement (as supplemented by the Supplemental Agreement) as set out in the letter from the Board in the Circular.

#### **3.1 Target assets**

The Company has conditionally agreed to purchase and the Vendors have conditionally agreed to sell, the Target Assets, being approximately 97.4988% of the equity interests in the Target Company, at the Total Consideration.

#### **3.2 Basis of Consideration**

Pursuant to the relevant laws, rules and regulations in the PRC, the parties have agreed to engage, the Valuer, a qualified asset appraisal agency in the PRC, to conduct a valuation on the Target Company and issue the Asset Valuation Report with the Valuation Benchmark as Date of 31 August 2025. In compliance with the requirement under Rule 11.4 of the Takeovers Code, the Valuer has confirmed that there is no material difference in the Valuation between the Valuation Benchmark Date and the date of the Valuation Report.



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According to the Asset Valuation Report, the appraised value of the Target Company as at the Valuation Benchmark Date, which were primarily determined based on the market approach, is RMB8,480 million. The amount of final Total Consideration shall be RMB8,267,902,153.26. In considering the Total Consideration, even though the net asset value of the Target Group (approximately RMB2.002 million as set out in Appendix II to this Circular) is smaller than that of the appraised value based on the Asset Valuation Report, the Board understood that the difference lies in particular in the full description of fixed assets under accounting standards.

The wafer foundry industry in which the Target Company operates is characterized by its capital-intensive nature. Semiconductor equipment is depreciated over a financial period of seven years, which is significantly shorter than its actual economic useful life. At present, the Target Company's fixed assets have only recently completed their financial depreciation cycle, resulting in a relatively low book value and asset renewal ratio. However, this is merely a temporary accounting phenomenon and does not materially affect its actual production capacity. The Target Company remains fully capable of continuing as a going concern remains stable.

The Target Company's net asset scale is at a relatively low point in its corporate lifecycle, while its financial position as at 31 August 2025 has recovered in line with the industry rebound. As a result, its return on equity (ROE) for the year 2024 and eight months ended 31 August 2025 is significantly higher than the industry average. Please refer to Appendix II to this Circular for the audited financial information of the Target Company for the two years ended 31 December 2024 and eight months ended 31 August 2025.

Having discussed with the Valuer to understand the justification of selection of the valuation method, the assumptions and bases of valuation, the Board noted that the net asset value of the Target Company, which mainly represents the historical accounting value of its assets and liabilities, may not fully reflect its underlying fair value and business prospects and thus may not be an appropriate basis of valuation of a business of an operating nature. The Board considers that a significant portion of the future demand for the Target Company's products is expected to be driven by the growth of AI and next-generation technologies. The adoption of the market approach by the Valuer, which captures the market's assessment of value through the trading multiples of comparable listed companies, is therefore more appropriate than relying solely on book value for the purpose of the Target Company's valuation.

Based on the foregoing, the Board in the letter from the Board considers that the transaction amount (and thus the final Consideration) is fair and reasonable and in the best interests of the Shareholders.

Upon arms' length negotiations between the parties taking into account, among others, the appraised value of the Target Assets under the Asset Valuation Report, it has been agreed that the final Total Consideration shall comprise 190,768,392 Consideration Shares (together with such cash consideration in lieu of fractional shares), to be issued to the Vendors in the following proportion.

## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

<b>Vendor</b>	<b>Target Asset sold (%)</b>	<b>Corresponding value in the Target Asset (RMB)</b>	<b>Consideration Shares to be issued</b>	<b>Cash consideration in lieu of fractional Shares (RMB)</b>
Huahong Group	63.5443	5,388,551,195.69	124,332,053	18.67
Shanghai IC Fund	15.7215	1,333,186,465.21	30,761,109	1.15
China IC Fund II	10.2503	869,227,665.01	20,056,014	18.25
Guotou IC Fund	7.9827	676,936,827.35	15,619,216	5.91
<b>Total</b>	<b>97.4988</b>	<b>8,267,902,153.26</b>	<b>190,768,392</b>	<b>43.98</b>

Further, the parties have considered the significant increase in price in the RMB Shares of the Company since the Announcement, the available cash reserve of the Company, the working capital requirements and tax obligations of the Vendors, it has been decided that the Total Consideration shall not comprise any cash element (except for such cash consideration in lieu of fractional shares). Notwithstanding the Group's substantial cash and bank balances, (i) the Group has substantive capital expenditure needs arising from its future business development plans in the upcoming years, including expansion and developments of the 8-inch and 12-inch foundry fabs of HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing, and (ii) a substantial portion of the Group's cash possessed by the Group has been budgeted for dedicated long-term strategic purposes, as the semiconductor industry is a sector with intensive need for capital and talent acquisition, with rapid iteration of technologies from wafer manufacturing processes to downstream product demands. Having considered the need of cash set out above, the Board has decided to settle the Total Consideration by issuing new RMB Shares instead of using the Group's cash reserve.

### ***Our view:***

According to the Acquisition Agreement and the Supplemental Agreement, the Total Consideration will be settled solely by the issuance of RMB shares. We consider that it is beneficial to the Company and its existing Shareholders as it preserves the Group's cash resources for strategic development needs. The semiconductor foundry industry is highly capital-intensive and requires substantial and continuous investment in R&D, advanced process development, and capacity expansion to maintain technological competitiveness. As advised by the Management, the Group continued the rapid capacity ramp-up and volume production of the Hua Hong Manufacturing Project, which commenced risk production at the end of 2024. Due to the smooth progress of the first phase, the Company anticipates initiating the second-phase capacity deployment ahead of schedule by the end of 2025. Retaining cash on hand enables the Group to support future capital expenditure, strengthen its technology roadmap, and respond to market opportunities without increasing financial leverage or

constraining liquidity. By adopting a non-cash settlement structure, the Group is able to complete the Proposed Acquisition without reducing its financial flexibility, while allowing the economic risks and benefits of the transaction to be shared with the Vendors through equity participation.

### ***3.3 The Consideration Shares***

In accordance with the relevant PRC laws and regulations, the issue price of the Consideration Shares shall be RMB43.34 per Consideration Share, representing not less than 80% of the Average Trading Price of the RMB Shares for the 120 trading days prior to the Pricing Benchmark Date. Notwithstanding the fact that the 120-day average price presented a lower average price, the 120 trading days was selected as the determination basis in light of the price fluctuation of the RMB Shares prior to the signing of the Acquisition Agreement, as a result, the longer reference period (i.e. 120 trading days, instead of the other reference period 20 trading days or 60 trading days), was chosen by the parties, as it neutralized the impact of the price rally prior to the signing of the Acquisition Agreement to achieve a fair and reasonable pricing basis.

During the period between the Pricing Benchmark Date and the date of issue of the Consideration Shares, in case of any ex-rights or ex-dividends events of the Company such as distribution of cash dividends, bonus issues, rights issues, allotment of shares, conversion of share premium into share capital or capitalization issues, the issue price of the Consideration Shares will be adjusted in accordance with the relevant PRC laws and regulations in the manner stated in the letter from the Board.

The Consideration Shares will be issued under the Proposed Acquisition Specific Mandate to be sought at the EGM.

### ***3.4 Lock-up period***

Huahong Group has undertaken that it shall not transfer any of the Consideration Shares within 36 months from the date of issue of the Consideration Shares. In the event that (i) the average closing price of the Shares for any 20 consecutive days within 6 months of Completion or (ii) the closing price of the Shares at the end of the 6-month period after the Completion is lower than the Consideration Shares issue price, the lock-up period on the Consideration Shares obtained by Huahong Group shall automatically extend for an additional 6-month period.

Shanghai IC Fund has undertaken that it shall not transfer any of the Consideration Shares within 12 months from the date of issue of the Consideration Shares. In the event that Shanghai IC Fund is regarded as a private equity fund under the applicable laws and has held its interests in the Target Assets for 48 months at the time when it obtains the Consideration Shares, and provided that (i) it is not the Company's controlling shareholder, ultimate beneficial owner or

their respective associates, and (ii) it has not obtained control over the Company through the Proposed Acquisition, the lock-up period on the Consideration Shares obtained by Shanghai IC Fund shall be shortened to 6 months.

Each of China IC Fund II and Guotou IC Fund has undertaken that it shall not transfer any of the Consideration Shares within 12 months from the date of issue of the Consideration Shares. In the event that any of China IC Fund II and Guotou IC Fund has not held its interests in the Target Assets for 12 months at the time when it obtains the Consideration Shares, the lock-up period on the Consideration Shares obtained by such Vendor shall be extended to 36 months.

The final adjusted lock-up period of each of the Vendors will be determined at the Completion of the Proposed Acquisition and will be disclosed in the announcement in relation thereto. The lock-up undertaking shall also be applicable to any additional RMB Shares received by the Vendors as a result of bonus issues, capitalization issues, and/or conversion of share premium into share capital after completion of the Consideration Share Issuance.

#### *Our view*

Based on our discussion with the Management, the lock-up arrangement was determined in accordance with Article 47 of the “Administrative Measures for Major Asset Restructuring of Listed Companies” (《上市公司重大資產重組管理辦法》). Based on our review, it appears that the lock-up arrangement is consistent with the stipulations outlined in this regulation.

We view the lock-up arrangement as a vital safeguard for shareholder value and market stability. By restricting share transfers for 12 to 36 months, it mitigates the risk of a supply shock and protects the share price from volatility. Moreover, this commitment reflects the Vendors’ enduring confidence in the Group’s future prospects. We also noted that the use of “lock-up” mechanism is common amongst the Comparable Issuances (as defined in the analysis below) and the range of lock-up periods of the Comparable Transactions is between 12-months to 36 months. Since the Proposed Acquisition imposes a lock-up period requirements of 12-months and 36-months, which are in line with the market practice, we therefore are of the view that such lock-up period is reasonable.

### **3.5 Conditions precedent**

The effectiveness of the Acquisition Agreement is conditional upon the fulfilment of all of the following conditions:

- (i) the approval of the Proposed Acquisition by the Board and the Proposed Acquisition Independent Shareholders and the Takeovers Code Independent Shareholders at the EGM of the Company;
- (ii) the approval of the Proposed Acquisition by the internal and external competent governing bodies of the Vendors;

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- (iii) the approval of Proposed Acquisition by the shareholders of the Target Company, and the waiver of the first right of refusal by the shareholders of the Target Company having been obtained;
- (iv) the approval of the Proposed Acquisition by the state-owned assets supervision and administration authorities;
- (v) the granting of a Whitewash Waiver by the Executive and the approval of the same by the Takeovers Code Independent Shareholders at the EGM of the Company;
- (vi) the approval of the Proposed Acquisition by the Shanghai Stock Exchange and registration by the CSRC;
- (vii) the Proposed Acquisition having obtained other necessary prior approvals, approvals or consents (if any) as required by laws, regulations and regulatory authorities.

There is no long stop date under the Acquisition Agreement in respect of the fulfilment and/or waiver of the conditions precedent, which is consistent with similar transactions undertaken by other A+H companies. Notwithstanding the lack of long stop date, the Company is of the view that the transaction terms, on the whole, are fair and reasonable given (1) the final Consideration shall be supported by a valuation, and the parties to the transactions have also considered other factors (such as price fluctuation, certainty of the transaction) when determining the pricing of the Consideration Shares; (2) after the completion of the Proposed Acquisition, the shareholders' equity attributable to the parent company, the net profit attributable to the owners of the parent company and the basic earnings per share of the Company will increase, evidencing that is be no harm to the interests of minority shareholders; (3) the setting of a long stop date may also increase the uncertainty of the Proposed Acquisition, causing market confusion and may in turn harm the interests of the minority shareholders; (4) in the event that the Proposed Acquisition is not completed within 12 months of the EGM (i.e. the validity period of the relevant resolution), the Company shall be required to convene another extraordinary general meeting, and the shareholders shall then be entitled to vote to decide whether to proceed with the Proposed Acquisition. The parties will however endeavour to take necessary steps to procure the fulfillment of the conditions precedent and proceed with Completion.

In respect of the condition set out in paragraph (vii) above, as at the date of this letter, the Company is not aware of any other approval and/or filings which are required to be obtained by it in respect of the Proposed Acquisition.

None of the above conditions precedent may be waived by any party to the Acquisition Agreement. Other than conditions set out in paragraph (i) (in respect of the approval by the Board), (ii) and (iii) above, none of the conditions precedent has been fulfilled as at Latest Practicable Date. The Proposed Acquisition will not proceed if the Whitewash Waiver is not obtained or if the Whitewash Waiver is not approved by the Takeovers Code Independent Shareholders.

*Our view*

Although there is no long stop date stipulated under the Acquisition Agreement as supplemented by the Supplemental Agreement, we note that the Completion and the issuance of the Consideration Shares are subject to the satisfaction of certain conditions precedent, including obtaining the requisite approvals from the relevant regulatory authorities in Hong Kong and the PRC as well as the shareholders of the Company. These approvals are being diligently pursued by the parties, and the absence of a long stop date primarily reflects the inherent uncertainty in the approval timeline rather than any lack of commitment to Completion. In this regard, we consider that the absence of a long stop date does not materially affect the fairness and reasonableness of the transaction terms, given that Completion remains conditional upon clearly defined regulatory and shareholder approvals.

**3.6 Completion**

Upon registration of the Proposed Acquisition with the CSRC, the parties agree to cooperate and complete the necessary steps in respect of completion in accordance with applicable laws and regulations within the validity period of the registration. Completion of the Proposed Acquisition shall take place upon completion registration of the Target Assets with the relevant administration of market regulation of the PRC, which is expected to be within one year from the date of the CSRC's agreement to register.

**4. Compensation Agreement**

Pursuant to the Guidance on the Application of Regulatory Rules – Listing Category No. 1. (監管規則適用指引–上市類第1號) issued by the CSRC (“CSRC Listing Guidance Category No. 1”), where a listed company acquires asset(s) from its controlling shareholder (as defined under the Shanghai Listing Rules) which involve cash consideration or issuance of consideration shares, the controlling shareholder shall compensate the listed company for any impairment of target asset. Accordingly, on 31 December 2025, the Company and Huahong Group entered into the Compensation Agreement, pursuant to which, for a period of three financial years (including the year in which the Proposed Acquisition is completed and the two subsequent financial years, a period which follows the CSRC Listing Guidance Category No. 1), the Company shall conduct an impairment test on the total value of the assets of the Target Assets upon the end of the financial year end, based on a valuation conducted by a qualified valuer under the PRC Securities Laws with the valuation method to be determined.

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In the event of an impairment in the Target Assets in any of the three financial years, Huahong Group shall compensate the Company for the impairment value, multiplied by the proportion of Huahong Group's share in the Total Consideration (representing approximately 65.2%) by way of (i) subject to compliance with laws, rules and regulations, the Company's repurchase of a corresponding number of Consideration Shares held by Huahong Group in consideration of RMB1; and (ii) cash. The Company shall within 30 working days of the impairment report, make an announcement on the compensation arrangement setting out the impairment loss recorded and the compensation received from Huahong Group (if any) in compliance with its obligation thereunder, after which, Huahong Group shall settle such compensation within 30 working days of the announcement. The amount of impairment made and compensation received/receivable shall be disclosed in the Company's annual report.

As the Compensation Agreement has been entered into upon arm's length negotiation with Huahong Group in accordance with the requirements of the CSRC Listing Guidance Category No. 1 and allows the Company to hedge against the commercial and financial risks of impairment loss arising from the Proposed Acquisition and the conduct of the Target's business going forward, the Board considers that the terms of the Compensation Agreement are fair and reasonable and in the best interests of the Takeovers Code Independent Shareholder and the Proposed Acquisition LR Independent Shareholders. The Company shall disclose (i) whether the Target Company has recorded any impairment loss in each of the financial years covered by the Compensation Agreement, (ii) whether the compensation mechanism is triggered and (iii) the amount of compensation received thereunder, as and when appropriate.

### *Our view*

The above compensation arrangement provides downside protection to existing Shareholders in the event that the Proposed Acquisition does not achieve the expected performance or synergy outcomes which result in impairment. By requiring Huahong Group to compensate for any impairment in the value of the Target Assets, this mechanism ensures that Huahong Group effectively guarantees the value of the Target Assets for three financial years, effectively safeguarding the Company from bearing the full financial impact of underperformance. Additionally, it may help preserve shareholder value by mitigating dilution if the repurchase of Consideration Shares is chosen, ensuring that the economic risk of potential impairment is shared by the Vendors. This alignment of interests between Huahong Group and existing Shareholders underscores that the Compensation Agreement not only mitigates the commercial risk of asset devaluation but also serves as a powerful anti-dilutive measure that protects the interests of Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders.



## **5. Information on the Target Group**

### ***5.1 Background and businesses of the Target Group***

The Target Company is a limited liability company established in the PRC on 18 January 2010. As at the Latest Practicable Date, its issued share capital was owned as to approximately 63.5443% by Huahong Group, 15.7215% by Shanghai IC Fund, 10.2503% by China IC Fund II, 7.9827% by Guotou IC Fund, and 2.5012% by HH Grace, a wholly-owned subsidiary of the Company. Accordingly, the Target Company is controlled by Huahong Group, which is ultimately owned by the Shanghai SASAC, holding a 51.74% direct interest and the remaining 48.26% through wholly-owned subsidiaries and a non-wholly owned subsidiary. As disclosed in the letter from the Board, Huahong Group is a high-tech industry group which primarily focuses on IC manufacturing, R&D of advanced IC manufacturing process, IC systems integration and application services, sale of electronic component and overseas venture capital investment.

The Target Company, with its logic processes as foundation, also specializes in specialty processes, providing wafer foundry and supporting services to design companies, IDM companies, and other system companies, covering diverse process platforms including logic and radio frequency (RF), embedded/standalone NVM, and high voltage IGBT.

Building on over 15 years of technical experience in the semiconductor manufacturing, the Target Company persists in independent innovation, while continuing to research, develop, and master core key technologies for specialty processes. Currently, it operates the first fully automated 12-inch integrated circuit foundry production line in Mainland China, with process capabilities reaching the 65/55nm and 40nm technology nodes, and a design capacity of 38,000 wafers per month. The Target Company leases its primary production facility, a 12-inch wafer fab in Shanghai, from the Group under a market-based lease agreement. It has licensed its 65nm/55nm CMOS process technology to the Group, enabling the development and industrialization of high-reliability products such as automotive-grade NOR Flash with capacities above 32Mb. The licensing arrangement covers technical documentation, process design kits, and ongoing support, allowing the Group to adapt these nodes to its specialty process platforms.

The Target Company's extensive process portfolio provides customers with complete technology solutions, which are applicable across four major end-product markets: mobile communications, consumer electronics, IoT, and automotive electronics. The chip products manufactured cover baseband processors, image sensors, small and medium-sized LCD display driver chips, touch screen controllers, integrated touch and display driver chips, wireless connectivity, RF, microprocessors, smart cards, set-top box integrated chips, and power management chips.



**5.2 Financial performance, financial position and cash flows of the Target Company**

The following table sets out a summary of the combined statements of profit or loss of the Target Company for the three years ended 31 December 2022, 2023 and 2024, and for the eight months ended 31 August 2025, as extracted from the Historical Financial Information of the Target Company set out in Appendix II to the Circular:

	For the year ended 31 December			For the eight months ended 31 August	
	2022	2023	2024	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Revenue	5,492,787	2,371,122	4,476,976	2,878,119	3,401,413
Gross profit/(loss)	1,930,417	(152,917)	302,181	(66,510)	787,059
<b>Profit/(Loss) for the year/period</b>	<b>2,184,333</b>	<b>(372,291)</b>	<b>521,524</b>	<b>(20,563)</b>	<b>514,643</b>

The Target Company recorded revenue of RMB2.4 billion in FY2023, representing a significant decline of 56.4% from RMB5.5 billion in FY2022. The downturn was primarily attributable to (i) weak post-pandemic market demand and inventory correction across the semiconductor supply chain, which forced brands to cut orders with the Target Company, consistent with broader industry trends, and (ii) the impact of export controls imposed by the United States. The effects of these measures were felt throughout 2023, constraining access to critical tools and components from key suppliers and weighing on the Target Company's overseas business.

In particular, revenue from North America fell sharply from RMB1.7 billion in FY2022 to RMB0.4 billion in FY2023, representing a steep contraction of 76.5%. Affected by the two major factors mentioned above, the Target Company recorded significant write-down of inventories to net realisable value of RMB184.0 million in the FY2023, compared to only RMB5.4 million in the preceding year. This resulted in a gross loss for the year and placed significant downward pressure on overall profitability.

The deterioration in earnings was further aggravated by a sharp reduction in government grants, which fell from RMB380.1 million in FY2022 to merely RMB10.4 million in FY2023 as the R&D project subsidies from government were largely recognised upon completion and acceptance in FY2022, as well as a significant increase in administrative expenses arising from higher R&D expenditure. Consequently, the Target Company recorded a net loss of RMB372.3 million for FY2023.

In FY2024, the Target Company achieved a strong rebound, with revenue rising to RMB4.5 billion, representing an increase of 87.5% year-on-year. The recovery was mainly driven by improving market conditions, particularly the rapid expansion of AI applications which spurred demand for semiconductor components, as well as improvement in the

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downstream consumer electronics industry. Although revenue from North America continued to decline in FY2024 due to the ongoing impact of U.S. export restrictions, this was more than offset by a substantial increase in revenue from Asia. This swift diversification strategy mitigated regional exposure and enabled the Target Company to broaden its customer base and enhance business resilience.

Supported by the strong sales recovery and a partial reversal of previously written-down inventories to net realisable value, the Target Company returned to profitability in FY2024, recording gross profit of RMB302.2 million. The Group also recorded a turnaround to a net profit of RMB521.5 million in FY2024, compared with a net loss in FY2023. The improvement was mainly attributable to the significant recovery in gross profits, the recognition of technical development service income from transferring existing developed processes to the Group and the increase in interest income.

The robust growth momentum continued into FY2025, with revenue for the first eight months of the year increasing by 17.2% from RMB2.9 billion in the corresponding period of FY2024 to RMB3.4 billion. The growth was mainly driven by the increase in shipment volumes resulting from further improvement in downstream consumer electronics demand, coupled with a rise in average selling prices, while gross profit and gross profit margin also improved owing to the increase in average selling price and the improvement in capacity utilization rate. As a result, the Target Company recorded strong profitability of RMB514.6 million for the first eight months of FY2025.

### *Financial position*

The following table sets out the combined statement of financial position of the Target as at 31 December 2022, 2023, 2024 and as at 30 June 2025, as extracted from Historical Financial Information of the Target Company set out in Appendix II to the Circular:

	<b>As at 31 December,</b>			<b>As at</b>
	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>31 August,</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Total assets	10,043,335	8,899,821	6,258,892	7,258,503
Total liabilities	8,933,922	8,157,415	4,991,960	5,256,589
Net current assets	476,217	426,688	1,669,214	2,981,018
Net assets	1,109,413	742,406	1,266,932	2,001,914

As illustrated in the table above, the Target Company's financial position has shown continuous improvement from 2024. As at 31 August 2025, the Target Company maintained a solid financial position, with net current assets of approximately RMB3.0 billion and net assets of approximately RMB2.0 billion. The principal assets of the Target

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Company as at 31 August 2025 comprised (i) property, plant and equipment of approximately RMB1.7 billion; (ii) right-of-use assets of approximately RMB0.4 billion; (iii) inventories of approximately RMB1.4 billion; (iv) trade and notes receivables of approximately RMB0.5 billion; and (v) cash and cash equivalents of approximately RMB3.0 billion. The major liabilities as at the same date mainly consisted of: (i) interest-bearing bank borrowings of approximately RMB3.7 billion; (ii) trade payables of approximately RMB0.6 billion; and (iii) lease liabilities of approximately RMB0.5 billion.

### *Statement of cashflows*

The following table sets out a summary of the statements of cash flows of the Target Company for the three years ended 31 December 2022, 2023 and 2024, and for the eight months ended 31 August 2025, as extracted from the Historical Financial Information of the Target Company set out in Appendix II to the Circular:

	<b>For the year ended 31 December</b>			<b>For the eight months ended 31 August</b>	
	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2024</b>	<b>2025</b>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Cash flow (used in)/generated from operating activities	1,743,522	(523,440)	1,960,930	2,063,258	979,728
Cash flow (used in)/generated from investing activities	(2,013,509)	(263,488)	764,297	960,768	1,368,935
Cash flow (used in)/generated from financing activities	(500,724)	(272,864)	(3,701,645)	(540,432)	691,069
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(770,711)</b>	<b>(1,059,792)</b>	<b>(976,418)</b>	<b>562,058</b>	<b>3,039,732</b>

As demonstrated in the table, the Target Company has maintained largely positive cash flows from operating activities throughout the period, with the exception of the year ended 31 December 2023, which reflected the temporary deterioration in the financial performance previously discussed. The Target Company recorded net cash used in investing activities for the two years ended 31 December 2023. However, this outflow was not predominantly driven by core capital expenditure on property, plant, and equipment, but was largely attributable to strategic placements of fixed deposits held at banks with maturity exceeding three months, alongside the purchase of PP&E, prepaid lease payments, and intangible assets.

In terms of financing activities, the Target Company recorded net cash outflows across all annual periods, indicating regular debt servicing. A significant reversal occurred during the eight months ended 31 August 2025, where there was a net cash inflow generated from financing activities. This shift was a result of increased capital contribution from shareholders and new bank and other borrowings that collectively exceeded the repayment of existing obligations during that specific period.

The net effect of these movements resulted in a net decrease in cash and cash equivalents over the three years ended 31 December 2024, confirming the overall liquidity pressure during the heavy investment and borrowing phase. Conversely, the successful execution of financing and treasury activities in the most recent period led to a substantial net increase in cash and cash equivalents during the eight months ended 31 August 2025, significantly strengthening the Target Company's current liquidity position.

## **6. Assessment of the Total Consideration**

The Total Consideration comprises 190,768,392 Consideration Shares to be issued to the Vendors at an issue price of RMB43.34 per Consideration Share, giving rise to a corresponding value in the Target Company of RMB8,267,902,153.26, which represents approximately 97.4988% of the appraised value of the Target Company under the Asset Valuation Report and corresponds to the same shareholding percentage in the Proposed Acquisition of the Target Company. To assess the fairness and reasonableness of the Total Consideration, we have considered the following factors:

### ***6.1 Valuation of the Target Company***

The Company engaged the Valuer to prepare a Valuation Report in respect of the fair value of 100% equity interest of the Target Company as of 31 August 2025 (the “**Valuation**”). As set out in the Valuation Report contained in Appendix V of the Circular, the appraised value of 100% equity interest of the Target Company is RMB8.48 billion as at 31 August 2025. In reviewing the Valuation Report, we have complied with the requirements under Rule 13.80(2)(b) Note 1(d) of the Listing Rules and Rule 11.1(b) of the Takeovers Code. Our letter in relation to the Valuation Report under Rule 11.1(b) of the Takeovers Code is set out in Appendix VI to the Circular. We have enquired with the Valuer as to their independence and were given to understand that the Valuer is an independent third party of the Group, the Vendors and their respective connected persons. The Valuer also confirmed to us that they were not aware of any relationship or interest between themselves and the Group, the Vendors or any other parties that would reasonably be considered to affect their independence to act as the independent valuer of the Company. We have also reviewed the supporting documents on the qualifications of the Valuer and discussed the same with the Valuer. We noted that the persons signing the Valuation Report, whom are partners of the Valuer, have more than 15 years of experience in providing valuation services to listed companies of different industries, including the semiconductor industry, in the PRC and Hong Kong. Based on the work conducted by us, we are satisfied that the Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation Report competently. Furthermore,

we also reviewed the Valuer's terms of engagement stated in the engagement letter entered into between the Company and the Valuer and noted that the scope of work was appropriate for the Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report.

## **6.2 Valuation Methodologies**

As set out in the Valuation Report and based on our discussions with the Valuer, both the asset-based approach and the market approach were considered in the valuation of the 100% equity interest in the Target Company as of 31 August 2025, and the market approach was adopted as the basis for the concluded appraised value.

We understand from the Valuer that three generally accepted approaches are available for valuing equity interests, namely, the asset-based approach, the income approach, and the market approach. After considering the applicability of each method, the Valuer concluded that the market approach is the most appropriate for this valuation, as (i) a sufficient number of comparable listed companies in the same industry can be identified in the capital market, and (ii) adequate and reliable operating and financial data of these comparable companies are publicly available to support meaningful comparison and adjustment.

The asset-based approach was also assessed to be applicable, as the Target Company's assets are either in the state of continued use or assumed to be in the state of continued use, and sufficient historical operating data are available. However, due to its inherent characteristics, this approach primarily measures the value of individual tangible and identifiable intangible assets, and does not fully capture the synergistic and integrated value generated by the combination and interaction of these assets. In particular, important intangible resources such as process technologies, management capabilities, technical expertise, and self-created goodwill are difficult to quantify under the asset-based approach, thereby limiting its ability to reflect the Target Company's overall enterprise value relative to the market approach.

The income approach, on the other hand, was considered inappropriate for this valuation. The wafer foundry industry is significantly affected by international relations and macroeconomic conditions, and is characterised by strong cyclicity and uncertainty. These factors make reliable forecasting of future profitability and cash flows difficult, rendering the income approach less suitable in this valuation.

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As advised by the Valuer, the fair value of 100% equity interest in the Target Company was determined with reference to comparable listed companies (the “**Comparable Companies**”) as comparable transaction analysis was not feasible due to a lack of recent similar transactions in the market. According to the Valuation Report, the Comparable Companies are listed on the Shanghai Stock Exchange, and were selected based on the following criteria:

1. Listing history – the Comparable Companies must have been listed for at least two years as of the valuation benchmark date to avoid potential distortions caused by insufficient market information, IPO effects, or market expectation – driven price volatility;
2. Industry and business model – the Comparable Companies must operate in the semiconductor manufacturing or wafer foundry industry, with a primary business model involving large-scale investment, high capital expenditure, and continuous technological process enhancement, namely under an IDM (Integrated Device Manufacturer) or foundry model, and their product application areas should be similar to those of the Target Company;
3. Trading status – the Comparable Companies must have been normally traded near the valuation benchmark date, without suspension or other abnormal trading conditions, and must not have experienced significant share price fluctuations arising from merger, acquisition, or restructuring activities around that period;
4. Exclusion of ST stocks – “ST” stocks, (stocks under delisting risk warning) are more likely to deviate significantly from their actual value due to speculative and manipulative factors in the market and are excluded; and
5. Scale comparability – to ensure a comparable operating scale, companies with gross book value of equipment-related fixed assets below RMB10 billion were excluded, given that the Target Company’s corresponding asset value exceeds RMB15 billion.

Based on the above criteria, the Valuer was able to identify three Comparable Companies, which the Valuer confirmed was an exhaustive list. We also understand from the Valuer that the Comparable Companies are considered comparable to the Target Company notwithstanding differences in their listing status, as an appropriate discount for lack of liquidity has been taken into account in the Valuation. Based on our review of the Valuation Report and the discussion with the Valuer, we were given to understand that the liquidity discount rate was derived from a comparative analysis of newly listed companies in the relevant industries. This approach quantifies the lack of liquidity by comparing the price at which shares are sold in a private context (represented by the IPO price) to their price after achieving liquidity in the public market (represented by the post-listing trading price). The median liquidity discount rate of 39.26% was calculated based on the differences between the IPO and the closing prices on the 90th, 120th, and 250th trading days after their respective listings. This liquidity discount reflects the reduced marketability of the Target Company’s shares.

We consider the above criteria to be reasonable for the following reasons:

- (i) a sufficient listing history ensures that the trading and financial data of the Comparable Companies are reliable and less affected by IPO-related or short-term market volatility;
- (ii) similar business models ensure that the Comparable Companies operate under broadly similar industry conditions and risk-return profiles;
- (iii) the exclusion of companies with suspended or irregular trading avoids potential distortions in valuation multiples; and
- (iv) comparable scale ensures that differences in market capitalisation and operating size do not materially bias the valuation outcome.

Although the number of Comparable Companies is limited to three, we note that such number satisfies the minimum requirement for the application of the market approach and that each selected company exhibits a high degree of relevance and similarity to the Target Company. We are of the view that the quality and comparability of the selected companies are the key factors underpinning the robustness of the valuation, and that including additional but less comparable companies could reduce the overall reliability of the valuation result. Taking into account the above and that a sufficient number of Comparable Companies satisfying the above criteria can be identified, we consider that the selected Comparable Companies provide objective and relevant benchmarks for assessing the fair value of 100% equity interest in the Target Company. Accordingly, we concur that the adoption of the market approach by the Valuer is appropriate and reasonable for this Valuation.

Under the market approach, the Valuer did not adopt asset-based ratios such as the price-to-book ratio because the Target Company's fixed assets were almost fully depreciated as of the Valuation Benchmark Date. This resulted in very low net and total asset values, making them not comparable to the Comparable Companies, which have significantly higher net asset ratios. Similarly, revenue-based ratios, including the price-to-sales ratio, were deemed inappropriate because they assume a direct correlation between a company's value and its revenue scale. In the wafer foundry industry, value is driven primarily by technology and profitability rather than revenue size.



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Although earnings-based multiples generally better reflect the industry's value drivers, traditional profitability ratios such as the price-to-earnings ratio and enterprise value to EBIT were considered unsuitable. This is because wafer foundries involve substantial capital investment and long payback periods, often resulting in low or negative profits after depreciation and amortization. Instead, EV/EBITDA was adopted as the valuation multiple for this appraisal, as adding back depreciation and amortization provides a more accurate measure of the company's sustainable profitability. Using the adjusted value ratios of comparable companies, in combination with the relevant financial data or indicators of the appraised entity, the enterprise value of the appraised entity was calculated. After further adjustments for non-operating assets, liabilities, and surplus assets, the total equity value attributable to the shareholders of the appraised entity was finally determined.

We obtained and reviewed the calculations described above. The appraised enterprise value of the Target Company was determined by multiplying the Target Company's adjusted EBITDA as of 31 August 2025 by the average adjusted EV/EBITDA multiples of the Comparable Companies. We reviewed the data and information used by the Valuer in deriving the adjusted multiples, including making reference to market data available from Bloomberg and public disclosures, and discussed with the Valuer to understand the adjustments made and the rationale behind such adjustments. We also reviewed and discussed with the Valuer the key bases and assumptions adopted for the valuation. These assumptions are set out in the Valuation Report contained in Appendix V to the Circular. Based on our discussions, we noted that the assumptions are commonly adopted in business valuations. We did not identify any material factors that would lead us to question the reasonableness of the assumptions used in the Valuation Report.

Having taken into account the above, we concur with the Valuer that the market approach is commonly used and is the appropriate method for deriving the appraised value of 100% equity interest of the Target Company. On this basis and taking into account that the Total Consideration of the Proposed Acquisition of RMB8,267.9 million represents approximately 97.4988% to the appraised value of 100% equity interest of the Target Company of approximately RMB8,480.0 million, we consider the Total Consideration for the Proposed Acquisition is fair and reasonable.

We noted that the Total Consideration represents a significant premium over the net asset value of the Target Company as at 31 December 2024 and 30 June 2025. Having discussed with the Management and the Valuer and reviewed the Valuation Report, we understand that the Total Consideration was determined with reference to the appraised fair value of the Target Company assessed under the market approach, which reflects its earnings potential and market comparables rather than solely its book value.



We consider that the net asset value of the Target Company, which mainly represents the historical accounting value of its assets and liabilities, may not fully reflect its underlying fair value or earning capability, particularly for a business of an operating nature. This is especially relevant given the strong growth trends in AI and next-generation technologies, which are expected to drive significant future demand for the Target Company's products. The adoption of the market approach by the Valuer, which captures the market's assessment of value through the trading multiples of comparable listed companies, is therefore more appropriate than relying solely on book value for assessing the Target Company's fair value.

Taking into account the above factors, including the valuation approach adopted, the justification for the valuation premium relative to book value, and the strategic benefits expected to accrue to the Group, we consider that the consideration for the Proposed Acquisition, though representing a premium over the Target Company's NAV, is fair and reasonable so far as the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders are concerned.

According to the Acquisition Agreement and the Supplemental Agreement, the Total Consideration will be settled solely by the issuance of RMB shares. We consider that it is beneficial to the Company and its existing Shareholders as it preserves the Group's cash resources for strategic development needs. The semiconductor foundry industry is highly capital-intensive and requires substantial and continuous investment in R&D, advanced process development, and capacity expansion to maintain technological competitiveness. As advised by the Management, the Group continued the rapid capacity ramp-up and volume production of the Hua Hong Manufacturing Project, which commenced risk production at the end of 2024. Due to the smooth progress of the first phase, the Company anticipates initiating the second-phase capacity deployment ahead of schedule by the end of 2025. Retaining cash on hand enables the Group to support future capital expenditure, strengthen its technology roadmap, and respond to market opportunities without increasing financial leverage or constraining liquidity.

By adopting a non-cash settlement structure, the Group is able to complete the Proposed Acquisition without reducing its financial flexibility, while allowing the economic risks and benefits of the transaction to be shared with the Vendors through equity participation.

## **7. Assessment of the Issue Price of the Consideration Shares**

In accordance with the relevant PRC laws and regulations, the issue price of the Consideration Shares shall be RMB43.34 per Consideration Share, representing not less than 80% of the average trading prices of the RMB Shares for the 120 trading days prior to the Pricing Benchmark Date. Notwithstanding the fact that the 120-day average price presented a lower average price, the 120 trading days was selected as the pricing determination basis in light of the price fluctuation of the RMB Shares prior to the signing of the Acquisition

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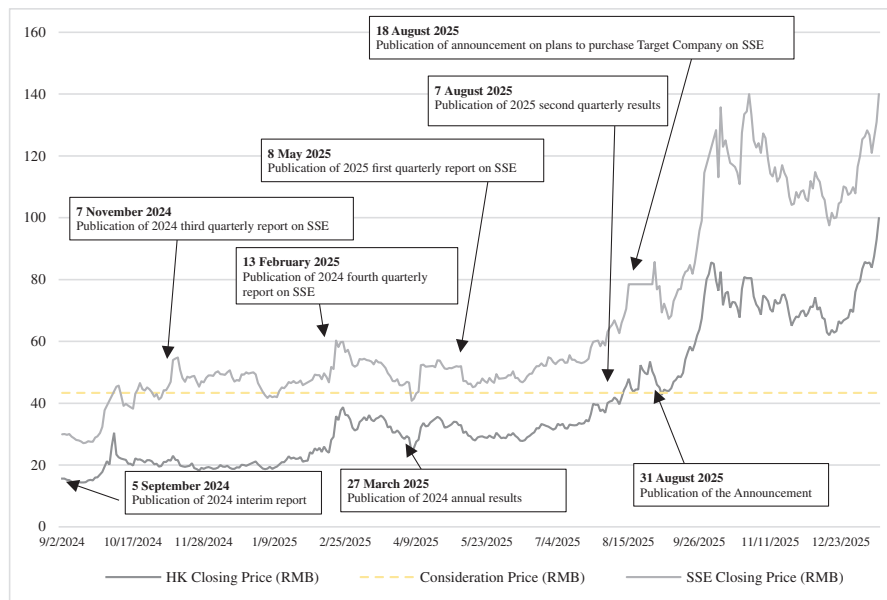
Agreement, as a result, a longer reference period (i.e. 120 trading days, instead of the other reference period 20 trading days or 60 trading days), was chosen by the parties, as it neutralized the impact of the price rally prior to the signing of the Acquisition Agreement to achieve a fair and reasonable pricing basis.

The issue price of RMB43.34 per Consideration Shares represents:

- (a) a discount of approximately 44.79% to the closing price per RMB Share of RMB78.50 as quoted on the Shanghai Stock Exchange on the date of the Acquisition Agreement;
- (b) a discount of approximately 59.82% to the closing price per RMB Share of RMB107.87 as quoted on the Shanghai Stock Exchange on the date of the Supplemental Agreement;
- (c) a discount of approximately 44.79% to the closing price per RMB Share of RMB78.50 as quoted on the Shanghai Stock Exchange on the last trading day prior to the Pricing Benchmark Date;
- (d) a discount of approximately 31.78% to the average trading price per RMB Share of RMB63.53 based on the as quoted on the Shanghai Stock Exchange of the last 20 trading days immediately prior to the Pricing Benchmark Date;
- (e) a discount of approximately 24.94% to the average trading price per RMB Share of RMB57.74 based on the as quoted on the Shanghai Stock Exchange of the last 60 trading days immediately prior to the Pricing Benchmark Date;
- (f) a discount of approximately 19.99% to the average closing price per RMB Share of RMB54.17 based on the as quoted on the Shanghai Stock Exchange of the last 120 trading days immediately prior to the Pricing Benchmark Date;
- (g) a premium of approximately 65.85% over the audited net asset value attributable to the Shareholders of approximately US\$3.64 per Share as at 31 December 2024, based on the exchange rate of US\$1 to RMB7.1884 on 31 December 2024 as announced by People's Bank of China;
- (h) a premium of approximately 65.97% over to the unaudited net asset value attributable to the Shareholders of approximately US\$3.65 per Share as at 30 June 2025, based on the exchange rate of US\$1 to RMB7.1586 on 30 June 2025 as announced by People's Bank of China; and
- (i) a discount of approximately 67.92% to the closing price per RMB Share of RMB135.08 as quoted on the Shanghai Stock Exchange on the Latest Practicable Date.

### 7.1 Historical price performance of the Shares

The graph below illustrates the historical closing prices of the RMB Shares as quoted on the Shanghai Stock Exchange from 1 September 2024 and up to and including the Latest Practicable Date (the “**Review Period**”), which covers one year before the Pricing Benchmark Date to illustrate the general trend and level of movement of the closing prices of the RMB Shares. We consider the duration of the Review Period would be a reasonable and sufficient period to provide a general and fair overview of the recent trend of the closing price of the RMB Shares free from the influence of, if any, short term market volatility when assessing the issue price of the RMB Share:



Source: Website of the Stock Exchange, Bloomberg

During the Review Period, the lowest and highest closing prices of RMB Shares were RMB27.08 per RMB Shares recorded on 17 September 2024 and RMB140.00 recorded on 29 October 2025 and 16 January 2026, respectively. The issue price of RMB43.34 per RMB Share is within the RMB Shares’ closing price range during the Review Period.

The RMB Share price of the Group was hovering around the RMB40-60 range for the majority of the period prior to the Announcement from early October 2024 to July 2025, reflecting a prolonged consolidation phase. The RMB Share price experienced a brief initial drop in early September 2024 to its lowest point below RMB30 for a short duration around the time at which the 2024 Interim Report was published on the Hong Kong Stock Exchange, likely due to the lingering effects from the 2023 industry downturn as reflected in the 2024 Interim Report published on 5 September 2024. The RMB Share price of the Group only began to surge shortly before the publication of the second quarterly results of 2025, breaking above the RMB40-60 range in early August 2025 and accelerating sharply through August and September and peaking in mid-October 2025. The rally was believed to be driven by a combination of factors including (i) improvement in financial performance as reflected in the second quarterly

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report of 2025; (ii) positive market sentiment regarding the strategic consolidation following the announcement of the Proposed Acquisition; and (iii) the broader positive uptrend in the semiconductor sector. Following a brief correction in October 2025, the RMB Share price resumed its upward trajectory and continued to rise and reached the peak again on the Latest Practicable Date.

Pursuant to the stipulations in the Administrative Measures for Material Asset Restructuring (the “**Administrative Measures**”), the price at which a listed company issues new shares shall not be lower than 80% of the market reference price. The market reference price is made reference to one of the average trading prices of the company’s stocks on the 20 trading days, 60 trading days, or 120 trading days immediately before the announcement of the board of directors’ resolution for the issuance of shares to the acquisition of assets, which can be the lowest among the above three average trading prices (the “**Basic Pricing Criteria**”). 80% of the average trading price of the RMB Shares of the Company of 20 trading days, 60 trading days, and 120 trading days prior to the Pricing Benchmark Date, which are RMB50.824, RMB46.192 and RMB43.336 per Consideration Share, respectively. We noted that the Issue Price of RMB43.34 per RMB Share is higher than 80% of the average trading price of the RMB Shares of the Company of 120 trading days prior to the Pricing Benchmark Date. The issue price of the Consideration Shares is therefore in compliance with the Administrative Measures.

The issue price was higher than the H-share closing price for the entirety of the Review Period and was in line with the closing prices around the time the announcement of the Proposed Acquisition was published on the SSE, notwithstanding a notable increase in the share price shortly prior to the Announcement. Given that the RMB Shares have consistently traded at a premium to the H shares during the Review Period, the issuance of RMB shares as consideration shares is expected to result in comparatively less dilution to the percentage interest of the existing public Shareholders than an issuance of H shares.

We also noted that since the Announcement, the market price of the Company’s H shares and RMB Shares have both increased significantly, and as a result, the Issue Price and the Total Consideration now represent a deeper discount to the latest market price. While the Issue Price is below the recent market price, we attribute the appreciation in share price to the market’s positive expectation of the strategic synergies and benefits the Target Company would bring to the Group, specifically regarding potential earnings growth and enhanced market positioning.

In our view, the Total Consideration, which was determined with reference to the fair value of the Target Company assessed under the market approach, remains fair and reasonable. The recent share price movement does not affect the underlying valuation of the Target Company, which was based on an objective assessment of its business, earnings potential, and market comparables, rather than short-term market fluctuations. Accordingly, we consider that the Total Consideration is fair and reasonable so far as the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders are concerned, taking into account both the Valuer’s assessment and the market’s positive reception of the Proposed Acquisition.

## 7.2 Comparison with recent issuances of RMB Shares as consideration

To further assess the fairness and reasonableness of the Issue Price in view of the aforementioned discounts, we also identified transactions in relation to the acquisition of over 50% equity interests in target companies involving the issuance of RMB Shares as consideration (the “**Comparable Issuances**”), that were announced by companies listed on the main board of Shanghai Stock Exchange or both Shanghai Stock Exchange and the Hong Kong Stock Exchange during the Review Period. We selected Comparable Issuances involving the acquisition of over 50% equity interests because such transactions signify the acquisition of control, making them more relevant to the Proposed Acquisition. We consider the Review Period is commonly adopted for analysis and reflects the recent market practice up to the date of the Latest Practicable Date. Based on the data sourced from Eastmoney.com (東方財富網), a leading and publicly-listed Chinese online financial information service provider, we identified 21 completed issuances which met the said criteria, which is an exhaustive list. Despite that the businesses, operations and prospects of the Group are not the same as the subject companies of the Comparable Issuances, the Comparable Issuances can demonstrate the market practices of issuance of RMB Shares as consideration shares by companies listed on the main board of the Shanghai Stock Exchange during the Review Period.

Company Name	Stock code	Principal business	Market capitalisation as at the Latest Practicable Date (RMB billion)	Announcement date	Initial issue price not less than 80% of the 20-day/60-day/120-day average trading price of the RMB Shares immediately preceding the price benchmark date	Initial lock-up period	Connected Transaction (Y/N)	Non-public issuance (Y/N)
Ningbo Construction Co., Ltd. (寧波建工股份有限公司)	601789.SH	The provision of municipal and construction engineering, including landscaping, roads and bridges, building decoration and curtain walls, prefabricated buildings and steel structures, as well as related general contracting works. It also manufactures and installs building components, provides property management and construction equipment leasing services, and sells building materials.	7.88	January 2026	Y <sup>(Note)</sup>	36 months	Y	N

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Company Name	Stock code	Principal business	Market capitalisation as at the Latest Practicable Date (RMB'billion)	Announcement date	Initial issue price not less than 80% of the 20-day/60-day/120-day average trading price of the RMB Shares immediately preceding the price benchmark date	Initial lock-up period	Connected Transaction (Y/N)	Non-public issuance (Y/N)
Inner Mongolia MengDian HuaNeng Thermal Power Corporation Limited(內蒙古電華能熱電股份有限公司)	600863.SH	The production, supply and management of thermal, wind and solar energy, as well as the development, construction and operation of coal and coal chemical projects. It also invests in power-related raw materials, railway supporting infrastructure, and provides management and consulting services.	34.01	January 2026	Y, 60-day	60 months	Y	Y
National Silicon Industry Group Co., Ltd. (上海硅產業集團股份有限公司)	688126.SH	The manufacture and sale of semiconductor silicon wafers. It offers 300mm silicon wafers; SOI wafer; and customized silicon wafer.	75.09	December 2025	Y, 20-day	36 months	Y	Y
Huaihe Energy (Group) Co., Ltd (淮河能源(集團)股份有限公司)	600575.SH	The provision of thermal power generation, electricity sales, railway transportation, and coal blending	24.80	December 2025	Y, 120-day	18/36 months	Y	N
Shenzhen Original Advanced Compounds Co., Ltd. (深圳至正高分子材料股份有限公司)	603991.SH	The research and development, production, and sale of polymer materials in the China and internationally.	11.80	December 2025	Y, 120-day	12/36 months	Y	Y
Jiangsu HHCK Advanced Materials Co., Ltd. (江蘇華海誠科新材料股份有限公司)	688535.SH	The manufacture and sale of semiconductor packaging materials, such as epoxy molding compounds and electronic adhesives in China.	12.34	December 2025	Y, 60-day	12/36 months	N	Y

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Company Name	Stock code	Principal business	Market capitalisation as at the Latest Practicable Date (RMB'billion)	Announcement date	Initial issue price not less than 80% of the 20-day/60-day/120-day average trading price of the RMB Shares immediately preceding the price benchmark date	Initial lock-up period	Connected Transaction (Y/N)	Non-public issuance (Y/N)
Spic Yuanda Environmental-Protection Co., Ltd. (國家電投集團遠達環保股份有限公司)	600292.SH	Provision of energy-saving and environmental protection services in China and internationally	60.27	November 2025	Y <sup>(Note)</sup>	36 months	Y	Y
ZhuZhou QianJin Pharmaceutical Co., Ltd ( 株洲千金藥業股份有限公司)	600479.SH	The research, development, production, and sales of traditional Chinese medicines, chemicals and API, and TCM derivatives in China.	5.12	October 2025	Y <sup>(Note)</sup>	12/36 months	Y	N
Yangtze Optical Electronic Co., Ltd. (武漢長盈通光電技術股份有限公司)	688143.SH	Provision of engineering design and consulting services in China and internationally.	7.24	October 2025	Y <sup>(Note)</sup>	12 months	N	N
IKD Co., Ltd. (愛柯迪股份有限公司)	600933.SH	Research, development, production, and sales of automotive aluminum alloy precision die castings parts in the United States, Europe, and Asia.	20.90	October 2025	Y <sup>(Note)</sup>	12 months	N	Y
United Nova Technology Co., Ltd. (芯聯集成電路製造股份有限公司)	688469.SH	Manufacture and market power discrete and modules in China and internationally.	59.10	September 2025	Y, 20-day	36 months	Y	N
Huadian Power International Corporation Limited (華電國際電力股份有限公司)	600027.SH	The construction and operation of power plants, including large-scale and fuel-fired power plants; and coal and gas-fired power generation units and renewable energy projects	57.94	August 2025	Y, 20-day	36 months	Y	Y

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Company Name	Stock code	Principal business	Market capitalisation as at the Latest Practicable Date (RMB'billion)	Announcement date	Initial issue price not less than 80% of the 20-day/ 60-day/120-day average trading price of the RMB Shares immediately preceding the price benchmark date	Initial lock-up period	Connected Transaction (Y/N)	Non-public issuance (Y/N)
JDM JingDaMachine (Ningbo) Co.Ltd (寧波精達成形裝備股份有限公司)	603088.SH	Production and sale of precision stamping parts in China and internationally	5.73	June 2025	Y, 20-day	36 months	Y	Y
Guangdong Songfa Ceramics Co., Ltd. (廣東松發陶瓷股份有限公司)	603268	Production and sale of ceramic products in China and internationally	82.67	May 2025	Y, 60-day	36 months	Y	Y
Seres Group Co., Ltd (賽力斯集團股份有限公司)	601127.SH	The research and development, production, sales, and servicing of new energy vehicles and components in China and internationally	211.00	March 2025	Y, 120-day	12/36 months	N	N
Guolian Minsheng Securities Co., Ltd. (國聯民生證券股份有限公司)	601456.SH	Provision of various financial products and services in the People's Republic of China.	56.19	March 2025	Y <sup>(Note)</sup>	12/36 months	N	Y
Shanghai Sanyou Medical Co., Ltd (上海三友醫療器械股份有限公司)	688085.SH	Research, development, manufacture, and sales of orthopedics implants in China	6.69	February 2025	Y, 60-day	12/36 months	Y	Y
Haohua Chemical Science & Technology Corp., Ltd. (昊華化工科技集團股份有限公司)	600378.SH	Research and development, production, and sales of manufactures and sells fluorine materials, electronic gases, high-end manufacturing chemical materials, and carbon emission reduction products in China and internationally.	49.25	January 2025	Y <sup>(Note)</sup>	36 months	Y	Y



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Company Name	Stock code	Principal business	Market capitalisation as at the Latest Practicable Date (RMB'billion)	Announcement date	Initial issue price not less than 80% of the 20-day/ 60-day/120-day average trading price of the RMB Shares immediately preceding the price benchmark date	Initial lock-up period	Connected Transaction (Y/N)	Non-pubic issuance (Y/N)
Chinese Universe Publishing and Media Group Co., Ltd. (中文天地出版傳媒集團股份有限公司)	600373.SH	The editing and publishing of books, newspapers, periodicals, audio-visual, and electronic publications in China and internationally	13.00	October 2024	Y, 120-day	36 months	Y	N
Rigol Technologies Co., Ltd. (普源精電科技股份有限公司)	688337.SH	The research, development, manufacturing, and sale of electronic testing and measuring instruments and accessories in China and internationally	7.70	October 2024	Y, 60-day	36 months	N	N
CCCC Design & Consulting Group Co., Ltd. (中交設計諮詢集團股份有限公司)	600720.SH	provision of engineering design and consulting services in China and internationally.	16.93	October 2024	Y <sup>(Note)</sup>	36 months	Y	Y

**Note:** The issue price is not less than 80% of the average trading price of the shares over the 20, 60 and 120 trading days prior to the pricing benchmark date and is sufficiently higher than the Basic Pricing Criteria.

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Based on our review, we noted that the basis for determining the initial issue price for all the Comparable Issuance complied with the Basic Pricing Criteria as under the Administrative Measures. We also noted that nine out of the 21 Comparable Issuance adopted a longer reference period of up to 60-day or 120-day average trading prices of RMB Shares when determining their issue prices.

The Consideration Price is determined as 80% of the Average Trading Price of the RMB Shares for the 120 trading days prior to the Pricing Benchmark Date, which is the longest reference period permitted under the relevant PRC regulations. While only four out of 21 Comparable Issuance referenced the 120-day average trading prices of RMB Shares, it is not uncommon and we also noted that the share price of the Group only surged shortly before the publication of the Announcement of the Proposed Acquisition, the shorter reference periods of 20-day and 60-day would be inflated by such sudden price surge just before the Announcement while the 120-day average would be a more prudent and representative price mechanism that smooths out short-term price fluctuations and provide a more stable and reliable anchor reflective of the stock's fundamental value over a longer period. Further, the use of the longer reference period is legally permissible. In evaluating the five Comparable Issuances that reference the 120-day average trading prices, we observed three connected issuances and two independent issuances, indicating that the distinction between connected and independent issuances does not significantly impact the issuance of RMB shares.

To further enhance our assessment of the Total Consideration, we identified a set of comparable companies operating in similar segments of the semiconductor industry (the “**Market Comparables**”). The Market Comparables were selected with reference to the following criteria: (i) listed on a recognized stock exchange in Hong Kong, the PRC, or the United States; (ii) principally engaged in semiconductor manufacturing or wafer foundry operations, adopting a business model characterised by large-scale investment, high capital expenditure, and continuous technological process enhancement, namely under an IDM (Integrated Device Manufacturer) or pure-play foundry model; (iii) generating over 50% of total revenue from wafer manufacturing; and (iv) having revenue exceeding USD 1 billion for the year ended 31 December 2024 to ensure comparability in terms of scale. Based on these criteria, we identified eight companies as the Market Comparables, which we consider a comprehensive and relevant set for benchmarking purposes.

For each Market Comparables, the valuation ratios were calculated based on: (i) financial information extracted from the latest published annual reports; and (ii) the respective market capitalisation as at the Pricing Benchmark Date, as this date aligns with the time at which the Issue Price, and consequently the implied market capitalization, was determined. We consider the Market Comparables to represent an exhaustive list of suitable peer companies based on the above criteria.

In comparing the Proposed Acquisition against the Market Comparables, we adopted the EV/EBITDA ratio, recognising that wafer foundry businesses involve substantial capital investment and long asset payback periods, which often lead to low or negative profitability after depreciation and amortisation. The P/E ratio is not considered meaningful given that the

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Group recorded a net loss for the year ended 31 December 2024. The P/S ratio was also deemed unsuitable due to significant wafer-pricing pressure attributable to intensified market competition and weaker demand conditions, as discussed in the financial performance section above.

The results of the EV/EBITDA ratios of the Market Comparables compared to those implied by the Proposed Acquisition are summarised in the table below:

Company name	Stock code	Stock Exchange	Principal business	Market Capitalisation as at the Pricing Benchmark Date (USD'million) <sup>(Note 1)</sup>	Revenue (USD'million)	EV/EBITDA <sup>(Note 2)</sup>
Semiconductor Manufacturing International Corporation ("SMIC")	00981/ 688981	Hong Kong/Shanghai	SMIC Group provides semiconductor foundry and technology services to global customers on 8-inch and 12-inch wafers.	613,499.0 (Hong Kong)/ 561,259.0 (Shanghai)	8,029.9	23.42
China Resources Microelectronics Limited ("CRM")	688396	Shanghai, China	CRM engages in the manufacture and sale of semiconductors in China and internationally.	69,562.5	1,419.0	32.08
Nexchip Semiconductor Corporation ("Nexchip")	688249	Shanghai, China	Nexchip engages in the research and development, production, and sales of integrated circuit related products and supporting products in China and internationally.	6,830.8	1,297.1	17.04

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Company name	Stock code	Stock Exchange	Principal business	Market Capitalisation as at the Pricing Benchmark Date (USD'million) <sup>(Note 1)</sup>	Revenue (USD'million)	EV/EBITDA <i>(Note 2)</i>
Power Semiconductor Manufacturing Corporation ("PSMC")	6770	Taiwan	PSMC provides chip design and manufacturing services. It provides foundry, design, overhaul, manufacturing, and memory wafer testing services.	2,176.8	1,462.1	67.57
Vanguard International Semiconductor Corporation ("VSIC")	5347	Taiwan	VISC engages in manufacturing, selling, packaging, testing, and computer-aided design of integrated circuits and other semiconductor devices in Taiwan and internationally.	5,585.6	1,440.2	9.04
Global Foundries Inc. ("GFS")	GFS	Nasdaq, United States	GFS is a semiconductor foundry, providing range of mainstream wafer fabrication services and technologies worldwide.	18,528.6	6,750.0	7.56
United Microelectronics Corporation ("UMC")	UMC	New York Stock exchange, United States	UMC operates as a semiconductor wafer foundry internationally. It manufactures and sells integrated circuits.	508,531.3	7,594.0	4.86

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Company name	Stock code	Stock Exchange	Principal business	Market Capitalisation as at the Pricing Benchmark Date (USD'million) <sup>(Note 1)</sup>	Revenue (USD' million)	EV/EBITDA (Note 2)
Tower Semiconductor Ltd. ("TSEM")	TSEM	Nasdaq, United States	TSEM is a semiconductor foundry which provides technology development, and process platforms for integrated circuits internationally.	6,578.8	1,436.1	14.15
Maximum						67.57
Minimum						4.86
Median						15.60
Average						21.97
The Company (as implied by the Issue Price) <sup>(Note 3)</sup>						21.16

## Notes:

1. The market capitalization of the Market Comparables as at the Pricing Benchmark Date are extracted from Bloomberg.
2. The EV is calculated as the market capitalization as at the Pricing Benchmark Date plus net debt (short-term and long-term debt minus cash and cash equivalents) and non-controlling interests of a company based on the latest published annual financial statements. The EBITDA of the Market Comparables are extracted from Bloomberg based on the latest published annual financial information.
3. The Enterprise Value (EV) of the Company is implied by multiplying the Issue Price of RMB43.34 per Share by the total number of shares outstanding as of the Pricing Benchmark Date to calculate the market capitalization. To this market capitalization, the Company's net debt (calculated as short-term and long-term debt, less cash and cash equivalents), and non-controlling interests as of 31 December 2024 are added. The Company's EBITDA is calculated based on the profit before tax for the year ended 31 December 2024, adjusted by adding back depreciation, amortization, and finance costs.

As set out in the table above, EV/EBITDA of the Company (as implied by the Issue Price) fall within the range of those of the Market Comparables. The Proposed Acquisition, in terms of the EV multiple, is higher than the median and approximated the average, indicating that the Issue Price was not unduly low compared to the Market Comparables, confirming the stock of the Group is not undervalued at the time the Issue Price was determined that lead to excessive dilution for the existing shareholders as a result of the Proposed Acquisition.

*Our conclusion*

Based on our comprehensive assessment of the Target Company's Valuation, the determination of the RMB-Share Issue Price, and the resulting impact on the Group's existing shareholders, we conclude that the Total Consideration and the Issue Price for the Proposed Acquisition are fair and reasonable.

**1. Fairness of the Target Valuation**

The Total Consideration is deemed fair as it is firmly supported by an independent, professional Valuation Report. The Valuer is suitably qualified and experienced, and the final valuation derived through market-accepted methodologies, specifically the market approach, is robust. This consideration represents a significant premium over the net asset value of the Target Company as at both 31 December 2024 and 30 June 2025, confirming that the Group is acquiring the Target at a justifiable enterprise value. The strategic value is further warranted by the anticipated strategic benefits, synergies, and potential earnings growth the acquisition is expected to deliver to the Group.

**2. Justification of the Issue Price**

The selection of the 120-day average price as reference for the RMB Share issuance, while less common than the shorter periods, is justified as a prudent and necessary measure. This price fully complies with all relevant PRC regulations. The decision to use the longer horizon provides a stable, non-volatile benchmark, which is essential given that the Group's share price was in a prolonged consolidation phase (RMB40-60 range) but began to surge only shortly before the Announcement. Using the 120-day average mitigates the pricing distortion that would have been caused by relying on a short-term price spike that likely reflected market speculation regarding the Proposed Acquisition. The Issue Price also represents a premium of 65.85% and 65.97% over the net asset value per share as at 31 December 2024 and 30 June 2025, respectively.

**3. Mitigation of Dilution Risk**

To address the potential for increased dilution resulting from the lower 120-day price, we performed a critical check on the Group's valuation metrics. Our financial analysis confirms that the Group's implied EV/EBITDA, calculated using the Issue Price, are within the acceptable range of the Market Comparables, and indeed exceed the median and approximated the average. This demonstrates that the Issue Price is not unduly low and does not result in excessive dilution. Furthermore, the continued trading of the Group's shares above the Issue Price since the Announcement provides market validation that the price is not perceived as low, thereby confirming that the potential dilution is justified by the compelling strategic and financial benefits anticipated from the Proposed Acquisition.

## **8. The Whitewash Waiver**

### **8.1 Background**

As at the Latest Practicable Date, Huahong Group holds directly and indirectly 348,804,167 Shares (comprising 1,198,517 RMB Shares and 347,605,650 Hong Kong Shares), representing approximately 20.07% of the total issued share capital of the Company. In addition, as at the date of the Latest Practicable Date, the Huahong Concert Group holds directly and indirectly 602,956,550 Shares (comprising 66,389,753 RMB Shares and 536,566,797 Hong Kong Shares), representing approximately 34.70% of the total issued share capital of the Company.

If the Proposed Acquisition materializes, it is expected that immediately after completion of the issuance of the Consideration Shares, the voting rights held by Huahong Concert Group in the Company will increase to approximately 41.16% (assuming (i) there will not be any further adjustment to the issue price of the Consideration Shares, (ii) there will not be any change in the total issued share capital of the Company since the Latest Practicable Date up to and including the date of issuance of the Consideration Shares and (iii) the Proposed Non-public Issuance of RMB Shares has not been completed). Accordingly, upon Completion, pursuant to Rule 26.1 of the Takeovers Code, Huahong Concert Group will be required to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Huahong Concert Group, unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is obtained from the Executive.

### **8.2 The Whitewash Waiver as a condition to the Proposed Acquisition**

**Shareholders and potential investors should note that the completion of the Proposed Acquisition is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Takeovers Code Independent Shareholders.** An application has been made by Huahong Group (on behalf of itself and Huahong Concert Group) to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by Takeovers Code Independent Shareholders either in person or by proxy at the EGM; and (ii) the approval of the Proposed Acquisition by more than 50% of the votes cast by Takeovers Code Independent Shareholders either in person or by proxy at the EGM as required under the Takeovers Code. The Proposed Acquisition will not proceed if the Whitewash Waiver is not obtained or if the Whitewash Waiver is not approved by the Takeovers Code Independent Shareholders.

Having considered (i) the benefits of the Proposed Acquisition as set out in the section headed “Reasons for and benefits of the Proposed Acquisition”; (ii) the fairness and reasonableness of the terms of the Acquisition Agreement (as supplemented by the Supplemental Agreement); and (iii) the obtaining of the Whitewash Waiver being an essential element of the Proposed Acquisition, we are of the view that the approval of the Whitewash Waiver is considered fair and reasonable and in the interests of the Company and the Takeovers Code Independent Shareholders as a whole as far as the Takeovers Code Independent Shareholders are concerned.

## **9. Financial effects of the Proposed Acquisition on the Group**

Following the Completion, the Target Company will become a wholly-owned subsidiary of the Company. As such, the operating results and the financial position of the Target Company will be consolidated into the financial statements of the Group. The unaudited pro forma financial information of the Enlarged Group is set out in Appendix III to the Circular. The financial effects of the Proposed Acquisition on the Group’s earnings, cashflow and net asset value and gearing are set out below. However, it should be noted that the analysis below is for illustrative purpose only and does not purport to represent how the financial performance and the financial position of the Group will be upon Completion.

### **9.1 Earnings**

As discussed in the section headed “Background information of the Group – *Historical financial performance and financial position of the Group*”, the Group recorded net losses for the six months ended 30 June 2025 and the year ended 31 December 2024. Meanwhile, as discussed in the section headed “Information on the Target Company – Financial Performance and Position of the Target Company”, the Target Company recorded net profits for the eight months ended 31 August 2025 and the year ended 31 December 2024.

As discussed in the section headed “Reasons for and benefits of the Proposed Acquisition” of this letter above, among others, the Proposed Acquisition allows the Group to further strengthen its market position in the semiconductor industry and enhance the Group’s overall competitiveness. Also, through synergetic integration, the Group is expected to lower the operating costs and benefit the financial performance of the Group. Considering the above, the Proposed Acquisition is expected to have a positive effect on the future growth of the Group’s earnings and profitability.

### **9.2 Net asset value**

According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to the Circular, the unaudited pro forma net assets of the Enlarged Group attributable to owners of the parent would have increased to approximately USD9.0 billion. The asset enhancement is considered to be in the interests of the Company and the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders as a whole.



### ***9.3 Liquidity, gearing and working capital***

The Proposed Acquisition is structured as a share-based consideration, with the Total Consideration settled exclusively through the issuance of Consideration Shares. As a result, the Proposed Acquisition will have no direct impact on the Group's liquidity position, gearing ratio, or working capital requirements.

As at 30 June 2025, the Group's current ratio, calculated as current assets over current liabilities, was approximately 3.8 times. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to the Circular, the current ratio of the Enlarged Group would remain at a healthy level of approximately 3.6 times upon Completion.

The net gearing ratio, calculated on the basis of interest-bearing borrowings less cash, bank balances and pledged deposits as a percentage of equity, was approximately –18.1%, reflecting a strong net cash position. According to the unaudited pro forma financial information of the Enlarged Group, the net gearing ratio would remain negative at approximately –16.7% after completion of the Acquisition, indicating that the Enlarged Group will continue to be in a net cash position notwithstanding a slight decrease. Therefore, the Enlarged Group is expected to retain a solid liquidity buffer and low financial leverage, and the level of negative net gearing continues to demonstrate prudent capital structure and ample financial flexibility.

As set out in the section headed “3. Working Capital” of Appendix I to the Circular, the Directors are of the opinion that, after taking into account the effect of the Acquisition Agreement and the Supplemental Agreement and the transactions contemplated thereunder, its internal resources, the financial resources available to the Group, including its existing cash and cash equivalents on hand, its cash flow from operating activities, the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of this letter.

## **10. The Special Deal in relation to the non-public Issuance of RMB Shares**

### ***10.1 Rationale of the Non-public Issuance of RMB Shares***

According to the Letter from the Board, the proceeds to be raised from the Proposed Non-public Issuance of RMB Shares are proposed to be used for, amongst others, replenishing the working capital of the Group and the repayment of debt, financing technology update and renovation of the Target, and funding the research and development and the industrialization of the Target's specialized process, which would improve the overall financial position and facilitate the future development of the Group.

The Proposed Non-public Issuance of RMB Shares is subject to the approval of the Shanghai Stock Exchange and registration by CSRC and Completion, but the Proposed Acquisition is not conditional on completion of the Proposed Non-public Issuance of RMB Shares.

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Following further discussions with the Management and our review of the Company's 2025 Interim Report, 2024 Annual Report and 2023 Annual Report, we have summarised below the key reasons for and benefits of the Proposed Non-public Issuance of RMB Shares:

*(i) Easing of cash flow pressure and support in working capital requirements*

We noted from the 2025 Interim Report, 2024 Annual Report and 2023 Annual Report, and as shown in the financials above, net cash generated from operating activities for all the three years ended 31 December 2024 and the first half of 2025 has been consistently and grossly inadequate to cover the sizable investing cash outflows, which are dominated by the purchases of items of property, plant and equipment and intangible assets for capacity expansion, facility upgrades and upgrade of specialized process technologies. The deficit necessitates continuous reliance on external funding. When external financing activities decrease (as seen in the year ended 31 December 2024 and the first half of 2025), the underlying liquidity pressure becomes immediately apparent, resulting in overall net decrease in cash and cash equivalent during these periods.

In addition, the Proposed Acquisition will increase the Enlarged Group's gearing ratio, thereby heightening the importance of strengthening its capital structure. The enlarged business may also require a higher level of working capital to support its expanded scale of operations, including greater inventory requirements, higher receivables and a longer operational cash cycle. As such, bolstering the Group's cash reserves is critical to ensuring that it can fund the operational needs of the enlarged business and maintain a sufficient liquidity buffer.

Considering the foregoing, we concur with the Management that, there is an on-going financing need to maintain sufficient liquidity cushion to support its enlarged business, repay its interest-bearing debts and supplement its working capital.

*(ii) Other fundraising methods available to the Company*

As advised by the Company, apart from the Proposed Non-public Issuance of RMB Shares, the Company also considered other fundraising alternatives, including debt financing from banks or money lenders and other forms of equity financing, with a view to obtaining sufficient funds to meet its interest-bearing obligations, supplement working capital and finance the Target's projects. Management explained that the Proposed Non-public Issuance was selected primarily because it offers greater flexibility and efficiency, allowing the Company to obtain approval for the fundraising and the intended use of proceeds through a streamlined regulatory process. Management also noted that the Group has largely exhausted its available external financing channels, which are typically restricted to project-specific uses and cannot be applied towards replenishing general working capital.

In respect of bank or money-lender financing, the Company noted that such borrowings would incur additional interest expenses and further increase the Group's leverage, which would be contrary to its objective of improving the capital structure through this fundraising exercise. Based on the unaudited pro forma financial information of the Enlarged Group, the gearing ratio is expected to rise from 25.6% as at 30 June 2025 to 30.6% upon Completion. Any additional external debt financing would therefore further deteriorate the Group's gearing and liquidity positions. In addition, debt financing would likely be subject to lengthy due diligence and internal risk assessments by banks or money lenders. In light of these considerations, the Company does not regard debt financing as a preferable option.

Regarding the issuance of RMB Shares under public channels, the Company has considered the regulatory requirements under the Regulatory Requirements for Guiding and Regulating the Financing Activities of Listed Companies (Revised Edition) (《關於引導規範上市公司融資行為的監管要求(修訂版)》) issued by the CSRC on 14 February 2020. Under this regime, where a listed company raises funds through channels other than non-public issuance, placement, issuance of preferred shares, or issuance to designated persons approved by the board, the amount applied towards working capital replenishment and debt repayment must not exceed 30% of the total proceeds. Given that the Company intends to allocate 48.97% the fundraising proceeds towards replenishing the working capital of the Group, debt repayment, payment of fees of intermediaries in connection with the Proposed Acquisition through public issuance of RMB shares would not be suitable for the Group.

Having considered the above, we concur with the Management that the Proposed Non-public Issuance of RMB Shares represents the most financially viable and optimal fundraising method for the Group to raise supporting funds for the Group post-Acquisition.

## ***10.2 Principal terms of the Proposed Non-public Issuance of RMB Shares***

The details of the Proposed Non-public Issuance of RMB Shares are set out below:

### ***10.2.1 Target subscribers***

The Proposed Non-public Issuance of RMB Shares will be carried out by way of non-public issue of RMB Shares to not more than 35 specific target subscribers, excluding (i) Huahong Group, SAIL and China IC Fund II which have indicated that they will not participate in the Proposed Non-public Issuance of RMB Shares and (ii) certain other Shareholders such as controlling shareholders and its related parties pursuant to the requirement of the Shanghai Listing Rules (both terms as defined thereunder). Such specific target subscribers may include, but not limited to, institutional investors such as securities investment fund management company, securities firm, financial services company, asset management company, insurance company, and other legal person or natural person investors in the PRC that comply with the regulations of the CSRC and the Shanghai Stock Exchange.

As at the Latest Practicable Date, the Company has not entered into any agreement with any potential subscribers in respect of the Proposed Non-public Issuance of RMB Shares, nor has the Company received any persons' indication to participate in the Proposed Non-public Issuance of RMB Shares. In addition, the identity of the target subscribers cannot be pre-determined as at the Latest Practicable Date and will only be determined after (i) obtaining the approval in respect of the Proposed Non-public Issuance of RMB Shares from the Shareholders at the EGM, the Shanghai Stock Exchange and the CSRC, and (ii) the commencement of the Offering Period of the Proposed Non-public Issuance of RMB Shares in accordance with the relevant PRC laws and regulations. The Company shall make further announcement on the identity of the subscribers if they become substantial shareholders of the Company upon the completion of the Proposed Non-public Issuance of RMB Shares.

#### ***10.2.2 Number of RMB Shares to be issued***

Having considered the Company's future funding needs, the total amount of supporting funds to be raised under the Proposed Non-public Issuance of RMB Shares shall be RMB7,556,286,000, being (i) not exceeding 100% of the final Total Consideration for the Proposed Acquisition, and (ii) the number of RMB Shares to be issued shall not exceed 30% of the total issued share capital of the Company upon Completion, both thresholds following that of applicable PRC rules and regulations (i.e. Administrative Measures for Major Asset Restructuring of Listed Companies (《上市公司重大資產重組管理辦法》) and The Measures for the Administration of Registration of Securities Offering by Listed Companies (《上市公司證券發行註冊管理辦法》)) governing the issuance.

The number of RMB Shares to be issued shall be calculated by dividing the total amount of supporting funds to be raised, by the issue price to be determined according to the paragraph headed "Price Determination Date, pricing principles and issue price" (rounded down to the nearest share), as adjusted in the event of any ex-right or ex-dividend event in accordance with applicable PRC laws and regulations.

#### ***10.2.3 Price determination date, pricing principles and issue price***

The issue price shall not be lower than 80% of the Average Trading Price of the RMB Shares for the 20 trading days prior to the Price Determination Date and no less than RMB52 (i.e. the price of the Company's its initial public offering of RMB Shares) pursuant to CSRC Measures to Balance Primary and Secondary Markets and Optimize IPO/Refinancing Regulation (《統籌一二級市場平衡優化IPO、再融資監管安排》).

The Offering Period, the Price Determination Date and the specific time of Issuance of the Proposed Non-public Issuance of RMB Shares shall be determined by the Company and the PRC independent financial adviser (the lead underwriter) having due regards to the market conditions and the proposal for use of proceeds, and shall be subject to approval by the Shanghai Stock Exchange and the CSRC.

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The Offering Period shall commence after the Completion of the Proposed Acquisition. The Price Determination Date shall be the first day of the Offering Period of the Issuance of the Proposed Non-public Issuance of RMB Shares, and shall be a date falling within 12 months of the CSRC registration. The final issue price will be determined by the Board and the authorized persons of the Board and the lead underwriter according to the bookbuilding results in accordance with the authorization of the general meeting of shareholders, the provisions of relevant laws and regulations (i.e. The Measures for the Administration of Registration of Securities Offering by Listed Companies (《上市公司證券發行註冊管理辦法》)) and the requirements of regulatory authorities (including the CSRC and the Shanghai Stock Exchange).

All the target subscribers will subscribe for the RMB Shares under the Proposed Non-public Issuance of RMB Shares at the same issue price in cash.

According to the annual results announcement of the Company for the year ended 31 December 2024 published on the Shanghai Stock Exchange, the audited net asset per Share attributable to the Shareholders of the Company prepared in accordance with China Accounting Standards for Business Enterprises as at 31 December 2024 was approximately RMB25.37.

The final issue price, i.e. Non-Public Issuance Benchmark Price, will be determined by negotiations between the Board and its authorized person(s) with the authorization by the Shareholders at the EGM and the PRC independent financial adviser (the lead underwriter) based on the price inquiry results in accordance with the relevant PRC laws and regulations (e.g. Detailed Rules for the Implementation of the Offering and Underwriting Business for Securities of Listed Companies on the Shanghai Stock Exchange (《上海證券交易所上市公司證券發行與承銷業務實施細則(2025年修訂)》) and The Measures for the Administration of Registration of Securities Offering by Listed Companies (《上市公司證券發行註冊管理辦法》)), which, amongst others, laid out requirements on the Company and the lead underwriter, having considered the valid applications and their quotation, to determine the issue price and the target investors reasonably based on principle of price priority (and other principles as decided by the Board, if any). The principles determined by the Board shall be fair, impartial and in line with the interest of the Company and its shareholders in its entirety. The lead underwriter's report on the issuance process and the compliance of subscription targets shall include a detailed disclosure of the entire issuance process, list the subscription quotations of eligible specific investors and the allocation results, and express an opinion on whether the issuance outcome is fair and impartial and whether it complies with the relevant regulations governing the issuance of shares to specific investors. Where specific investors who submitted quotations above the issue price did not receive allocations or had their allocation quantities reduced, the lead underwriter shall provide those investors with a full explanation of the reasons and disclose the circumstances in the report.

The Non-public Issuance Benchmark Price will be adjusted if there occurs any ex-right or ex-dividend event (such as distribution of cash dividend, bonus issue, rights issues, allotment of shares, conversion of share premium into share capital or capitalization issues) between the Price Determination Date and the date of issuance of the Proposed Non-public Issuance of RMB Shares in accordance with the applicable PRC laws and regulations.

**10.2.4 Conditions precedents of the Proposed Non-public Issuance of RMB Shares**

The Proposed Non-public Issuance of RMB Shares is conditional upon:

- (i) Completion;
- (ii) the approval of the Proposed Non-public Issuance of RMB Shares by the Board and the Non-public Issuance Independent Shareholders at the EGM;
- (iii) the consent to the Special Deal from the Executive and the approval of the Special Deal by the Takeovers Code Independent Shareholders;
- (iv) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares by the competent state-owned assets supervision and administrative authorities or its authorized entities;
- (v) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares by the Shanghai Stock Exchange and the registration of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares by the CSRC; and
- (vi) the obtaining of any other necessary approval and/or filings in respect of the Proposed Non-public Issuance of RMB Shares from any applicable regulatory authorities.

None of the conditions above may be waived by any party to the Proposed Non-public Issuance of RMB Shares and therefore, if any of the conditions above is not satisfied (save as to the extent where condition (iii) above is no longer applicable), the Company will not proceed with the Proposed Non-public Issuance of RMB Shares.

Other than the condition precedent set out in paragraph (ii) (in respect of approval by the Board only) above, none of the conditions precedent has been fulfilled as at the Latest Practicable Date.

In respect of the condition set out in paragraph (v) above, as at the Latest Practicable Date, the Company is not aware of any other approval and/or filings which are required to be obtained by it in respect of the Proposed Non-public Issuance of RMB Shares.

**10.2.5 Lock-up period**

All target subscribers shall not transfer the RMB Shares subscribed under the Proposed Non-public Issuance of RMB Shares within six months from the date of completion of the Proposed Non-public Issuance of RMB Shares, provided that if any applicable regulatory authorities of the PRC require a lock-up period of different length to be imposed, the lock-up period shall be the one as required by such regulatory authorities.

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The lock-up undertaking shall also be applicable to any additional RMB Shares received by the target subscribers in respect of the relevant RMB Shares subscribed under the Proposed Non-public Issuance of RMB Shares as a result of bonus issues, conversion of share premium into share capital, capitalization issues and/or rights issue of the Company after completion of the Proposed Non-public Issuance of RMB Shares.

### 10.3 Use of proceeds

The net proceeds from the Proposed Non-public Issuance of RMB Shares (after deducting all applicable costs and expenses incurred in connection with the Proposed Non-public Issuance of RMB Shares) are intended to be used in the subsequent five years after the completion of the Proposed Non-public Issuance of RMB Shares to (i) finance the Target's technology upgrades and renovations, and (ii) research and development and industrialization of the Target's specialized process and (iii) replenish the working capital of the Group, the repayment of debt, payment of fees of intermediaries in connection with the Proposed Acquisition in the following manner:

Use of proceeds	Intended allocation of proceeds	Intended percentage of proceeds from the Proposed Non-public Issuance of RMB Shares allocated for such purposes (%)
Upgrade and renovation of the Target Company's technology	3,294,760,000	43.60
Research and development (R&D) and industrialization of the Target Company's specialized process	561,526,000	7.43
Replenish (i) the working capital of the Group, (ii) the repayment of debt, (iii) payment of fees of intermediaries (including PRC independent financial advisers, underwriting fees, legal fees for PRC and overseas counsel, accounting fees for accountants, and other intermediary expenses) in connection with the Proposed Acquisition	3,700,000,000	48.97
<b>Total</b>	<b>7,556,286,000</b>	<b>100 %</b>



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More specifically on the above, the Target Company is primarily engaged in 12-inch wafer foundry operations. Approximately 51.03% of net proceeds will be allocated to two aspects:

- (1) **Upgrading and renovating the Target Company's technology:** Having assessed market landscape, it is considered that the Target Company has pressing need to comprehensively upgrade the technological specifications of its 12-inch production line by way of replacing and updating the equipment. This will foster the Target Company's adaptation to the market's demand of various specialty processes, thereby optimizing the existing factory production lines, expanding production capacity and further enhancing the Company's core competitiveness amid market fluctuations. The net proceeds will also be used for maintenance costs of the production line. This limb takes up a larger trunk of the net proceeds since the new equipment with advanced technological specifications and an overhaul and renovation of the entire production line are inherently capital-intensive, based on the Company's and the Target Company's preliminary assessment. Before commencement of the renovation work, the Company and the Target Company shall conduct a comprehensive study of the technological specifications which best suit its future needs and conduct a robust selection of suppliers through its standard procurement procedure.
- (2) **Research and development (R&D) and industrialization of the Target Company's specialized process:** The diversity of specialized process platforms is an important factor in assessing the overall strength of a semiconductor wafer foundry. The Target Company urgently needs to enhance the depth and breadth of its process platform products through developing new products. The proceeds will serve as an important source of funds for the R&D expenses of the Target Company in the upcoming years. This project entails an investment in R&D which seeks to explore new markets, and is different from the first limb which focuses on enhancing hardware, equipment and production capacity. The allocation between the two limbs has been determined having balanced the need for capital and cost-efficiency of each project.

Further, in view of the capital expenditure requirements in the upcoming three years arising from (i) the Company's future business development plans such as the expansion and developments of the 8-inch and 12-inch foundry fabs of HHGrace, Hua Hong Wuxi and Hua Hong Manufacturing, including but not limited to upgrading of equipment and building of new factory and (ii) the Company's budget for dedicated long-term strategic purpose, the Company is expected to incur a substantial amount of expenses. As a result, the existing cash and bank balance of the Group has already been budgeted for the development of the Group as aforementioned, and the Company shall require proceeds from the Proposed Non-public Issuance of RMB Shares to replenish its working capital to reserve cash for its business operations and development plans in the future (and the development of the Target Company which has not been previously budgeted by the Group) and maintain liquidity for the sustainable operations of the Group. Moreover, the net proceeds shall be used to (x) settle



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liabilities as they fall due as appropriate and (y) pay the fees of intermediaries (including PRC independent financial advisers, underwriting fees, legal fees for PRC and overseas counsel, accounting fees for accountants, and other intermediary expenses) in connection with the Proposed Acquisition. As the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares are still in progress, the professional fees of the intermediaries could not be fully determined as at the Latest Practicable Date and could only be confirmed once the Proposed Non-public Issuance of RMB Shares has been completed.

If the Proposed Non-public Issuance of RMB Shares does not proceed or the actual proceeds to be raised from the Proposed Non-public Issuance of RMB Shares are less than the proposed use of proceeds, the Company will make up for the shortfall by utilizing its internal resources or other means of financing. The Company may make appropriate adjustments as to the order of priority, allocation amount and methods in respect of the proposed use of proceeds based on the net proceeds actually raised and make a supplemental announcement as appropriate.

### *Our view on the terms of the Proposed Non-public Issuance of RMB Shares*

As at the date of this letter, the detailed terms of the Proposed Non-public Issuance of RMB Shares have not been fully determined. Nevertheless, as stated in the letter from the Board, the Proposed Non-public Issuance will be conducted strictly in accordance with the applicable laws, rules and regulations governing non-public offerings by listed companies in the PRC.

We note that the Proposed Non-public Issuance of RMB Shares will be carried out under a comprehensive regulatory framework which stipulates, among other things, the pricing principles, subscription and allocation requirements, permitted use of proceeds, and mandatory lock-up arrangements. These regulatory requirements collectively provide safeguards to ensure that (i) the Issue Price is determined based on an objective, market-based mechanism, (ii) the allocation process is conducted in a fair and regulated manner, (iii) the use of proceeds is consistent with prescribed limits and aligned with value-enhancing purposes, and (iv) the interests of existing shareholders are protected. In addition, the Special Deal will be subject to approval by the Takeovers Code Independent Shareholders and the Proposed Non-public Issuance of RMB Shares will be subject to approval by Non-public Issuance Independent Shareholders of the Company and the final review and approval by the CSRC, which further enhances the transparency and fairness of the process.

Taking into account the above, and noting that the definitive pricing, allocation and use of proceeds for the Proposed Non-public Issuance of RMB Shares will ultimately be determined and implemented through a process mandated by a transparent and protective regulatory framework, we are of the view that the terms of the Proposed Non-public Issuance of RMB Shares, insofar as they are ascertainable at this stage, are fair and reasonable so far as the Company and its shareholders are concerned.

### *10.4 Our view on the Special Deal*

Since the Proposed Non-public Issuance of RMB Shares is expected to complete within 6 months of the completion of the Proposed Acquisition, and may be an arrangement made between the Company and certain shareholders, which is not capable of being extended to all Shareholders, the Proposed Non-public Issuance of RMB Shares constitutes a special deal of the Company under Rule 25 of the Takeovers Code and requires the consent of the Executive. Such consent, if granted, will be subject to (i) our opinion as independent financial adviser on the fairness and reasonableness of the terms of the Special Deal as far as the Takeovers Code Independent Shareholders are concerned; and (ii) the approval of the Special Deal by the Takeovers Code Independent Shareholders by way of poll at the EGM.

Having considered the following factors, we are of the view that the terms of the Special Deal (i.e., the Proposed Non-public Issuance of RMB Shares and the transactions contemplated thereunder) are fair and reasonable and in the interests of the Company and its Takeovers Code Independent Shareholders as a whole:

- (i) **Ongoing cash flow pressures and liquidity needs:** As demonstrated above, the Group has experienced persistent cash flow deficits, with cash generated from operating activities insufficient to cover investing activities. The Group therefore requires ongoing funding to maintain sufficient liquidity cushion to support its enlarged business, repay its interest-bearing debts and supplement its working capital.
- (ii) **Strengthening capital structure following the Proposed Acquisition:** As advised by Management, the consolidation of the Target Company has increased the Group's debt level. The equity fundraising is intended to improve the Enlarged Group's capital structure, reduce reliance on debt financing and enhance overall financial stability.

- (iii) **Clear and value-accretive use of proceeds:** As stated in the letter from the Board, approximately 51.03% of the proceeds will be allocated to post-Acquisition integration and expansion — particularly the upgrade of the Target Company's 12-inch production lines and the development of 12-inch specialty processes. These enhancements, including equipment modifications and replacements, are expected to improve capacity utilization, support multiple specialty platforms, and strengthen the Enlarged Group's core competitiveness and resilience against market fluctuations.
- (iv) **Efficiency and streamlined regulatory process:** The Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares are both subject to CSRC review. Conducting the Proposed Non-public Issuance of RMB Shares alongside the Acquisition allows the Company to undergo a consolidated approval process, improving efficiency and reducing time and transaction costs for the Group.
- (v) **Lack of preferable funding alternatives:** Based on our discussion with the Management, other fundraising channels were considered but found unsuitable. Bank or money-lender financing is generally restricted to project-specific purposes and cannot be applied to replenish general working capital. Such borrowings would also increase interest expenses and leverage, contrary to the Group's objective of optimizing its capital structure. Public issuance or placement of RMB-shares is subject to stricter restrictions on the permitted use of proceeds, including a cap whereby no more than 30% may be applied to working capital or debt repayment, rendering it unsuitable given the Group's intended allocation of funds.
- (vi) **Fairness and reasonableness of the Proposed Non-public Issuance:** Based on our analysis of the pricing mechanism, allocation method and regulatory safeguards governing the Proposed Non-public Issuance of RMB Shares, and noting that the definitive pricing, allocation and use of proceeds will be determined through a transparent and protective regulatory framework, we consider the terms of the Proposed Non-public Issuance to be fair and reasonable from a financial perspective.

Taking all the above factors into account, we concur with Management that the terms of the Special Deal are fair and reasonable and in the interests of the Company and the Takeovers Code Independent Shareholders as a whole.

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## 11. Potential dilution effect on shareholding interests

For illustrative purpose, set out below is a table showing the shareholding structure of the Company:

(i) as at the Latest Practicable Date

Shareholders	Shareholding as at Latest Practicable Date				Total Shares held	Percentage of issued Share capital <sup>(Note 2)</sup>
	Hong Kong Shares held	Percentage of Hong Kong Shares held	RMB Shares held	Percentage of RMB Shares held		
Huahong Group	347,605,650	26.14%	1,198,517	0.29%	348,804,167	20.07%
SAIL	188,961,147	14.21%	–	–	188,961,147	10.87%
Shanghai IC Fund	–	–	–	–	–	–
Guotou IC Fund	–	–	–	–	–	–
China IC Fund II	–	–	48,334,249	11.85%	48,334,249	2.78%
Others <sup>(Note 1)</sup>	–	–	16,856,987	4.13%	16,856,987	0.97%
<i>Huahong Concert</i>						
Group sub-total	536,566,797	40.35%	66,389,753	16.28%	602,956,550	34.70%
China IC Fund <sup>(Note 3)</sup>	62,351,603	4.69%	–	–	62,351,603	3.59%
Other public Shareholders	730,950,793	54.96%	341,360,247	83.72%	1,063,626,042	61.71%
<b>Total</b>	<b>1,329,869,193</b>	<b>100%</b>	<b>407,750,000</b>	<b>100%</b>	<b>1,737,614,193</b>	<b>100.00%</b>

(ii) immediately after Completion (assuming that (a) there will not be any further adjustments to the issue price of the Consideration Shares of RMB43.34 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company since the Latest Practicable Date save for the issue of the RMB Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement); and

Shareholders	Shareholding immediately after completion of the Proposed Acquisition				Total Shares held	Percentage of issued Share capital <sup>(Note 2)</sup>
	Hong Kong Shares held	Percentage of Hong Kong Shares held	RMB Shares held	Percentage of RMB Shares held		
Huahong Group	347,605,650	26.14%	125,530,570	20.97%	473,136,220	24.54%
SAIL	188,961,147	14.21%	–	–	188,961,147	9.80%
Shanghai IC Fund	–	–	30,761,109	5.14%	30,761,109	1.60%
Guotou IC Fund	–	–	15,619,216	2.61%	15,619,216	0.81%
China IC Fund II	–	–	68,390,263	11.43%	68,390,263	3.55%
Others <sup>(Note 1)</sup>	–	–	16,856,987	2.82%	16,856,987	0.87%
Sub-total	536,566,797	40.35%	257,158,145	42.97%	793,724,942	41.16%
China IC Fund	62,351,603	4.69%	–	–	62,351,603	3.23%
Other public Shareholders	730,950,793	54.96%	341,360,247	57.03%	1,072,311,040	55.61%
<b>Total:</b>	<b>1,329,869,193</b>	<b>100%</b>	<b>598,518,392</b>	<b>100%</b>	<b>1,928,387,585</b>	<b>100.00%</b>

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- (iii) immediately after Completion and the Proposed Non-public Issuance of RMB Shares (assuming that (a) the total amount of supporting funds to be raised under the Proposed Non-public Issuance of RMB Shares is RMB 7,556,286,000; (b) there will not be any further adjustments to the issue price of the Consideration Shares of RMB43.34 per Consideration Share; (c) the issue price of the Proposed Non-public Issuance of RMB Shares shall be RMB95.85 per RMB Share (assuming the price determination date is the Latest Practicable Date); (d) the subscribers of the Proposed Non-public Issuance of RMB Shares are and remain as public Shareholders of the Company; and (e) there will be no change in the total issued share capital of the Company since the Latest Practicable Date save for the issue of the RMB Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement) and under the Proposed Non-public Issuance of RMB Shares):

Shareholding immediately after completion of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares						
Shareholders	Percentage of Hong Kong Shares		RMB Shares held	Percentage of RMB Shares held		Percentage of issued Share capital <sup>(Note 2)</sup>
	Hong Kong Shares held	Kong Shares held		Total Shares held		
Huahong Group	347,605,650	26.14%	125,530,570	18.53%	473,136,220	23.57%
SAIL	188,961,147	14.21%	–	–	188,961,147	9.41%
Shanghai IC Fund	–	–	30,761,109	4.54%	30,761,109	1.53%
Guotou IC Fund	–	–	15,619,216	2.31%	15,619,216	0.78%
China IC Fund II	–	–	68,390,263	10.10%	68,390,263	3.41%
Others <sup>(Note 1)</sup>	–	–	16,856,987	2.49%	16,856,987	0.84%
<i>Huahong Concert</i>						
Group sub-total	536,566,797	40.35%	257,158,145	37.97%	793,724,942	39.54%
China IC Fund <sup>(Note 3)</sup>	62,351,603	4.69%	–	–	62,351,603	3.11%
Other public Shareholders	730,950,793	54.96%	420,194,738	62.03%	1,151,145,531	57.35%
<b>Total</b>	<b>1,329,869,193</b>	<b>100%</b>	<b>677,352,883</b>	<b>100%</b>	<b>2,007,222,076</b>	<b>100.00%</b>

Notes:

1. Including Shanghai Hua Hong International, Inc., Haitong Innovation Securities Investment Co., Ltd. (海通創新證券投資有限公司), Guotai Junan Zhengyu Investment Co., Ltd. (國泰君安證券投資有限公司), Shanghai Technology Venture Investment (Group) Co., Ltd. (上海科技創業投資(集團)有限公司) and Wisdom Power Technology Limited.
2. Percentage holdings are subject to rounding adjustments and may not add up to the aggregate figures shown or 100%.
3. China IC Fund is not one of the Vendors, and is not considered to be part of the Huahong Concert Group given it is not a party acting in concert with Huahong Group nor China IC Fund II to consolidate control over the Company, based on its historical investment in the Company and different compositions of fund investors and decision-making process vis-à-vis China IC Fund II.

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## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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As illustrated above, the shareholding in the Company held by the existing other public Shareholders would be diluted from approximately 61.71% as at the Latest Practicable Date to approximately 55.61% upon the allotment and issuance of the Consideration Shares and completion of the Proposed Acquisition. Upon the completion of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares, the shareholding in the Company held by other public Shareholders would increase to 57.35% assuming the subscribers of the Proposed Non-public Issuance of RMB Shares are and remain as public Shareholders of the Company. For further details on the shareholding structure of the Company, please make reference to the letter from the Board in the Circular.

We noted that there will be dilution to the shareholdings in the Company held by the existing public Shareholders as a result of the issuance of the Consideration Shares. However, having considered (i) the benefits of the Proposed Acquisition as set out in the section headed “Reasons for and benefits of the Proposed Acquisition” and (ii) the terms of the Acquisition Agreement (as supplemented by the Supplemental Agreement) being fair and reasonable; (iii) the Compensation Agreement; (iv) the ongoing cashflow pressures and funding needs; and (v) the fact that existing Shareholders have also benefited from recent appreciation in the Company’s share price prior to the Announcement, reflecting market anticipation of the Company’s strategic initiatives and enhanced prospects, we are of the view that the dilution effect of around 9.88% or 6.1 percentage point on the shareholding of the Takeovers Code Independent Shareholders and the Proposed Acquisition LR Independent Shareholders upon the Completion is acceptable and justifiable.

We note that since the Announcement, the market prices of the Group’s shares including both RMB Shares and H shares have increased and have generally traded above the Issue Price of the Consideration Shares. This indicates that the market has responded positively to the Proposed Acquisition, reflecting investors’ confidence in its strategic rationale and the expected benefits arising from the Proposed Acquisition. In our view, the appreciation in the share price mitigates the dilution impact to the existing shareholders, as the increase in the Group’s overall market capitalization suggests that the value of the shareholders’ investments has not been adversely affected notwithstanding the enlarged share base. Furthermore, the continued trading of the Group’s shares above the Issue Price of the Consideration Shares implies that the Issue Price is not considered unduly low by the market and that existing shareholders may continue to benefit from potential upside if the Acquisition delivers the anticipated synergies and earnings contribution. Accordingly, we consider that the potential dilution impact on the existing shareholders is acceptable and justifiable.

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## LETTER FROM THE HONG KONG INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having taken into account the principal factors and reasons as mentioned above, we are of the view that while the Proposed Acquisition is not conducted in the ordinary and usual course of business of the Group, (i) the Proposed Acquisition is on normal commercial terms; and (ii) the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal in relation to the Proposed Non-public Issuance of RMB Shares are fair and reasonable so far as the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders are concerned and in the interests of the Company, the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders, and we also recommend the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders to vote in favor of the relevant resolution for approving the Proposed Acquisition, the Proposed Acquisition Specific Mandate, the Whitewash Waiver and the Special Deal at the EGM.

Yours faithfully,

For and on behalf of

**Innovax Capital Limited**

**Alvin Kam                      Erica Ling**

*Managing                      Director*

*Director*

#### *Notes:*

*Mr. Alvin Kam is a Responsible Officer under the SFO to engage in Type 1 (Dealing in Securities) and Type 6 (advising on corporate finance) regulated activity and has over 21 years of experience in investment banking and corporate finance.*

*Ms. Erica Ling is a Responsible Officer under the SFO to engage in 1 (Dealing in Securities) and Type 6 (advising on corporate finance) regulated activity and has around 13 years of experience in investment banking and corporate finance.*

**1. FINANCIAL INFORMATION OF THE GROUP****Summary of financial results***The Group*

The following is a summary of the audited consolidated financial results of the Group for each of the three years ended 31 December 2022, 31 December 2023 and 31 December 2024, as extracted from the annual reports of the Company for each of the three years ended 31 December 2022, 31 December 2023 and 31 December 2024 and which were prepared in accordance with Hong Kong Financial Reporting Standards.

The auditors' reports issued by the auditors of the Company, Ernst & Young, in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2022 and 31 December 2023 and 31 December 2024 does not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

Save as disclosed below, there was no item of any income or expense which was material in respect of the consolidated financial results of the Group for each of the three years ended 31 December 2022, 31 December 2023 and 31 December 2024.



Summary of consolidated financial results of the Group for each of the three years ended 31 December 2022, 31 December 2023 and 31 December 2024 which were prepared in accordance with Hong Kong Financial Reporting Standards

	For the year ended 31 December		
	2024	2023	2022
	US\$'000	US\$'000	US\$'000
	(Audited)	(Audited)	(Audited)
<b>Revenue</b>	2,003,993	2,286,113	2,475,488
Cost of sales	<u>(1,798,865)</u>	<u>(1,799,017)</u>	<u>(1,631,832)</u>
<b>Gross profit</b>	205,128	487,096	843,656
Other income and gains	149,072	144,370	70,986
Fair value (loss)/gain on an investment property	(39)	103	78
Selling and distribution expenses	(9,628)	(10,189)	(12,464)
Administrative expenses	(351,276)	(322,868)	(266,666)
Other expenses	(33,395)	(33,666)	(111,360)
Finance costs	(97,113)	(100,497)	(40,331)
Share of profit of associates	<u>3,459</u>	<u>9,230</u>	<u>12,171</u>
<b>Profit/(loss) before income tax</b>	(133,792)	173,579	496,070
Income tax expenses	<u>(6,593)</u>	<u>(47,154)</u>	<u>(89,499)</u>
<b>Profit/(loss) for the year</b>	<u><u>(140,385)</u></u>	<u><u>126,425</u></u>	<u><u>406,571</u></u>
<b>Attributable to:</b>			
Owners of the parent	58,108	280,034	449,912
Non-controlling interests	<u>(198,493)</u>	<u>(153,609)</u>	<u>(43,341)</u>
	<u><u>(140,385)</u></u>	<u><u>126,425</u></u>	<u><u>406,571</u></u>

	For the year ended 31 December		
	2024	2023	2022
	US\$'000	US\$'000	US\$'000
	(Audited)	(Audited)	(Audited)
Basic profit for the year (expressed in US\$ per share)	<u>0.034</u>	<u>0.189</u>	<u>0.345</u>
Diluted profit for the year (expressed in US\$ per share)	<u>0.034</u>	<u>0.188</u>	<u>0.342</u>
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value	7,991	95,310	(53,707)
Income tax effect	(1,199)	(14,628)	8,348
	<u>6,792</u>	<u>80,682</u>	<u>(45,359)</u>
Total comprehensive income for the year	<u>(257,273)</u>	<u>152,454</u>	<u>51,754</u>
<b>Attributable to:</b>			
Owners of the Company	(21,431)	331,980	153,027
Non-controlling interests	<u>(235,842)</u>	<u>(179,526)</u>	<u>(101,273)</u>
	<u>(257,273)</u>	<u>152,454</u>	<u>51,754</u>
Earnings per share	0.22	1.31	2.31
<b>Dividends</b>	(36,247)	–	–
<b>Dividends per share (expressed in HK\$ per share)</b>	<u>–</u>	<u>0.165</u>	<u>–</u>

**Summary of unaudited consolidated financial results of the Group for the six months ended 30 June 2025 which were prepared in accordance with the Hong Kong Financial Reporting Standards**

In addition, the following is a summary of the unaudited consolidated financial results of the Group for the six months ended 30 June 2025 which were prepared in accordance with the Hong Kong Financial Reporting Standards.

Save as disclosed below, there was no item of any income or expense which was material in respect of the consolidated financial results of the Group for the six months ended 30 June 2025.

	<b>For the six months ended 30 June 2025</b> <i>US\$'000</i> <i>(unaudited)</i>
<b>Revenue</b>	1,107,002
Cost of sales	<u>(995,394)</u>
<b>Gross profit</b>	<b>111,608</b>
<b>Loss before tax</b>	(81,111)
Income tax expenses	(3,852)
<b>Loss for the period</b>	(84,963)
<b>Attributable to:</b>	
Owners of the parent	11,702
Non-controlling interests	<u>(96,665)</u>
Basic and diluted profit for the period (expressed in US\$ per share)	0.007
<b>Total comprehensive loss for the period</b>	<b><u>(49,847)</u></b>
<b>Attributable to:</b>	
Owners of the parent	36,005
Non-controlling interests	<u>(85,852)</u>
	<b>(49,847)</b>
<b>Earning per share</b>	<b>0.04</b>
<b>Dividends</b>	–
<b>Dividends per share (expressed in HK\$ per share)</b>	<u>–</u>

**Consolidated financial statements for the years ended 31 December 2022, 31 December 2023 and 31 December 2024**

The consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in the audited consolidated financial information of the Group prepared by Ernst & Young for each of the three years ended 31 December 2022, 2023 and 2024 are disclosed in the annual reports of the Company for the years ending 31 December 2022, 2023 and 2024 published on 11 April 2023, 8 April 2024 and 8 April 2025 respectively. There was no modified opinion, emphasis of matter or material uncertainty related to going concern contained in the auditors' report in respect of the aforementioned three years.

The above annual reports, together with the significant accounting policies and the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information, of the Company have been published on both the website of the Stock Exchange and the website of the Company, and the relevant links to these annual reports are set out below:

The 2024 financial statements are set out from pages 293 to 412 in the 2024 annual report, which is accessible via the following hyperlinks:

- (i) <https://www1.hkexnews.hk/listedco/listconews/sehk/2025/0408/2025040800831.pdf>
- (ii) [https://media-huahonggrace.todayir.com/20250408175602613611618571\\_en.pdf](https://media-huahonggrace.todayir.com/20250408175602613611618571_en.pdf)

The 2023 financial statements are set out from pages 271 to 392 in the 2023 annual report, which is accessible via the following hyperlinks:

- (i) <https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0408/2024040800819.pdf>
- (ii) [https://media-huahonggrace.todayir.com/20240408164801480911151454\\_en.pdf](https://media-huahonggrace.todayir.com/20240408164801480911151454_en.pdf)

The 2022 financial statements are set out from pages 221 to 348 in the 2022 annual report, which is accessible via the following hyperlinks:

- (i) <https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0411/2023041100149.pdf>
- (ii) [https://media-huahonggrace.todayir.com/202401231036001754589218\\_en.pdf](https://media-huahonggrace.todayir.com/202401231036001754589218_en.pdf)

The above financial statements (but not any other parts of the 2022, 2023, and 2024 Annual Reports in which they respectively appear) are incorporated by reference into this circular and form part of this circular.

**Unaudited consolidated financial statements for the six months ended 30 June 2025**

The Company is required to set out or refer to in this circular the unaudited consolidated balance sheet and consolidated income statement as shown in the unaudited consolidated financial statements of the Company for the six months ended 30 June 2025 (which were prepared in accordance with the Hong Kong Financial Reporting Standards)), together with the significant accounting policies and the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information, which are disclosed in the interim report of the Company for the six months ended 30 June 2025 published on 8 September 2025. There was no qualified audit opinion expressed on the financial statements of the Group for the aforementioned three years.

The above interim report of the Company has been published on both the website of the Stock Exchange and the website of the Company, which is accessible via the following hyperlinks:

- (i) <https://www1.hkexnews.hk/listedco/listconews/sehk/2025/0908/2025090800498.pdf>
- (ii) [https://media-huahonggrace.todayir.com/20250908171601721711833856\\_en.pdf](https://media-huahonggrace.todayir.com/20250908171601721711833856_en.pdf)

The above financial statements (but not any other parts of the interim report in which they respectively appear) are incorporated by reference into this circular and form part of this circular.

**2. STATEMENT OF INDEBTEDNESS****Debt securities and term loans**

As at the close of business on 30 November 2025, save as disclosed in respect of the borrowings and indebtedness of the Group below, the Group has no debt securities issued or outstanding, or authorized or otherwise created but unissued, and no term loans, including those guaranteed, unguaranteed, secured (whether the security is provided by the Company or by independent third parties) or unsecured.

**Borrowings and indebtedness**

As at the close of business of 30 November 2025, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group has outstanding borrowings and indebtedness of approximately US\$2,912 million. Group's secured bank loans were US\$2,019 million and unsecured bank loans were US\$874 million. The remaining US\$19 million were lease liabilities.

**Contingent liabilities**

As at the close of business of 30 November 2025, the Group has no material contingent liability or guarantees.

**Mortgage and charges**

As at the close of business of 30 November 2025, the Group's above outstanding secured borrowings were secured by the Group's property, plant and equipment, inventory, land-use right, cash deposit and credit.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, bank loans and overdrafts or other similar borrowings or indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 30 November 2025.

The Directors confirm that there was no material change in the indebtedness status of the Group since 30 November 2025 up to the Latest Practicable Date.

**3. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the effect of the Acquisition Agreement and the Supplemental Agreement and the transactions contemplated thereunder, its internal resources, the financial resources available to the Group, including its existing cash and cash equivalents on hand, its cash flow from operating activities, the working capital available to the Group is sufficient for the Group's requirements for at least 12 months from the date of this circular.

**4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Target Company is principally engaged in the business of 12-inch integrated circuit wafer foundry services in the PRC. It focuses on developing logic processes, and offers a comprehensive set of technical solutions for customers in communications and consumer electronics, etc.

Upon Completion, the Company expects to further enhance its 12-inch wafer foundry capacity. The strengths of process platforms of the Company and the Target are highly complementary, which facilitate development of more comprehensive wafer foundry and supporting services covering a wider range of application scenarios and technical specifications. In addition, by way of consolidating its control over the Target Company, the Company could benefit from integrated management, process platforms, R&D resources, bespoke design and supply chain between the two companies. The Company believes that this could generate synergies to achieve cost reduction, improved market share and economies of scale.

Further, during the Company's listing on the STAR Board on the Shanghai Stock Exchange, Huahong Group had undertaken to, in accordance with the national strategic deployment arrangement, after performing the approval procedures of the competent government departments, Huahong Group will inject the Target into the Company within three years of the listing. As such, this Proposed Acquisition is a demonstration of Huahong Group's commitment to the Company's listing, which is in line with market expectations.

The terms of the Acquisition Agreement and the transactions contemplated thereunder were agreed after arm's length negotiations between the parties thereto. The Directors (including members of the Independent Board Committee comprising the independent non-executive Directors only whose views are set out in the letter from the Independent Board Committee in this circular) consider that the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

## **5. MATERIAL CHANGE**

The Directors confirm that, save and except for the following, there was no material change in the financial or trading position or outlook of the Group since 31 December 2024, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

Based on the 2025 Interim Report dated 8 September 2025 and the announcement dated 6 November 2025 on the 2025 third quarterly results of the Group for the three months ended 30 September 2025:

- (i) The Group's revenue increased by 18.0% from US\$938.5 million in the first half of 2024 to US\$1,107.0 million in the first half of 2025. Such growth continued into the third quarter of 2025, during which the Group's revenue increased from US\$566.1 million in the second quarter of 2025 to US\$635.2 million in the third quarter;
- (ii) The Group's gross profit increased by 40.0% from US\$79.7 million in the first half of 2024 to US\$111.6 million in the first half of 2025. Such growth continued into the third quarter of 2025, during which the Group's gross profit increased by 39.4% from US\$61.6 million in the second quarter to US\$85.9 million in the third quarter of 2025. The increase in gross profit was accompanied by an improvement in gross profit margin, which increased from 8.5% in the first half of 2024 to 10.0% in the first half of 2025 and further to 13.5% in the third quarter of 2025. Such improvement in gross profit margin was primarily attributable to enhanced utilisation of the Group's production lines and higher average selling prices;
- (iii) The Group's other income and gains decreased from US\$71.1 million in the first half of 2024 to US\$59.9 million in the first half of 2025, primarily due to lower interest income, which was partially offset by increased government subsidies. During the same period, other expenses increased from US\$13.8 million to US\$17.3 million,

mainly attributable to higher foreign exchange losses. Finance costs decreased from US\$49.4 million in the first half of 2024 to US\$41.6 million in the first half of 2025, primarily due to lower interest rates on bank borrowings. Net other income increased from US\$10.6 million in the second quarter of 2025 to US\$17.8 million in the third quarter of 2025, mainly due to the recognition of foreign exchange gains as compared with foreign exchange losses recorded in the prior quarter;

- (iv) The Group's administrative expenses increased from US\$164.1 million in the first half of 2024 to US\$190.2 million in the first half of 2025, primarily due to higher engineering wafer costs. In the third quarter of 2025, the Group's operating expenses remained relatively stable as compared with the second quarter of 2025, amounting to US\$100.4 million in the third quarter of 2025 and US\$97.9 million in the second quarter of 2025;
- (v) The Group's loss for the period increased from US\$67.0 million in the first half of 2024 to US\$85.0 million in the first half of 2025. However, in the third quarter of 2025, the loss for the period narrowed significantly from US\$32.8 million in the second quarter of 2025 to US\$7.2 million. Such improvement reflected the combined effect of the factors described above.



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F +852 2375 3828[www.moore.hk](http://www.moore.hk)**INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON HISTORICAL  
FINANCIAL INFORMATION OF SHANGHAI HUALI MICROELECTRONICS  
CORPORATION\***

上海華力微電子有限公司

**Introduction**

We report on the historical financial information of Shanghai Huali Microelectronics Corporation\* (上海華力微電子有限公司) (the “**Target Company**”) set out on pages 138 to 189, which comprises the statements of financial position of the Target Company as at 31 December 2022, 2023 and 2024 and 31 August 2025, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the three years ended 31 December 2022, 2023 and 2024 and the eight months ended 31 August 2025 (the “**Relevant Periods**”) and a summary of material accounting policy information and other explanatory information (together the “**Historical Financial Information**”). The Historical Financial Information set out on pages 138 to 189 forms an integral part of this report, which has been prepared for inclusion in the circular of Hua Hong Semiconductor Limited (the “**Company**”) dated 22 January 2026 (the “**Circular**”) in connection with the proposed acquisition of 97.4988% equity interest in the Target Company by the Company.

**Directors' responsibility for the Historical Financial Information**

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine are necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Company is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants' Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified

\* English name is for identification purpose only.

Public Accountants (the “**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depended on our judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the Target Company’s preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Target Company’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Target Company’s financial position as at 31 December 2022, 2023 and 2024 and 31 August 2025, and of the Target Company’s financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the eight months ended 31 August 2024 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that

causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 138 have been made.

***Dividends***

We refer to Note 12 to the Historical Financial Information which states that no dividend have been declared or paid by the Target Company in respect of the Relevant Periods.

Yours faithfully,

**Da Hua Moore International CPA Limited**  
*Certified Public Accountants*

**Hung Wan Fang Joanne**  
Practising Certificate Number: P05419

Hong Kong  
22 January 2026

**HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY****Preparation of the Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, have been prepared by the directors of the Target Company in accordance with the accounting policies that conform with HKFRS Accounting Standards issued by the HKICPA and were audited by Da Hua Moore International CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the **"Underlying Financial Statements"**).

The Historical Financial Information is presented in Renminbi (**"RMB"**) and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three years ended 31 December 2022, 2023 and 2024 and eight months ended 31 August 2025

	<i>Notes</i>	Year ended 31 December			Eight months ended 31 August	
		2022	2023	2024	2024	2025
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>	
<b>Revenue</b>	5	5,492,787	2,371,122	4,476,976	2,878,119	3,401,413
Cost of sales		<u>(3,562,370)</u>	<u>(2,524,039)</u>	<u>(4,174,795)</u>	<u>(2,944,629)</u>	<u>(2,614,354)</u>
<b>Gross profit/(loss)</b>		1,930,417	(152,917)	302,181	(66,510)	787,059
Other income and gains	5	633,454	328,842	751,881	369,183	157,712
Selling and distribution expenses		(8,960)	(10,444)	(10,114)	(5,279)	(4,274)
Administrative expenses		(294,283)	(462,552)	(448,605)	(270,037)	(309,085)
Other expenses	5	(4,799)	(4,581)	(183)	(844)	(58,403)
Finance costs	7	<u>(71,496)</u>	<u>(70,639)</u>	<u>(73,636)</u>	<u>(47,076)</u>	<u>(58,366)</u>
<b>Profit/(loss) before income tax</b>	6	2,184,333	(372,291)	521,524	(20,563)	514,643
Income tax expense	10	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Profit/(loss) for the year/period</b>		2,184,333	(372,291)	521,524	(20,563)	514,643
<b>Other comprehensive (loss)/income</b>						
<i>Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:</i>						
Equity investments designated at fair value through other comprehensive income or loss:						
Change in fair value		<u>(15,409)</u>	<u>5,284</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total comprehensive income/(loss) for the year/period</b>		<u>2,168,924</u>	<u>(367,007)</u>	<u>521,524</u>	<u>(20,563)</u>	<u>514,643</u>

## STATEMENTS OF FINANCIAL POSITION

As at 31 December 2022, 2023 and 2024 and 31 August 2025

		As at 31 December			As at
		2022	2023	2024	31 August
	Notes	RMB'000	RMB'000	RMB'000	2025
					RMB'000
<b>Non-current assets</b>					
Property, plant and equipment	13	2,804,840	2,256,919	1,793,622	1,652,545
Right-of-use assets	14	587,102	521,862	437,486	381,184
Intangible assets	15	80,583	158,227	151,780	129,893
Equity investments designated at fair value through other comprehensive income ("FVOCI")	16	49,112	–	–	–
Due from related parties	20	4,632	58,273	55,461	67,436
Long-term prepayments to third parties	19	6,291	–	–	5,348
Total non-current assets		3,532,560	2,995,281	2,438,349	2,236,406
<b>Current assets</b>					
Inventories	17	1,926,332	2,141,393	1,585,361	1,377,183
Trade and notes receivables	18	545,721	577,253	614,832	509,871
Prepayments, other receivables and other assets	19	54,845	33,509	151,078	12,838
Due from related parties	20	97,606	126,498	31,082	119,736
Restricted bank deposits	21	1,000	1,000	1,012	1,012
Deposits with banks	21	1,950,088	2,101,416	1,437,138	7,000
Cash and cash equivalents	21	1,935,183	923,471	40	2,994,457
Total current assets		6,510,775	5,904,540	3,820,543	5,022,097
<b>Current liabilities</b>					
Trade payables	22	920,183	502,272	715,431	638,454
Other payables and accruals	23	356,712	239,932	374,490	239,969
Interest-bearing bank and other borrowings	24	700,000	736,875	802,000	840,200
Lease liabilities	25	69,303	78,765	83,483	184,256
Due to related parties	28	3,988,360	3,920,008	175,925	138,200
Total current liabilities		6,034,558	5,477,852	2,151,329	2,041,079
<b>Net current assets</b>		476,217	426,688	1,669,214	2,981,018
<b>Total assets less current liabilities</b>		4,008,777	3,421,969	4,107,563	5,217,424

**APPENDIX II**
**FINANCIAL INFORMATION OF THE  
TARGET COMPANY**

		As at 31 December			As at
		2022	2023	2024	31 August
	Notes	RMB'000	RMB'000	RMB'000	2025
					RMB'000
<b>Non-current liabilities</b>					
Interest-bearing bank and other borrowings	24	2,350,000	2,183,125	2,428,000	2,897,338
Lease liabilities	25	533,746	471,701	390,033	300,807
Government grants	26	14,517	23,580	16,110	16,110
Provisions		1,101	1,157	6,488	1,255
		<u>2,899,364</u>	<u>2,679,563</u>	<u>2,840,631</u>	<u>3,215,510</u>
Total non-current liabilities					
		<u>2,899,364</u>	<u>2,679,563</u>	<u>2,840,631</u>	<u>3,215,510</u>
<b>Net assets</b>		<u>1,109,413</u>	<u>742,406</u>	<u>1,266,932</u>	<u>2,001,914</u>
<b>Capital and reserves</b>					
Share capital	27	1,870,646	1,870,646	1,873,648	2,036,192
Reserves		<u>(761,233)</u>	<u>(1,128,240)</u>	<u>(606,716)</u>	<u>(34,278)</u>
Total equity		<u>1,109,413</u>	<u>742,406</u>	<u>1,266,932</u>	<u>2,001,914</u>

## STATEMENTS OF CHANGES IN EQUITY

For the three years ended 31 December 2022, 2023 and 2024 and eight months ended 31 August 2025

	Share capital RMB'000 (note 27(a))	Fair value reserve RMB'000	Capital reserve RMB'000 (note 27(b))	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
<b>At 1 January 2022</b>	1,870,646	20,258	–	–	(2,950,415)	(1,059,511)
Profit for the year	–	–	–	–	2,184,333	2,184,333
Other comprehensive income:						
<i>Item that will not be reclassified</i>						
<i>subsequently to profit or loss:</i>						
Equity investments designated at						
fair value through other						
comprehensive income or loss	–	(23,654)	–	–	8,245	(15,409)
<b>At 31 December 2022 and</b>						
<b>1 January 2023</b>	1,870,646	(3,396)	–	–	(757,837)	1,109,413
Loss for the year	–	–	–	–	(372,291)	(372,291)
Other comprehensive expense:						
<i>Item that will not be reclassified</i>						
<i>subsequently to profit or loss:</i>						
Equity investments designated at						
fair value through other						
comprehensive income	–	3,396	–	–	1,888	5,284
<b>At 31 December 2023 and</b>						
<b>1 January 2024</b>	1,870,646	–	–	–	(1,128,240)	742,406
Profit for the year	–	–	–	–	521,524	521,524
Capital injection	3,002	–	–	–	–	3,002
<b>At 31 December 2024 and</b>						
<b>1 January 2025</b>	1,873,648	–	–	–	(606,716)	1,266,932
Profit for the year	–	–	–	–	514,643	514,643
Work safety reserve	–	–	–	2,075	–	2,075
Capital injection	162,544	–	55,720	–	–	218,264
<b>At 31 August 2025</b>	2,036,192	–	55,720	2,075	(92,073)	2,001,914



## STATEMENTS OF CASH FLOWS

For the three years ended 31 December 2022, 2023 and 2024 and eight months ended 31 August 2025

		Year ended 31 December			Eight months ended 31 August	
		2022	2023	2024	2024	2025
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
<b>Operating activities</b>						
Profit/(loss) before income tax		2,184,333	(372,291)	521,524	(20,563)	514,643
Adjustments for:						
Finance costs	7	71,496	70,639	73,636	47,076	58,366
Interest income	5	(62,638)	(124,287)	(167,425)	(105,800)	(94,335)
Effect of foreign exchange rates changes	5	(155,184)	(43,591)	(46,939)	(1,047)	53,220
Loss/(gain) on disposal of items of property, plant and equipment	5	78	185	(321)	217	(23,614)
Depreciation of property, plant and equipment	6	701,930	642,108	495,984	319,838	252,651
Depreciation of right-of-use assets	6	84,573	84,995	85,512	57,019	57,088
Amortisation of intangible assets	6	94,229	65,109	43,103	27,500	23,573
Impairment loss/(reversal of impairment) on receivables	6	8,999	71,787	(20,195)	(1,568)	27,439
Write-down of inventories	6	5,386	183,967	10,072	15,346	16,283
(Increase)/decrease in inventories		(883,290)	(399,028)	545,960	579,997	191,895
Decrease/(increase) in trade and notes receivables		194,623	(99,588)	(7,107)	9,613	128,539
Decrease/(increase) in prepayments, other receivables and other assets		31,126	26,986	(97,804)	(104,434)	102,159
(Increase)/decrease in amounts due from related parties		(78,038)	(82,533)	91,911	80,372	(100,362)
Increase in pledged deposits		—	—	(12)	(12)	—
(Decrease)/increase in trade payables		(26,911)	(359,891)	177,374	477,770	(39,541)
Increase/(decrease) in other payables and accruals		11,327	(116,893)	134,083	686,336	(145,318)
Increase/(decrease) in provision		52	56	5,331	564	(5,233)
(Decrease)/increase in government grants		(534,049)	(2,818)	(3,075)	4,345	—
Increase/(decrease) in amounts due to related parties		95,480	(68,352)	119,318	(9,311)	(37,725)
Cash generated from/(used in) operations		1,743,522	(523,440)	1,960,930	2,063,258	979,728
Income tax paid		—	—	—	—	—
<b>Net cash generated from/(used in) operating activities</b>		1,743,522	(523,440)	1,960,930	2,063,258	979,728

**APPENDIX II**
**FINANCIAL INFORMATION OF THE  
TARGET COMPANY**

		Year ended 31 December			Eight months ended 31 August	
		2022	2023	2024	2024	2025
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
<b>Cash flow from Investing activities</b>						
Interest received		34,706	124,916	152,823	108,800	135,557
Purchases of items of property, plant and equipment, prepaid lease payments and intangible assets		(135,460)	(317,415)	(54,104)	(8,687)	(197,516)
Proceeds from disposal of items of property, plant and equipment		63	156	30	15	756
Receipt of government grants for property, plant and equipment		2,335	25,669	1,270	1,270	–
Proceeds from disposal of financial assets at fair value through profit or loss		34,935	54,514	–	–	–
Uplift of fixed deposits held at banks with maturity over three months		–	–	664,278	–	1,430,138
Placements of fixed deposits held at banks with maturity over three months		(1,950,088)	(151,328)	–	(1,062,166)	–
<b>Net cash (used in)/generated from investing activities</b>		<u>(2,013,509)</u>	<u>(263,488)</u>	<u>764,297</u>	<u>(960,768)</u>	<u>1,368,935</u>
<b>Cash flow from financing activities</b>						
Capital contribution from shareholders		–	–	3,002	3,002	218,264
New bank and other borrowings	31	150,000	660,000	1,060,000	–	917,550
Interest paid	31	(50,535)	(43,486)	(49,718)	(30,771)	(32,281)
Repayment of bank and other borrowings	31	(500,000)	(790,000)	(750,000)	(509,875)	(410,012)
Cash paid during demerge	28(c)	–	–	(3,863,400)	–	–
Principal portion of lease payments	31	(68,688)	(72,338)	(78,086)	(2,508)	(2,213)
Interest portion of lease payments	31	(31,501)	(27,040)	(23,443)	(280)	(239)
<b>Net cash (used in)/generated from financing activities</b>		<u>(500,724)</u>	<u>(272,864)</u>	<u>(3,701,645)</u>	<u>(540,432)</u>	<u>691,069</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(770,711)</u>	<u>(1,059,792)</u>	<u>(976,418)</u>	<u>562,058</u>	<u>3,039,732</u>
<b>Cash and cash equivalents at the beginning of the reporting period</b>		2,544,826	1,935,183	923,471	923,471	40
Effective on exchange rate changes		161,068	48,080	52,987	9,292	(45,315)
<b>Cash and cash equivalents at the end of the reporting period, represented by cash and cash equivalent</b>	21	<u>1,935,183</u>	<u>923,471</u>	<u>40</u>	<u>1,494,821</u>	<u>2,994,457</u>

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

For the three years ended 31 December 2022, 2023 and 2024 and eight months ended 31 August 2025

**1. GENERAL INFORMATION**

Shanghai Huali Microelectronics Corporation\* (上海華力微電子有限公司) (the “Target Company”) is a limited liability company incorporated in the People’s Republic of China (the “PRC”). In the opinion of the directors of the Target Company, the parent of the Target Company is Shanghai Huahong (Group) Co., Ltd. (“Huahong Group”), which is a state-owned company established in the People’s Republic of China (“PRC”) and supervised by the Shanghai State-owned Assets Supervision and Administration Commission (“Shanghai SASAC”) and it is also a substantial shareholder of the Company. The ultimate parent of the Target Company is Shanghai SASAC.

During the years ended 31 December 2022, 2023 and 2024 and eight months ended 31 August 2025 (the “Relevant Periods”), the registered office and principal place of business of the Target Company are situated at situated at No. 568 Gaosi Road, Pilot Free Trade Zone, Shanghai, the PRC.

The Target Company was established on 18 January 2010 in the PRC. On 29 August 2025, Hua Hong Semiconductor Limited (the “Company”) has entered into an acquisition agreement with Huahong Group, Shanghai Integrated Circuit Industry Investment Fund Co., Ltd.\* (上海集成電路產業投資基金股份有限公司), China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.\* (國家集成電路產業投資基金二期股份有限公司) and Shanghai Guotou IC Fund Leading Integrated Circuit Private Equity Investment Fund Partnership (Limited Partnership)\* (上海國投先導集成電路私募投資基金合夥企業(有限合夥)) (collectively as the “Vendors”), pursuant to which the Company has conditionally agreed to purchase, and the Vendors have conditionally agreed to sell, a total of 97.4988% of the share capital of the Target Company (the “Acquisition”).

There was previously horizontal competition between the Company and the Target Company on certain products. During the Company’s listing on the Science and Technology Innovation Board of the Shanghai Stock Exchange on 7 August 2023, Huahong Group had undertaken to, in accordance with the national strategic deployment arrangement, after performing the approval procedures of the competent government departments, inject the Target Company into the Company within three years of the listing. As such, this Acquisition is the fulfillment of that commitment. In June 2025, the Target Company has underwent certain reorganisation for the purpose of spinning-off certain businesses carried out by its subsidiaries of that are not relevant to the aforementioned commitment (“Carve-out Business”). On 30 November 2024, the benchmark date of the spin-off, the Target Company split part of its assets, liabilities and staff to the newly established company which are attributable to the Carve-out Business. After the spin-off, the shareholders of the Target Company and their respective shareholding percentage remain unchanged, and the registered capital had been reduced to RMB2,036,192,000 in accordance with the spin-off agreement. During the Relevant Periods, the Target Company is principally engaged in the business of 12-inch integrated circuit wafer foundry services in the PRC and the Carve-out Business. It focuses on developing logic processes, and offers a comprehensive set of technical solutions for customers in communications and consumer electronics, etc.

The statutory financial statements of the Target Company for the years ended 31 December 2022, 2023 and 2024, as prepared in accordance with relevant accounting principles and financial regulations applicable to the enterprises in the PRC, that fall into the Relevant Periods have been audited by Dahua Certified Public Accountants (Special General Partnership) Shanghai Branch (大華會計師事務所(特殊普通合夥)上海分所), a CPA registered firm in the PRC. The auditor’s reports were not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the reports.

**2. BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION**

The Historical Financial Information presents the financial track record of the Target Company excluding the Carve-out Business for the Relevant Periods and is prepared for the purposes of inclusion in a circular of Company to its shareholders for the Acquisition, using the accounting policies which are materially consistent with those of the Company as applied in the Company’s financial statements for the year ended 31 December 2024, except for those HKFRS Accounting Standards that are effective for the financial years beginning on or after 1 January 2025 and applicable to the Historical Financial Information.

For the purpose of preparation of the Historical Financial Information, the assets, liabilities and financial performance of the Carve-out Business of the Target Company have been excluded throughout the Relevant Periods (i.e. a “carve-out” basis).

The directors of the Company are of the view that it is more appropriate to present the Historical Financial Information during the Relevant Periods on a “carve-out” basis since the Carve-out business do not form part of the Acquisition and such financial information is not relevant to the trading record of the Target Company. The directors of the Company believe that presenting the historical financial information of the Target Company and Carve-out business, which would include the assets, liabilities and financial performance of the Carve-out business that are not the subject of the Acquisition would provide irrelevant and potentially misleading financial information to the users of this Historical Financial Information. As such, presenting the Historical Financial Information of the Target Company on a “carve-out” basis would provide more direct and relevant information to the users of the Historical Financial Information.

The Historical Financial Information has been prepared based on accounting policies which conform HKFRS Accounting Standards issued by the HKICPA, which collective term includes all applicable individual HKFRS Accounting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The Historical Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The HKICPA has issued a number of new/revised HKFRS Accounting Standards during the Relevant Periods. For the purpose of the preparation of the Historical Financial Information, the Target Company has consistently applied the accounting policies which conform with HKFRS Accounting Standards, which are effective for the accounting period beginning on 1 January 2025 throughout the Relevant Periods.

The measurement basis used in the preparation of the Historical Financial Information is historical cost, except for financial assets at fair value through other comprehensive income (“FVOCI”).

### **3. MATERIAL ACCOUNTING POLICY INFORMATION**

#### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and non-current assets), the asset’s recoverable amount is estimated. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset. An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statements of profit or loss and other comprehensive income in the period in which it arises.

**Related parties**

A party is considered to be related to the Target Company if:

- (a) the party is a person or a close member of that person's family and that person:
  - (i) has control or joint control over the Target Company;
  - (ii) has significant influence over the Target Company; or
  - (iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company; or
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Target Company are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Target Company are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	9.5% to 13.6%
Office equipment	19.0%
Motor vehicles	19.0%
Leasehold improvements	20.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal or retirement recognised in the profit or loss in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

##### ***Process technology licence and software***

Process technology licence and software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years of the underlying products, commencing from the date when the products are put into commercial production.

##### ***Research and development costs***

All research costs are charged to the profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Target Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

#### **Leases**

The Target Company assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### ***The Target Company as a lessee***

The Target Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets as separate line items in the statements of financial position.

###### ***(a) Right-of-use assets***

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings

2 to 14 years

If ownership of the leased asset transfers to the Target Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

*(b) Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Company and payments of penalties for termination of a lease, if the lease term reflects the Target Company exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

- (c) In calculating the present value of lease payments, the Target Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

*(d) Short-term leases and leases of low-value assets*

The Target Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for lease of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

## **Investments and other financial assets**

### ***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows,



while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset.

#### ***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

##### ***Financial assets at amortised cost (debt instruments)***

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

##### ***Financial assets designated at fair value through other comprehensive income (equity investments)***

Upon initial recognition, the Target Company can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Target Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

#### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statements of financial position) when the rights to receive cash flows from the asset have expired.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

#### **Impairment of financial assets**

The Target Company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.



*General approach*

ECLs are recognised in three stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Target Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Target Company considers a financial asset in default when contractual payments are 90 days to 150 days past due. However, in certain cases, the Target Company may also consider a financial asset to be in default when internal or external information indicates that the Target Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- |         |   |  |
|---------|---|--|
| Stage 1 | – | Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs   |
| Stage 2 | – | Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs |
| Stage 3 | – | Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs                          |

*Simplified approach*

For trade receivables that do not contain a significant financing component or when the Target Company applies the practical expedient of not adjusting the effect of a significant financing component, the Target Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

**Financial liabilities***Initial recognition and measurement*

All financial liabilities are recognised initially at fair value, net of directly attributable transaction costs.

The Target Company's financial liabilities include trade payables, financial liabilities included in other payables and accruals, amounts due to related parties, interest-bearing bank and other borrowings and lease liabilities.

***Subsequent measurement***

After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the profit or loss.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Costs for properties under development include land costs, construction costs and other direct and indirect development expenses in relation to property development. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

Cash and cash equivalents in the statements of financial position comprise cash on hand and at banks, excluding bank balances that are subject to regulatory restrictions, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above.

**Provisions**

A provision is recognised when there is a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the Target Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statements of profit or loss and other comprehensive income net of any reimbursement.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants that compensate the Target Company for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised. The grants are presented in the statements of profit or loss and other comprehensive income as a reduction of the related expense.

Grants related to the purchase or construction of qualifying assets are recognised in the statements of financial position as a reduction in the carrying amount of the related asset. The grant is subsequently released to profit or loss through a reduced depreciation charge over the expected useful life of the asset.

#### **Revenue recognition**

##### ***Revenue from contracts with customers***

Revenue from contracts with customers is recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Target Company expects to be entitled in exchange for those goods.

##### **Other employee benefits**

##### ***Pension scheme***

The employees of the Target Company which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

##### ***Termination benefits***

Termination benefits are recognised at the earlier of when the Target Company can no longer withdraw the offer of those benefits and when the Target Company recognises restructuring costs involving the payment of termination benefits.

**Foreign currency translation**

Items included in the financial statements of the Target Company are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The Target Company’s functional currency is Renminbi (“**RMB**”). The Historical Financial Information is presented in the currency of RMB, which is the Target Company’s presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**Key sources of estimation uncertainty**

In the application of the Target Company’s accounting policies, the directors of the Target Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

***Impairment of non-financial assets***

The Target Company assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period, which are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2022, 2023, and 2024 and 31 August 2025, the carrying amount of the non-financial assets was approximately RMB3,472,525,000, RMB2,937,008,000, RMB2,382,888,000 and RMB2,163,622 respectively. (note 13, 14 and 15).

***Estimated impairment of trade receivables***

The Target Company recognises lifetime ECL for trade receivables. When measuring ECL, the Target Company uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

The Target Company uses a provision matrix to calculate ECL for trade receivables. The provision matrix is based on the Target Company’s historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables which are credit impaired are assessed for ECL individually. Details about the ECLs are disclosed in note 18 and note 20.

*Net realisable value of inventories*

The carry amounts of inventories at each year/period end included in the statements of financial position, which are stated at the lower of the cost and net realisable value. The Target Company recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed. As at 31 December 2022, 2023, and 2024 and 31 August 2025, the carrying amount of inventories was approximately RMB1,926,332,000, RMB2,141,393,000, RMB1,585,361,000 and RMB1,377,183,000 respectively (note 17).

*Recognition of income taxes and deferred tax assets*

Determining income tax provision involves judgement on the future tax treatment of certain transactions and when certain matters relating to the income taxes have not been confirmed by the local tax bureau. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences and unused tax losses. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the losses can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. Further details are included in note 10 to the financial statements.

**Future changes in HKFRS Accounting Standards**

At the date of this report, the HKICPA has issued the following new and amendments to HKFRS Accounting Standards that are not yet effective for the Relevant Periods, which the Target Company has not early adopted:

		<b>Effective for annual periods beginning on or after</b>
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
Amendments to HKFRS 9 and HKFRS 7	Contracts Referencing Nature – dependent Electricity	1 January 2026
Amendments to HKFRS Accounting Standards	Annual improvements to HKFRS Accounting Standards – Volume 11	1 January 2026
HKFRS 18	Presentation and Disclosure in financial Statements	1 January 2027
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Except for the new HKFRS Accounting Standard mentioned below, the directors of the Target Company anticipate that the application of all other amendments to HKFRS Accounting Standards will have no material impact on the consolidated financial statements in the foreseeable future.

**HKFRS 18 Presentation and Disclosure of Financial Statements**

This standard introduces the following three sets of new requirements to improve entities' reporting of financial performance and give investors a better basis for analysing and comparing entities:

- Presentation of new defined subtotals in the statement of profit or loss;
- Disclosures about management-defined performance measures; and
- Enhanced requirements for grouping (aggregation and disaggregation) of information.

HKFRS 18 supersedes HKAS 1 “Presentation of Financial Statements”. Requirements in HKAS 1 that are unchanged have been transferred to HKFRS 18 and other HKFRSs. HKFRS 18 is effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. The Target Company is still currently assessing the impact that HKFRS 18 will have on the Target Company.

#### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Target Company is organised into one single business unit that includes primarily the manufacture and sale of semiconductor products. Management reviews the results of the Target Company as a whole when making decisions about allocating resources and assessing the performance of the Target Company. Accordingly, no segment analysis is presented.

The principal assets employed by the Target Company are located in Shanghai, the PRC. Therefore, no segment information based on the geographical location of non-current assets is presented for the year/period.

Revenues by geographical segment based on the locations of customers for the year/period are presented as follows:

	Year ended 31 December			Eight months ended 31 August	
	2022	2023	2024	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Within the PRC	1,973,363	1,339,010	2,218,721	1,461,708	1,606,290
Outside the PRC	3,519,424	1,032,112	2,258,255	1,416,411	1,795,123
Total revenue	5,492,787	2,371,122	4,476,976	2,878,119	3,401,413

The Target Company is principally engaged in the business of 12-inch integrated circuit wafer foundry services in the PRC. Revenue from the sale of semiconductor products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the semiconductor products, where the performance obligation is satisfied.

#### Information about major customers

Details of the customers (including entities under common control) individually accounting for 10% or more of aggregate revenue of the Target Company during the Relevant Periods are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2022	2023	2024	2024	2025
	RMB\$'000	RMB\$'000	RMB\$'000	RMB\$'000	RMB\$'000
				(unaudited)	
Customer A	1,654,123	341,858	1,252,013	749,523	969,049
Customer B	957,385	553,539	710,412	482,912	630,701
Customer C	788,820	Note	Note	Note	Note
Customer D	Note	Note	747,301	484,437	471,270

*Note:*

The customers contributed less than 10% of the total revenue of the Target Company for relevant reporting periods.

There is no significant concentration of credit risk arising from these customers.

## 5. REVENUE, OTHER INCOME AND GAINS AND OTHER EXPENSES

An analysis of revenue, other income and gains and other expenses is as follow:

	Year ended 31 December			Eight months ended 31 August	
	2022 RMB'000	2023 RMB'000	2024 RMB'000	2024 RMB'000 (unaudited)	2025 RMB'000
<b>Revenue from contracts with customers</b>					
Sale of goods	5,492,787	2,371,122	4,476,976	2,878,119	3,401,413
<b>Other income and gains</b>					
Government grants (note a)	380,105	10,439	38,355	31,524	25,307
Interest income	62,638	124,287	167,425	105,800	94,335
Management service income	34,789	22,471	15,782	12,067	14,146
Technical development service income (note b)	–	121,360	471,000	94,200	–
Foreign exchange gains	155,184	43,591	46,939	1,047	–
Gains on disposal of items of property, plant and equipment	–	–	321	–	23,614
Others	738	6,694	12,059	124,545	310
	<u>633,454</u>	<u>328,842</u>	<u>751,881</u>	<u>369,183</u>	<u>157,712</u>
<b>Other expenses</b>					
Foreign exchange losses	–	–	–	–	53,220
Loss on disposal of items of property, plant and equipment	78	185	–	217	–
Others	4,721	4,396	183	627	5,183
	<u>4,799</u>	<u>4,581</u>	<u>183</u>	<u>844</u>	<u>58,403</u>

## Notes:

- (a) Except for those government grants released from note 26, the remaining government grants were received from several local government authorities, of which the entitlement was unconditional and under the discretion of the relevant authorities.
- (b) Technical development service income represents income from transferring existing developed processes to related parties.

## APPENDIX II

## FINANCIAL INFORMATION OF THE TARGET COMPANY

	Year ended 31 December			Eight months ended 31 August	
	2022	2023	2024	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Types of goods</b>					
Sale of semiconductor products and total revenue from contracts with customers	5,492,787	2,371,122	4,476,976	2,878,119	3,401,413
<b>Timing of revenue recognition</b>					
Goods transferred at a point in time and total revenue from contracts with customers	5,492,787	2,371,122	4,476,976	2,878,119	3,401,413

The disaggregation of the Target Company's revenue based on the geographical region for the historical period is given in note 4.

### 6. PROFIT/(LOSS) BEFORE INCOME TAX

The Target Company's profit/(loss) before income tax is arrived at after charging/(crediting):

	Year ended 31 December			Eight months ended 31 August	
	2022	2023	2024	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Cost of inventories sold	1,572,043	726,891	2,538,500	2,004,069	1,592,871
Depreciation of property, plant and equipment (note 13)	701,930	642,108	495,984	319,838	252,651
Depreciation of right-of-use assets (note 14)	84,573	84,995	85,512	57,019	57,088
Amortisation of intangible assets included in cost of sales, selling and administrative expense (note 15)	94,229	65,109	43,103	27,500	23,573
Research and development costs	145,296	255,804	325,535	187,702	184,919
Lease payments not included in the measurement of lease liabilities	1,967	2,469	2,590	1,480	2,051
Employee benefit expense (note 9)	627,869	528,708	629,251	335,814	382,534
Impairment loss/(reversal of impairment) on trade receivables and due from related parties	8,999	71,787	(20,195)	(1,568)	27,439
Write-down/(reversal of write-down) of inventories to net realisable value	5,386	183,967	10,072	(24,274)	16,283
Write-off of inventories	706	4,767	129,739	118,286	58,151



## 7. FINANCE COSTS

	Year ended 31 December			Eight months ended 31 August	
	2022	2023	2024	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Interest on bank and other borrowings	39,995	43,599	50,193	31,246	45,153
Interest on lease liabilities	31,501	27,040	23,443	15,830	13,213
Total	71,496	70,639	73,636	47,076	58,366

## 8. DIRECTORS' EMOLUMENTS

The directors believe the presentation of directors' emolument and individual with highest emolument information is not meaningful for the purpose of this report.

## 9. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December			Eight months ended 31 August	
	2022	2023	2024	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Employee benefit expense:					
Wages, salaries and other benefits	529,074	415,190	513,640	253,849	309,700
Pension scheme contributions (defined contribution scheme)	98,795	113,518	115,611	81,965	72,834
	627,869	528,708	629,251	335,814	382,534

## 10. INCOME TAX EXPENSE

The Target Company is subject to PRC enterprise income tax, adjusted in accordance with relevant PRC income tax laws based on a statutory rate of 25%.

Pursuant to the relevant laws and regulations in the PRC and with approval from the tax authorities in charge, the Target Company is qualified as "High and New Technology Enterprise" and is therefore entitled to a preferential tax rate of 15% from 31 December 2020 to 31 December 2026.

Pursuant to the relevant laws and regulations in the PRC and with the approval from the tax authorities in charge, the Target Company is entitled to an exemption from CIT for five years, commencing from the first year that the Target Company generates taxable profits, and a deduction of 50% on the CIT rate for the following five years. The Target Company is in accumulated tax loss positions as 31 December 2022, 2023 and 2024 and 31 August 2025 and the tax holiday has not yet begun.

	Year ended 31 December			Eight months ended 31 August	
	2022	2023	2024	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current income tax	–	–	–	–	–
Deferred tax	–	–	–	–	–
Total	–	–	–	–	–

Deferred tax assets have not been recognised in respect of the temporary differences as it is not considered probable that taxable profit will be available against which the deductible temporary differences can be utilised. Tax effect of temporary differences not recognised mainly represents tax effect of temporary differences related to depreciation of property, plant and equipment, amortization of intangible assets, provision for asset impairment and government grant.

#### 11. EARNINGS/(LOSSES) PER SHARE

No earnings or losses per share information is presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

#### 12. DIVIDEND

The directors of the Target Company did not recommend payment of any dividends for the Relevant Periods.

#### 13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>						
At 1 January 2022	15,174,276	216,814	8,276	1,127	145,584	15,546,077
Addition	–	–	–	–	135,459	135,459
Transfer	236,487	3,682	–	990	(241,159)	–
Transfer to intangible assets (note 15)	–	–	–	–	(7,313)	(7,313)
Offset by government grants (note 26)	(173,396)	(4,121)	–	–	–	(177,517)
Disposal	–	(2,465)	(314)	–	–	(2,779)
At 31 December 2022	15,237,367	213,910	7,962	2,117	32,571	15,493,927
Addition	–	–	–	–	251,058	251,058
Transfer	81,304	5,317	406	7,877	(94,904)	–
Transfer to expense	–	–	–	–	(7)	(7)
Transfer to intangible assets (note 15)	–	–	–	–	(143,085)	(143,085)
Offset by government grants (note 26)	(13,452)	(4)	–	–	–	(13,456)
Disposal	(4,444)	(2,006)	–	–	–	(6,450)

**APPENDIX II**
**FINANCIAL INFORMATION OF THE  
TARGET COMPANY**

	<b>Plant and machinery</b> <i>RMB'000</i>	<b>Office equipment</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Leasehold improvements</b> <i>RMB'000</i>	<b>Construction in progress</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 31 December 2023	15,300,775	217,217	8,368	9,994	45,633	15,581,987
Addition	–	–	–	–	77,069	77,069
Transfer	49,180	113	–	–	(49,293)	–
Transfer to expense	–	–	–	–	(1,759)	(1,759)
Transfer to intangible assets ( <i>note 15</i> )	–	–	–	–	(37,264)	(37,264)
Offset by government grants ( <i>note 26</i> )	(5,057)	–	–	–	–	(5,057)
Disposal	–	(1,698)	(4,356)	–	–	(6,054)
At 31 December 2024	15,344,898	215,632	4,012	9,994	34,386	15,608,922
Addition	–	–	–	–	154,236	154,236
Transfer	42,511	1,878	–	–	(44,389)	–
Transfer to expense	–	–	–	–	(5,141)	(5,141)
Transfer to intangible assets ( <i>note 15</i> )	–	–	–	–	(1,686)	(1,686)
Disposal	(117,233)	(2,127)	(3,289)	–	–	(122,649)
At 31 August 2025	15,270,176	215,383	723	9,994	137,406	15,633,682
<b>Accumulated depreciation</b>						
At 1 January 2022	11,794,477	187,407	7,606	305	–	11,989,795
Charge for the year	695,825	5,704	60	341	–	701,930
Disposal	–	(2,340)	(298)	–	–	(2,638)
At 31 December 2022	12,490,302	190,771	7,368	646	–	12,689,087
Charge for the year	636,503	4,702	106	797	–	642,108
Disposal	(4,221)	(1,906)	–	–	–	(6,127)
At 31 December 2023	13,122,584	193,567	7,474	1,443	–	13,325,068
Charge for the year	489,248	4,593	137	2,006	–	495,984
Disposal	–	(1,613)	(4,139)	–	–	(5,752)
As at 31 December 2024	13,611,832	196,547	3,472	3,449	–	13,815,300
Charge for the year	248,704	2,571	92	1,284	–	252,651
Disposal	(81,669)	(2,021)	(3,124)	–	–	(86,814)
As at 31 August 2025	13,778,867	197,097	440	4,733	–	13,981,137
<b>Net carrying amount</b>						
At 31 December 2022	2,747,065	23,139	594	1,471	32,571	2,804,840
At 31 December 2023	2,178,191	23,650	894	8,551	45,633	2,256,919
At 31 December 2024	1,733,066	19,085	540	6,545	34,386	1,793,622
At 31 August 2025	1,491,309	18,286	283	5,261	137,406	1,652,545

At 31 December 2022, 2023, 2024 and 31 August 2025, certain of the Target Company's property, plant and equipment were pledged to banks to secure the Target Company's banking facilities (note 24).

As management of the Target Company concluded there are impairment indicators for non-financial assets as at 31 December 2022, 2023, and 2024 and 31 August 2025, an impairment assessment was performed. The impairment test is based on the recoverable amount of the CGU to which the non-financial assets are allocated. The recoverable amounts of the CGU has been determined based on value-in-use calculations which use cashflow projections based on financial budgets approved by the directors of the Target Company, covering a five-year period and pre-tax discount rate.

When arriving at the key assumptions used in the value-in-use calculations, management determined the earning before income tax, finance cost, depreciation and amortisation ("EBITDA margin") based on past performance and its expectations regarding market development. The terminal growth rate used does not exceed the long-term average growth rate for the industry. The discount rate is pre-tax and reflects specific risks relating to the CGU.

Based on the assessment, the management of the Target Company assessed the recoverable amount of the CGU was higher than their carrying values at 31 December 2022, 2023, 2024 and 31 August 2025, hence no impairment loss was provided.

## 14. RIGHT-OF-USE ASSETS

	<b>Buildings</b> <i>RMB'000</i>
<b>Cost</b>	
At 1 January 2022	807,389
Addition	5,963
Early termination	(65,006)
	<hr/>
At 31 December 2022	748,346
Addition	19,755
	<hr/>
At 31 December 2023	768,101
Addition	1,136
	<hr/>
At 31 December 2024	769,237
Addition	786
	<hr/>
At 31 August 2025	770,023
	<hr/>
<b>Accumulated depreciation</b>	
At 1 January 2022	84,982
Charge for the year	84,573
Early termination	(8,311)
	<hr/>
At 31 December 2022	161,244
Charge for the year	84,955
	<hr/>
At 31 December 2023	246,239
Charge for the year	85,512
	<hr/>
At 31 December 2024	331,751
Charge for the year	57,088
	<hr/>
At 31 August 2025	388,839
	<hr/>
<b>Net carrying amount</b>	
At 31 December 2022	587,102
	<hr/>
At 31 December 2023	521,862
	<hr/>
At 31 December 2024	437,486
	<hr/>
At 31 August 2025	381,184
	<hr/>

The Target Company leases several buildings to operate its production. The leases of buildings are made for fixed periods of two to fourteen years. Lease terms are negotiated on an individual basis and contain various terms and conditions. The lease agreements do not impose any covenants. The lease of all buildings has been included in the lease liabilities (note 25).

## 15. INTANGIBLE ASSETS

	Software RMB'000	Process technology license RMB'000	Total RMB'000
<b>Cost</b>			
At 1 January 2022	23,932	1,112,862	1,136,794
Transfer from construction in progress ( <i>note 13</i> )	–	7,313	7,313
Offset by government grants ( <i>note 26</i> )	–	(24,011)	(24,011)
At 31 December 2022	23,932	1,096,164	1,120,096
Transfer from construction in progress ( <i>note 13</i> )	150	142,935	143,085
Offset by government grants ( <i>note 26</i> )	–	(332)	(332)
Derecognition	–	(622,253)	(622,253)
At 31 December 2023	24,082	616,514	640,596
Transfer from construction in progress ( <i>note 13</i> )	–	37,264	37,264
Offset by government grants ( <i>note 26</i> )	–	(608)	(608)
Derecognition	(1,114)	(147,958)	(149,072)
At 31 December 2024	22,968	505,212	528,180
Transfer from construction in progress ( <i>note 13</i> )	–	1,686	1,686
At 31 August 2025	22,968	506,898	529,866
<b>Accumulated amortisation</b>			
At 1 January 2022	23,582	921,702	945,284
Change for the period	152	94,077	94,229
At 31 December 2022	23,734	1,015,779	1,039,513
Change for the period	138	64,971	65,109
Derecognition	–	(622,253)	(622,253)
At 31 December 2023	23,872	458,497	482,369
Change for the period	92	43,011	43,103
Derecognition	(1,114)	(147,958)	(149,072)
At 31 December 2024	22,850	353,550	376,400
Change for the period	22	23,551	23,573
At 31 August 2025	22,872	377,101	399,973
<b>Net Carrying Amount</b>			
At 31 December 2022	198	80,385	80,583
At 31 December 2023	210	158,017	158,227
At 31 December 2024	118	151,662	151,780
At 31 August 2025	96	129,797	129,893

As management of the Target Company concluded there are impairment indicators for long-term assets of Shanghai Huali Microelectronics Corporation as at 31 December 2022, 2023, and 2024 and 31 August 2025. Therefore an impairment assessment was performed on the year ended 31 December 2022, 2023, and 2024 and 31 August 2025. The impairment test is based on the recoverable amount of the CGU to which the long-term assets is allocated. The key assumptions that management used in the valuation can be found in note 13.

#### 16. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (“FVOCI”)

	At 31 December		At 31 August	
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income:				
Listed equity investments	49,112	—	—	—

As at 31 December 2022, equity investments designated at fair value through other comprehensive income, represents ordinary shares of an A-share listed company, it was irrevocably designated at fair value through other comprehensive income as the Target Company considers the investment to be strategic in nature.

The Target Company disposed of the equity investment, at consideration of approximately RMB52,508,000, which was also the fair value at the date of disposal as the investment no longer meets the investment objective of the Target Company after the assessment of the political risk the investee. A gain on disposal of approximately RMB1,888,000 has been transferred to accumulated losses.

#### 17. INVENTORIES

Inventories in the financial statements of financial position comprise:

	At 31 December		At 31 August	
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	830,680	732,040	598,354	695,210
Work in progress	353,446	363,705	449,789	431,076
Finished goods	742,206	1,045,648	537,218	250,897
	1,926,332	2,141,393	1,585,361	1,377,183

The management of the Target Company determined the net realisable value of the inventories by reference to the estimated selling prices of the inventories, which takes into account a number of factors including prevailing market conditions in the PRC, estimated costs to completion, and costs necessary to make the sales.

During the period from January to August 2024, the Group recognised a reversal of previous inventory write-down, mainly due to the recoverable amount increased because these specific items were issued to production and subsequently completed as finished goods.

## APPENDIX II

## FINANCIAL INFORMATION OF THE TARGET COMPANY

### 18. TRADE AND NOTES RECEIVABLES

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	554,458	657,562	661,441	593,945
Notes receivables	—	—	10,000	242
	<u>554,458</u>	<u>657,562</u>	<u>671,441</u>	<u>594,187</u>
Impairment of trade receivables	<u>(8,737)</u>	<u>(80,309)</u>	<u>(56,609)</u>	<u>(84,316)</u>
Net carrying amount	<u>545,721</u>	<u>577,253</u>	<u>614,832</u>	<u>509,871</u>

As at 1 January 2022, the gross amount and net amount of trade and note receivables of the Target Company amounted to approximately RMB751,794,000 and RMB751,777,000 respectively.

The Target Company's trading terms with its customers are mainly on credit and the credit period is generally 30 to 45 days. There is no significant concentration of credit risk. The Target Company does not hold any collateral or other credit enhancements over its trade and notes receivable balances. Trade and notes receivables are non-interest-bearing.

An ageing analysis of the trade and notes receivables, based on the invoice date and net of loss allowance, is as follows:

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	401,164	567,946	606,040	507,430
3 to 6 months	135,902	9,307	8,792	2,441
Over 6 months but within one year	<u>8,655</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>545,721</u>	<u>577,253</u>	<u>614,832</u>	<u>509,871</u>

The movements in loss allowance for impairment of trade and notes receivables are as follows:

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	17	8,737	80,309	56,609
Impairment losses/(reversal of impairment), net	<u>8,720</u>	<u>71,572</u>	<u>(23,700)</u>	<u>27,707</u>
As at 31 December	<u>8,737</u>	<u>80,309</u>	<u>56,609</u>	<u>84,316</u>



The Target Company applies a simplified approach in calculating ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss for all trade and notes receivables. To measure the expected credit losses, trade and notes receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses have also incorporated forward-looking information. The expected credit loss rates for trade and notes receivables that were not yet past due or aged within 3 months are minimal.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Target Company's trade receivables using a provision matrix:

The credit quality of the trade and notes receivables are as follows:

	<b>Current</b> <i>RMB'000</i>	<b>Less than 3 months</b> <i>RMB'000</i>	<b>3 to 6 months</b> <i>RMB'000</i>	<b>Over 6 months</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>As at 31 December 2022</b>					
Expected credit loss rate	0.04%	0.53%	16.27%	–	1.58%
Gross carrying amount	355,262	151,297	47,899	–	554,458
Expected credit losses	137	806	7,794	–	8,737
<b>As at 31 December 2023</b>					
Expected credit loss rate	0.12%	1.06%	16.27%	100.00%	12.21%
Gross carrying amount	455,620	120,852	3,128	77,962	657,562
Expected credit losses	557	1,281	509	77,962	80,309
<b>As at 31 December 2024</b>					
Expected credit loss rate	0.44%	3.43%	32.26%	100.00%	8.43%
Gross carrying amount	608,688	6,153	4,238	52,362	671,441
Expected credit losses	2,669	211	1,367	52,362	56,609
<b>As at 31 August 2025</b>					
Expected credit loss rate	0.88%	6.16%	42.79%	100.00%	14.20%
Gross carrying amount	472,251	44,217	521	77,198	594,187
Expected credit losses	4,170	2,725	223	77,198	84,316

#### 19 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS AND LONG-TERM PREPAYMENTS TO THIRD PARTIES

	<b>At 31 December</b>			<b>At 31 August</b>
	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	28,538	28,288	43,209	1,424
Prepayments and other assets	9,508	640	813	6,916
Value-added input tax	23,090	4,581	107,056	9,846
	61,136	33,509	151,078	18,186

	At 31 December		At 31 August	
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Less: prepayment paid for property, plant and equipment classified as non-current assets	(6,291)	–	–	(5,348)
Current portion	54,845	33,509	151,078	12,838

The Target Company applies a general approach in calculating ECLs for other receivables. Other receivables related to debtors that are in default are classified as Stage 3 and the lifetime ECL rate was estimated to be 100% based on historical credit loss experience. The remaining other receivables are classified as Stage 1 without any significant increase in credit risk tracked since initial recognition.

At 31 December 2022, 2023, and 2024 and 31 August 2025, other receivables mainly include the interest receivables of approximately RMB28,302,000, RMB27,673,000, RMB42,731,000 and RMB1,053,000 respectively.

## 20. DUE FROM RELATED PARTIES

	At 31 December		At 31 August	
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Trade in nature:</b>				
Trade receivables	97,490	118,972	35,077	118,085
Prepayments, deposits and other receivables	5,027	66,293	55,465	72,818
Due from related parties	102,517	185,265	90,542	190,903
Less: prepayment for property, plant and equipment classified as non-current assets	(4,632)	(58,273)	(55,461)	(67,436)
Current portion	97,885	126,992	35,081	123,467
Impairment of amounts due from related parties	(279)	(494)	(3,999)	(3,731)
Net carrying amount	97,606	126,498	31,082	119,736

Apart from trade and notes receivables, all the carrying amounts of financial assets at amortised cost, applying the general approach under HKFRS 9, are classified as Stage 1 in terms of ECLs as at 31 December 2022, 2023, 2024 and 31 August 2025.

As at 1 January 2022, the gross amount and net amount of trade receivables from related parties of the Target Company amounted to approximately RMB24,200,000.

## APPENDIX II

## FINANCIAL INFORMATION OF THE TARGET COMPANY

The trading terms with its related parties are mainly on credit and the credit period is generally 30 to 45 days. An ageing analysis of the trade receivables from related parties, based on the invoice date and net of loss allowance, is as follows:

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	97,211	118,972	24,923	113,031
3 to 6 months	–	–	37	1,323
Over 6 months but within one year	–	–	6,118	–
Total	97,211	118,972	31,078	114,354

The movements in loss allowance for impairment of amounts due from related parties are as follows:

	Year ended 31 December			Eight months ended
	2022	2023	2024	31 August
	RMB'000	RMB'000	RMB'000	2025
				RMB'000
At 1 January	–	279	494	3,999
Impairment losses, net	279	215	3,505	(268)
As at 31 December/31 August	279	494	3,999	3,731

The credit quality of amounts due from related parties is as follows:

	Current	Less than 3 months	3 to 6 months	Over 6 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 31 December 2022</b>					
Expected credit loss rate	0.04%	0.53%	n/a	n/a	0.29%
Gross carrying amount	48,646	48,844	–	–	97,490
Expected credit losses	19	260	–	–	279
<b>As at 31 December 2023</b>					
Expected credit loss rate	0.12%	1.06%	n/a	n/a	0.42%
Gross carrying amount	81,273	37,699	–	–	118,972
Expected credit losses	95	399	–	–	494
<b>As at 31 December 2024</b>					
Expected credit loss rate	0.44%	3.44%	32.25%	100.00%	11.40%
Gross carrying amount	10,157	15,378	9,029	513	35,077
Expected credit losses	45	529	2,912	513	3,999
<b>As at 31 August 2025</b>					
Expected credit loss rate	0.88%	6.16%	42.69%	n/a	3.16%
Gross carrying amount	76,157	40,628	1,300	–	118,085
Expected credit losses	672	2,504	555	–	3,731

**21. RESTRICTED BANK DEPOSITS, PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS**

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	473,668	924,471	1,052	2,945,469
Time deposits	3,412,603	2,101,416	1,437,138	57,000
Subtotal	3,886,271	3,025,887	1,438,190	3,002,469
Less:				
Restricted bank deposits	(1,000)	(1,000)	(1,012)	(1,012)
Time deposits:				
More than three months to maturity when placed	(1,950,088)	(2,101,416)	(1,437,138)	(7,000)
Cash and cash equivalents	1,935,183	923,471	40	2,994,457

At 31 December 2022, 2023 and 2024 and 31 August 2025, the Target Company's cash and bank balances and time deposits denominated in RMB amounted to approximately RMB1,706,372,000 RMB1,209,411,000 RMB1,437,140,000 and RMB540,670,000 in aggregate.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for period of seven days, depending on the immediate cash requirements of the Target Company and earn interest at the respective short term time deposit rates. Time deposits which are more than three months to maturity when placed are made for varying periods of between three months and one year and earn interest at the respective deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

**22. TRADE PAYABLES**

An aging analysis of the trade payables of the Target Company as at the end of the reporting period, based on the invoice date, is as follows:

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	470,863	313,177	450,025	370,401
31 to 60 days	295,826	116,150	189,988	165,192
61 to 90 days	75,106	23,455	42,565	59,258
91 to 120 days	45,871	14,869	11,672	28,213
Over 120 days	32,517	34,621	21,181	15,390
	920,183	502,272	715,431	638,454

The trade payables are unsecured, non-interest-bearing and are normally settled on terms of 30 to 60 days.

## 23. OTHER PAYABLES AND ACCRUALS

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals (note (a))	100,989	60,074	95,158	75,699
Contract liabilities (note (b))	71,512	64,132	119,943	122,937
Payroll and bonus payables	166,856	100,028	133,904	6,381
Interest payables	1,155	1,268	1,743	14,615
Other tax payables	7,337	6,495	10,552	7,712
Output VAT Payables	8,863	7,935	13,190	12,625
	<u>356,712</u>	<u>239,932</u>	<u>374,490</u>	<u>239,969</u>

## Notes:

- (a) Other payables are unsecured, non-interest-bearing and repayable on demand.
- (b) Movement of contract liabilities is as follows:

	Year ended 31 December			Eight months ended
	2022	2023	2024	31 August
	RMB'000	RMB'000	RMB'000	2025
				RMB'000
As 1 January	97,852	71,512	64,132	119,943
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	(75,814)	(49,842)	(41,872)	(114,745)
Revenue recognised as a result of cash received during the year	(191,554)	(79,550)	(267,891)	(350,792)
Decrease in contract liabilities as a result of refund to customers	–	–	(247)	(247)
Increase in contract liabilities as a result of advance payments from customers during the year/period	<u>241,028</u>	<u>122,012</u>	<u>365,821</u>	<u>468,778</u>
At 31 December/31 August	<u>71,512</u>	<u>64,132</u>	<u>119,943</u>	<u>122,937</u>

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The amount of transaction price allocated to the performance obligations that are unsatisfied at the end of each reporting period is as follows:

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Expected timing of revenue recognition:</b>				
Within one year	62,331	55,432	113,044	117,740
In the second year	9,181	8,700	6,899	5,197
<b>Total</b>	<u>71,512</u>	<u>64,132</u>	<u>119,943</u>	<u>122,937</u>

### 24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Current RMB'000	Non-current RMB'000	Total RMB'000
<b>Long term bank borrowings</b>					
<b>At 31 December 2022</b>					
Secured	1.20	2026-2030	700,000	2,200,000	2,900,000
Unsecured	2.00	2032	–	150,000	150,000
			<u>700,000</u>	<u>2,350,000</u>	<u>3,050,000</u>
<b>At 31 December 2023</b>					
Secured	1.20-3.00	2026-2031	700,000	1,630,000	2,330,000
Unsecured	2.00	2032	36,875	553,125	590,000
			<u>736,875</u>	<u>2,183,125</u>	<u>2,920,000</u>
<b>At 31 December 2024</b>					
Secured	1.20-3.00	2026-2031	700,000	1,760,000	2,460,000
Unsecured	2.00-2.54	2029-2032	102,000	668,000	770,000
			<u>802,000</u>	<u>2,428,000</u>	<u>3,230,000</u>
<b>At 31 August 2025</b>					
Secured	1.20-3.00	2026-2031	700,000	1,410,000	2,110,000
Unsecured	2.00-2.51	2029-2032	140,200	1,349,788	1,489,988
			<u>840,200</u>	<u>2,759,788</u>	<u>3,599,988</u>
<b>Long-term other borrowings</b>					
<b>At 31 August 2025</b>					
Unsecured	0.00	2028	–	137,550	137,550
			<u>–</u>	<u>137,550</u>	<u>137,550</u>

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	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Bank borrowings repayable:</b>				
Within one year	700,000	736,875	802,000	840,200
In the second year	750,000	773,750	493,000	311,573
In the third to fifth year, inclusive	1,300,000	852,240	1,240,000	2,138,215
After five years	300,000	557,135	695,000	310,000
<b>Total</b>	<u>3,050,000</u>	<u>2,920,000</u>	<u>3,230,000</u>	<u>3,599,988</u>
<b>Other borrowings repayable:</b>				
In the third to fifth year, inclusive	—	—	—	137,550
<b>Total</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>137,550</u>

As at 31 December 2022, 2023 and 2024 and 31 August 2025, certain of the Target Company's bank loans were secured by pledges of the Target Company's property, plant and equipment with carrying amount as follows:

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	—	147,468	106,025	980,605

As at 31 December 2022, 2023 and 2024, bank borrowings amounting to RMB2,900 million, RMB2,200 million and RMB1,500 million are secured by 50% of the shares of Shanghai Huali Integrated Circuit Corporation ("Huali Integrated Circuit"), which is controlled by the Huahong Group.

Other borrowings from a related party as at 31 August 2025 included RMB137.55 million from Huahong Group. Huahong Group is an 66.54% shareholder of the Target Company. The loan interest free, unsecured and repayable on demand.

As at 31 December 2022, 2023, 2024 and 31 August 2025, the breakdown of the Target Company's bank and other borrowings by interest rate type was as follows:

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Bank and other borrowings:</b>				
Fixed rate	3,050,000	2,330,000	2,460,000	2,247,550
Variable rate	—	590,000	770,000	1,489,988
<b>Total</b>	<u>3,050,000</u>	<u>2,920,000</u>	<u>3,230,000</u>	<u>3,737,538</u>

## 25. LEASE LIABILITIES

	Year ended 31 December			Eight months ended 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	722,471	603,049	550,466	473,516
Additions	5,963	19,755	1,136	786
Early termination	(57,735)	–	–	–
Accretion of interest	31,501	27,040	23,443	13,213
Payments	(99,151)	(99,378)	(101,529)	(2,452)
Carrying amount at 31 December/ 31 August	603,049	550,466	473,516	485,063
The maturity profile of lease liabilities is as follows:				
Within one year	95,575	102,163	102,997	201,054
In the second year	96,682	102,062	100,342	101,433
In the third to fifth years, inclusive	294,687	303,696	307,538	223,756
After five years	218,223	120,146	16,977	–
Total undiscounted lease liabilities	705,167	628,067	527,854	526,243
Discount amount	(102,118)	(77,601)	(54,338)	(41,180)
Total present value of lease liabilities	603,049	550,466	473,516	485,063
Current portion	69,303	78,765	83,483	184,256
Non-current portion	533,746	471,701	390,033	300,807
Analysed into:				
Within one year	69,303	78,765	83,483	184,256
In the second year	73,928	82,592	84,942	88,867
In the third to fifth years, inclusive	249,736	270,766	288,252	211,940
After five years	210,082	118,343	16,839	–
Total present value of lease liabilities	603,049	550,466	473,516	485,063

The weighted average incremental borrowing rates applied to lease liabilities range from 4.35% to 4.9% per annum. All leases are entered at fixed prices. The Target Company does not face significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Target Company's treasury function.

At 31 December 2022, 2023, and 2024 and 31 August 2025, certain building leases of the Target Company were provided by the related party (note 28).



## 26. GOVERNMENT GRANTS

	Year ended 31 December			Eight months ended
	2022	2023	2024	31 August
	RMB'000	RMB'000	RMB'000	2025
				RMB'000
At 1 January	725,306	14,517	23,580	16,110
Additions	80,463	78,658	11,260	–
Released to offsetting:				
– research and development costs	(154,793)	(47,662)	(13,065)	–
– other income	(353,569)	(1,200)	–	–
– reduction to property, plant and equipment ( <i>note 13</i> )	(177,517)	(13,456)	(5,057)	–
– reduction to intangible assets ( <i>note 15</i> )	(24,011)	(332)	(608)	–
– administrative expenses	(5,083)	–	–	–
– cost of sales	(76,279)	(6,945)	–	–
As at 31 December/31 August	14,517	23,580	16,110	16,110

The Target Company received government funding for several government-sponsored projects focusing on the research and development of advanced technologies.

## 27. SHARE CAPITAL AND RESERVES

## (a) Share Capital

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,870,646	1,870,646	1,870,646	1,873,648
Capital injection	–	–	3,002	162,544
Issued and fully paid	1,870,646	1,870,646	1,873,648	2,036,192

Pursuant to the capital increase agreement, during the year ended 31 December 2024, the shareholders of the Target Company had made additional capital contribution of RMB3,002,000. During the period ended 31 August 2025, the shareholder of the Target Company had made additional capital contribution of RMB218,264,000, based on the assessed value per RMB1 of registered capital, RMB162,544,000 of the total capital contribution was credited to share capital, and the remaining RMB55,720,000 was credited to capital reserve.

## (b) Capital reserve

Capital reserves represents the capital contribution from shareholders.

## 28. RELATED PARTY TRANSACTIONS AND BALANCES

## (a) Name and relationship

Name of related party	Relationship with the Target Company
– Shanghai Huahong (GROUP) Co., Ltd. (“Huahong Group”) 上海華虹(集團)有限公司(“華虹集團”)	Shareholder holding 66.54% equity interest of the Company
– Shanghai Integrated Circuit Industry Investment Fund Co., Ltd. (“Shanghai Jicheng”) 上海集成電路產業投資基金股份有限公司(“上海集成”)	Shareholder holding 16.46% equity interest of the Company
– Shanghai Huahong Grace Semiconductor Manufacturing Corporation (“Grace Semiconductor”) 上海華虹宏力半導體製造有限公司(“宏力半導體”)	Shareholder holding 2.62% equity interest of the Company
– National IC Industry Investment Fund Phase II Co., Ltd. (“National IC”) 國家集成電路產業投資基金二期股份有限公司(“國集電投”)	Shareholder holding 10.2% equity interest of the Company
– Shanghai Guotou Pioneer Integrated Circuit Private Equity Investment Fund Partnership Enterprise (Limited Partnership) (“SH National IC”) 上海國投先導集成電路私募投資基金合夥企業(有限合夥)(“上國投集電”)	Shareholder holding 4.18% equity interest of the Company
– Huali Integrated Circuit 上海華力集成電路製造有限公司(“華力集電”)	Subsidiary of Huahong Group
– Company B* 公司B	Subsidiary of Huahong Group
– Shanghai Huahong Zealcore Electronics Technology Co., Ltd. (“Huahong Zealcore”) 上海華虹摯芯電子科技有限公司(“華虹摯芯”)	Subsidiary of Huahong Group
– Zhixin Electronics (Shanghai) Co., Ltd. (“Zhixin SH”) 摯芯電子(上海)有限公司(“摯芯上海”)	Subsidiary of Huahong Group
– Shanghai Huahong HONGRI Electronics Co., Ltd. (“Huahong HONGRI”) 上海華虹虹日電子有限公司(“華虹虹日”)	Subsidiary of Huahong Group
– Shanghai Huahong Jitong Smart System Co., Ltd. (“Huahong Jitong”) 上海華虹計通智能系統股份有限公司(“華虹計通”)	Subsidiary of Huahong Group
– Hua Hong Semiconductor Limited (“Hua Hong Semiconductor”) 華虹半導體有限公司(“華虹半導體”)	Subsidiary of Huahong Group
– Hua Hong Semiconductor Manufacturing (Wuxi) Co., Ltd. (“Huahong SM Wuxi”) 華虹半導體製造(無錫)有限公司(“華虹半導體製造”)	Subsidiary of Huahong Group
– Huahong semiconductor (Wuxi) Limited (“Huahong semiconductor Wuxi”) 華虹半導體(無錫)有限公司(“華虹半導體無錫”)	Subsidiary of Huahong Group
– Shanghai Huahong Zhilian Information Technology Co., Ltd. (“Huahong Zhilian”) 上海華虹智聯信息科技有限公司(“華虹智聯”)	Subsidiary of Huahong Group
– Shanghai Huajin Property Management Co., Ltd. (“Huajin”) 上海華錦物業管理有限公司(“Huajin”)	Subsidiary of Huahong Group
– Huahong Real Estate (Wuxi) Co., Ltd. (“Huahong Real Estate”)	Subsidiary of Huahong Group
– Global Synergy Technology Limited (“Global Synergy”)	Subsidiary of Huahong Group
– HHGrace Semiconductor USA, Inc. (“HHGrace USA”)	Subsidiary of Huahong Group

Name of related party	Relationship with the Target Company
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– HHGrace Semiconductor Japan Co., Ltd. (“HHGrace JPN”)	Subsidiary of Huahong Group
– Shanghai Hua Hong International, Inc (“Huahong International”)	Subsidiary of Huahong Group
– Company A* 公司A	Subsidiary of Huahong Group

\* Pursuant to the laws applicable to the Target Company’s principal place of business, the disclosure of information in respect of such related party is exempted with the approval of the regulatory authority of the place where the Target Company is located, by reason of such information involving state secrets.

**(b) Related party transactions**

In addition to the transactions/information disclosed elsewhere in the Historical Financial Information, during the Relevant Periods, the Target Company had the following transactions with related parties:

Name of related party	Year ended 31 December			Eight months ended 31 August	
	2022	2023	2024	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
<b>Sales of goods to related parties (Note(i))</b>					
Huali Integrated Circuit	195,642	104,652	271,168	242,482	114,689
Company B	–	–	–	–	2,097
Huahong Zealcore	5,190	–	–	–	–
Zhixin SH	–	3,078	700	700	–
<b>Technical development service income to related parties (Note(ii))</b>					
Grace Semiconductor	–	121,360	–	–	–
Company B	–	–	471,000	94,200	–
<b>Management service fee charged to related parties (Note(iii))</b>					
Huali Integrated Circuit	101,693	26,123	15,160	8,817	12,589
Company B	–	–	5,382	3,250	4,007
<b>Purchase of goods from related parties (Note(iv))</b>					
Huali Integrated Circuit	373,332	141,986	278,583	–	194,408
Huahong HONGRI	226,849	29,496	38,476	17,413	12,154
Company B	–	–	128	–	5,487
Huahong Zealcore	676	1,305	1,622	1,183	742
Huahong Zhilian	–	2,900	–	–	–
Zhixin SH	–	–	14	–	104

Name of related party	Year ended 31 December			Eight months ended 31 August	
	2022 RMB'000	2023 RMB'000	2024 RMB'000	2024 RMB'000 (unaudited)	2025 RMB'000
<b>Rental income from related parties (Note(v))</b>					
Huali Integrated Circuit	560	516	571	371	371
Company B	—	—	—	—	910
<b>Interest expense charged by a related party (Note(vi))</b>					
Grace Semiconductor	29,563	26,787	23,250	15,649	13,152
<b>Service fees charged by related parties (Note(vii))</b>					
Huali Integrated Circuit	63,408	27,846	31,563	—	61,748
Huajin	957	190	—	—	—
Company B	—	—	72	—	29
<b>Expense paid on behalf of a related party (Note(viii))</b>					
Company B	—	7,542	—	—	—
Grace Semiconductor	221,144	205,229	203,583	135,722	137,392
Huajin	—	10	—	—	—

*Notes:*

- (i) The sales of goods to related parties were made according to the prices and terms agreed between the related parties.
- (ii) The technical development service income from related parties was made according to the prices and terms offered by the related party.
- (iii) The management service fee charged to related parties was made according to the prices and terms offered by the related party.
- (iv) The purchases of goods from related parties were made according to the prices and terms offered by the related parties.
- (v) The rental income received from a related party was based on the prices and terms agreed between the related parties.
- (vi) The Target Company entered into leases in respect of certain factory buildings. At 31 December 2022, 2023 and 2024 and 31 August 2025, the balances of those right-of-use assets and lease liabilities were RMB587,063,000, RMB516,131,000, RMB434,418,000, RMB379,870,000 and RMB603,009,000, RMB544,361,000, RMB470,784,000, RMB483,671,000, respectively.
- (vii) The service fees charged by related parties were based on the prices and terms agreed between the related parties.
- (viii) The expense paid on behalf of a related party was made according to the prices and terms offered by the related parties.

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### (c) Outstanding balances with related parties

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Amount due from related parties</b>				
Company B	–	8,146	1,186	72,512
Grace Semiconductor	5,027	68,497	3,876	3,811
Huali Integrated Circuit	97,211	105,082	81,481	110,849
Zhixin Shanghai	–	3,046	–	–
	<u>102,238</u>	<u>184,771</u>	<u>86,543</u>	<u>187,172</u>
<b>Amount due to related parties</b>				
Global Synergy	139	69	–	–
Company B	–	–	162	22
Grace Semiconductor	74,044	47,002	66,981	46,556
Huahong HONGRI	71,369	8,071	15,474	220
Huahong Jitong	–	–	–	–
Huahong Zealcore	279	513	477	510
Huali Integrated Circuit	45,130	77,049	92,818	90,792
Zhixin Shanghai	–	–	13	100
Company A (Note)	3,797,115	3,785,909	–	–
Huahong Zhilian	–	1,395	–	–
Huajin	284	–	–	–
	<u>3,988,360</u>	<u>3,920,008</u>	<u>175,925</u>	<u>138,200</u>

The Target Company did not have any non-trade in nature balances with related parties.

*Note:* In accordance with the spin-off agreement, on 30 November 2024, the benchmark date of the demerger, the Target Company allocates cash balance of RMB3,863,400,000 to Company A. The cash balance is legally owned and controlled by the Target Company and will only be transferred to Company A after the spin-off date. As of 31 December 2022 and 31 December 2023, the Target Company recognized the cash division commitment as amounts due to related parties.

### (d) Other borrowing from a related party

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Huahong Group (Note 24)	–	–	–	137,550

## (e) Compensation of key management personnel of the Target Company

Key management personnel comprises the directors and other members of the Target Company. The remuneration of directors and other members of the Target Company during the Relevant Periods were as follows:

	Year ended 31 December			Eight months ended 31 August	
	2022 RMB'000	2023 RMB'000	2024 RMB'000	2024 RMB'000 (unaudited)	2025 RMB'000
Salaries, allowances, discretionary bonus and other benefits in kind	36,810	27,152	34,722	12,539	13,275
Contributions to defined contribution plans	1,744	1,740	1,805	1,178	1,250
Equity-settled share option expense	9,577	—	—	—	—
	<u>48,131</u>	<u>28,892</u>	<u>36,527</u>	<u>13,717</u>	<u>14,525</u>

## 29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

## Financial assets – at amortised cost

	At 31 December		At 31 August	
	2022 RMB'000	2023 RMB'000	2024 RMB'000	2025 RMB'000
Trade and notes receivables	545,721	577,253	614,832	509,871
Financial assets included in prepayments, other receivables and other assets (note 19)	28,538	28,288	43,209	1,424
Due from related parties	97,606	126,498	31,082	119,736
Restricted bank deposits	1,000	1,000	1,012	1,012
Pledged bank deposits	1,950,088	2,101,416	1,437,138	7,000
Cash and cash equivalents	<u>1,935,183</u>	<u>923,471</u>	<u>40</u>	<u>2,994,457</u>
<b>Total</b>	<u>4,558,136</u>	<u>3,757,926</u>	<u>2,127,313</u>	<u>3,633,500</u>

## Financial assets – at fair value through other comprehensive income without recycling to profit or loss

	At 31 December		At 31 August	
	2022 RMB'000	2023 RMB'000	2024 RMB'000	2025 RMB'000
Equity investments designated at fair value through other comprehensive income	<u>49,112</u>	<u>—</u>	<u>—</u>	<u>—</u>

## Financial liabilities – at amortised cost

	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	920,183	502,272	715,431	638,454
Financial liabilities included in other payables and accruals ( <i>note 23</i> )*	102,144	61,342	96,901	90,314
Interest-bearing bank and other borrowings	3,050,000	2,920,000	3,230,000	3,737,538
Due to related parties	3,988,360	3,920,008	175,925	138,200
<b>Total</b>	<b>8,060,687</b>	<b>7,403,622</b>	<b>4,218,257</b>	<b>4,604,506</b>

\* Including other payables and accruals and interest payables in note 23.

## 30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Some of the Target Company's financial instruments were measured at fair value as follows:

	Carrying amounts and fair values			
	At 31 December			At 31 August
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	49,112	–	–	–

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposits, pledged bank deposits, trade and notes receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals, amounts due from/to related parties, the current portion of interest-bearing bank and other borrowings and lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Target Company's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Target Company's own non-performance risk for the non-current portion of interest-bearing bank and other borrowings as at 31 December 2022, 2023, 2024 and 31 August 2025 were assessed to be insignificant.

**Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Target Company's financial instruments:

*Financial assets measured at fair value*

	Quoted prices in active markets Level 1 RMB'000	Quoted prices in active markets Level 2 RMB'000	Quoted prices in active markets Level 3 RMB'000
<b>31 December 2022</b>			
Equity investments designated at fair value through other comprehensive income	49,112	—	—

During the years ended 31 December 2022, 2023, 2024, and the period ended 31 August 2025, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities. The Target Company's policy is to recognise transfers between levels of fair value hierarchy as at the end of each reporting period in which they occur.

**31. NOTES TO THE STATEMENT OF CASH FLOWS****(a) Major non-cash transactions**

During the year ended 31 December 2022, 2023, 2024 and the period ended 31 August 2025, the Target Company had non-cash additions to right-of-use assets or lease liabilities of RMB156,000, RMB19,755,000, RMB1,136,00 and RMB786,000 in respect of lease arrangements for buildings.

During the year ended 31 December 2022, 2023, 2024 and the period ended 31 August 2025, the Target Company had non-cash transfer from property, plant and equipment to intangible assets of RMB7,313,000, RMB143,085,000, RMB37,264,000 and RMB1,686,000 respectively.

During the year ended 31 December 2022, 2023, 2024 and the period ended 31 August 2025, the Target Company had non-cash transfer from government grants to property, plant and equipment of RMB177,517,000, RMB13,456,000, RMB5,057,000 and Nil respectively.

During the year ended 31 December 2022, 2023, 2024 and the period ended 31 August 2025, the Target Company had non-cash transfer from government grants to intangible assets of RMB24,011,000, RMB332,000, RMB608,000 and Nil respectively.

**(b) Changes in liabilities arising from financing activities are as follows:**

	Interest- bearing borrowings RMB'000	Interest Payables RMB'000	Lease liabilities RMB'000	Total RMB'000
<b>Year ended 31 December 2022</b>				
At 1 January 2022	3,400,000	1,247	722,471	4,123,718
Changes from financing cash flows	(350,000)	(40,087)	(93,344)	(483,431)
Interest expense	—	39,995	31,501	71,496
New lease	—	—	156	156
Early termination	—	—	(57,735)	(57,735)
At 31 December 2022	3,050,000	1,155	603,049	3,654,204



## APPENDIX II

## FINANCIAL INFORMATION OF THE TARGET COMPANY

	Interest- bearing borrowings <i>RMB'000</i>	Interest Payables <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 31 December 2023</b>				
At 1 January 2023	3,050,000	1,155	603,049	3,654,204
Changes from financing cash flows	(130,000)	(43,486)	(99,378)	(272,864)
Interest expense	–	43,599	27,040	70,639
New lease	–	–	19,755	19,755
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2023	<u>2,920,000</u>	<u>1,268</u>	<u>550,466</u>	<u>3,471,734</u>
<b>As at 31 December 2024</b>				
At 1 January 2024	2,920,000	1,268	550,466	3,471,734
Changes from financing cash flows	310,000	(50,946)	(100,301)	158,753
Interest expense	–	51,421	22,215	73,636
New lease	–	–	1,136	1,136
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2024	<u>3,230,000</u>	<u>1,743</u>	<u>473,516</u>	<u>3,705,259</u>
<b>As at 31 August 2025</b>				
At 1 January 2025	3,230,000	1,743	473,516	3,705,259
Changes from financing cash flows	507,538	(32,241)	(2,492)	472,805
Interest expense	–	45,113	13,253	58,366
New lease	–	–	786	786
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 August 2025	<u>3,737,538</u>	<u>14,615</u>	<u>485,063</u>	<u>4,237,216</u>

**(c) Total cash outflow for leases**

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2022	2023	2024	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Within operating activities	1,967	2,469	2,590	1,480	2,051
Within financing activities	<u>93,344</u>	<u>99,378</u>	<u>100,301</u>	<u>2,788</u>	<u>2,492</u>
	<u>95,311</u>	<u>101,847</u>	<u>102,891</u>	<u>4,268</u>	<u>4,543</u>

**32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Target Company's principal financial instruments comprise bank and other borrowings, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities, such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Target Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are recognised below.

**Interest rate risk**

The Target Company's exposure to the risk of changes in market interest rates relates primarily to the Target Company's interest-bearing bank and other borrowings with a floating and fixed interest rate. The Target Company's policy is to manage its interest cost using a mix of fixed and variable rate debts.

As at 31 December 2022, 2023, 2024 and 31 August 2025, if the interest rates had been 100 basis points higher/lower with all other variables held constant, profit/loss for the year/period would have been RMB1,749,000, RMB3,334,000, RMB16,990,000 and RMB9,151,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate bank and other borrowings.

**Foreign currency risk**

The Target Company has transactional currency expenditures. These exposures arise from sales or purchases in US\$ other than the Target Company's functional currency, which is RMB. During the year ended 31 December 2022, 2023, 2024, and period ended 31 August 2025, approximately 30%, 16%, 30% and 29% of the Target Company's sales were denominated in currencies other than the functional currency of the Target Company, whilst costs of sales were denominated in the Target Company's functional currency.

The following table details the Target company's exposure at the end of the reporting period to currency risk arising from monetary assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year/period end date.

	2022	At 31 December 2023	2024	At 31 August 2025
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Monetary assets denominated in:</b>				
– <b>United States Dollar</b>				
Trade and other receivables	148,856	388,750	350,141	305,868
Deposits with banks	1,950,088	1,593,608	1,132,238	2,460,747
Cash and cash equivalents	228,772	221,830	3	3
– <b>Euro</b>				
Cash and cash equivalents	11	12	11	12
– <b>Japanese Yen</b>				
Cash and cash equivalents	27	26	24	25
<b>Total</b>	<b>2,327,754</b>	<b>2,204,226</b>	<b>1,482,417</b>	<b>2,766,655</b>
<b>Monetary liabilities denominated in:</b>				
– <b>United States Dollar</b>				
Trade and other payables	(539,216)	(159,076)	(259,656)	(193,705)
– <b>Euro</b>				
Trade and other payables	(4,940)	(3,188)	(3,586)	(5,045)
– <b>Japanese Yen</b>				
Trade and other payables	(54,216)	(27,375)	(57,896)	(22,700)
<b>Total</b>	<b>(598,372)</b>	<b>(189,639)</b>	<b>(321,138)</b>	<b>(221,450)</b>

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rates, with all other variables held constant, of the Target Company's profit/loss before tax for the year/period (arising from USD, EUR and JPY denominated financial instruments):

	<b>Increase/ (decrease) in RMB rate</b>	<b>Increase/ (decrease) in profit/loss before tax</b>
<b>Year ended 31 December 2022</b>		
If RMB weakens against USD	5%	89,425
If RMB strengthens against USD	(5%)	(89,425)
<hr/>		
If RMB weakens against EUR	5%	248
If RMB strengthens against EUR	(5%)	(248)
<hr/>		
If RMB weakens against JPY	5%	2,712
If RMB strengthens against JPY	(5%)	(2,712)
<hr/>		
<b>Year ended 31 December 2023</b>		
If RMB weakens against USD	5%	102,256
If RMB strengthens against USD	(5%)	(102,256)
<hr/>		
If RMB weakens against EUR	5%	160
If RMB strengthens against EUR	(5%)	(160)
<hr/>		
If RMB weakens against JPY	5%	1,370
If RMB strengthens against JPY	(5%)	(1,370)
<hr/>		
<b>Year ended 31 December 2024</b>		
If RMB weakens against USD	5%	61,136
If RMB strengthens against USD	(5%)	(61,136)
<hr/>		
If RMB weakens against EUR	5%	180
If RMB strengthens against EUR	(5%)	(180)
<hr/>		
If RMB weakens against JPY	5%	2,896
If RMB strengthens against JPY	(5%)	(2,896)
<hr/>		
<b>Year ended 31 August 2025</b>		
If RMB weakens against USD	5%	128,646
If RMB strengthens against USD	(5%)	(128,646)
<hr/>		
If RMB weakens against EUR	5%	253
If RMB strengthens against EUR	(5%)	(253)
<hr/>		
If RMB weakens against JPY	5%	1,136
If RMB strengthens against JPY	(5%)	(1,136)
<hr/>		

**Credit risk**

Credit risk is the risk that a counterparty cannot meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Target Company is exposed to credit risk from its operating activities (primarily trade and notes receivables).

The Target Company trades only with recognised and credit worthy third parties and related parties. It is the Target Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant.

The Target Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target company has significant exposure to individual customers. At the end of each reporting date, the Target company's trade receivables were predominantly concentrated with its largest and top five customers, with the specific proportions shown in the table below:

	At 31 December		At 31 August	
	2022	2023	2024	2025
	%	%	%	%
Largest Customer	–	19	26	18
Top Five Customers	50	55	67	51

The carrying amounts of cash and cash equivalents, trade and notes receivables, financial assets included in prepayments other receivables and other assets, amounts due from related parties and pledged deposits included in the statement of financial position represent the Target Company's maximum exposure to credit risk in relation to its financial assets. The Target Company has no other financial assets which carry significant exposure to credit risk.

Further qualitative and quantitative information regarding trade receivables, for which the Target Company applies the simplified approach in calculating ECLs under HKFRS 9, is disclosed in note 18 to the financial statements.

Apart from trade and notes receivables, all the carrying amounts of financial assets at amortised cost, applying the general approach under HKFRS 9, are classified as Stage 1 in terms of ECLs as at 31 December 2022, 2023, 2024 and 31 August 2025.

**Liquidity risk**

The Target Company's policy is to monitor regularly the current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The maturity profile of the Target Company's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>31 December 2022</b>						
Interest-bearing bank and other borrowings	–	9,321	726,383	2,107,212	306,270	3,149,186
Lease liabilities	–	94,251	1,324	391,369	218,223	705,167
Trade payables	920,183	–	–	–	–	920,183
Financial liabilities included in other payables and accruals	102,144	–	–	–	–	102,144

## APPENDIX II

## FINANCIAL INFORMATION OF THE TARGET COMPANY

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Amounts due to related parties	3,988,360	–	–	–	–	3,988,360
<b>Total</b>	<b>5,010,687</b>	<b>103,572</b>	<b>727,707</b>	<b>2,498,581</b>	<b>524,493</b>	<b>8,865,040</b>
<b>31 December 2023</b>						
Interest-bearing bank and other borrowings	–	11,381	769,491	1,721,696	578,811	3,081,379
Lease liabilities	–	97,312	4,851	405,758	120,146	628,067
Trade payables	502,272	–	–	–	–	502,272
Financial liabilities included in other payables and accruals	61,342	–	–	–	–	61,342
Amounts due to related parties	3,920,008	–	–	–	–	3,920,008
<b>Total</b>	<b>4,483,622</b>	<b>108,693</b>	<b>774,342</b>	<b>2,127,454</b>	<b>698,957</b>	<b>8,193,068</b>
<b>31 December 2024</b>						
Interest-bearing bank and other borrowings	–	16,903	850,515	1,895,687	712,700	3,475,805
Lease liabilities	–	98,094	4,903	407,880	16,977	527,854
Trade payables	715,431	–	–	–	–	715,431
Financial liabilities included in other payables and accruals	96,901	–	–	–	–	96,901
Amounts due to related parties	175,925	–	–	–	–	175,925
<b>Total</b>	<b>988,257</b>	<b>114,997</b>	<b>855,418</b>	<b>2,303,567</b>	<b>729,677</b>	<b>4,991,916</b>
<b>31 August 2025</b>						
Interest-bearing bank and other borrowings	–	128,824	780,229	2,765,562	316,170	3,990,785
Lease liabilities	–	197,668	3,386	325,189	–	526,243
Trade payables	638,454	–	–	–	–	638,454
Financial liabilities included in other payables and accruals	90,314	–	–	–	–	90,314
Amounts due to related parties	138,200	–	–	–	–	138,200
<b>Total</b>	<b>866,968</b>	<b>326,492</b>	<b>783,615</b>	<b>3,090,751</b>	<b>316,170</b>	<b>5,383,996</b>

**Capital management**

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios to support its business and maximise shareholders value.

The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Target Company is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Period.

The Target Company monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Target Company includes, within net debt, trade payables, other payables and accruals, interest-bearing bank and other borrowings, lease liabilities and amounts due to related parties, less cash and cash equivalents. The gearing ratios as at the end of each of the reporting periods were as follows:

	At 31 December		At 31 August	
	2022	2023	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	920,183	502,272	715,431	638,454
Other payables and accruals, excluding contract liabilities (Note 23)	285,200	175,800	254,547	117,032
Interest-bearing bank and other borrowings	3,050,000	2,920,000	3,230,000	3,737,538
Lease liabilities	603,049	550,466	473,516	485,063
Amounts due to related parties (Note 28)	3,988,360	3,920,008	175,925	138,100
Less: Cash and cash equivalents (Note 21)	(1,935,183)	(923,471)	(40)	(2,994,457)
Net debt	6,911,609	7,145,075	4,849,379	2,121,730
Total equity	1,109,413	742,406	1,266,932	2,001,914
Total equity and net debt	8,021,022	7,887,481	6,116,311	4,123,644
Gearing ratio	86.17%	90.59%	79.29%	51.45%

**33. EMPLOYEE RETIREMENT BENEFIT****Pension scheme contributions (defined contribution retirement plans)**

Pursuant to the relevant labour rules and regulations in the PRC, the Target Company participates in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in Shanghai whereby the Target Company is required to make contributions to the Scheme at rates of 16% of the eligible employees' relevant salaries. The local government authority is responsible for the entire pension obligations payable to retired employees. The Target Company has no legal or construction obligations to pay further contributions after payment of the fixed contributions.

**34. EVENTS AFTER THE REPORTING PERIOD**

Subsequent to 22 January 2026, save as disclosed elsewhere in the Historical Financial Information, the Target Company has no any significant subsequent events.

**35. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared in accordance with HKFRS Accounting Standards and/or other applicable financial reporting standards for the Target Company in respect of any period subsequent to 22 January 2026.

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## APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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### **Hua Hong Semiconductor Limited**

(Incorporated in Hong Kong with limited liability)

### **INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Hua Hong Semiconductor Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 30 June 2025 and related notes as set out on pages 193 to 197 of the Circular dated 22 January 2026 (the “Circular”) issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the unaudited Pro Forma Financial Information are described in Section A of Appendix III to the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition (the “Proposed Acquisition”) of a 97.4988% equity interest in Shanghai Huali Microelectronics Co., Ltd. (the “Target Company”) on the Group’s financial position as at 30 June 2025 as if the Proposed Acquisition had taken place at 30 June 2025. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s interim condensed consolidated financial information for the six months ended 30 June 2025, on which a review report has been published. Information about the Target Company’s financial position has been extracted by the Directors from the Target Company’s financial information, on which an accountants’ report has been published in Appendix II to the Circular.

### **Directors’ responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### **Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.



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## APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Acquisition, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

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## **APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

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The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Proposed Acquisition in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Ernst & Young**  
Certified Public Accountants  
Hong Kong

22 January 2026

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## **APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**

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### **A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AND THE TARGET COMPANY (TOGETHER, THE “ENLARGED GROUP”)**

The pro forma consolidated statement of financial position as at 30 June 2025 of the Enlarged Group (referred to as the “Pro Forma Financial Information”) have been prepared by the directors of the Company (the “Directors”) in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for illustrative purpose only.

The Pro Forma Financial Information has been prepared based on the Directors’ judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed as at 30 June 2025 or any future dates.

The pro forma consolidated statement of financial position of the Enlarged Group have been prepared based on the unaudited consolidated statement of financial position as at 30 June 2025, which have been extracted from the Group’s published 2025 interim report, and the audited consolidated statement of financial position of the Target Company for the year ended 31 August 2025, which have been extracted from the accountants’ report of the Target Company set out in Appendix II to the Circular dated 22 January 2026 (the “Circular”), after making pro forma adjustments that are directly attributable to the Proposed Acquisition and factually supportable, as set out below.

The Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in the Company’s published 2025 interim report, the accountants’ reports of the Target Company as set out in Appendix II to the Circular and other financial information included elsewhere in the Circular. The Pro Forma Financial Information does not take into account the financial effect arising from any trading or other transactions subsequent to the dates of the respective financial statements of the companies comprising the Enlarged Group.

## APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

### B. PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

#### PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	Consolidated statement of financial position of the Group as at 30 June 2025	Statement of financial position of the Target Company as at 31 August 2025	Pro forma adjustments				The Enlarged Group
	US\$'000	RMB\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	
<b>NON-CURRENT ASSETS</b>							
Property, plant and equipment	6,101,971	1,652,545	232,655	–	–	25,048	6,359,674
Right-of-use assets	66,002	381,184	53,665	–	–	(52,843)	66,824
Investment properties	218,468	–	–	–	–	(164,837)	53,631
Intangible assets	27,313	129,893	18,287	–	(11,585)	–	34,015
Investments in associates	144,421	–	–	–	–	–	144,421
Equity investments designated at fair value through other comprehensive income	290,515	–	–	(9,831)	–	–	280,684
Long-term prepayments	42,672	5,348	753	–	–	–	43,425
Deferred tax assets	765	–	–	408	–	–	1,173
Due from related parties	–	67,436	9,494	–	–	–	9,494
Total non-current assets	6,892,127	2,236,406	314,854	(9,423)	(11,585)	(192,632)	6,993,341
<b>CURRENT ASSETS</b>							
Completed properties held for sale	221,661	–	–	–	–	–	221,661
Inventories	513,434	1,377,183	193,888	–	–	–	707,322
Trade and notes receivables	264,329	509,871	71,783	–	–	–	336,112
Prepayments, other receivables and other assets	452,513	12,838	1,807	–	–	–	454,320
Due from related parties	14,360	119,736	16,857	–	–	(13,092)	18,125
Pledged deposits	31,756	1,012	142	–	–	–	31,898
Cash and cash equivalents	3,846,900	3,001,457	422,561	–	–	–	4,269,461
Total current assets	5,344,953	5,022,097	707,038	–	–	(13,092)	6,038,899

# APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Consolidated statement of financial position of the Group as at 30 June 2025	Statement of financial position of the Target Company as at 31 August 2025	Pro forma adjustments				The Enlarged Group
	US\$'000	RMB\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	
<b>CURRENT LIABILITIES</b>							
Trade payables	263,352	638,454	89,885	–	–	–	353,237
Other payables and accruals	716,648	239,969	33,784	–	–	–	750,432
Interest-bearing bank borrowings	341,313	840,200	118,288	–	–	–	459,601
Lease liabilities	5,839	184,256	25,941	–	–	(25,745)	6,035
Government grants	59,040	–	–	–	–	–	59,040
Due to related parties	8,560	138,200	19,456	–	–	(9,250)	18,766
Income tax payable	16,046	–	–	–	–	–	16,046
Total current liabilities	1,410,798	2,041,079	287,354	–	–	(34,995)	1,663,157
<b>NET CURRENT ASSETS</b>	3,934,155	2,981,018	419,684	–	–	21,903	4,375,742
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	10,826,282	5,217,424	734,538	(9,423)	(11,585)	(170,729)	11,369,083

# APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	Consolidated statement of financial position of the Group as at 30 June 2025	Statement of financial position of the Target Company as at 31 August 2025	Pro forma adjustments				The Enlarged Group
	US\$'000	RMB\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	
<b>NON-CURRENT LIABILITIES</b>							
Interest-bearing bank borrowings	1,933,971	2,897,338	407,903	–	–	–	2,341,874
Lease liabilities	15,035	300,807	42,349	–	–	(42,349)	15,035
Provision	–	1,255	177	–	–	(177)	–
Government grants	–	16,110	2,268	–	–	–	2,268
Deferred tax liabilities	3,633	–	–	–	–	–	3,633
Total non-current liabilities	1,952,639	3,215,510	452,697	–	–	(42,526)	2,362,810
<b>Net assets</b>	<b>8,873,643</b>	<b>2,001,914</b>	<b>281,841</b>	<b>(9,423)</b>	<b>(11,585)</b>	<b>(128,203)</b>	<b>9,006,273</b>
<b>EQUITY</b>							
Share capital	4,960,855	2,036,192	286,666	(11,875)	–	–	5,235,646
Reserves	1,339,047	(34,278)	(4,825)	2,452	(11,585)	(128,203)	1,196,886
Total equity attributable to owners of the parent	6,299,902	2,001,914	281,841	(9,423)	(11,585)	(128,203)	6,432,532
Non-controlling interests	2,573,741	–	–	–	–	–	2,573,741
<b>Total equity</b>	<b>8,873,643</b>	<b>2,001,914</b>	<b>281,841</b>	<b>(9,423)</b>	<b>(11,585)</b>	<b>(128,203)</b>	<b>9,006,273</b>

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## APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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### C. NOTES TO PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The amounts of the consolidated statement of financial position of the Group as at 30 June 2025 is extracted from the Group's published 2025 interim report.
2. The amounts of the statement of financial position of the Target Company as at 31 August 2025 is extracted from the accountants' report as set out in Appendix II to the Circular.
3. The amounts of the statement of financial position of the Target Company as at 31 August 2025 is translated from Renminbi ("RMB") into United States dollars ("US\$") at the exchange rate of 7.1030.
4. Both the Company and the Target Company are ultimately controlled by the Shanghai State-owned Assets Supervision and Administration Commission. For accounting purpose, the Proposed Acquisition is considered to be a business combination under common control. The Target Company's assets and liabilities are included in the consolidated financial statements of the Enlarged Group based on the carrying amounts as reflected in the financial statements of the ultimate controlling shareholder.

The Group held 2.5012% equity interest in the Target Company and assumes that the issuance of A shares by the Company in exchange for a 97.4988% equity interest in the Target Company had taken place at 30 June 2025.

The adjustments include: (i) a net decrease in share capital of US\$11,875,000 representing the issuance of 190,768,392 A shares by the Company as consideration recorded at a deemed acquiring cost of US\$274,791,000, equalling to a 97.4988% existing book value of net assets of the Target Company as at 31 August 2025, less elimination of share capital of the Target Company of US\$286,666,000 and less elimination of the 2.5012% equity interest in the Target Company held by the Group included in equity investments designated at fair value through other comprehensive income, the related deferred tax assets and accumulated fair value changes, net of tax, included in reserves; (ii) the differences are adjusted directly into reserves.

5. The adjustment represents the elimination of intangible assets procured from the Target Company by the Group.
6. The adjustment represents (i) elimination of right-of-use assets, lease liabilities and accrued decommissioning costs under certain properties leased to the Target Company by the Group; (ii) elimination of amounts due from/to related parties in relation to utility expenses paid on behalf of the Target Company by the Group under these lease arrangements; and (iii) other elimination differences arising from related party balances between the Group and the Target Company as at 30 June 2025 and 31 August 2025.

**BUSINESS REVIEW**

The Target Company, with its logic processes as foundation, also specializes in specialty processes, providing wafer foundry and supporting services to design companies, IDM companies, and other system companies, covering diverse process platforms including logic and radio frequency (RF), embedded/standalone non-volatile memory, and high voltage IGBT.

Building on over 15 years of technology development in the semiconductor manufacturing, the Target Company persists in independent innovation, while continuing to research, develop, and master core key technologies for specialty processes. Currently, it operates the first fully automated 12-inch integrated circuit Foundry production line in Mainland China, with process capabilities reaching the 65/55 and 40nm technology nodes, and a design capacity of 38,000 wafers per month.

The Target Company's extensive process portfolio provides customers with complete technology solutions, which are applicable across four major end-product markets: mobile communications, consumer electronics, IoT, and automotive electronics. The chip products manufactured cover baseband processors, image sensors, small and medium-sized LCD display driver chips, touch screen controllers, integrated touch and display driver chips, wireless connectivity, RF, microprocessors, smart cards, set-top box integrated chips, and power management chips.

**FINANCIAL RESULTS AND FINANCIAL STATUS OF THE TARGET COMPANY****Financial Results**

The following table sets forth a summary of the consolidated statements of profit or loss of the Target Company for the three years ended 31 December 2022, 2023 and 2024 and for the eight months ended 31 August 2024 and 2025, which is extracted from the accountants' report on the Target Company included in Appendix II to the circular:

	<b>Year ended 31 December</b>			<b>Eight months ended</b>	
	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>31 August</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2024</i>	<i>2025</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>Revenue</b>	5,492,787	2,371,122	4,476,976	2,878,119	3,401,413
<b>Gross profit</b>	1,971,355	(133,559)	299,808	47,184	783,109
<b>Profit/(Loss) for</b>					
<b>the year/period</b>	<b>2,172,514</b>	<b>(352,692)</b>	<b>519,150</b>	<b>(27,062)</b>	<b>511,312</b>



The Target Company recorded revenue of RMB2.4 billion for the financial year 2023, representing a significant decrease of 56.4% compared to RMB5.5 billion for the financial year 2022. This decline was primarily attributable to: (i) a decrease in orders placed by brand owners with the Target Company as a result of soft market demand after the pandemic and inventory adjustments across the entire semiconductor supply chain, which is consistent with broader industry trends; and (ii) the impact of export controls implemented by the United States. The effect of these measures persisted throughout 2023, limiting access to crucial tools and components from key suppliers and adversely affecting the Target Company's overseas business.

Specifically, revenue from North America dived from RMB1.7 billion in the financial year 2022 to RMB0.4 billion in the financial year 2023, representing a substantial decrease of 76.5%. Affected by the two major factors mentioned above, the Target Company recorded significant write-down of inventories to net realisable value of RMB159.6 million in the financial year 2023 (compared to only RMB16.5 million in the preceding year). This placed significant downward pressure on profitability and resulted in a gross loss for the year.

The deteriorated profitability was further exacerbated by a sharp decrease in government subsidies, which plummeted from RMB380.1 million in the financial year 2022 to only RMB10.4 million in the financial year 2023, due to the centralized acceptance by the Target Company of special R&D subsidies in the financial year 2022. Concurrently, administrative expenses increased significantly due to higher research and development expenditures. Consequently, the Target Company recorded a net loss of RMB352.7 million in the financial year 2023.

In the financial year 2024, the Target Company achieved a robust rebound, with revenue rising to RMB4.5 billion, representing a year-on-year increase of 87.5%. The recovery was primarily driven by improving market conditions, particularly the rapid expansion of AI applications which stimulated the demand for semiconductor components, alongside improvements in the downstream consumer electronics sector. Although revenue from North America continued to decline in the financial year 2024 due to the ongoing impact of U.S. export restrictions, the substantial growth in revenue from Asia fully offset the decrease in North American revenue. This rapid diversification strategy mitigated regional risks, enabling the Target Company to expand its customer base and enhance business resilience.

Supported by the strong recovery in sales and the partial reversal of inventories previously written down to net realisable value, the Target Company returned to profitability in the financial year 2024, recording a gross profit of RMB299.8 million. The Target Group also turned its net loss for the financial year 2023 to a net profit of RMB519.2 million in the financial year 2024 (for the financial year 2023: net loss). This improvement was mainly attributable to the significant recovery in gross profit and the recognition of income from technology licensing.

With the strong growth momentum continuing into the financial year 2025, revenue for the first eight months of the current financial year grew by 17.2% to RMB3.4 billion, up from RMB2.9 billion in the corresponding period of the financial year 2024. The growth was primarily driven by increased shipments and improved average selling prices of the products resulting from the further improvement in demand in the downstream consumer electronics sector. The improvement in gross profit and gross margin was attributable to the increase in average selling prices and improved capacity utilization of the products. Consequently, the Target Company recorded strong earnings of RMB511.3 million for the first eight months of the financial year 2025.

### Financial Status

The following table sets forth a summary of the consolidated statements of financial position of Target Company as of 31 December 2022, 2023 and 2024 and 31 August 2025, which is extracted from the accountants' report included in Appendix II to the circular:

	As of 31 December			As of 31 August
	2022	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
<b>Total assets</b>	10,433,516	9,309,600	6,259,025	7,258,503
<b>Total liabilities</b>	9,335,922	8,559,414	4,986,687	5,256,589
<b>Net current assets</b>	62,398	32,468	1,669,347	2,981,079
<b>Net assets</b>	1,097,594	750,186	1,272,338	2,001,914

As shown in the table above, save for a temporary deterioration in the financial position as of 31 December 2023 due to the loss recorded in the financial year 2023 for the reasons mentioned above, the financial position of the Target Company has continuously improved. As of 31 August 2025, the Target Company maintained a solid financial position, with net current assets of approximately RMB3.0 billion and net assets of approximately RMB2.0 billion. The Target Company's principal assets as of 31 August 2025 primarily included: (i) property, plant and equipment of approximately RMB1.7 billion; (ii) right-of-use assets of approximately RMB0.4 billion; (iii) inventories of approximately RMB1.4 billion; (iv) trade and notes receivables of approximately RMB0.5 billion; and (v) cash and cash equivalents of approximately RMB3.0 billion. The principal liabilities for the same period mainly included: (i) interest-bearing bank borrowings of approximately RMB3.7 billion; (ii) trade payables of approximately RMB0.7 billion; and (iii) lease liabilities of approximately RMB0.5 billion.

There was no modified opinion, emphasis of matter or material uncertainty related to going concern contained in the auditors' report of the Target in respect of the aforementioned years/period.

**LIQUIDITY AND FINANCIAL RESOURCES**

The liquidity ratio of the Target Company was 1.08, 1.78 and 2.46, the quick ratio was 0.69, 1.04 and 1.79, the gearing ratio was 91.66%, 79.76% and 72.42%, the EBITDA was RMB479.3464 million, RMB1,219.1701 million and RMB906.3193 million, and the interest coverage ratio was -4.27, 8.08 and 9.82, respectively, for the last two years and as of the end of the latest period. The liquidity ratio, quick ratio, and interest coverage ratio of the Target Company have increased year by year, while the gearing ratio has continued to decline, indicating a continuous improvement in overall solvency.

**Debt securities and term loans**

As at the close of business on 30 November 2025, save as disclosed in respect of the borrowings and indebtedness of the Target in Appendix II to this Circular, the Target Company confirms that it has no debt securities issued or outstanding, or authorized or otherwise created but unissued, and no term loans, including those guaranteed, unguaranteed, secured (whether the security is provided by the Company or by independent third parties) or unsecured.

**Borrowings and indebtedness**

As at the close of business of 30 November 2025, the Target Company confirms that it has outstanding borrowings and indebtedness of approximately RMB3,504 million. The Target Company's secured bank loans were RMB2,069 million and unsecured bank loans were RMB1,435 million.

**Contingent liabilities**

As at the close of business of 30 November 2025, the Target Company confirms it has no material contingent liability or guarantees.

**Mortgage and charges**

As at the close of business of 30 November 2025, the Target Company confirms its outstanding secured borrowings were secured by the Target Company's property, plant and equipment, inventory, land-use right, cash deposit and credit.

Save as aforesaid, the Target Company confirms that it did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, bank loans and overdrafts or other similar borrowings or indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 30 November 2025.

The Target Company confirms that there was no material change in the indebtedness status of the Target Company since 30 November 2025 up to the Latest Practicable Date.

**CHARGES ON ASSETS**

As of 31 August 2025, the particulars of the Target Company's secured bank borrowings are set out as follows:

Contract No.	Borrower	Lender	Loan Amount (RMB10,000)	Loan Period	Purpose	Loan Interest Rate	Security
Borrowing Contract No. 3100201606100000054	The Target Company	Entrusted Lender: CDB Development Fund Co., Ltd.; Entrustee: China Development Bank Corporation	300,000.00	4 August 2016 – 3 August 2026	Construction of production line	Annual interest rate 1.2%	The Target Company provided collateral security to the Entrusted Lender using equipment with a total appraised value of RMB1,522.4377 million

**EXTERNAL GUARANTEES**

As of 31 August 2025, the Target Company had no external guarantees.

**CONTINGENT LIABILITIES**

As of 31 August 2025, the Target Company did not have any contingent liabilities.

**FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

As of the Latest Practicable Date, the Target Company had no plans for any material investments and capital assets.

**EVENTS AFTER THE REPORTING PERIOD**

There are no material events undertaken by the Target Group subsequent to the reporting period and up to the Latest Practicable Date. The Directors confirm that there was no material change in the financial or trading position or outlook of the Target Company since 31 August 2025, being the date to which the latest published audited consolidated financial statements of the Target Company were made up, up to and including the Latest Practicable Date.

This asset appraisal report is prepared in accordance with the Asset Appraisal Standards of the PRC.

**Asset Appraisal Report on the Value of All  
Shareholders' Equity of Shanghai Huali  
Microelectronics Corporation in connection with the  
Proposed Issuance of Shares by Hua Hong  
Semiconductor Limited for the Acquisition of Assets**

**Orient Ping Bao Zi [2025] No. 2446**

**(Report)**

**(1 volume in total, Book No.1)**



**Shanghai Orient Appraisal Co., Ltd.**

**December 29, 2025**

**STATEMENT**

- I. This asset appraisal report is prepared in accordance with the Basic Standards for Asset Appraisal issued by the Ministry of Finance and the Professional Standards for Asset Appraisal and Professional Ethics Standards issued by the China Asset Appraisal Association.
- II. The client or other users of the asset appraisal report shall use the asset appraisal report in accordance with the provisions of laws and administrative regulations and the scope of use specified in the asset appraisal report; if the client or other users of the asset appraisal report use the asset appraisal report in violation of the aforementioned provisions, the asset appraisal institution and asset appraisal professionals shall not be held liable.
- III. The asset appraisal report shall only be used by the client, other users of the asset appraisal report as agreed in the asset appraisal engagement contract, and users of the asset appraisal report as stipulated by laws and administrative regulations. Except for the aforementioned users, no other institution or individual shall become a user of the asset appraisal report.
- IV. The users of the asset appraisal report shall correctly understand and use the appraisal conclusions. The appraisal conclusions are not equivalent to the realizable price of the appraised asset, and should not be regarded as a guarantee of the realizable price of the appraised asset.
- V. Users of the asset appraisal report should pay attention to the hypothetical premises for the appraisal conclusion, the special matters explanation, and the limitations on the use of the asset appraisal report.
- VI. The asset appraisal institution and its asset appraisal professionals shall comply with laws, administrative regulations and asset appraisal standards, adhere to the principles of independence, objectivity and fairness, and shall be legally responsible for the asset appraisal reports issued.
- VII. We have no existing or anticipated interest in the subject of this asset appraisal report, nor do we have any existing or anticipated interest in the relevant parties, and we are not biased towards the relevant parties.
- VIII. The list of assets and liabilities involved in the appraisal subject shall be declared by the client and the appraised entity and confirmed by them through signature, seal, or other legally permissible means. According to the Asset Appraisal Law of the People's Republic of China: "The client shall be responsible for the truthfulness, completeness and legality of the ownership certificates, financial accounting information and other materials provided by it."

- IX. We have conducted on-site investigations of the appraisal subject and the assets involved; we have given necessary attention to the legal ownership status of the appraisal subject and the assets involved, and have verified the legal ownership documents of the assets involved. Matters that have been discovered and may have a significant impact on the appraisal conclusion have been truthfully disclosed in this asset appraisal report, and the client and other relevant parties have been requested to perfect the property rights to meet the requirements for issuing the asset appraisal report. However, we only express an opinion on the value of the appraisal subject and the assets involved, and we are not authorized to provide any form of assurance regarding their legal ownership. This report shall not be used as any form of title certificate.
- X. Our inspection of physical assets such as equipment is normally limited to their apparent quality, condition of use, and maintenance status, and does not extend to internal, concealed, hidden, or difficult-to-observe parts. We are neither capable nor commissioned to conduct professional technical testing and appraisal of the internal quality of the aforementioned assets. Our appraisal is based on the information provided by the client and other relevant parties. If there are defects in the internal quality of the appraisal subject, the appraisal conclusion of this asset appraisal report may be affected to varying degrees.

**ASSET APPRAISAL REPORT  
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**Asset Appraisal Report on the Value of All  
Shareholders' Equity of Shanghai Huali  
Microelectronics Corporation in connection with the  
Proposed Issuance of Shares by Hua Hong  
Semiconductor Limited for the Acquisition of Assets**

Orient Ping Bao Zi [2025] No. 2446

**Summary**

Special note: This asset appraisal report only provides value reference for the economic activities described in the report. The following content is extracted from the text of the asset appraisal report. To understand the details of this valuation and correctly understand the appraisal conclusion, you should read the text of the appraisal report.

Upon the engagement, subject to laws, administrative regulations and asset appraisal standards, and on the principles of independence, objectivity and impartiality, Shanghai Orient Appraisal Co., Ltd. conducted an appraisal on the appraisal subject under the economic behaviors, based on appropriate valuation approaches and necessary valuation process. The summary of the asset appraisal report is as follows:

Client: Shanghai Huahong (Group) Co., Ltd., Hua Hong Semiconductor Limited

Appraised entity: Shanghai Huali Microelectronics Corporation ("HLMC")

Purpose of appraisal: Issuance of shares for asset acquisition

Economic behavior: According to the Resolution on Promoting the Rainbow Project of Shanghai Huahong (Group) Co., Ltd. ((Hu Huahong Dong [2025] No. 8), the Announcement of Resolutions of the Board of Directors of Hua Hong Semiconductor Gang Hua Dong (2025) No. 15), and the Resolution on the Approval of the Equity Transfer of the Company of Shanghai Huali Microelectronics Co., Ltd. (Hu HLMC Gu (2025) No. 12), Hua Hong Semiconductor Limited intends to acquire 97.4988% equity interest in HLMC held by four HLMC shareholders, including Shanghai Huahong (Group) Co., Ltd., Shanghai Integrated Circuit Industry Investment Fund Co., Ltd., China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd., and Shanghai Guotou IC Fund Leading Integrated Circuit Private Equity Investment Fund Partnership (Limited Partnership), by way of issuing shares.

Appraisal subject: the value of all shareholders' equity of the appraised entity.

Scope of appraisal: The scope of the appraisal covers all assets and liabilities of the appraised entity, specifically including current assets, non-current assets, and liabilities. The total book value of all assets declared by the appraised entity was RMB7,258,502,795.25, the total book value of liabilities was RMB5,256,589,024.59, and the owner's equity was RMB2,001,913,770.66.

Type of value: Market value

Base date: August 31, 2025

Appraisal methods: The asset-based approach and the market approach were adopted. The conclusion of this appraisal report is based on the appraisal results under the market approach.

Appraisal conclusion: Upon appraisal, the value of all shareholders' equity of the appraised entity was RMB8,480,000,000.00 (in words: RMBEight Billion Four Hundred Eighty Million only).

Validity period of the appraisal conclusion: the appraisal conclusion shall be valid for one year from the base date, i.e. effective from the base date, being August 31, 2025, to August 30, 2026.

If this appraisal project involves state-owned assets and is required to comply with the filing and approval procedures of the state-owned assets supervision and administration authority in accordance with the relevant regulations, this appraisal report shall be filed with the state-owned assets supervision and administration authority before it can be formally used, and the appraisal conclusion shall only apply to the economic behaviors shown in this report.

Special Matters:

1. Spin-off of the appraised entity

On June 26, 2025, pursuant to the general meeting resolution Hu HLMC Gu (2025) No. 4, all shareholders unanimously agreed to the spin-off plan, pursuant to which the company will be divided into Shanghai Huali Microelectronics Corporation (the surviving company, hereinafter referred to as "HLMC After Spin-off") and the new company by way of spin-off. HLMC After Spin-off will continue to operate the 12-inch wafer foundry and related businesses located at No. 568 Gaosi Road, China (Shanghai) Pilot Free Trade Zone, and will assume the related assets, creditor's rights and liabilities, personnel, and other agreed rights and obligations. The new company will assume long-term equity investments and corresponding businesses, assets, creditor's rights and liabilities, personnel, and other agreed rights and obligations. HLMC After Spin-off and the new company will maintain independence from each other in terms of business, assets, personnel, finance, and organization. The Company completed the spin-off on August 21, 2025. The sum of the registered capital of HLMC After Spin-off and the new company is equal to the registered capital of HLMC before this spin-off. The shareholding ratio of each shareholder in HLMC After Spin-off and the new company is consistent with their shareholding ratio in HLMC before this spin-off. HLMC After Spin-off will be the target asset to be injected into Huahong Company for this reorganization.

The appraisal subject is HLMC After Spin-off. Based on this, the appraisal is carried out on the basis of the pro forma financial statements prepared by HLMC under the spin-off framework and the business substance reflected therein.

## 2. Pledge and mortgage

As of the base date, pledges and guarantees in which HLMC was involved were as follows:

Contract No.	Borrower	Lender	Loan amount (RMB0,000)	Term of loan	Purpose of the loan	Interest rate	Guarantee
Loan Contract No. 3100201606100000054	HLMC	Entrusted lender: China Development Bank Development Fund Co., Ltd; Entrustee lender: China Development Bank Corporation	300,000.00	August 4, 2016- August 3, 2026	Production line construction	1.2% per annum	HLMC provided mortgage guarantee to the entrusted lender with equipment valued at a total of RMB1.5224377 billion
Loan Contract No. 3100201506100000015001	HLMC	Entrusted lender: China Development Bank Development Fund Co., Ltd; Entrustee lender: China Development Bank Corporation	100,000.00	November 24, 2015- November 23, 2030	Investment and construction of production lines	1.2% per annum	HLMC provided mortgage guarantee to the entrusted lender with equipment valued at a total of RMB1.1626396 billion
3100202301100002961	HLMC	China Development Bank Shanghai Branch, Bank of Communications Co., Ltd. Shanghai New Area Sub-branch, Bank of Shanghai Co., Ltd. Xuhui Sub- branch, China Construction Bank Corporation Shanghai Zhangjiang Branch	96,000.00	February 2023- February 2031	R&D	3%	HLMC provided mortgage guarantee to the lender with equipment valued at a total of RMB290,528,500

Report users are advised to take note that this appraisal does not consider the possible impact of the aforementioned mortgage or pledge matters on the appraisal results.

### 3. Contingencies

As of August 31, 2025, the outstanding balance of bank guarantees for HLMC was RMB10,000,000.00, with the last guarantee expiring on February 10, 2026.

As of August 31, 2025, the unused amount of irrevocable letters of credit not yet fulfilled by HLMC was USD1,360,050.00 (equivalent to RMB9,660,435.15), with the last one maturing on January 13, 2026.

This appraisal did not consider the impact of the aforementioned contingencies on the appraisal.

The above special matters may affect the conclusion of this appraisal. Users of the appraisal report are requested to pay full attention to them when implementing this economic action. In addition, users of the appraisal report should also pay attention to the valuation assumptions stated in the main body of the appraisal report and the impact of significant subsequent events on the conclusion of this appraisal, and use this appraisal report appropriately.

**Asset Appraisal Report on the Value of All  
Shareholders' Equity of Shanghai Huali  
Microelectronics Corporation in connection with the  
Proposed Issuance of Shares by Hua Hong  
Semiconductor Limited for the Acquisition of Assets**

Orient Ping Bao Zi [2025] No. 2446

**Mainbody**

**Shanghai Huahong (Group) Co., Ltd., Hua Hong Semiconductor Limited:**

Shanghai Orient Appraisal Co., Ltd., entrusted by your company, conducted an appraisal of the market value of all shareholders' equity of Shanghai Huali Microelectronics Corporation as at August 31, 2025, which is involved in the proposed share issuance by Hua Hong Semiconductor Limited for asset acquisition. This appraisal was performed in accordance with laws, administrative regulations, and asset appraisal standards, adhering to the principles of independence, objectivity, and impartiality, and utilizing the asset-based approach and market approach, following the necessary appraisal procedures. The asset appraisal report is as follows:

**I. CLIENT, APPRAISED ENTITY AND OTHER USERS OF ASSET APPRAISAL REPORT**

**(I) Client**

**Client 1:**

**Company name: Shanghai Huahong (Group) Co., Ltd.**

Unified social credit code: 91310000132263312B

Type of enterprise: limited liability company (state-controlled)

Registered address: No. 177 Bibo Road, China (Shanghai) Pilot Free Trade Zone

Legal representative: Qin Jian

Registered capital: RMB13,521.484493 million

Date of incorporation: April 9, 1996

Scope of business: organization, development, design, processing, manufacturing and sales of integrated circuits and related products, investment in integrated circuit design, manufacturing, sales, applications and related high-tech industries, consulting services, asset management, self-owned property leasing, and operation of parking lots (garages). (Projects subject to approval in accordance with the law may only commence operating activities upon approval by relevant departments.)

**Client 2:****Company name: Hua Hong Semiconductor Limited**

Stock abbreviation: 華虹公司/華虹半導體

Stock Code: 688347.SH/1347.HK

Enterprise English Name: Hua Hong Semiconductor Limited

Place of registration: Room 2212, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong

Date of incorporation: January 21, 2005

Listing date: August 7, 2023

Company Profile: Hua Hong Semiconductor Limited's principal business involves the development and application of "8-inch + 12-inch" differentiated specialty technologies, including embedded/standalone non-volatile memory, power discrete, analog & power management, and logic & RF, providing wafer manufacturing services to its customers. The Company's main products are power devices, embedded non-volatile memory, analog & power management, logic & radio frequency, IP design services, testing services, and wafer back-end processing services.

**(II) Appraised entity****Company name: Shanghai Huali Microelectronics Corporation ("HLMC")**

Unified social credit code: 913100005500570876

Type of enterprise: limited liability company (foreign-invested enterprise and domestic joint venture)

Registered address: No. 568 Gaosi Road, China (Shanghai) Pilot Free Trade Zone

Legal representative: Qin Jian

Registered capital: RMB2.036192198 billion

Date of incorporation: January 18, 2010

Scope of business: development, design, processing, manufacturing and sales of integrated circuits and related products, and engaging in import and export business of goods and technologies. Projects subject to approval in accordance with the law can only be carried out after approval by relevant departments



**1. Shareholding structure of HLMC**

As of the basis date, the shareholding structure of HLMC was as follows:

*Unit: RMB0,000*

<b>No.</b>	<b>Name of shareholder</b>	<b>Shareholding percentage (%)</b>
1	Shanghai Huahong (Group) Co., Ltd.	63.54
2	Shanghai Integrated Circuit Industry Investment Fund Co., Ltd.	15.72
3	China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd.	10.25
4	Shanghai Guotou IC Fund Leading Integrated Circuit Private Equity Investment Fund Partnership (Limited Partnership)	7.98
5	Shanghai Huahong Grace Semiconductor Manufacturing Corporation	2.50
	<b>Total</b>	<b>100.00</b>

**2. Operating Conditions of HLMC****(1) Principal business operations**

HLMC builds upon logic process technologies while deepening its expertise in specialty processes. It provides design companies, IDM companies, and other system companies with wafer foundry and supporting services across diverse process platforms, including logic and radio frequency (RF), embedded/standalone non-volatile memory, high-voltage, and others.

HLMC has accumulated over 15 years of technological expertise in semiconductor manufacturing, consistently adhering to independent innovation, continuously developing and mastering core proprietary technologies in specialty processes. It currently operates Mainland China's first fully automated 12-inch IC foundry production line, with process technologies reaching 65nm/55nm and 40nm nodes and a design capacity of 38,000 wafers per month.

HLMC's extensive process portfolio delivers comprehensive technical solutions to customers, serving four major end markets: mobile communications, consumer electronics, Internet of Things (IoT), and automotive electronics. The chips produced encompass baseband processors, image sensors, small- and medium-sized LCD driver chips, touch screen controllers, touch and display driver integration (TDDI) chips, wireless connectivity, RF components, microprocessors, smart cards, set-top box integrated chips, and power management ICs, among others.

(2) *Principal products and services*

HLMC primarily offers specialty process foundry services for 12-inch wafers, manufacturing various types of semiconductor products across different process platforms according to customer requirements, while also providing complementary services including design and testing.

1) Wafer foundry services

HLMC closely aligns with market demand, leveraging mature technology nodes and specialty process platforms, and concentrates its R&D resources to conduct targeted breakthroughs, continuously deepening and expanding its technology platforms. Through years of sustained technological accumulation, it now covers diversified process platforms including logic and RF, embedded/standalone memory, and high-voltage.

① Logic and RF

Leveraging its mature 55nm logic process technology and volume production experience, HLMC successfully developed its proprietary 55nm ultra-low power (ULP) process technology. As a key enabler for IoT and wearable device chips, HLMC collaborated with leading global IC design companies to optimize device operating voltage and leakage current control, and developed ultra-high threshold voltage devices, enabling rapid process certification and volume shipments. This self-developed technology platform not only allowed HLMC to capture early-mover advantages in the ULP segment and penetrate the IoT and wearable markets, but also served as a foundation to extend to the 40nm node, where it successfully developed a 40nm low-power logic platform and full production process flow. The platform incorporates advanced technologies such as ultra-shallow junction, laser annealing, and porous ultra-low-k dielectric materials, achieving an optimal balance between performance and power consumption, and has entered volume production. It has obtained Grade 1 Automotive Electronics Fundamentals Certification, supported the Company's IATF 16949 system certification, and offered a robust design environment with extensive cell libraries and IP. Multiple products have passed high-volume production validation, demonstrating excellent performance, with SRAM operating stably at a minimum voltage of 0.8V, reflecting superior power efficiency. Since initial product shipments in March 2015, HLMC has continued to expand into automotive electronics, digital TV, video surveillance, and Bluetooth earphones, and achieved volume production of its RF process platform in 2019.

Building on its 55nm low-power logic platform, HLMC adopted a collaborative development model with customers for pixel processes, successfully establishing a 55nm CIS (CMOS Image Sensor) platform and introducing its first CIS product for mobile phones in 2013, with volume production of mobile phone products commencing in 2014. Over subsequent years, HLMC expanded CIS applications, developing products for security surveillance, medical, and other fields. Notably, in the past three years, the development and volume production of products such as near-infrared surveillance and 0.7-micron ultra-small pixels have further broadened HLMC's CIS applications, covering flagship smartphone front cameras, PCs, high-end security, fingerprint recognition, automotive, and numerous other domains.

② Embedded/standalone memory

Based on its self-developed 55nm low-power platform, HLMC built the 55nm embedded flash (55EF) platform. By introducing SONOS technology and optimizing the 2T+SONOS structure, it significantly enhanced energy efficiency and operational flexibility, improved system compatibility, and effectively controlled costs. As HLMC's proprietary specialty process, the 55EF platform features complete SPICE models and PDK, along with comprehensive design databases and IP resources, fully addressing diverse customer needs. Compared to traditional packaged MCU solutions, MCU-type products enabled by the 55EF platform demonstrate notable advantages in process complexity, cost structure, and system compatibility, yielding stronger market competitiveness. Currently, the platform focuses on process development and performance enhancement for MCU-type products, with related products widely used in consumer electronics, smart home, and industrial control applications (MCU: Micro Controller Unit, also known as a single-chip micro computer or micro controller which adopts appropriately reduced frequency and specifications of the CPU while integrating various peripheral interfaces such as memory, counters, USB, A/D conversion, UART, PLC, DMA, and even LCD drive circuits onto a single chip, forming a chip-based compute, which enables customized control combinations for different application scenarios) solutions.

Since achieving high-volume production of 55nm SONOS memory technology in 2017, HLMC has steadily advanced technological iteration, successfully breaking through 40nm SONOS memory technology in 2020. The 55nm SONOS technology offers core advantages including low cost, low power consumption, and high reliability, with products spanning low-power storage, touch control, high-speed MCU, embedded FPGA, smart cards, security chips, and NB-IoT, holding strategic significance for China's information security and industrial technology upgrading.

### ③ High-voltage

HLMC's 55nm high-voltage process platform is constructed upon its mature 55nm low-power platform. Through optimization of the process flow architecture, it successfully integrates three types of devices: low-voltage (1.2V), medium-voltage (5V/6V/8V), and high-voltage (32V) devices. These devices are electrically independent and non-interfering, allowing for flexible individual debugging and providing ample design space for the development of different product series. The platform features high integration, comprehensively meeting the diversified needs of liquid crystal display driver chip design. Its specialized high-voltage devices represent the highest voltage rating configuration available among current 55nm platforms. Concurrently, the platform possesses the smallest SRAM at the 55nm node, with SRAM cell static leakage current below 10pA, achieving industry-leading performance levels.

Based on this 55nm high-voltage platform, HLMC successfully developed fully domestic OLED and other full-series application driver chips, a pioneering achievement in China. Through close collaboration with domestic design companies and renowned panel manufacturers, HLMC has effectively supported the development of local design enterprises and jointly established China's first complete industrial chain for the full series of driver chips. Leveraging the broad prospects of the driver chip market and HLMC's solid manufacturing foundation, this platform has achieved a breakthrough against international technological monopolies, forming a proprietary intellectual property-based technology system. It can meet requirements from low-end to high-end terminal applications, providing robust support for the ongoing advancement of IoT infrastructure.

## 2) Supporting services

### ① Diversified design services

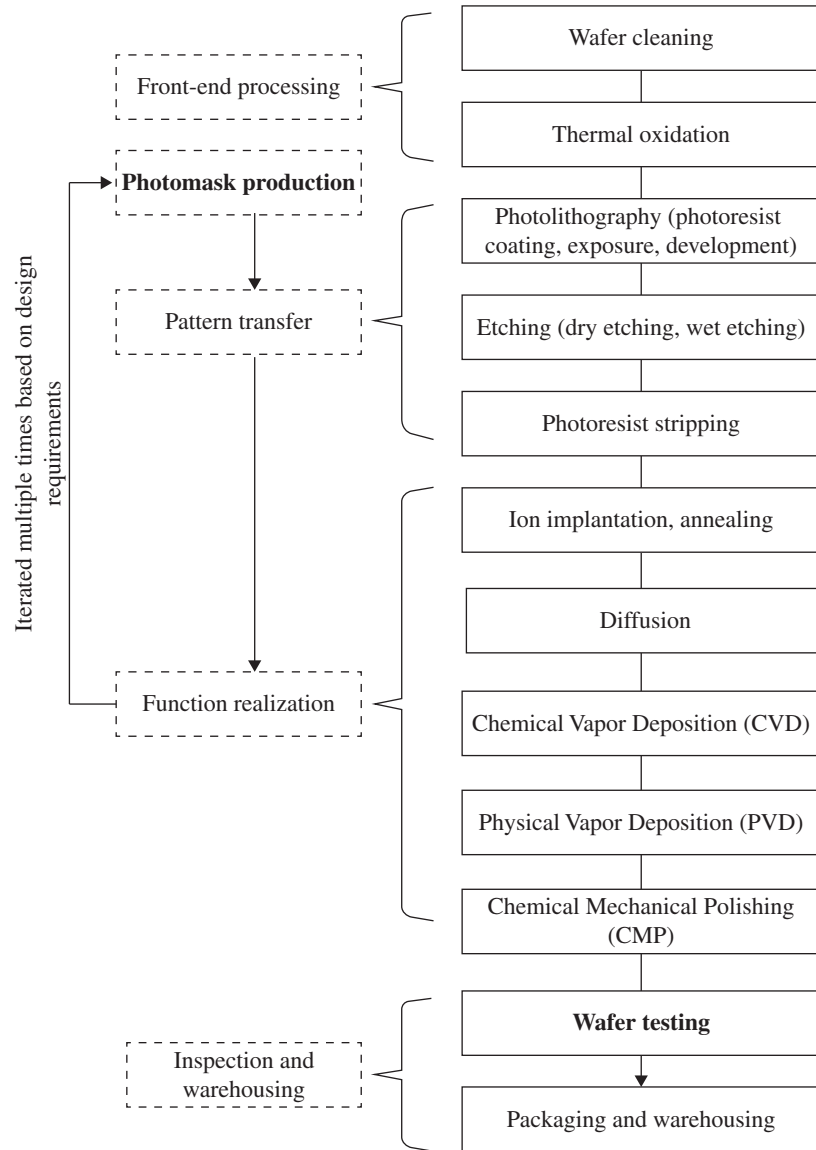
HLMC has established a comprehensive design service support platform encompassing tape-out support, internal IP design, layout and verification, failure analysis, and test design. This enables HLMC to provide design companies with essential support including robust design flows, technical documentation, and IP development, delivering efficient and high-quality services to facilitate customer volume production.

### ② Testing services

HLMC has built a full suite of advanced testing, evaluation, and analysis platforms, establishing a hardware foundation of precision equipment covering product engineering, test engineering, reliability engineering, and failure analysis. It provides customers with one-stop supporting services including design verification, test development, electrical and physical analysis, and yield enhancement.

(3) *Process flow of major products*

HLMC primarily engages in semiconductor manufacturing business under a wafer foundry model. The generic process flow is as follows:

**Description of Process Flow:**

## 1) Front-end processing

## ① Wafer cleaning

Semiconductor wafers are initially cleaned using various chemicals via spray or immersion methods, followed by a secondary cleaning with ultra-pure water to remove residual chemical solutions. The purpose is to remove contaminants such as

dust particles, residual organic matter, and surface metal ions from the wafer surface, improving the quality of subsequently grown thermal oxide layers and ensuring the stability of subsequent process steps (a cleaning step also follows each subsequent operation).

② Thermal oxidation

A silicon dioxide film is grown on the semiconductor wafer surface in a high-temperature environment containing oxygen and inert gases.

2) Photomask production

Photomasks are produced by other specialized manufacturers; the Issuer is not currently involved in photomask manufacturing.

3) Pattern transfer

① Photolithography

Photolithography primarily consists of three steps: A) Photoresist Coating: Uniformly applying photoresist onto a spinning semiconductor wafer; B) Exposure: Using a photolithography machine, circuit patterns on the photomask are transferred onto the photoresist by exposure to light of a specific wavelength, altering the properties of the photoresist; and C) Development: Using a developer to remove the soluble portions of the photoresist after exposure, accurately forming the pattern on the photoresist.

② Etching

Etching selectively removes material from areas of the semiconductor wafer not covered by photoresist after photolithography. Common etching methods include wet etching, which uses liquid chemicals, and dry etching, which utilizes plasma.

③ Photoresist stripping

After etching is completed, the remaining, undissolved photoresist is removed from the semiconductor wafer.

#### 4) Device Structure Formation and Function Realization

##### ① Ion implantation, annealing

In a vacuum, low-temperature environment, specific types of dopant ions are implanted into designated areas of the wafer surface in the form of a high-energy ion beam; common ion species include boron, phosphorus, and arsenic. Following implantation, annealing is performed in a high-temperature environment to eliminate crystal lattice defects caused by ion implantation and alter the microstructure of the wafer surface and interior to achieve specific performance characteristics.

##### ② Diffusion

In a high-temperature environment, dopant ions migrate between regions of different ion concentrations, altering and controlling the type, concentration, and distribution of impurities within the wafer, forming regions with different electrical properties, and modifying the wafer's electrical characteristics.

##### ③ Chemical Vapor Deposition (CVD)

A solid thin film is deposited on the wafer surface via chemical reactions involving gaseous precursor materials at different partial pressures.

##### ④ Physical Vapor Deposition (PVD)

A solid thin film is deposited on the wafer surface using physical methods such as sputtering, vacuum evaporation, plasma plating, or molecular beam epitaxy, which involve bombarding a target material.

##### ⑤ Chemical Mechanical Polishing (CMP)

The wafer is polished using a combination of mechanical friction and chemical reactions to planarize its surface.

#### 5) Inspection and Warehousing

##### ① Wafer testing

Upon completion of wafer processing, probe cards and other testing equipment are used to test wafer performance, verifying whether its functionality meets the specifications of the process platform.

##### ② Packaging and warehousing

Wafers that pass inspection are vacuum-packed and stored in the warehouse.

*(4) Primary Business Model and Settlement Model*

## 1) Procurement model

HLMC has formulated systems such as the Procurement Approval Procedures and Procurement Management Regulations to standardize procurement activities and establish a comprehensive procurement management framework. All procurement activities of the Company are conducted pursuant to annual budget requirements, initiated by the requesting department or responsible department via a purchase requisition based on actual investment and operational needs, followed by necessary approvals. Requisitions for production raw materials and spare parts are submitted by the Material Control Section of the Production Planning Department based on production plans, inventory levels, and delivery schedules.

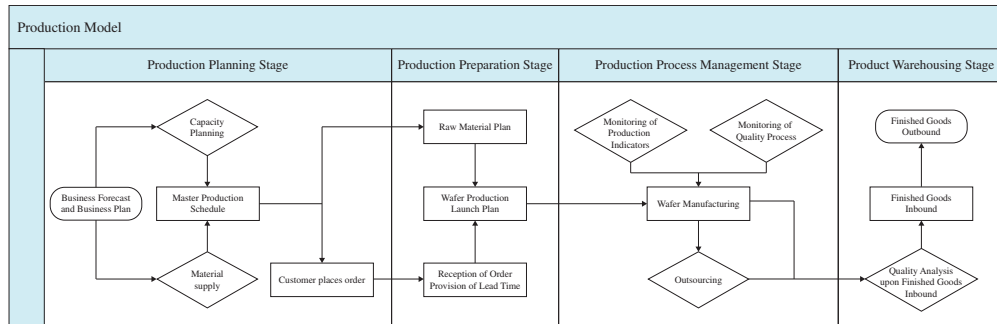
Upon receiving the purchase requisition, the Procurement Section of the Production Planning Department verifies its accuracy and, upon confirmation, executes procurement activities according to the requirements. HLMC determines appropriate procurement methods and standards for different categories, conducting tender procurement and direct procurement activities in accordance with the law. Adhering to the principles of openness, fairness, justice, and good faith, it employs methods such as open tendering, selective tendering, and comparative sourcing to achieve scientific and optimal procurement outcomes, ensure procurement quality, enhance economic efficiency, and minimize comprehensive procurement costs. All procurement activities are subject to approval by the relevant procurement approval authorities as per Company policies.

The Procurement Section of the Production Planning Department signs purchase orders with suppliers and tracks delivery schedules. The Logistics Section handles transportation and customs declaration. The Warehousing Section manages the receipt and storage of incoming materials. The Quality and Reliability Department is responsible for the quality inspection of raw materials. Fixed assets, intangible assets, and services are inspected and accepted by the user departments. These departments collaborate closely on diversification and localization initiatives, continuously onboarding alternative suppliers, strengthening the supply chain system, assessing supply risks for key materials, and formulating corresponding countermeasures to mitigate procurement risks and maintain business continuity.



## 2) Production model

HLMC plans capacity and determines the Master Production Schedule based on sales forecasts, initiating production according to customer order requirements. The product flow from production planning to finished goods outbound primarily involves four stages: Production Planning Stage, Production Preparation Stage, Production Process Management Stage, and Product Warehousing Stage. The specific steps are as follows:



## ① Production Planning Stage

During the Production Planning Stage, the Sales Department provides future business forecasts obtained from customers and agreed business plans. The Production Planning Department formulates the Master Production Schedule based on these business forecasts, capacity planning, customer demand, customer orders, capacity, raw material supply conditions, and process technology readiness.

## ② Production Preparation Stage

During the Production Preparation Stage, the Material Control Section develops the raw material plan based on the Master Production Schedule and coordinates with Procurement to prepare raw materials promptly. The Production Planning Department formulates the production launch plan based on the Master Production Schedule and the raw material plan.

## ③ Production Process Management Stage

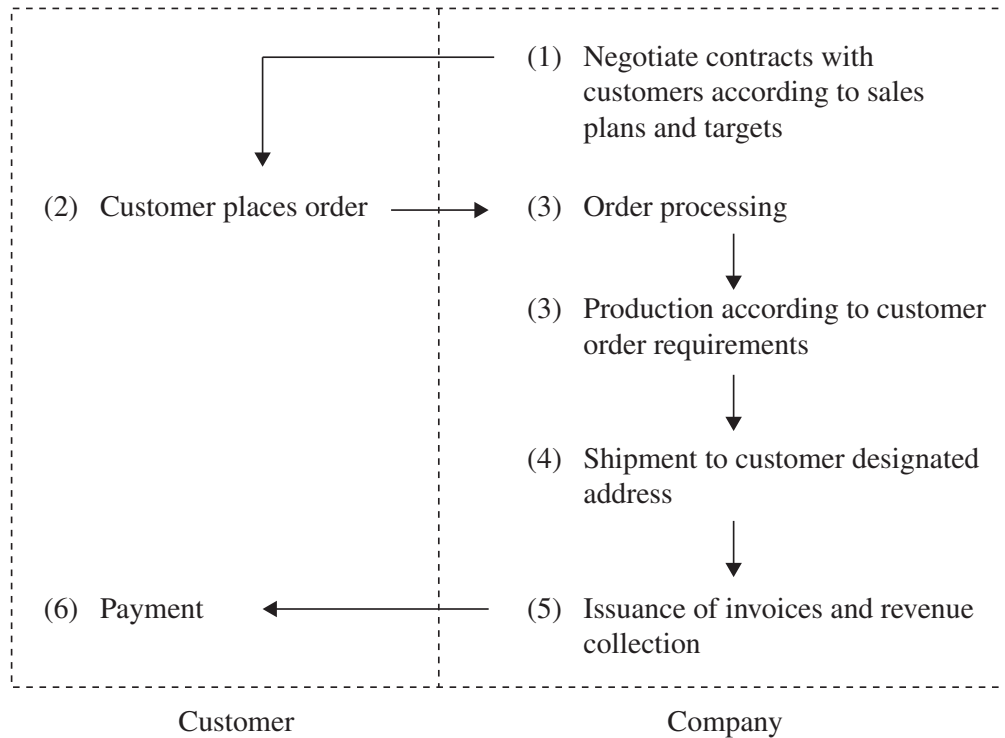
During the Production Process Management Stage, the Manufacturing Department arranges and manages wafer production according to the Master Production Schedule and the production launch plan. The Production Planning Department monitors metrics such as production cycle time, progress, and output. The Quality and Reliability Department is responsible for product quality control. The Production Planning Department arranges corresponding outsourced services for wafers based on customer requirements for external processing.

## ④ Product Warehousing Stage

During the Product Warehousing Stage, products that have completed the entire production process are stored in the warehouse after passing inspection.

## 3) Sales and settlement methods

HLMC employs a direct sales model, communicating directly with customers to develop solutions that meet their needs, ultimately leading to the signing of customer orders. The sales process is as follows:



## ① Sales planning

After the Sales Department drafts the annual sales plan based on market information and customer demands, it communicates the plan targets with customers, regularly updates customer demand forecasts and situations, and feeds back changes in customer requirements to relevant internal departments.

## ② Contract signing and order processing

After establishing a business relationship by signing contracts with customers, sales personnel provide customers with quotations approved by HLMC management based on customer needs. Customers place orders with sales/customer service personnel via email or fax, etc. Customer service personnel then input the orders internally for production and provide estimated delivery times to customers.

## ③ Production and manufacturing

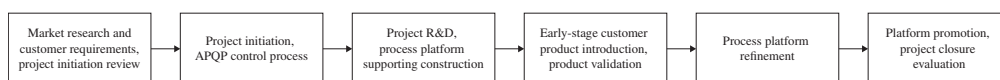
Upon receiving customer orders, the Sales Department schedules production according to the business plan. The Production Planning Department formulates corresponding input and output plans based on this business plan and capacity, generating product delivery dates. The Company informs customers of production status promptly via system or email as per customer requirements.

## ④ Shipment, invoicing, and revenue collection

After production is completed, products are typically shipped by customer service personnel to designated locations as requested by customers. Customers arrange payments according to the agreed payment cycle. After receiving customer payments, the Finance Department performs financial verification and completes the relevant accounting processing.

## 4) R&amp;D model

HLMC's R&D strategy primarily relies on independent research and development for technological innovation and upgrades across various process platforms. To standardize and strengthen project management, the Company has established a robust R&D system and project management system, defined the responsibilities and objectives of project team members, and streamlined the entire process from project initiation to R&D and to closure. This is managed systematically in stages through procedures like the New Project Initiation Application Process and the APQP Procedure. The Company's specific R&D process is as follows:



Note: APQP stands for Advanced Product Quality Program.

## 5) Source of income

HLMC primarily generates revenue by providing customized semiconductor wafer foundry services based on process platforms featuring different technology nodes and diverse technologies.

### 3. Financial position of HLMC in recent years

As of the base date, HLMC had total assets of RMB7.2585028 billion, total liabilities of RMB5.256589 billion, and owner's equity of RMB2.0019138 billion. The Company's financial position in recent years is as follows:

*Unit: RMB0,000*

Item/Year	December 31, 2023	December 31, 2024	August 31, 2025
Total assets	889,982.17	625,889.26	725,850.28
Total liabilities	815,741.47	499,195.99	525,658.90
Owners' equity	74,240.70	126,693.27	200,191.38

Item/Year	2023	2024	January to August 2025
Operating income	257,920.73	498,797.09	343,066.86
Profit before tax	-37,229.11	52,152.40	51,464.21
Net profit	-37,229.11	52,152.40	51,464.21

The above data is extracted from the audited figures as set out in the unqualified audit report issued by Da Hua Certified Public Accountants (Special General Partnership), with report number: Da Hua Shen Zi [2025] 0011016213.

The Company prepares the pro forma financial statements based on the recognition and measurement of actual transactions and events in accordance with the Accounting Standards for Business Enterprises – Basic Standards and specific accounting standards, Application Guidance to the Accounting Standards for Business Enterprises, the interpretation of the Accounting Standards for Business Enterprises and other relevant provisions issued by the Ministry of Finance, combined with the provisions of the Rules for the Compilation and Submission of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Requirements for Financial Reports (Revised in 2023) issued by the China Securities Regulatory Commission. The pro forma financial statements involve the following matters:

- (1) HLMC completed the spin-off during the reporting period on a pro forma basis. HLMC completed its spin-off on August 21, 2025, with HLMC (the entity prior to the spin-off) being divided into the surviving HLMC (the current surviving entity) and Shanghai Huali Semiconductor Co., Ltd.. The Company performed a simulated carve-out of the financial statement data for the reporting period up to August 21, 2025, based on the spin-off principles: assuming that HLMC had completed the spin-off at the beginning of the reporting period, and the financial data was carved out in accordance with the spin-off principles stipulated in the spin-off agreement.

- (2) The Company retrospectively adjusted its accounting estimates and accounting policies as if those of Hua Hong Semiconductor Limited had been adopted at the beginning of the reporting period.
- (3) The pro forma financial statements do not include the pro forma statement of changes in owners' equity. When preparing the pro forma balance sheet, only the total owners' equity is presented, and the detailed items of owners' equity are no longer specifically distinguished.

#### **4. Major taxes and preferential policies**

The enterprise implements business accounting standards, with VAT rates of 13%, 9%, 6%, 3%, and 0%, an urban maintenance and construction tax rate of 5%, and education surcharge and local education surcharge rates of 3% and 2%, respectively.

According to the relevant provisions of the Notice of the State Council on Issuing Several Policies for Promoting the High-Quality Development of the Integrated Circuit Industry and Software Industry in the New Era (Guo Fa [2020] No. 8) issued by the State Council, and the Announcement on Enterprise Income Tax Policies for Promoting the High-Quality Development of the Integrated Circuit Industry and Software Industry (Announcement No. 45 of 2020 by the Ministry of Finance, the State Taxation Administration, the National Development and Reform Commission, and the Ministry of Industry and Information Technology) issued by the Ministry of Finance, the State Taxation Administration, the National Development and Reform Commission, and the Ministry of Industry and Information Technology, the Company is an integrated circuit manufacturing enterprise with a line width of less than 65 nanometers (inclusive) and an operating period of more than 15 years. In accordance with relevant tax laws, the Company is exempt from enterprise income tax for the first to fifth years from the profit-making year, and is subject to enterprise income tax at half the statutory rate of 25% from the sixth to tenth years.

#### **(III) Relationship between the client and the appraised entity**

The client 1, Shanghai Huahong (Group) Co., Ltd., is the controlling shareholder holding 63.5443% equity interest in Shanghai Huali Microelectronics Corporation, the appraised entity. The client 2, Hua Hong Semiconductor Limited, is the acquirer that intends to issue shares to purchase assets.

#### **(IV) Other users of asset appraisal reports**

Pursuant to the asset appraisal engagement contract, the users of this asset appraisal report shall be the clients, the relevant management and supervisory units, other users of the asset appraisal report as agreed in the engagement contract, and users of the asset appraisal report as required by national laws and administrative regulations. No other third party shall become a lawful user of this asset appraisal report by virtue of receiving the same.

## II. PURPOSE OF APPRAISAL

According to the Resolution on Promoting the Rainbow Project of Shanghai Huahong (Group) Co., Ltd. ((Hu Huahong Dong [2025] No. 8), the Announcement of Resolutions of the Board of Directors of Hua Hong Semiconductor Gang Hua Dong (2025) No. 15), and the Resolution on the Approval of the Equity Transfer of the Company of Shanghai Huali Microelectronics Co., Ltd. (Hu HLMC Gu (2025) No. 12), Hua Hong Semiconductor Limited intends to acquire 97.4988% equity interest in HLMC held by four HLMC shareholders, including Shanghai Huahong (Group) Co., Ltd., Shanghai Integrated Circuit Industry Investment Fund Co., Ltd., China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd., and Shanghai Guotou IC Fund Leading Integrated Circuit Private Equity Investment Fund Partnership (Limited Partnership), by way of issuing shares.

## III. APPRAISAL SUBJECT AND SCOPE OF APPRAISAL

### (I) Appraisal subject

The appraisal subject is the value of all shareholders' equity of the appraised entity. The appraisal subject is consistent with the proposed economic activity.

### (II) Scope of appraisal

The scope of appraisal covers all assets and liabilities of the appraised entity, specifically including current assets, non-current assets, and liabilities. The total book value of all assets declared by the appraised entity was RMB7,258,502,795.25, the total book value of liabilities was RMB5,256,589,024.59, and the owner's equity was RMB2,001,913,770.66. The scope of appraisal is consistent with the scope of valuation involved in the proposed economic activity.

The type and book value of the book assets in this asset appraisal report have been audited by Da Hua Certified Public Accountants (Special General Partnership), which issued a special audit report with a standard unqualified opinion, with report number: Da Hua Shen Zi [2025] 0011016213.

### (III) Main particulars of assets to be valued

The assets to be valued in this appraisal mainly include current assets and non-current assets. The non-current assets mainly include long-term receivables, fixed assets, construction in progress, right-of-use assets, intangible assets, long-term prepaid expenses, and other non-current assets. The specific details are as follows:

#### 1. *Current assets*

Current assets mainly consist of cash and bank balances, notes receivable, accounts receivable, prepayments, other receivables, inventories, non-current assets due within one year, and other current assets.

## 2. *Long-term receivables*

Long-term receivables are lease income from HLMC equipment rental.

## 3. *Equipment*

HLMC has a total of 28,122 sets of equipment, which fall into three categories according to their different uses: machinery, vehicles, electronic equipment, and other equipment.

- (1) 2,756 sets of machinery and equipment, mainly including: Specialized equipment for semiconductor device processing, other integrated circuit (IC) R&D and production equipment, and their supporting facilities, as well as supporting systems including security systems, power transformation and distribution equipment, pure water/wastewater/waste liquid systems, utility power equipment, chemical transportation systems, cleanroom systems, general mechanical and electrical systems, special gas systems, and fire protection systems. All IC R&D and production equipment and their supporting facilities are self-purchased by the enterprise. They were put into use after completion of installation, commissioning and acceptance, and are distributed in cleanrooms with good operating conditions. The supporting systems are mainly located in auxiliary production buildings.
- (2) Two vehicles, consisting of one Buick business MPV and one Honda Odyssey hybrid multi-purpose passenger vehicle.
- (3) 25,364 units/sets of electronic equipment and other equipment, mainly including reticle pods, forklifts, disk arrays and other network equipment, imagers and other instruments, office furniture, air conditioners, projectors, copiers, televisions, refrigerators, computers, etc., which are mainly distributed in the auxiliary production building and various functional departments.

Among the above equipment, 20,234 units (sets) of equipment had a zero original book value, mainly including: 138 units (sets) of machinery and equipment, and 20,096 units (sets) of electronic equipment and other equipment. The reasons for a zero original book value include gratuitous gifts from suppliers, the one-off expensing of certain assets due to changes in the scope of pro forma financial statements, and accounting under the net method for government grants. For details, please refer to “(V) Types and quantities of off-balance sheet assets declared by the appraised entity”.

#### 4. *Construction in process*

The book value of construction in progress – equipment installation projects was RMB137,406,487.45, of which equipment costs were RMB134,537,892.13, capital costs were RMB0.00, and installation fees and other costs were RMB2,868,595.32, for a total of 111 items, including physical vapor deposition tantalum nitride, copper thin-film equipment, high-coverage polysilicon film deposition equipment, technology licensing, and IP sharing service platforms.

#### 5. *Right-of-use assets*

As of the base date, HLMC's leases are as follows:

No.	Lessor	Lease address	Leased area	Lease term	Usage
1	Shanghai Grace Semiconductor Manufacturing Corporation	Premise at Plot 2, Block 13, Zhangjiang Hi-Tech Park, Pudong New Area, Shanghai	91,563.11 square meters	March 1, 2010 to February 28, 2030	Plant
2			Chemical warehouse, power plant, and production plant	20 years from the date of acceptance and delivery	
3			192 square meters	June 1, 2021 to December 31, 2025	Plant

#### 6. *Long-term deferred expenses*

Long-term deferred expenses are all prepaid plant renovation expenses.

#### 7. *Other non-current assets*

Other non-current assets primarily consist of prepayments for equipment.

### (IV) Other intangible assets declared by the appraised entity

#### 1. *Intangible assets recorded on the books*

The intangible assets recorded on the books declared by HLMC are mainly purchased software, IP, and licenses, totaling 244 items, with an original recorded amount of RMB511,322,687.50 and a book value of RMB129,892,439.12.



## 2. *Intangible assets not recorded on the books*

The unrecorded intangible assets declared by HLMC are mainly patents, integrated circuit layouts, and trademarks, and they are described as follows:

### (1) *Granted patents*

The total number of granted patents applied by HLMC is 2,043 patents. For the detailed list, please refer to “Report Schedule – Patent List.”

### (2) *Patents applied for but not yet granted*

The total number of unauthorized patents declared by HLMC is 434 patents. For the specific list, please refer to the “Report Schedule – Patent List.”

### (3) *Layout design of integrated circuits*

As of the base date, HLMC had 20 integrated circuit layout designs, which are as follows:

No.	Application number	Layout design name	Application date	Date of grant
1	BS.165515805	HL55LPPOR06S1V1P0	August 29, 2016	October 11, 2016
2	BS.165515813	HL55LPPOR12D1V1P0	August 29, 2016	October 12, 2016
3	BS.165515791	HL55LPAD12S025D1V1	August 29, 2016	October 12, 2016
4	BS.165515783	AD12S025D1V1_DAC	August 29, 2016	October 11, 2016
5	BS.165515775	HL55LPBGR12D1V1P0 TOP_B	August 29, 2016	October 12, 2016
6	BS.165515767	HL55LPVR100D1V1P0	August 29, 2016	October 11, 2016
7	BS.165515759	HL55LPBGR12D1V1P0 TOP_A	August 29, 2016	October 12, 2016
8	BS.165515732	HL55LPPLL1500S1V1P0_A	August 29, 2016	October 12, 2016
9	BS.165515740	HL55LPPLL1500D1V1P0	August 29, 2016	October 11, 2016
10	BS.165515724	HL55LPLD0100D1V1P0	August 29, 2016	October 11, 2016
11	BS.14500368X	HL55LPPOR12D1V1	April 30, 2014	June 19, 2014
12	BS.145000532	HL40LPPLL1500D1V1	January 17, 2014	March 31, 2014
13	BS.145000540	HL40LPEFS4096D1V1	January 17, 2014	March 5, 2014
14	BS.13501322.4	HL55LPDCD100D1V1	October 28, 2013	December 12, 2013
15	BS.13501320.8	HL55LPPOR06S1V1	October 28, 2013	December 12, 2013
16	BS.13501321.6	HL55LPP1500S1V2	October 28, 2013	December 12, 2013

No.	Application number	Layout design name	Application date	Date of grant
17	BS.13501319.4	HL55LPPLL1500D1V2	October 28, 2013	December 12, 2013
18	BS.13501318.6	HL55DRGEFS2048T1V1	October 28, 2013	December 12, 2013
19	BS.13501317.8	HL55LPBGR12D1V1	October 28, 2013	December 12, 2013
20	BS.13501323.2	HL55LPVR100D1V1	October 28, 2013	December 12, 2013

(4) *Trademarks*

As of the base date, HLMC had 10 trademarks, which are as follows:

No.	Registration certificate number/ Application number	Trademark name	Application date	Validity	International classification	Registrant
1	57819414	HLMC	February 7, 2022	February 6, 2032	Class 36 Finance and property management	Shanghai Huali Microelectronics Corporation
2	8817979	華力微	September 14, 2012	September 13, 2032	Class 40 Processing of materials	Shanghai Huali Microelectronics Corporation
3	8818131	HLMC	September 14, 2012	September 13, 2032	42 Design and research	Shanghai Huali Microelectronics Corporation
4	8817985	華力微	February 14, 2012	February 13, 2032	Category 9 Scientific Instruments	Shanghai Huali Microelectronics Corporation
5	8817984	HLMC	February 14, 2012	February 13, 2032	Category 9 Scientific Instruments	Shanghai Huali Microelectronics Corporation
6	8817986	華力	April 21, 2012	April 20, 2032	Category 9 Scientific Instruments	Shanghai Huali Microelectronics Corporation
7	8817977	華力微	July 7, 2012	July 6, 2032	42 Design and research	Shanghai Huali Microelectronics Corporation

No.	Registration certificate number/ Application number	Trademark name	Application date	Validity	International classification	Registrant
8	8817978	HLMC	July 7, 2012	July 6, 2032	Class 40 Processing of materials	Shanghai Huali Microelectronics Corporation
9	8817981	HLMC	December 14, 2011	December 13, 2031	Class 35 Advertising and sales	Shanghai Huali Microelectronics Corporation
10	8817982	華力微	December 7, 2011	December 6, 2031	Class 35 Advertising and sales	Shanghai Huali Microelectronics Corporation

**(V) Types and quantities of off-balance sheet assets declared by the appraised entity**

HLMC currently has a total of 20,234 units/sets of equipment with an original book value of zero, mainly including: 138 units/sets of machinery and equipment, and 20,096 units/sets of electronic equipment and other equipment. The reasons for a zero original book value include gratuitous gifts from suppliers, the one-off expensing of certain assets due to changes in the scope of pro forma financial statements, and accounting under the net method for government grants. Details are as follows:

- (1) A total of 93 units (sets) of equipment were gifted by suppliers, including 54 units (sets) of machinery and equipment, and 39 units (sets) of electronic equipment and other equipment.
- (2) Due to changes in the scope of the pro forma financial statements, a total of 20,033 units (sets) of equipment, all low-value electronic and other equipment, were adjusted to be expensed in one lump sum.
- (3) The enterprise adopts the net method to account for equipment purchased with government grants, directly offsetting the original value of fixed assets with the grants, resulting in a book value of zero for 108 units (sets) of equipment, including 84 units (sets) of machinery and equipment, and 24 units (sets) of electronic equipment and other equipment.

Upon inspection, the aforementioned equipment assets not reflected in the book value are still in normal use, mainly distributed in the auxiliary production building and various functional departments. These fixed assets will be included in the scope of appraisal.

Except for this, the appraised entity has not declared other off-balance-sheet assets.

**(VI) Types, quantity and carrying amount of assets in reports issued by other organizations**

This asset appraisal report does not cite the conclusions of reports issued by other institutions.

**IV. TYPE OF VALUE AND ITS DEFINITION**

Considering that the purpose of this appraisal is to issue shares for asset acquisition, and the asset appraisal business performed has no special restrictions or requirements on market conditions or the use of the appraisal subject, the type of value for this appraisal subject is determined to be market value based on factors such as the appraisal purpose, market conditions, and the appraisal subject's own conditions.

Market value refers to the estimated amount of the value of the appraisal subject in normal and fair transactions on the base date when the voluntary buyer and the voluntary seller act rationally and without any compulsion.

An "arm's length transaction" is a transaction between parties who have no specific or special relationship, that is, a transaction between parties who are assumed to be unrelated and acting independently of each other.

**V. BASE DATE**

The base date for this engagement is August 31, 2025.

The base date is determined by the asset appraiser and the client after considering the needs of implementing economic behaviors, the convenience of providing financial data at the end of the accounting period, and changes in interest rates and exchange rates before and after the base date.

**VI. BASIS OF APPRAISAL**

The details of the appraisal basis followed in this asset appraisal are as follows:

**(I) Economic behavior basis**

1. Resolution on Promoting the Rainbow Project of Shanghai Huahong (Group) Co., Ltd. (Hu Huahong Dong [2025] No. 8);
2. Announcement of Resolutions of the Board of Directors of Hua Hong Semiconductor Limited (Gang Hua Dong (2025) No. 15);
3. Resolution on the Approval of the Equity Transfer of the Company of Shanghai Huali Microelectronics Co., Ltd. (Hu HLMC Gu (2025) No. 12);

**(II) Legal and regulatory basis**

1. Asset Appraisal Law of the People's Republic of China (adopted at the 21st meeting of the Standing Committee of the 12th National People's Congress on July 2, 2016);
2. Company Law of the People's Republic of China (amended at the 7th meeting of the Standing Committee of the 14th National People's Congress on December 29, 2023);
3. Securities Law of the People's Republic of China (Revised at the 15th Session of the Standing Committee of the Thirteenth National People's Congress on December 28, 2019);
4. Administrative Measures for the Financial Supervision and Management of the Asset Appraisal Industry (issued by Decree No. 86 of the Ministry of Finance, amended by Decree No. 97 of the Ministry of Finance);
5. Law of the People's Republic of China on State-owned Assets of Enterprises (adopted at the Fifth Session of the Standing Committee of the Eleventh National People's Congress on October 28, 2008);
6. Interim Regulations on the Supervision and Management of Enterprise State-owned Assets (State Council Order No. 378, revised by State Council Order No. 709);
7. Measures for the Administration of State-owned Assets Appraisal (State Council Decree No. 91, revised by State Council Decree No. 732 in 2020);
8. Notice on Issuing the Implementation Rules for the Administrative Measures for State-owned Assets Appraisal (Guo Zi Ban Fa [1992] No. 36);
9. Interim Measures for the Administration of State-owned Enterprise Assets Appraisal (Decree No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

10. Circular on Issues Concerning Strengthening the Administration of State-owned Enterprise Assets Appraisal (Guo Zi Wei Chan Quan [2006] No. 274);
11. Measures for the Supervision and Administration of State-owned Equity in Listed Companies (Order No. 36 of SASAC, CSRC, and Ministry of Finance);
12. Notice on Matters Concerning the Review of Enterprise State-owned Asset Appraisal Reports (Guo Zi Chan Quan [2009] No. 941);
13. Guidelines for Filing of State-owned Enterprise Asset Appraisal Projects (Guo Zi Fa Chan Quan [2013] No. 64);
14. Shanghai State-owned Enterprise Asset Appraisal Report Review Handbook (Hu Guo Zi Wei Ping Gu [2018] No. 353);
15. Interim Measures for the Administration of State-owned Assets Appraisal of Enterprises in Shanghai (Hu Guo Zi Wei Ping Gu [2019] No. 366);
16. Manual for Approval and Filing of State-owned Asset Appraisal Projects of Enterprises in Shanghai (Hu Guo Zi Wei Ping Gu [2020] No.100);
17. Enterprise Income Tax Law of the People's Republic of China (Second Amendment by the Seventh Session of the Standing Committee of the Thirteenth National People's Congress on December 29, 2018);
18. Decision of the State Council on Abolishing the Interim Regulations of the People's Republic of China on Business Tax and Amending the Interim Regulations of the People's Republic of China on Value-Added Tax (State Council Order No. 691);
19. Detailed Rules for the Implementation of the Interim Regulations of the People's Republic of China on Value-Added Tax (Order No. 50 of the Ministry of Finance and the State Administration of Taxation, revised in accordance with Order No. 65 of the Ministry of Finance and the State Administration of Taxation in 2011);
20. Notice on the Comprehensive Implementation of the Pilot Program for the Conversion of Business Tax to Value Added Tax (Cai Shui [2016] No. 36);
21. Notice on Adjusting Value-Added Tax Rates (Cai Shui [2018] No. 32) issued by the Ministry of Finance and the State Taxation Administration;
22. Announcement on Policies Concerning Deepening Value-added Tax Reform (Announcement No. 39 of 2019 by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs);

23. Trademark Law of the People's Republic of China (Amended for the fourth time by the 10th Session of the Standing Committee of the 13th National People's Congress of the People's Republic of China on April 23, 2019);
24. Patent Law of the People's Republic of China (Fourth Revision by the 22nd Session of the Standing Committee of the 13th National People's Congress on October 17, 2020);
25. The Civil Code of the People's Republic of China (adopted at the third session of the Thirteenth National People's Congress on May 28, 2020);
26. Vehicle Acquisition Tax Law of the People's Republic of China (adopted at the 7th Session of the Standing Committee of the Thirteenth National People's Congress on December 29, 2018)
27. Other laws and regulations related to the appraisal work.

**(III) Appraisal criteria basis**

1. Basic Standards for Asset Appraisal (Cai Zi [2017] No. 43);
2. Code of Professional Ethics for Asset Appraisal (Zhong Ping Xie [2017] No. 30);
3. Asset Appraisal Practice Standards – Asset Appraisal Engagement Contract (Zhong Ping Xie [2017] No. 33);
4. Asset Appraisal Practice Standards – Utilization of Expert Work and Related Reports (Zhong Ping Xie [2017] No. 35);
5. Asset Appraisal Practice Standards – Intangible Assets (Zhong Ping Xie [2017] No. 37);
6. Asset Appraisal Practice Standards – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
7. Asset Appraisal Practice Standards – Asset Appraisal Report (Zhong Ping Xie [2018] No. 35);
8. Asset Appraisal Practice Standards – Asset Appraisal Procedures (Zhong Ping Xie [2018] No. 36);
9. Asset Appraisal Practice Standards – Asset Appraisal Files (Zhong Ping Xie [2018] No. 37);

10. Asset Appraisal Practice Standards – Enterprise Value (Zhong Ping Xie [2018] No. 38);
11. Asset Appraisal Practice Standards – Asset Appraisal Methods (Zhong Ping Xie [2019] No. 35);
12. Asset Appraisal Practice Standards – Intellectual Property (Zhong Ping Xie [2023] No. 14);
13. Guidelines for Enterprise State-owned Asset Appraisal Reports (Zhong Ping Xie [2017] No. 42);
14. Guidelines for Business Quality Control of Asset Appraisal Institutions (Zhong Ping Xie [2017] No. 46);
15. Guidance on Types of Asset Appraisal (Zhong Ping Xie [2017] No. 47);
16. Guidance Opinions on Legal Ownership of Assets to be Appraised (Zhong Ping Xie [2017] No. 48);
17. Guidance on Patent Asset Appraisal (Zhong Ping Xie [2017] No. 49);
18. Guidance on Trademark Asset Appraisal (Zhong Ping Xie [2017] No. 51).

**(IV) Asset title basis**

1. State-funded enterprise property registration certificate;
2. Building lease contract;
3. Patent certificates or application notices;
4. Copyright certificate;
5. Trademark registration certificate;
6. Motor vehicle driving license;
7. Significant contracts or accounting vouchers for asset purchases;
8. Fixed assets ledger, accounting books, etc.;
9. Other documentary evidence of title to assets.



**(V) Basis of pricing for appraisal**

1. The latest loan prime rate (LPR) authorized to be announced by the National Interbank Funding Center;
2. The mid-point rate of the benchmark exchange rate announced by the State Administration of Foreign Exchange of the People's Bank of China on the base date;
3. Electromechanical Products Quotation Handbook published by China Machine Press;
4. Vehicle price information from Dongchedi (懂車帝) and other online channels;
5. Price information about the equipment available for online inquiry;
6. Historical financial statements and audit reports of the appraised entity;
7. Historical annual contracts and order information provided by the management of the appraised entity;
8. Financial data and capital market information from the Flush Information System;
9. On-site inspection records of asset appraisers and other relevant valuation information collected.

**(VI) Other references**

1. The appraised entity and its management provided the accounting statements, ledgers, vouchers, and asset appraisal declaration forms as of the base date;
2. Handbook of Common Technical Indicators and Parameters for Asset Appraisal (Economic Management Press, 2019 Edition);
3. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Order No. 12 in 2012 of the Ministry of Commerce, National Development and Reform Commission, the Ministry of Public Security, and the Ministry of Environmental Protection);
4. National macroeconomic, industry, regional market, and enterprise statistical analysis data;
5. Technical statistics of Shanghai Orient Appraisal Co., Ltd.;
6. Other relevant references.

## **VII. APPRAISAL APPROACH**

### **(I) Overview of appraisal approach**

In accordance with the Basic Standards for Asset Appraisal and the Asset Appraisal Practice Standards – Asset Appraisal Methods, the appraisal methods used to determine asset value include three basic approaches, namely the market approach, the income approach, and the cost approach, and their respective derivative methods.

In accordance with the Asset Appraisal Practice Standards – Enterprise Value, the three basic methods that can be adopted for enterprise value appraisal are the income approach, the market approach, and the cost approach (asset-based approach):

The income approach refers to an appraisal method to determine the value of the appraisal object by capitalization or discounting its expected income. The income approach is adopted for enterprise valuation, which emphasizes the overall expected profitability of the enterprise.

The market approach refers to an appraisal method that determines the value of the appraisal object by comparing it with comparable listed companies or comparable transaction cases. The market approach is adopted for enterprise valuation, which is characterized by direct selection of valuation data from the market and strong persuasiveness of appraisal results.

Asset-based approach refers to an appraisal method that determines the value of the appraisal object by reasonably assessing the value of all on-balance sheet and identifiable off-balance sheet assets and liabilities of the enterprise, based on the balance sheet of the appraised entity on the appraisal base date. The asset-based approach for enterprise valuation may not allow every asset and liability to be fully identified and individually valued.

### **(II) Selection of appraisal method**

In accordance with the Asset Appraisal Practice Standards – Enterprise Value, “when conducting enterprise value appraisal, the applicability of the three basic methods, namely the income approach, market approach, and cost approach (asset-based approach), should be analyzed based on the appraisal purpose, appraisal subject, value type, data collection, and other circumstances, and the appraisal method should be selected.” “For enterprise value appraisals suitable for different appraisal methods, asset appraisal professionals should use two or more appraisal methods.”

Applicability analysis of the asset-based approach: The basic idea of the asset-based approach is to rebuild or replace the asset being appraised in its current condition, with the potential investor being willing to pay no more than the current acquisition and construction cost of the asset at the time he or she decides to invest in the asset. This appraisal project can meet the conditions required by the asset-based approach, that is, the appraised asset is in a state of continued use or is assumed to be in a state of continued use, and has available historical operating data. The asset-based approach can satisfy the requirements of the type of value for this appraisal.

Market approach applicability analysis: The basic idea of the market approach is to obtain the market value of the appraised entity by comparing and adjusting with comparable companies. Currently, there are sufficient comparable listed companies in the capital market relative to the appraised entity, and their disclosed information is relatively adequate, making the market approach suitable for this appraisal.

Applicability analysis of income approach: The appraised entity is a wafer foundry enterprise. The wafer foundry industry is significantly affected by international relations and the macro-environment, has strong cyclicalities and uncertainty, and its future profitability is difficult to reliably predict. Furthermore, against the backdrop of current international semiconductor equipment import controls, domestic wafer manufacturing enterprises generally rely on regular maintenance and component replacement to extend the useful life of equipment to maintain production continuity. However, with the acceleration of technological iteration, the advancement of the localization process of semiconductor equipment, and the rising maintenance costs and gradually declining economic efficiency of old equipment, HLMC's future equipment maintenance and upgrade path faces multiple scenarios, such as continued regular maintenance or equipment replacement. The equipment lists, localization ratios, and capital expenditure budgets corresponding to different scenarios vary significantly, thus presenting considerable uncertainty. Such uncertainties will make it more difficult for enterprises to predict future capital expenditure plans and production cost structures, and the related risks will also be difficult to quantify reliably.

The premise for applying the income approach is the ability to make reasonable and reliable predictions of the enterprise's future earnings and related risks. Given the high uncertainty regarding equipment replacement and capital expenditure faced by HLMC at the base date, management believes that under current conditions, it is not possible to form a reasonably based prediction for HLMC's operating income and risks in future years. Therefore, this appraisal does not meet the preconditions for adopting the income approach.

Based on the above analysis, the asset-based approach and the market approach are adopted for this appraisal.

### **(III) Introduction to asset-based approach**

The asset-based approach specifically refers to the method of adding up the appraised value of the various elemental assets that make up a business and subtracting the appraised value of the liabilities to arrive at the value of the total shareholders' equity of the enterprise.

The appraisal method for various major assets and liabilities are as follows:

**1. *Monetary funds***

Monetary funds include cash, bank deposits, and other monetary funds. For RMB cash and bank deposits, the assessed value is based on the verified amount; and for foreign currency cash and bank deposits, the assessed value is determined by the verified foreign currency book amount on the basis of the RMB to foreign currency exchange rate on the base date.

**2. *Receivables***

Receivables mainly include notes receivable, accounts receivable, prepayments, and other receivables. Based on the verified receivables, the appraised value is determined by the estimated recoverable amount after deducting assessed risk losses for each item. The appraised risk of loss is 0% for full collection of the receivables from related parties based on good reasons. For amounts with conclusive evidence that they cannot be recovered or are severely overdue, the risk loss rate is assessed at 100%. For cases where a portion of the payment is highly unlikely to be recovered, and the unrecoverable amount is difficult to ascertain, the estimated valuation of receivables is derived by using historical data and current investigation findings, applying the aging analysis method to estimate the assessed risk loss as a deduction. The “provision for bad debts” account on the books is calculated at zero value.

**3. *Inventories***

Inventories include raw materials, contract performance costs, finished products, and work in progress. The specific appraisal methods are as follows:

**(1) Raw materials**

The appraised value of raw materials is determined by multiplying the quantity verified through inspection by the current market purchase price, plus reasonable freight and miscellaneous charges, wastage, acceptance and warehousing fees, and other reasonable expenses. The raw materials of the appraised entity are accounted for using actual cost, and the book value includes the purchase price and other reasonable expenses. For raw materials with significant price fluctuations, the appraised value is determined based on the recent market prices as at the valuation benchmark date, taking into account reasonable expenses; for raw materials with insignificant price fluctuations, the appraised value is determined based on the verified book value.

## (2) Finished products

Finished goods are appraised as normal finished goods based on the tax-exclusive selling prices provided by the enterprise, taking into account the selling expenses and operating profit of the products.

Appraised value of normal products = quantity of finished goods × unit selling price excluding VAT – selling expenses – sales taxes and surcharges – income tax – portion of net profit = quantity of finished goods × unit selling price (excluding tax) × 1 – selling expense rate – sales taxes and surcharges rate – sales profit margin × income tax rate – sales profit margin × (1 – income tax rate) × net profit discount rate

The provision for write-down of finished goods originally recognized on the books was appraised at nil.

## (3) Work in progress

Normal work-in-progress is appraised based on the tax-exclusive selling price provided by the enterprise, in combination with the selling expenses and operating profit of the products, and with reference to the completion progress of such work-in-progress.

Appraised value of normal work-in-progress = quantity of finished goods × unit selling price (excluding tax) × percentage of completion × 1 – selling expense rate – sales taxes and surcharges rate – sales profit margin × income tax rate – sales profit margin × (1 – income tax rate) × net profit discount rate

The selection of various parameters is the same as those for finished goods.

**4. *Non-current assets due within one year***

The item of non-current assets due within one year reflects the amount of non-current assets of an enterprise that are due within one year, which is the portion of long-term receivables due within one year. The verification method is consistent with that for long-term receivables. Through verification, the book value is confirmed to be true, and the appraised value is determined based on the verified book value.

**5. *Long-term receivables***

Long-term receivables are equipment lease payments receivable from HLMC. After checking relevant contracts and other documents, the appraisers confirmed that the book value was the earnings owned by HLMC, and the valuation was based on the book value.

## 6. *Equipment assets*

According to the Asset Appraisal Practice Guidelines – Machinery Equipment, when performing any valuation of machinery equipment, the applicability of the three basic asset appraisal approaches, namely the cost approach, the market approach and the income approach, shall be analyzed based on the purpose of valuation, the appraisal subject, the type of value, the collection of information, etc. to select the valuation approach. This appraisal adopts the cost approach for machinery and equipment, electronic equipment, and other equipment, based on an analysis of the characteristics, uses, and data collection status of the various types of equipment involved; the market approach is adopted for vehicles.

*Machinery and equipment, electronic equipment and other equipment (cost approach)*

The cost approach valuation formula is:

$$\begin{aligned} \text{Appraised Value} = & \text{Full replacement cost} - \text{Substantive depreciation} - \text{Functional} \\ & \text{depreciation} - \text{Economic depreciation} = \text{Full replacement price} \\ & \times \text{Comprehensive newness rate} \end{aligned}$$

### (1) Determination of full replacement cost

The full replacement cost is composed of the acquisition price of the equipment at the base date (i.e., the current replacement cost), transportation and miscellaneous expenses, foundation costs, installation and commissioning costs, and other reasonable expenses. Generally, it refers to the replacement cost new, which is:

$$\begin{aligned} \text{Full replacement cost} = & \text{replacement cost at current price} + \text{freight and} \\ & \text{miscellaneous expenses} + \text{foundation cost} + \text{installation and commissioning} \\ & \text{expenses} + \text{other reasonable expenses} \end{aligned}$$

According to Article 8 of the Interim Regulations of the People's Republic of China on Value-Added Tax, which was promulgated on November 10, 2008, as Decree No. 538 of the State Council of the People's Republic of China, and came into effect on January 1, 2009: "The value-added tax paid or borne by a taxpayer for purchasing goods or receiving taxable services shall be input tax, which is allowed to be deducted from the output tax."

Pursuant to Cai Shui [2016] No. 36 Notice on the Comprehensive Implementation of the Pilot Program for the Conversion of Business Tax to Value Added Tax issued on March 23, 2016, starting from May 1, 2016, the replacement of business tax with value-added tax was fully implemented nationwide. Industries such as construction, real estate, finance, and lifestyle services, which previously paid business tax, now pay value-added tax. Therefore, the input tax on related expenses involving equipment is allowed to be deducted from the output tax.

According to Announcement No. 39 of 2019 Announcement on Relevant Policies Concerning Deepening Value-added Tax Reform issued by the Ministry of Finance, the State Taxation Administration, and the General Administration of Customs on March 20, 2019, effective from April 1, 2019, for VAT general taxpayers engaging in VAT taxable sales or importing goods, the VAT rate will be adjusted from the original 16% to 13%; and from the original 10% to 9%.

Since the VAT amount of fixed assets purchased by enterprises can be deducted from the output tax, the full replacement price of the equipment should exclude VAT, i.e.:

Full replacement value = replacement current value + transportation and miscellaneous expenses + basic expenses + installation and commissioning expenses + other reasonable expenses – deductible VAT

(2) Determination of comprehensive newness rate

1) Determination of newness rate of key equipment with large value

Based on the theoretical newness rate under the age approach, and combined with various factors for adjustment, the comprehensive newness rate of the equipment is ultimately and reasonably determined. The calculation formula is as follows:

Comprehensive newness rate = theoretical newness rate × adjustment coefficient K

where:

Theoretical newness rate = Remaining useful life ÷ (Lapsed useful life + Remaining useful life) × 100%

Adjustment coefficient K = K1 × K2 × K3 × K4 × K5, etc., i.e.:

Integrated newness rate = theoretical newness rate × K1 × K2 × K3 × K4 × K5

Various adjustment factors mainly include the original manufacturing quality of the equipment, maintenance (including major repairs, etc.), the operating status and failure frequency of the equipment, the utilization rate of the equipment, and the environmental conditions of the equipment.

The remaining useful life is determined based on the actual operating condition of the equipment.

2) Determination of the newness rate of general equipment and electronic equipment with relatively small value

The theoretical newness rate is directly determined by the life-based approach.

*Vehicle (market approach)*

The market comparison approach is an appraisal method based on the principle of substitution, which compares the appraisal object with similar vehicles that have recently been transacted. The transaction prices of these similar vehicles are then adjusted for transaction date, transaction conditions, individual factors, etc., to derive the value of the appraisal object. The formula for the vehicle market approach is as follows:

Vehicle market value = comparable transaction instance tax-exclusive price × transaction date adjustment coefficient × transaction condition adjustment coefficient × individual factor adjustment coefficient

*Regarding the determination of vehicle license fees*

In order to strengthen the control of the total number of motor vehicles in Shanghai and regulate the management of non-commercial passenger vehicle quotas, according to the Regulations on the Administration of Non-Commercial Passenger Vehicle Quota Auction (Hu Fu Fa [2016] No. 37) issued by Shanghai Municipal People's Government, non-commercial passenger vehicle quotas refer to the license plate indicators for non-commercial passenger cars obtained through auction, allowing for personal use and official business in the central urban area of the city, including individual passenger vehicle quotas and unit passenger vehicle quotas.

Due to the use of auction as a market-oriented allocation method, Shanghai passenger vehicle licenses have been commercialized. Currently, except for Hu C licenses and those for new energy passenger vehicles, all non-commercial "Hu" prefix passenger vehicle licenses for official use by entities must be obtained through auctions. Given the current status of license plate management in China, in recent years, cities such as Guangzhou, Hangzhou, Shenzhen, and Tianjin have successively adopted auctions for their license plates to control the total number of motor vehicles in their respective cities. Therefore, the market value of passenger vehicle licenses objectively exists.

In conclusion, in this appraisal of Shanghai non-Shanghai C passenger vehicles and non-new energy passenger vehicle licenses, it is proposed to refer to market conditions and consider the value of non-operating passenger vehicle licenses for official use.

Vehicle license fees are appraised based on the average transaction price of non-operating passenger vehicle quotas for units in Shanghai during the month of the base date, as announced by Shanghai International Commodity Auction Co., Ltd..

Vehicle license fees are not included in the newness rate and are directly added to the appraised value.



### **7. *Construction in process***

Construction in progress – equipment installation project is calculated based on the replacement cost plus capital cost at the benchmark date exchange rate, and the formula is as follows:

Assessed value = appraised value of equipment cost + appraised value of installation cost and other costs + appraised value of capital cost

Appraised value of capital cost = Tax-inclusive replacement cost of construction in progress  $\times$  Annual loan interest rate  $\times$  Capital occupation period/2

### **8. *Right-of-use assets***

The appraisers confirmed the authenticity and validity of the assets and the accuracy of their book measurement by checking relevant contracts, payment vouchers, the location, quantity, commencement and expiry dates of right-of-use assets, and the amortization process, and appraised them based on the verified book value.

### **9. *Intangible assets – other intangible assets***

Intangible assets mainly comprise purchased software, IP, and licenses reflected in the accounts; and patents, trademarks, integrated circuit layout designs, domain names, technical service licenses, etc., not reflected in the accounts. According to the Asset Appraisal Practice Standards – Intangible Assets, the appraisal method for determining the value of intangible assets include the three basic methods of market approach, income approach, and cost approach, as well as their derivative methods. A reasonable appraisal approach is selected after a thorough understanding of the relevant circumstances of the appraisal subject and the information collected and an analysis of the applicability of the above three basic methods.

- (1) Purchased software and IP: The book value of such intangible assets has experienced minor price fluctuations in recent years. Although amortization has been provided for accounting purposes, they can still be used indefinitely. This appraisal is determined based on the market price at the base date.
- (2) License: The book value of such intangible assets has experienced relatively small price fluctuations in recent years, and has been amortized based on their licensed useful lives. The valuation is determined based on the remaining benefit period, provided that the benefit period and amount have been verified as accurate.

- (3) Patents and integrated circuit layout designs: The market value of the intangible assets under valuation is determined by calculating their reasonable cost, profit, capital cost, and related taxes and fees, based on all inputs for forming the intangible assets and considering the correlation between the value and cost of the intangible assets, to arrive at their replacement cost, and then accounting for depreciation factors.
- (4) Trademarks: As trademarks serve to identify the company's products, it is difficult to forecast their future profit contribution using the excess earnings method or the intangible asset royalty method. Therefore, the cost approach is adopted for the valuation of registered trademarks.

#### ***10. Long-term prepaid expenses***

Based on verifying the consistency of the subsidiary ledger, general ledger, and valuation declaration form, the appraisers randomly checked the relevant original accounting vouchers for items with large amounts or long durations, understood the basis for recognition and the amortization period, and randomly checked the relevant amortization vouchers.

The appraisers reviewed the relevant contracts and the amortization process, and after verification, the enterprise's amortization is normal. Assessed at book value.

#### ***11. Other non-current assets***

Other non-current assets are prepayments for equipment made by the enterprise, and the appraised value is determined based on the verified carrying amount.

#### ***12. Liabilities***

Liabilities mainly include current liabilities and non-current liabilities. Based on the verification and confirmation, the appraised value is determined by the debtor and the amount of liabilities that the appraised entity actually needs to bear after the economic activity for the appraisal purpose is implemented.

### **(IV) Introduction to Market Approach**

#### ***1. Overview***

The market approach refers to a appraisal approach that determines the value of the appraisal object by comparing it with comparable listed companies or comparable transaction cases. The market approach is essentially a valuation technique that determines the value of an enterprise or equity by utilizing transaction information or reasonable quotation data of similar cases that have been transacted in an active trading market, through comparative analysis.

Two methods commonly used in the market approach are the listed company comparison method and the transaction case comparison method.

The listed company comparison method refers to a specific method for determining the value of an appraisal object by obtaining and analyzing the operating and financial data of comparable listed companies, calculating appropriate value ratios, and conducting a comparative analysis with the appraised entity.

The comparable transaction method refers to a specific method of determining the value of the appraisal subject based on obtaining and analyzing information on the transaction, acquisition and merger cases of comparable companies, calculating appropriate value ratios, and making comparative analyzes with the valuation entity.

Given that at least three comparable listed companies in the same industry as the appraisal subject can be found in the A-share capital market, and their operating and financial data can be fully and reliably obtained, the listed company comparison method is selected for this appraisal.

## **2. *Appraisal steps***

### **(1) Identify comparable companies.**

Since the appraised entity is a non-listed company, its equity does not have a publicly traded market, and therefore its market value cannot be directly determined. We select comparable companies from domestic listed companies, and the screening process for comparable companies is as follows:

- 1) Preliminary screening is conducted based on the industry, main business model, and product type of the entity being evaluated. The screening criteria for comparable companies are as follows:
  - ① As of the base date, it must have been listed for at least two years to avoid the impact of share price fluctuations caused by insufficient market information, IPO effects, market expectations, and other factors.
  - ② The industry where it operates must be the semiconductor manufacturing or wafer foundry industry, i.e., the industry of the appraised entity, and its main business model is IDM (Integrated Device Manufacturer) or Foundry (Foundry model) model, which involves large-scale investment, high capital expenditure, and continuous investment in technology and processes, and its product application areas are similar to those of the appraised entity.

- ③ The shares were normally traded on the base date and were not in an abnormal trading state such as a trading halt, nor did the share price fluctuate abnormally due to a recent merger, acquisition, or restructuring transaction on the base date.
- ④ Given that ST shares (stocks under delisting risk warning) are more likely to deviate significantly from their actual value due to speculative and manipulative factors in the market, ST shares are excluded from the scope of comparable companies.

The appraisers in this appraisal have screened listed companies that belong to the same category as the appraised entity under the SWS Industry Classification – Electronics – Semiconductors – Discrete Devices, Integrated Circuit Manufacturing, and a total of 25 listed companies (list) was selected, with details as follows:

Stock code	Name of securities	Date of listing	Screening process
688249.SH	Nexchip	May 5, 2023	<b>Its operating model is mainly Foundry model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
688347.SH	Hua Hong	August 7, 2023	The company experienced abnormal trading such as trading suspension during the recent period prior to the base date, so it is excluded from screening
688396.SH	CR Micro	February 27, 2020	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
688469.SH	UNT	May 10, 2023	The company experienced merger, acquisition and restructuring during the recent period prior to the base date, so it is excluded from screening
688691.SH	Brite	April 11, 2024	It mainly operates under Fabless model, which is significantly different from the process of the appraised entity, so it is excluded from screening

Stock code	Name of securities	Date of listing	Screening process
688981.SH	SMIC	July 16, 2020	It mainly operates under Foundry model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
300456.SZ	SMEI	May 14, 2015	It mainly operates under Foundry model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
600360.SH	* ST Huawei	March 16, 2001	Its shares are under special treatment (ST), and its share price deviates significantly from its actual value, so it is excluded from screening
<b>600460.SH</b>	<b>Silan Microelectronics</b>	<b>March 11, 2003</b>	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
600745.SH	Wingtech Technology	August 28, 1996	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
603290.SH	StarPower Semiconductor	February 4, 2020	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
605111.SH	NCE Power	September 28, 2020	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688048.SH	Everbright	April 1, 2022	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening

Stock code	Name of securities	Date of listing	Screening process
688167.SH	Focuslight Technologies	December 24, 2021	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
688172.SH	Yandong Microelectronics	December 16, 2022	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
688230.SH	Prisemi	December 1, 2021	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688261.SH	Oriental Semiconductor	February 10, 2022	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688498.SH	Yuanjie Technology	December 21, 2022	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
688689.SH	Galaxy Microelectronics	January 27, 2021	It mainly conducts semiconductor packaging and testing, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688693.SH	Convert	August 18, 2023	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688711.SH	MACMIC	September 1, 2021	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening

Stock code	Name of securities	Date of listing	Screening process
300046.SZ	Tech Semi	January 20, 2010	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
300373.SZ	Yangjie Technology	January 23, 2014	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
300623.SZ	Jie Jie Microelectronics	March 14, 2017	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
300831.SZ	Peri	May 7, 2020	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening

After preliminary screening, profiles of the companies that meet the above reference standards (namely they are comparable in terms of industry, main operational model and product types) are shown in the following table:

Stock Code	Name of security	Corporate Profile	Composition of Main Operations
688249.SH	Nexchip	The main business of Hefei Nexchip Semiconductor Corporation is 12-inch wafer foundry business and its supporting services. The company's main products are DDIC, CIS, PMIC, MCU, and Logic.	Integrated circuit wafer foundry: 98.5703%; Other operations: 1.4020%; Others: 0.0277%

Stock Code	Name of security	Corporate Profile	Composition of Main Operations
688396.SH	CR Micro	The principal business of China Resources Microelectronics Limited is power semiconductors, smart sensors, and smart control, providing customers with a wide range of semiconductor products and system solutions. The Company's main products are MOSFETs, IGBTs, power diodes, IoT application-specific ICs, power ICs, optocouplers and sensors, SiC, and GaN.	Products and solutions: 50.9277%; Manufacturing and services: 46.3278%; Other businesses: 2.7445%
600460.SH	Silan Microelectronics	Hangzhou Silan Microelectronics Co., Ltd. is mainly engaged in the research and development, manufacturing, and sales of electronic components. The company's main products are silicon-based integrated circuits, discrete devices, and compound semiconductor devices (LED chips and finished products, SiC, GaN power devices).	Discrete device products: 48.4601%; Integrated circuits: 36.5858%; Light-emitting diode products: 6.8476%; Other businesses: 4.4177%; Others: 3.6887%
688172.SH	Yandong Microelectronics	The principal business of Beijing Yandong Microelectronics Co., Ltd. consists of two categories: products and solutions, and manufacturing and services. The Company's main products are products and solutions, manufacturing and services.	Products and solutions: 47.1756%; Manufacturing and services: 43.9067%; Others: 5.7855%; Other businesses: 3.1323%



Stock Code	Name of security	Corporate Profile	Composition of Main Operations
300373.SZ	Yangjie Technology	The main business of Yangzhou Yangjie Electronic Technology Co., Ltd. is the design, manufacturing, packaging, testing, research and development, production, and sale of power semiconductor wafers, chips, and devices. The company's main products are semiconductor devices, semiconductor chips, and semiconductor wafers.	Semiconductor devices: 86.2474%; Semiconductor chips: 8.3270%; Semiconductor silicon wafers: 3.0766%; Other business income: 2.3490%
300623.SZ	Jie Jie Microelectronics	The main business of Jiangsu JieJie Microelectronics Co., Ltd. is the research and development, design, production, and sales of power semiconductor chips and devices. The Company's main products are thyristor series, protection device series, diode series, MOSFET series, IGBT series, thick film modules, silicon carbide devices, and others.	Power semiconductor devices: 66.9693%; power semiconductor chips: 31.0471%; other business income: 1.3637%; power device packaging and testing: 0.6199%

- 2) Given that the appraised entity is an independent wafer foundry, if the business scale of comparable listed companies is smaller than that of the appraised entity and the gap is significant, their comparability will be correspondingly weakened. In addition, considering that the book value of fixed assets of the appraised entity had been almost fully depreciated as of the base date, and its main production and operation sites were all leased, without self-owned factory buildings and land, comparable samples of equipment-type fixed assets with similar original book value were selected in this screening process.

The original book value of equipment-type fixed assets for each company is calculated as follows:

Stock code	Name of security	Original book value of equipment assets (RMB: 100 million)
<b>688249.SH</b>	<b>Nexchip</b>	<b>373.37</b>
<b>688396.SH</b>	<b>CR Micro</b>	<b>208.96</b>
<b>600460.SH</b>	<b>Silan Microelectronics</b>	<b>114.24</b>
688172.SH	Yandong Microelectronics	67.74
300373.SZ	Yangjie Technology	47.07
300623.SZ	Jie Jie Microelectronics	54.72
Assessed entity	HLMC	153.59

The profiles of the comparable listed companies finally selected are shown in the following table:

Stock code	Name of security	Date of listing	Corporate profile	Main operation
688249.SH	Nexchip	May 5, 2023	The main business of Hefei Nexchip Semiconductor Corporation is 12- inch wafer foundry business and its supporting services. The company's main products are DDIC, CIS, PMIC, MCU, and Logic.	12-inch wafer foundry business.

Stock code	Name of security	Date of listing	Corporate profile	Main operation
688396.SH	CR Micro	February 27, 2020	The principal business of China Resources Microelectronics Limited is power semiconductors, smart sensors, and smart control, providing customers with a wide range of semiconductor products and system solutions. The Company's main products are MOSFETs, IGBTs, power diodes, IoT application-specific ICs, power ICs, optocouplers and sensors, SiC, and GaN.	Integrated operation of the entire industry chain, including chip design, wafer manufacturing, and packaging and testing.
600460.SH	Silan Microelectronics	March 11, 2003	The principal business of Hangzhou Silan Microelectronics Co., Ltd. is the R&D, production and sale of electronic components. The company's main products are silicon-based integrated circuits, discrete devices, and compound semiconductor devices (LED chips and finished products, SiC, GaN power devices).	Research and development, production, and sales of electronic components.

- (2) Make necessary adjustments for the differences between the appraised entity and comparable companies.

Information of the comparable companies obtained from public and legal channels, including their operation and financial information, are compared and analyzed against the actual situation of the appraised entity. Necessary adjustments are made for differences.

(3) Select and determine the value ratio.

1) Selection of value ratio

Valuation ratios usually include asset value ratio, earnings ratio, revenue value ratios, and other specific value ratios. Applicable value ratio should be selected based on factors such as the industry characteristics and operating stage of the appraised entity, and the value ratio of each comparable listed company should be calculated. The following factors were fully considered during the selection process: the selected value ratio is conducive to reasonably determining the value of the subject of appraisal; the data scope and calculation method for calculating the value ratio are consistent; and when applying the value ratio, differences between comparable companies and the appraised entity are reasonably adjusted as much as possible. The value ratio selected is as follows:

① Asset value ratio

Asset value ratios include price-to-book ratio (P/B), enterprise value to total business value of invested capital ratio (EV/TBVIC) and other ratios. Since the main fixed assets of the appraised entity as of the base date had with a low book net value ratio, the net assets and total assets as of the base date were at a relatively low level in the enterprise's life cycle. In comparison, the average net asset ratio of the selected comparable listed companies was approximately 50%, indicating a significant difference in their asset bases. Although net assets and total assets are relatively less affected by cyclical fluctuations in the industry, their values often show significant differences at various stages of a company's life cycle. The current low net asset status of the appraised entity reflects the reality that its assets have accumulated depreciation over many years, resulting in a low book value. If value ratio based on book value, such as P/B or EV/TBVIC, were used at this time, it would easily lead to distorted appraisal results. Therefore, the asset value ratio was not adopted in this appraisal.

② Earnings ratio

Earnings ratios include price-to-earnings ratio (P/E), enterprise value to earnings before interest and taxes ratio (EV/EBIT), and enterprise value to earnings before interest, taxes, depreciation and amortization ratio (EV/EBITDA) and others. As a wafer foundry enterprise, the appraised entity is characterized by high capital investment and a long return cycle. After deducting high depreciation and amortization expenses, earnings before interest and taxes (EBIT) often shows temporary losses or low profit levels. This situation will lead to a distortion of value ratios such as the price-to-earnings ratio (P/E) and the enterprise value to earnings before interest and taxes ratio (EV/EBIT). Therefore, the above value ratios are not applicable to this appraisal. In contrast, the enterprise value to earnings before interest,

taxes, depreciation, and amortization ratio (EV/EBITDA), by adding back depreciation and amortization, eliminates the impact of high capital expenditure characteristics on EBIT, thus providing a fairer measure of the appraised entity's sustainable operations. Therefore, this appraisal adopts the Enterprise Value to Earnings Before Interest, Taxes, Depreciation and Amortization ratio (EV/EBITDA).

### ③ Revenue-to-value ratio

Revenue-to-value ratios include price-to-sales ratio (P/S), enterprise value-to-sales ratio (EV/S) and others. The valuation logic implied by the revenue-to-value ratio is that there is a direct and stable linear relationship between a company's core value and its sales revenue scale. However, for wafer foundries, their core value primarily depends on factors such as technological processes, which ultimately reflect the enterprise's sustained operations. The earnings value ratio is more consistent with the valuation logic of the wafer foundry industry; therefore, the revenue value ratio was not adopted in this appraisal.

## 2) Relevance test

The appraisers conducted a linear regression analysis of the EV/EBITDA value ratio for the three selected comparable companies, with Enterprise Value (EV) as the dependent variable and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) as the independent variable. The relevant analysis results are shown in the table below:

<b>Test indicators</b>	<b>EV/EBITDA</b>
R	0.9461
R-squared value	0.8951

After the relevance test, the R-squared value of EV/EBITDA is relatively high. An R-squared between 0.7 and 0.9 is generally considered to indicate a high degree of fit, meaning there is a strong positive correlation between EBITDA and enterprise value. Therefore, EV/EBITDA should be adopted as the valuation multiple for this appraisal.

## (4) Determine the appraisal conclusion.

After adjusting and calculating the value ratios of comparable companies, and combining them with the relevant financial data or indicators of the appraised entity, the enterprise value of the appraised entity is calculated. By adjusting the non-operating assets, liabilities, and surplus assets of the appraised entity, the total equity value of the shareholders of the appraised entity is finally obtained.

(5) Consideration of liquidity and control

The market approach in this appraisal adopts the listed company comparison method. Since the selected comparable companies are listed companies and the appraised entity is a non-listed company, the impact of liquidity on the value of the appraised entity has been considered in the valuation.

As there is currently no reliable control premium rate or authoritative statistical data on the lack of control discount rate for the Chinese market that is recognized by all market participants, the impact of control on the value of the appraisal subject was not considered in this market approach valuation.

## VIII. IMPLEMENTATION PROCESS AND STATUS OF APPRAISE PROCEDURES

We have implemented the appraisal procedures for this engagement in accordance with China's asset appraisal standards and relevant principles and regulations for national asset valuation. The entire appraisal procedure is mainly divided into the following four stages:

### (I) Appraisal preparation

1. Upon accepting this engagement, we immediately communicated and reached a consensus with the client regarding the purpose of this appraisal, the base date, and the scope of the appraisal subject, entered into a business engagement contract, and prepared the asset appraisal plan for this engagement.
2. Collaborate with the enterprise in asset stocktaking, guide and assist the enterprise with declaration of asset within the valuation scope and prepare documents and information necessary for asset appraisal.

### (II) On-site appraisal

Based on the overall schedule of this engagement, the on-site appraisal and investigation was conducted from late August to late September 2025. After selecting the appraisal method applicable to this appraisal, the following on-site appraisal procedures were mainly carried out:

1. Verify and check the assets and relevant information within the scope of appraisal declared by the enterprise:
  - (1) Obtain an introduction from the client and relevant personnel of the evaluated entity regarding the overall situation of the enterprise as well as the history and current status of the assets included in the scope of appraisal, and understand the enterprise's relevant internal systems, operating conditions, asset utilization status, and other information;

- (2) Verify the contents of the asset appraisal declaration schedule provided by the enterprise, reconcile them with the relevant financial records of the enterprise, and coordinate with the enterprise to make adjustments or supplements for any issues found;
- (3) Conduct on-site inspections and spot checks of physical assets based on the details in the asset appraisal declaration schedule;
- (4) Review and collect the property right certificates of the assets included in the scope of appraisal, inspect the ownership documents provided by the appraised entity, and verify the ownership of the assets. To verify the status of defective assets, the appraised entity is requested to verify and confirm whether the ownership of these assets belongs to the enterprise and whether there are any property right disputes.
- (5) For equipment assets, understand the management system and actual implementation, as well as corresponding maintenance, alteration, and expansion, and review and collect relevant technical data, contracts, budget data, completion inspection data, and land planning files, etc. For general equipment, this is mainly achieved through market research and by consulting relevant price information and other data;
- (6) For the intangible assets involved, understand their cost composition, historical and future earnings, market conditions of the corresponding products, and other relevant information; review and collect legal documents, validity of ownership documents, or other supporting materials for the intangible assets; investigate the characteristics of the intangible assets, asset portfolio, and usage status; the geographical scope, field scope, results of operations, and revenue model of the intangible assets' implementation; determine whether they can continue to function and bring economic benefits to the rights holder; understand the statutory protection period, earnings period, and protection measures of the intangible assets. Investigate any legal, administrative regulations or other restrictions encountered during the implementation of intangible assets;
- (7) For liabilities within the scope of appraisal, the main objective is to understand the actual debt obligations of the appraised entity.

2. Understand the historical operating conditions, current operating status, and the current situation of the industry in which the appraised entity operates, and assess the possible development trends of the enterprise in the foreseeable future. Details are as follows:
  - (1) Understand the legal status of the appraised entity's continued operation, mainly concerning its articles of association, investment and capital contribution agreements, business premises, and operational capabilities;
  - (2) Understand the accounting system implemented by the appraised entity, depreciation policy for fixed assets, accounting for inventory costs and accounting method for issued inventory, etc., the tax rate implemented and tax status, debt, borrowings and cost of debts in recent years;
  - (3) Understand the business types, operating models, and historical operating performance of the appraised entity, including the revenue proportion of its main operating businesses, the distribution of major customers, and related party transactions with affiliated enterprises;
  - (4) Obtain financial information data such as audited balance sheets, profit and loss statements, cash flow statements, and detailed statements of product revenue and cost expenses for recent years;
  - (5) Understand the allocation and actual utilization of the enterprise's assets, analyze relevant surplus assets and non-operating assets and liabilities, and obtain consensus with the enterprise's management;
  - (6) Conduct interviews with the management of the entity being evaluated to understand the core operational strengths and weaknesses of the enterprise, as well as the composition and trends of its main operating revenue and costs;
  - (7) Conduct interviews with the main suppliers and customers of the appraised entity to understand their business cooperation with the appraised entity, the main basic conditions for cooperation, future cooperation intentions, and other related information;
  - (8) Understand the number and basic information of comparable companies in the same industry as the appraised entity or affected by the same economic factors and their comparable market transactions.



**(III) Aggregation of appraisal conclusions**

Analyze, summarize and collate the valuation data collected during the on-site appraisal survey as necessary to form basis for valuation and estimate; select correct formulas and reasonable valuation parameters based on the selected appraisal approach to form a preliminary valuation result; summarize the preliminary appraisal conclusions and analyze the reasonableness of the appraisal conclusions when it is confirmed that there is no duplication or omission of appraisal in the scope of assets under appraisal.

**(IV) Report submission**

Based on the aforementioned work, a preliminary asset appraisal report is prepared, and opinions are exchanged with the client regarding the content of the preliminary appraisal report. After fully considering the communication of relevant opinions, the asset appraisal report is revised and improved. Upon completion of our internal review procedures, the formal asset appraisal report is submitted to the client.

**IX. APPRAISAL ASSUMPTIONS**

In this appraisal, the asset appraiser followed the following appraisal assumptions and restrictions:

**(I) Basic assumptions****1. *Transaction assumptions***

The transaction assumption is to assume that all appraised assets are already in the process of transaction, and the asset appraisers appraise the value based on a simulated market, including the transaction conditions of the appraised assets. Transaction assumption is one of the most fundamental prerequisite assumptions for the appraisal of assets.

**2. *Open market assumption***

The open market assumption is a hypothesis about the market conditions into which an asset is intended to enter and the impact the asset will experience under such market conditions. An open market, which has been fully developed with comprehensive market conditions, refers to a competitive market with willing buyers and sellers acting voluntarily and rationally on an arm's length basis, having sufficient opportunities and time to obtain market information and under no compulsion or restrictions to buy or sell. The open market assumption is based on the premise that assets can be publicly bought and sold in the market.

### **3. *Going concern assumption***

The going concern assumption is an assumption that the appraised entity, under its existing asset resources, can legally continue its production and operation activities in their current state within the foreseeable future operating period, and that its operating conditions will not undergo significant adverse changes.

### **4. *Assumption of assets being used for current purpose***

The assumption of assets being used for current purpose means assuming that the asset will continue to be used for its current purpose. Firstly, it is assumed that the assets within the scope of appraisal are in use, and secondly, it is assumed that they will continue to be used for their current purpose and in their current manner, without considering a change in asset use or optimal utilization conditions.

## **(II) General assumptions**

1. This appraisal assumes that there will be no unforeseen significant adverse changes in the external economic environment, including the relevant laws, macroeconomic, financial and industrial policies prevailing in the country after the base date, and that there will be no significant impact caused by other human force majeure and unforeseen factors.
2. This appraisal does not consider the impact on the appraisal conclusion of any collateral or guarantee that the appraised entity and its assets may assume in the future, or additional price that may be paid as a result of special transactions.
3. It is assumed that there will be no significant changes in the socio-economic environment in which the appraised entity is located or the fiscal and taxation policies in place, such as taxes and tax rates, and that the credit policy, interest rate, exchange rate and other financial policies will be generally stable.
4. The appraised entity's current and future business operations are legal and compliant, and conform to the relevant provisions of its business license and articles of association.

## **(III) Market approach specific assumptions**

1. It is assumed that the appraised entity strictly adheres to the Accounting Standards for Business Enterprises and its relevant regulations, and that the financial data at the base date and for all historical periods are true and reliable;

2. It is assumed that the financial and operating data disclosed by the selected comparable listed companies are true and reliable;
3. Unless otherwise specified, it is assumed that all capital market transactions are based on the principles of openness, fairness, voluntariness, and impartiality.
4. Neither the impact of natural forces and other force majeure factors nor the possible impact of a special transaction method on the appraisal conclusion are taken into consideration.
5. The possible mortgage and guarantee in the future are not considered.

**The appraisal conclusion in this asset appraisal report is valid as of the base date under the aforementioned assumptions. Should there be significant changes IN the aforementioned assumptions, the signatory asset appraisers and the appraisal institution will not be held responsible for different appraisal conclusions derived from such changes in assumptions.**

## **X. APPRAISAL CONCLUSION**

In accordance with relevant national regulations on asset valuation, and adhering to the principles of independence, impartiality, and objectivity, we have performed the necessary appraisal procedures to arrive at the appraisal conclusion for the market value of the entire shareholders' equity of the appraised entity as of the base date, under the valuation purpose, assumptions, and limiting conditions stated in this report.

### **(I) Relevant appraisal results**

#### ***1. Appraised value based on asset-based approach***

The asset-based approach was adopted to evaluate the value of all shareholders' equity of the enterprise, and the appraisal results of the appraised entity on the base date are as follows:

As of the base date, the book value of the owner's equity of the appraised entity was RMB2.0019138 billion, the appraised value was RMB7.8276424 billion, the appraisal appreciation was RMB5.8257286 billion, and the appreciation rate was 291.01%. Among them, the book value of total assets was RMB7.2585028 billion, the appraised value was RMB13.0683929 billion, the appraisal appreciation was RMB5.8098901 billion, and the appreciation rate was 80.04%. Total liabilities book value RMB5.256589 billion, appraised value RMB5.2407505 billion, appraised impairment RMB15.8385 million, impairment rate 0.30%.

## **2. *Appraised value based on Market approach***

The appraisal results of the total equity value of the enterprise's shareholders as of the base date, using the market approach, were as follows:

The book value of the owner's equity of the appraised entity was RMB2.0019138 billion, the appraised value was RMB8.48 billion, and the appraisal appreciation was RMB6.4780862 billion, with an appreciation rate of 323.59%.

## **(II) Analysis of differences in appraisal results and final appraisal conclusion**

### **1. *Analysis of differences in appraisal results from different approaches***

The entire value of shareholders' equity derived from the market approach is RMB8.48 billion, which is RMB652.3576 million higher than the entire value of shareholders' equity of RMB7.8276424 billion derived from the asset-based approach.

The main reason for the difference in appraisal results from different appraisal approaches is that each appraisal approach considers asset value from a different perspective. The asset-based approach estimates the value from the perspective of the current reconstruction of each asset of the enterprise, while the market approach calculates the value from the perspective of current market comparable prices, leading to differences in the appraisal results of each appraisal approach.

### **2. *Selection of appraisal conclusion***

According to Asset Appraisal Practice Guidelines – Enterprise Value, when multiple appraisal approaches are used for the same appraisal subject, the conclusion of the appraisal should be formed through qualitative or quantitative methods, considering the appraisal purpose as well as the quality and quantity of data utilized by different appraisal approaches.

Given that HLMC is engaged in the wafer processing industry, its primary value, in addition to tangible resources such as fixed assets and working capital, should also include the contribution of important intangible resources such as process routes, corporate management level, talent and technical team, and self-generated goodwill. Due to the characteristics of the asset-based approach, its appraisal results only assess the value of individual tangible assets and identifiable intangible assets, and cannot fully measure the overall enterprise effect value that may arise from the mutual matching and organic combination of individual assets. Important intangible resource values such as the appraised entity's process route, enterprise management level, talent and technical team, and self-generated goodwill are generally difficult to reflect in the asset-based approach. Therefore, the asset-based approach has certain limitations compared to the market approach. Secondly, the market approach utilizes public data from comparable listed companies. In recent years, as China's stock market has become increasingly mature, this relatively sophisticated capital market environment has provided a foundation for pricing via the market approach.

Through the above analysis, we selected the market approach valuation result as the appraisal conclusion for the total equity value of the appraised entity. Upon appraisal, the value of all shareholders' equity of the appraised entity was RMB8,480,000,000.00 (in words: RMB Eight Billion Four Hundred Eighty Million only).

**The appraisal conclusion is derived from the above appraisal work.**

**(III) Comparison of appraisal conclusion with book value and explanation of changes**

The appraisal conclusion of this appraisal adopts the market approach. It is precisely because of the adoption of the market approach. The company possesses significant intangible resource values, such as process routes, enterprise management level, talent and technical team, and self-created goodwill, which are not reflected in the book value of the enterprise. Therefore, the market approach results in a large appreciation compared to the book value.

**(IV) Other considerations regarding appraisal conclusions**

The listed company comparison method is adopted for the market approach in this appraisal. Since the selected comparable companies are listed companies and the appraised entity is a non-listed company, the appraisal subject is the value of all shareholders' equity. The valuation considers the impact of liquidity on the value of the appraised entity.

As there is currently no reliable control premium rate or authoritative statistical data on the lack of control discount rate for the Chinese market that is recognized by all market participants, the impact of control on the value of the appraisal subject was not considered in this market approach-based appraisal.

**(V) Validity period of appraisal conclusion**

According to the current appraisal standards, the appraisal conclusion disclosed in this appraisal report is valid only when there are no significant changes to the appraisal assumptions stated in this report, and generally, only when the date of implementation of the economic behavior and the base date do not exceed one year, which means the validity period of the appraisal conclusion is from August 31, 2025 to August 30, 2026.

The conclusions of this appraisal report shall not be used for economic behavior if the validity period of the aforementioned appraisal conclusions has expired.

**(VI) Other explanations regarding the appraisal conclusion**

Within the validity period of the appraisal conclusion after the base date, if there are changes in the quantity of assets and pricing standards involved in the valuation object, the client may handle it according to the following principles:

1. When the number of assets changes, the amount of assets should be adjusted accordingly based on the original appraisal approach.
2. When there is a change in asset price standards that has a significant impact on the asset appraisal results, the client should promptly engage a qualified asset appraisal institution to re-determine the appraised value.
3. The client should give full consideration to changes in asset quantity and price standards after the base date when implementing economic behaviors.

## **XI. SPECIAL MATTERS**

When using this appraisal report, users should pay attention to the potential impact of the following special matters on the appraisal conclusion and give full consideration to them when making decisions and implementing economic behavior based on this report:

### **(I) Incomplete or defective ownership and other major information:**

The asset appraisal standards stipulate that the purpose of an asset appraiser performing asset appraisal services is to estimate the value of the appraisal object and express professional opinions. Confirming or expressing opinions on the legal ownership of the appraisal object and its related assets is beyond the scope of practice for asset appraisers. The entrusting party and relevant parties entrusting asset appraisal business shall provide information on the legal ownership of the appraised assets and the assets involved, and shall be responsible for the truthfulness, completeness and legality of the legal ownership information of the appraised assets and the assets involved. In accordance with the Guidance Opinions on Legal Ownership of Asset Appraisal Subjects, the asset appraisers paid appropriate attention to the ownership documents of the assets included in this appraisal.

The ownership information of the assets appraised in this instance is basically complete, and the asset appraisers have not found any obvious ownership defects. The client and the appraised entity also explicitly stated that there were no defects in ownership.

### **(II) Explanation about other key information not being provided by the client:**

The appraiser did not find any relevant matters through on-site investigation. However, due to the limitations of the asset appraiser's verification methods, the appraisal institution cannot issue a definitive opinion on the completeness of the above matters.

**(III) Uncertainties such as pending matters and legal disputes existing as at the base date:**

The asset appraiser was not aware of any pending matters, legal disputes, or other uncertainties existing as at the base date. The client and the appraised entity also explicitly stated that there are no pending matters, legal disputes, or other uncertainties. However, due to the limitations of the asset appraiser's verification methods, the appraisal institution cannot issue a definitive opinion on the completeness of the above matters.

**(IV) Important utilization of expert work and related reporting:**

**1. Utilizing professional reports:**

In the process of performing this appraisal engagement, we obtained the following professional reports through legal channels and prudently referenced and utilized the relevant contents of these professional reports:

- (1) Special audit report issued by Da Hua Certified Public Accountants (Special General Partnership), with report number: Da Hua Shen Zi [2025] 0011016213;

The type and book value of the book assets in this asset appraisal report have been audited by Da Hua Certified Public Accountants (Special General Partnership), which issued a special audit report with a standard unqualified opinion, with report number: Da Hua Shen Zi [2025] 0011016213. The opinion of the audit report is: "We have audited the pro forma financial statements of Shanghai Huali Microelectronics Corporation ("HLMC"), which comprise the pro forma balance sheets as at August 31, 2025, December 31, 2024, and December 31, 2023, and the pro forma income statements, pro forma cash flow statements, and related notes to the pro forma financial statements from January to August 2025, and for the years 2024 and 2023." In our opinion, the accompanying pro forma financial statements have been prepared in all material respects in accordance with the basis of preparation described in Note 3 to the pro forma financial statements, and present fairly the pro forma financial position of HLMC from January to August 2025, and as at December 31, 2024, and December 31, 2023, and its pro forma operating results and pro forma cash flows for the period from January to August 2025, the year 2024, and the year 2023. The asset appraisal professionals have analyzed and judged the financial statements based on the requirements for their use in the adopted appraisal methods. However, it is not the responsibility of the asset appraisal professionals to express a professional opinion on whether the relevant financial statements fairly reflect the financial position, current operating results, and cash flows of the enterprise as at the base date.

According to the relevant provisions of the current valuation standards, we only assume responsibility for improper citation in relation to the use of relevant professional reports.

**(V) Significant subsequent events:**

Between the base date and the date of issuance of this asset appraisal report, the client and the appraised entity have clearly stated that there are no material subsequent events. We also confirm that there have been no material changes in the appraisal parameters and appraisal assumptions between the base date and the date of issuance of this asset appraisal report, and there has been no material change in the equity value of the appraised entity.

**(VI) Explanation about circumstances where appraisal procedures are limited, remedial measures taken by the appraisal institution, and the impact on appraisal conclusions:**

No matters affecting asset verification were found during this appraisal.

**(VII) Nature, amount, and relationship with the appraisal subject of guarantees, leases, and contingent liabilities (contingent assets):****1. Pledge and mortgage**

As of the base date, pledges and guarantees in which HLMC was involved were as follows:

Contract No.	Borrower	Lender	Loan amount (RMB0,000)	Term of loan	Purpose of the loan	Interest rate	Guarantee
Loan Contract No. 3100201606100000054	HLMC	Entrusted lender: China Development Bank Development Fund Co., Ltd; Entrustee lender: China Development Bank Corporation	300,000.00	August 4, 2016- August 3, 2026	Production line construction	1.2% per annum	HLMC provided mortgage guarantee to the entrusted lender with equipment valued at a total of RMB1.5224377 billion
Loan Contract No. 3100201506100000015001	HLMC	Entrusted lender: China Development Bank Development Fund Co., Ltd; Entrustee lender: China Development Bank Corporation	100,000.00	November 24, 2015- November 23, 2030	Investment and construction of production lines	1.2% per annum	HLMC provided mortgage guarantee to the entrusted lender with equipment valued at a total of RMB1.1626396 billion



Contract No.	Borrower	Lender	Loan amount (RMB0,000)	Term of loan	Purpose of the loan	Interest rate	Guarantee
3100202301100002961	HLMC	China Development Bank Shanghai Branch, Bank of Communications Co., Ltd. Shanghai New Area Sub-branch, Bank of Shanghai Co., Ltd. Xuhui Sub-branch, China Construction Bank Corporation Shanghai Zhangjiang Branch	96,000.00	February 2023-February 2031	R&D	3%	HLMC provided mortgage guarantee to the lender with equipment valued at a total of RMB290,528,500

Report users are advised to take note that this appraisal does not consider the possible impact of the aforementioned mortgage or pledge matters on the appraisal results.

## 2. Leases

No.	Lessor	Lease address	Leased area	Lease term	Usage
1	Shanghai Grace Semiconductor Manufacturing Corporation	Premise at Plot 2, Block 13, Zhangjiang Hi-Tech Park, Pudong New Area, Shanghai	91,563.11 square meters	March 1, 2010 to February 28, 2030	Plant
2			Chemical warehouse, power plant, and production plant	20 years from the date of acceptance and delivery	
3			192 square meters	June 1, 2021 to December 31, 2025	Plant

## 3. Leasing-out

No.	Lessor	Lessee	Subject of lease	Usage
1	HLMC	Shanghai Huali Integrated Circuit Manufacturing Co., Ltd.	Part of the clean plant	Accommodation of equipment
2	HLMC	Company B	Equipment	For use in production and operations

#### 4. *Contingencies*

As of August 31, 2025, the outstanding balance of bank guarantees for HLMC was RMB10,000,000.00, with the last guarantee expiring on February 10, 2026.

As of August 31, 2025, the unused amount of irrevocable letters of credit not yet fulfilled by HLMC was USD1,360,050.00 (equivalent to RMB9,660,435.15), with the last one maturing on January 13, 2026.

This appraisal did not consider the impact of the aforementioned contingencies on the appraisal.

Save for the above disclosed matters, the appraiser did not find any other related matters through on-site investigation. However, due to the limitations of the asset appraiser's verification methods and the concealment caused by guarantees and contingent liabilities (assets), the appraisal institution cannot issue a definitive opinion on the completeness of the above matters.

#### **(VIII) Defects that may have a significant adverse impact on the appraisal conclusion in the economic behavior corresponding to this asset appraisal:**

In the economic behavior corresponding to this asset appraisal, we have not found any defects that may have a significant impact on the appraisal conclusions.

#### **(IX) Other matters requiring explanation:**

1. In this asset appraisal report, all tables or textual expressions denominated in RMB ten thousands, and any difference between the total amount and the sum of the individual sub-values is due to rounding off.
2. When assessing the assets within the scope of appraisal, we did not consider the impact of the appraised appreciation of certain assets on income tax.
3. This appraisal report only serves the valuation purpose corresponding to the economic behavior agreed upon in the client's contract, and does not constitute investment advice or decision-making recommendations for other investors in the market regarding the relevant target.
4. Spin-off of the appraised entity

On June 26, 2025, pursuant to the general meeting resolution Hu HLMC Gu (2025) No. 4, all shareholders unanimously agreed to the spin-off plan, pursuant to which the company will be divided into Shanghai Huali Microelectronics Corporation (the surviving company, hereinafter referred to as "HLMC After

Spin-off”) and the new company by way of spin-off. HLMC After Spin-off will continue to operate the 12-inch wafer foundry and related businesses located at No. 568 Gaosi Road, China (Shanghai) Pilot Free Trade Zone, and will assume the related assets, creditor’s rights and liabilities, personnel, and other agreed rights and obligations. The new company will assume long-term equity investments and corresponding businesses, assets, creditor’s rights and liabilities, personnel, and other agreed rights and obligations. HLMC After Spin-off and the new company will maintain independence from each other in terms of business, assets, personnel, finance, and organization. The Company completed the spin-off on August 21, 2025. The sum of the registered capital of HLMC After Spin-off and the new company is equal to the registered capital of HLMC before this spin-off. The shareholding ratio of each shareholder in HLMC After Spin-off and the new company is consistent with their shareholding ratio in HLMC before this spin-off. HLMC After Spin-off will be the target asset to be injected into Huahong Company for this reorganization.

The appraisal subject is HLMC After Spin-off. Based on this, the appraisal is carried out on the basis of the pro forma financial statements prepared by HLMC under the spin-off framework and the business substance reflected therein.

#### 5. Exchange rate fluctuation risk

Given that the appraised entity involves foreign currency settlement, its operating results is inevitably affected by exchange rate fluctuations. However, exchange rate fluctuations are constrained by various complex factors, including macroeconomic and geopolitical factors, which are intertwined, making it difficult for appraisers to accurately assess and quantify the specific degree of risk caused by exchange rate fluctuations.

Given that the listed company comparison method is adopted for this appraisal, the selected listed companies in the semiconductor manufacturing industry generally face the risk of exchange rate fluctuations. This industry commonality implies that the market approach-based appraisal results have, to a certain extent, already factored in the impact of exchange rate fluctuation risks. Accordingly, this appraisal does not separately consider the additional impact of exchange rate fluctuation risk.

Users of this asset appraisal report should pay full attention to the impact of the aforementioned special matters on the appraisal conclusion when using this report.

**XII. LIMITATIONS OF USE OF APPRAISAL REPORT**

- (I) This asset appraisal report shall only be used for the purposes of appraisal and economic behaviors as set out herein.
- (II) The appraisal institution and asset appraisers shall not be liable if the client or other users of the asset appraisal report use this asset appraisal report beyond the scope of use stipulated by laws and administrative regulations and stated in this asset appraisal report.
- (III) Except for the client, other users of the asset appraisal report as stipulated in the asset appraisal engagement contract, and users of the asset appraisal report as stipulated by laws and administrative regulations, no other institution or individual may be a user of this report.
- (IV) The users of the asset appraisal report should correctly understand and use the appraisal conclusions. The appraisal conclusions are not equivalent to the realizable price of the appraisal object, and should not be regarded as a guarantee of the realizable price of the appraisal object.
- (V) If this appraisal engagement involves state-owned assets and is required to comply with the filing and approval procedures of the state-owned assets supervision and administration authority in accordance with the relevant regulations, this appraisal report shall be filed with the state-owned assets supervision and administration authority before it can be formally used, and the appraisal conclusion shall only apply to the economic behaviors shown in this report.
- (VI) This asset appraisal report contains certain annexes and appraisal schedules, all of which also constitute an important part of this report, but shall be valid only when used in conjunction with the body of this report. The appraisal institution and the asset appraiser assume no obligation or responsibility for any use other than that for which it is used, such as being shown to the non-asset appraisal report user or the non-asset appraisal report user who otherwise has access to this report, and do not provide further consultation in connection with this report, nor do they provide testimony, appear in court or otherwise hearings in legal proceedings, and reserve the right to pursue the non-asset appraisal report user the losses incurred as a result.
- (VII) The right to interpret the contents of this asset appraisal report shall rest with the appraisal institution, and no other entity or department shall have the right to interpret it, unless otherwise expressly and specifically provided for in national laws and regulations; any extract, quote or disclosure of the whole or part of the contents of the appraisal report in the public media shall be subject to the written consent of the appraisal institution and the undersigning appraiser of the report after the appraisal institution has reviewed the relevant contents. unless otherwise provided by laws and regulations or agreed by the relevant parties.

**XIII. DATE OF APPRAISAL REPORT**

The date of the asset appraisal report is the date on which the appraisal conclusion is made, and the date of this asset appraisal report is December 29, 2025.

**Appraisal institution**                      **Shanghai Orient Appraisal Co., Ltd.**

**Legal representative**                      **Xu Feng**

**Signatory asset appraiser**              Yu Zhechao                      Wong Xin

**Date of appraisal report**              December 29, 2025

**Asset Appraisal Report  
(Appendix)**

**Engagement Name**                      **Asset Appraisal Report on the Value of All Shareholders' Equity of Shanghai Huali Microelectronics Corporation in connection with the Proposed Issuance of Shares by Hua Hong Semiconductor Limited for the Acquisition of Assets**

**Report No.**                                  Orient Ping Bao Zi [2025] No. 2446

**No.      Name of Attachment**

1.      Economic behavior documents corresponding to the purpose of appraisal
2.      Business licenses of the client and appraised entity
3.      Registration certificate of state-owned assets of the client and the assessed entity
4.      Special audit report of the appraised entity
5.      Patent certificates and other rights certificates of the appraised entity
6.      Letter of undertakings of the client and related parties
7.      Engagement contract for asset appraisal
8.      Business license of Shanghai Orient Appraisal Co., Ltd.
9.      Securities-related assets appraisal certificate of Shanghai Orient Assets Appraisal Co., Ltd.
10.     Asset appraisal qualification certificate of Shanghai Orient Appraisal Co., Ltd.
11.     Qualification certificates of asset appraisers responsible for the appraisal business
12.     Letter of undertaking from asset appraisal institution and asset appraisers
13.     Explanation about significant differences between the book value of assets and the appraisal conclusion
14.     Summary or detailed statement of asset appraisal
15.     Report schedule – Patent List

**Explanation About Significant Differences Between  
the Book Value of Assets and the Appraisal Conclusion**

Shanghai Orient Appraisal Co., Ltd., entrusted by your company, conducted an appraisal of the market value of all shareholders' equity of Shanghai Huali Microelectronics Corporation as at August 31, 2025, which is involved in the acquisition of 97.4988% equity interest in HLMC held by four HLMC shareholders, including Shanghai Huahong (Group) Co., Ltd., Shanghai Integrated Circuit Industry Investment Fund Co., Ltd., China Integrated Circuit Industry Investment Fund (Phase II) Co., Ltd., and Shanghai Guotou IC Fund Leading Integrated Circuit Private Equity Investment Fund Partnership (Limited Partnership), through the issuance of shares. This appraisal was performed in accordance with laws, administrative regulations, and asset appraisal standards, adhering to the principles of independence, objectivity, and impartiality, and utilizing the asset-based approach and market approach, following the necessary appraisal procedures. The explanations for the significant differences between the book value of assets and the appraisal conclusions are as follows:

The shareholders' equity declared by the appraised entity is RMB2.0019138 billion. The appraised value is RMB8.48 billion, indicating the appraisal appreciation of RMB6.4780862 billion, which is precisely because of the market approach appraisal conclusion. The company possesses significant intangible resource values, such as process routes, enterprise management level, talent and technical team, and self-created goodwill, which are not reflected in the book value of the enterprise. Therefore, the market approach results in a large appreciation compared to the book value.

FURTHER EXPLANATORY NOTES TO THE APPRAISAL REPORT

A. Conclusion of the Asset-Based Approach Appraisal

The asset-based approach was adopted to evaluate the value of all shareholders' equity of the enterprise, and the appraisal results of the appraised entity on the base date are as follows:

As of the base date, the book value of the owner's equity of the appraised entity was RMB2.0019138 billion, the appraised value was RMB7.8276424 billion, the appraisal appreciation was RMB5.8257286 billion, and the appreciation rate was 291.01%. Among them, the book value of total assets was RMB7.2585028 billion, the appraised value was RMB13.0683929 billion, the appraisal appreciation was RMB5.8098901 billion, and the appreciation rate was 80.04%. Total liabilities book value RMB5.256589 billion, appraised value RMB5.2407505 billion, appraised impairment RMB15.8385 million, impairment rate 0.30%.

*Comparison of Appraisal Conclusion under Asset-based Approach with Book Value and Explanation of Changes*

The main reasons for the changes in the appraisal conclusion under this asset-based approach are analyzed as follows:

Unit: RMB0,000

Item	Book Value A	Appraised Value B	Appreciation Amount C=B-A	Appreciation Rate % D=C/A×100%
Current Assets	502,209.71	526,180.75	23,971.04	4.77
Non-Current Assets	223,640.57	780,658.54	557,017.97	249.07
Long-term Receivables	6,362.46	6,362.46	0.00	0.00
Fixed Assets	150,987.78	558,573.56	407,585.78	269.95
Construction in Progress	13,740.65	13,816.45	75.80	0.55
Right-of-Use Assets	38,118.47	38,118.47	0.00	0.00
Intangible Assets	12,989.24	162,349.10	149,359.86	1,149.87
Long-term Deferred Expenses	526.11	526.11	0.00	0.00
Other Non-Current Assets	915.86	912.39	-3.47	-0.38
<b>Total Assets</b>	725,850.28	1,306,839.29	580,989.01	80.04
Current Liabilities	204,107.99	204,135.14	27.15	0.01
Non-Current Liabilities	321,550.91	319,939.91	-1,611.00	-0.50
<b>Total Liabilities</b>	525,658.90	524,075.05	-1,583.85	-0.30
<b>Owner's Equity (Net Assets)</b>	200,191.38	782,764.24	582,572.86	291.01



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## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

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### 1. *Current Assets*

The book value of current assets is RMB5,022,097,100, and the appraised value is RMB5,261,807,500, representing an appraisal appreciation of RMB239,710,400. The appreciation mainly derives from the appraisal of inventory. The book value of finished goods and work-in-progress only reflects production costs, whereas during the appraisal, the value is determined based on the ex-factory price excluding taxes, after deducting the necessary taxes and fees required to realize sales. This appraised value is higher than production cost, leading to the appraisal appreciation.

### 2. *Fixed Assets*

The book net value of fixed assets is RMB1,509,877,800, and the appraised net value is RMB5,585,735,600, representing an appraisal appreciation of RMB4,075,857,800. The appreciation is mainly due to two reasons: (i) the Company's financials use the straight-line method to calculate depreciation for equipment assets, which results in faster depreciation. The appraisal determines the newness rate based on the economic life of the equipment and its actual condition, which reflects the actual value of the equipment on a more objective basis. The fact that depreciation period adopted by the financial principals is shorter than the economic life used in the appraisal leads to such appraisal appreciation; and (ii) the equipment assets not reflected on the books are included in the scope of this appraisal, resulting in such appraisal appreciation.

### 3. *Construction in Progress*

The book value of construction in progress is RMB137,406,500, and the appraised value is RMB138,164,500, representing an appraisal appreciation of RMB758,000. The main reason is that the appraisal takes into account the capital cost of construction in progress, hence resulting in the appraisal appreciation.

### 4. *Intangible Assets*

The book value of intangible assets is RMB129,892,400, and the appraised value is RMB1,623,491,000, representing an appraisal appreciation of RMB1,493,598,600. The appreciation is mainly attributable to two reasons: (i) some software and licenses, though amortized on the books, are still usable in practice, and their reasonable value has been reflected in this appraisal, resulting in the appraisal appreciation; (ii) some previously unrecorded intangible assets such as patents and layout designs are included in the scope of this appraisal, resulting in the appraisal appreciation.

### 5. *Other Non-Current Assets*

The book value of other non-current assets is RMB9,158,600, and the appraised value is RMB9,123,900, representing a decreased value of RMB34,700. The main reason is that other non-current assets include foreign currency receivables for which the appraised value is determined by converting these accounts into RMB based on the exchange rate prevailing on the benchmark date. The valuation impairment resulted from fluctuations between the exchange rate at the time of recording the foreign currency accounts receivable and the exchange rate on the benchmark date.

## *6. Liabilities*

The book value of liabilities is RMB5,256,589,000, and the appraised value is RMB5,240,750,500, representing a decreased value of RMB15,838,500. The main reason for such appraisal depreciation is that deferred income for which obligations have been fulfilled is appraised as zero.

For detailed appraisal conclusions, please refer to the appraisal result summary table and appraisal detail declaration table.

## **B. Market Approach Appraisal**

### *Introduction to Application of Market Approach*

#### *Definition of Market Approach*

The market approach refers to an appraisal approach that determines the value of the appraisal object by comparing it with comparable listed companies or comparable transaction cases. The market approach is essentially a valuation technique that determines the value of an enterprise or equity by utilizing transaction information or reasonable quotation data of similar cases that have been transacted in an active trading market, through comparative analysis.

Two methods commonly used in the market approach are the listed company comparison method and the transaction case comparison method.

The listed company comparison method refers to a specific method for determining the value of an appraisal object by obtaining and analyzing the operating and financial data of comparable listed companies, calculating appropriate value ratios, and conducting a comparative analysis with the appraised entity. Comparable companies in the listed company comparison method should be listed companies normally traded in the open market. The appraisal conclusion should take into account the impact of liquidity on the appraisal object's value.

The transaction case comparison method refers to a specific method for determining the value of an appraisal entity by obtaining and analyzing information on the transaction, acquisition and merger cases of comparable companies, calculating appropriate value ratios, and conducting a comparative analysis with the appraised entity. When applying the transaction case comparison method, the impact of differences between the appraisal object and the transaction cases on the value should be considered.

*Characteristics of Market Approach*

- (1) The valuation data is derived directly from the market, making the valuation process simple and intuitive.
- (2) The valuation method is market-oriented, and the valuation results are highly persuasive.

*Prerequisites for Applying the Market Approach*

- (1) There must be a well-developed and active capital market;
- (2) There are three or more comparable companies, which should be in the same industry or subject to similar economic factors as the appraised enterprise;
- (3) The value-influencing factors for comparable companies and the appraised enterprise are clear, quantifiable, and relevant information can be collected.

*Valuation Assumptions*

- (1) It is assumed that the appraised entity strictly adheres to the Accounting Standards for Business Enterprises and its relevant regulations, and that the financial data at the base date and for all historical periods are true and reliable.
- (2) It is assumed that the financial and operating data disclosed by the selected comparable listed companies are true and reliable.
- (3) Unless otherwise specified, it is assumed that all capital market transactions are based on the principles of openness, fairness, voluntariness, and impartiality.
- (4) Neither the impact of natural forces and other force majeure factors nor the possible impact of a special transaction method on the appraisal conclusion are taken into consideration.
- (5) The possible mortgage and guarantee in the future are not considered.

*Introduction to Market Approach Valuation Model*

- (1) Listed company comparison method

The listed company comparison method refers to a specific method for determining the value of an appraisal object by obtaining and analyzing the operating and financial data of comparable listed companies, calculating appropriate value ratios, and conducting a comparative analysis with the appraised entity.

(2) Transaction case comparison method

The transaction case comparison method refers to a specific method for determining the value of an appraisal entity by obtaining and analyzing information on the transaction, acquisition and merger cases of comparable companies, calculating appropriate value ratios, and conducting a comparative analysis with the appraised entity.

Given that at least three comparable listed companies in the same industry as the appraisal subject can be found in the A-share capital market, and their operating and financial data can be fully and reliably obtained, the listed company comparison method is selected for this appraisal.

***How to Implement Appraisal Approach***

The basic appraisal approach under this listed company comparison method is as follows:

*Identify comparable companies*

Since the appraised entity is a non-listed company, its equity does not have a publicly traded market, and therefore its market value cannot be directly determined. We select comparable companies from domestic listed companies, and the screening process for comparable companies is as follows:

- (1) Preliminary screening is conducted based on the industry, main business model, and product type of the entity being evaluated. The screening criteria for comparable companies are as follows:
  - 1) As of the base date, it must have been listed for at least two years to avoid the impact of share price fluctuations caused by insufficient market information, IPO effects, market expectations, and other factors.
  - 2) The industry where it operates must be the semiconductor manufacturing or wafer foundry industry, i.e., the industry of the appraised entity, and its main business model is IDM or Foundry, which involves large-scale investment, high capital expenditure, and continuous investment in technology and processes, and its product application areas are similar to those of the appraised entity.
  - 3) The shares were normally traded on the base date and were not in an abnormal trading state such as a trading halt, nor did the share price fluctuate abnormally due to a recent merger, acquisition, or restructuring transaction on the base date.
  - 4) Given that ST shares are more likely to deviate significantly from their actual value due to speculative and manipulative factors in the market, ST shares are excluded from the scope of comparable companies.

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

The appraisers in this appraisal have screened listed companies that belong to the same category as the appraised entity under the SWS Industry Classification – Electronics – Semiconductors – Discrete Devices, Integrated Circuit Manufacturing, and a total of 25 listed companies was selected. These companies are screened in accordance with the aforementioned screening criteria, with details as follows:

Stock code	Name of securities	Date of listing	Screening process
688249.SH	Nexchip	May 5, 2023	<b>Its operating model is mainly Foundry model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
688347.SH	Hua Hong	August 7, 2023	The company experienced abnormal trading such as trading suspension during the recent period prior to the base date, so it is excluded from screening
688396.SH	CR Micro	February 27, 2020	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
688469.SH	UNT	May 10, 2023	The company experienced merger, acquisition and restructuring during the recent period prior to the base date, so it is excluded from screening
688691.SH	Brite	April 11, 2024	It mainly operates under Fabless model, which is significantly different from the operating model of the appraised entity, so it is excluded from screening
688981.SH	SMIC	July 16, 2020	It mainly operates under Foundry model, and there are significant differences in process technology, so it is excluded from screening
300456.SZ	SMEI	May 14, 2015	It mainly operates under Foundry model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
600360.SH	*ST Huawei	March 16, 2001	Its shares are under special treatment (ST), and its share price deviates significantly from its actual value, so it is excluded from screening
600460.SH	Silan Microelectronics	March 11, 2003	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Stock code	Name of securities	Date of listing	Screening process
600745.SH	Wingtech Technology	August 28, 1996	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
603290.SH	StarPower Semiconductor	February 4, 2020	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
605111.SH	NCE Power	September 28, 2020	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688048.SH	Everbright	April 1, 2022	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
688167.SH	Focuslight Technologies	December 24, 2021	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
688172.SH	Yandong Microelectronics	December 16, 2022	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
688230.SH	Prisemi	December 1, 2021	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688261.SH	Oriental Semiconductor	February 10, 2022	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688498.SH	Yuanjie Technology	December 21, 2022	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
688689.SH	Galaxy Microelectronics	January 27, 2021	It mainly conducts semiconductor packaging and testing, and its business model is significantly different from that of the appraised entity, so it is excluded from screening

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Stock code	Name of securities	Date of listing	Screening process
688693.SH	Convert	August 18, 2023	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688711.SH	MACMIC	September 1, 2021	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
300046.SZ	Tech Semi	January 20, 2010	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
300373.SZ	Yangjie Technology	January 23, 2014	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
300623.SZ	Jie Jie Microelectronics	March 14, 2017	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
300831.SZ	Peri	May 7, 2020	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening

After preliminary screening, the company profiles that meet the above reference standards (namely they are comparable in terms of industry, main operational model and product types) are shown in the following table:

Stock Code	Name of security	Corporate Profile	Composition of Main Operations
688249.SH	Nexchip	The main business of Hefei Nexchip Semiconductor Corporation is 12-inch wafer foundry business and its supporting services. The company's main products are DDIC, CIS, PMIC, MCU, and Logic.	Integrated circuit wafer foundry: 98.5703%; Other operations: 1.4020%; Others: 0.0277%

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**APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT**


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<b>Stock Code</b>	<b>Name of security</b>	<b>Corporate Profile</b>	<b>Composition of Main Operations</b>
688396.SH	CR Micro	The principal business of China Resources Microelectronics Limited is power semiconductors, smart sensors, and smart control, providing customers with a wide range of semiconductor products and system solutions. The Company's main products are MOSFETs, IGBTs, power diodes, IoT application-specific ICs, power ICs, optocouplers and sensors, SiC, and GaN.	Products and solutions: 50.9277%; Manufacturing and services: 46.3278%; Other businesses: 2.7445%
600460.SH	Silan Microelectronics	Hangzhou Silan Microelectronics Co., Ltd. is mainly engaged in the research and development, manufacturing, and sales of electronic components. The company's main products are silicon-based integrated circuits, discrete devices, and compound semiconductor devices (LED chips and finished products, SiC, GaN power devices).	Discrete device products: 48.4601%; Integrated circuits: 36.5858%; Light-emitting diode products: 6.8476%; Other businesses: 4.4177%; Others: 3.6887%
688172.SH	Yandong Microelectronics	The principal business of Beijing Yandong Microelectronics Co., Ltd. consists of two categories: products and solutions, and manufacturing and services. The Company's main products are products and solutions, manufacturing and services.	Products and solutions: 47.1756%; Manufacturing and services: 43.9067%; Others: 5.7855%; Other businesses: 3.1323%



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**APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT**


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<b>Stock Code</b>	<b>Name of security</b>	<b>Corporate Profile</b>	<b>Composition of Main Operations</b>
300373.SZ	Yangjie Technology	The main business of Yangzhou Yangjie Electronic Technology Co., Ltd. is the design, manufacturing, packaging, testing, research and development, production, and sale of power semiconductor wafers, chips, and devices. The company's main products are semiconductor devices, semiconductor chips, and semiconductor wafers.	Semiconductor devices: 86.2474%; Semiconductor chips: 8.3270%; Semiconductor silicon wafers: 3.0766%; Other business income: 2.3490%
300623.SZ	Jie Jie Microelectronics	The main business of Jiangsu JieJie Microelectronics Co., Ltd. is the research and development, design, production, and sales of power semiconductor chips and devices. The Company's main products are thyristor series, protection device series, diode series, MOSFET series, IGBT series, thick film modules, silicon carbide devices, and others.	Power semiconductor devices: 66.9693%; power semiconductor chips: 31.0471%; other business income: 1.3637%; power device packaging and testing: 0.6199%

- (2) Given that the appraised entity is an independent wafer foundry, if the business scale of comparable listed companies is smaller than that of the appraised entity and the gap is significant, their comparability will be correspondingly weakened. In addition, considering that the book value of fixed assets of the appraised entity had been almost fully depreciated as of the base date, and its main production and operation sites were all leased, without self-owned factory buildings and land, comparable samples of equipment-type fixed assets with similar original book value were selected in this screening process.

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

The original book value of equipment-type fixed assets for each company is calculated as follows:

Stock code	Name of security	Original book value of equipment assets (RMB100,000,000)
688249.SH	Nexchip	373.37
688396.SH	CR Micro	208.96
600460.SH	Silan Microelectronics	114.24
688172.SH	Yandong Microelectronics	67.74
300373.SZ	Yangjie Technology	47.07
300623.SZ	Jie Jie Microelectronics	54.72
Assessed entity	HLMC	153.59

The profiles of the comparable listed companies finally selected are shown in the following table:

Stock code	Name of security	Date of listing	Corporate profile	Main operation
688249.SH	Nexchip	May 5, 2023	The main business of Hefei Nexchip Semiconductor Corporation is 12-inch wafer foundry business and its supporting services. The company's main products are DDIC, CIS, PMIC, MCU, and Logic.	12-inch wafer foundry business.
688396.SH	CR Micro	February 27, 2020	The principal business of China Resources Microelectronics Limited is power semiconductors, smart sensors, and smart control, providing customers with a wide range of semiconductor products and system solutions. The Company's main products are MOSFETs, IGBTs, power diodes, IoT application-specific ICs, power ICs, optocouplers and sensors, SiC, and GaN.	Integrated operation of the entire industry chain, including chip design, wafer manufacturing, and packaging and testing.

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**APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT**

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Stock code	Name of security	Date of listing	Corporate profile	Main operation
600460.SH	Silan Microelectronics	March 11, 2003	The principal business of Hangzhou Silan Microelectronics Co., Ltd. is the R&D, production and sale of electronic components. The company's main products are silicon-based integrated circuits, discrete devices, and compound semiconductor devices (LED chips and finished products, SiC, GaN power devices).	Research and development, production, and sales of electronic components.

**Make necessary adjustments for the differences between the appraised entity and comparable companies.**

Information of the comparable companies obtained from public and legal channels, including their operation and financial information, are compared and analyzed against the actual situation of the appraised entity. Necessary adjustments are made for differences.

***Select and determine the value ratio***

***(1) Selection of value ratio***

Valuation ratios usually include asset value ratio, earnings ratio, revenue value ratios, and other specific value ratios. Applicable value ratio should be selected based on factors such as the industry characteristics and operating stage of the appraised entity, and the value ratio of each comparable listed company should be calculated. The following factors were fully considered during the selection process: the selected value ratio is conducive to reasonably determining the value of the subject of appraisal; the data scope and calculation method for calculating the value ratio are consistent; and when applying the value ratio, differences between comparable companies and the appraised entity are reasonably adjusted as much as possible. The value ratio selected is as follows:

**1) Asset value ratio**

Asset value ratios include price-to-book ratio (P/B), enterprise value to total business value of invested capital ratio (EV/TBVIC) and other ratios. Since the net value ratio of the major fixed assets of the appraised entity as of the base date had been relatively low, the net assets and total assets as of the base date were at a relatively low level in the enterprise's life cycle. In comparison, the average net asset ratio of the

selected comparable listed companies was approximately 50%, indicating a significant difference in their asset bases. Although net assets and total assets are relatively less affected by cyclical fluctuations in the industry, their values often show significant differences at various stages of a company's life cycle. The current low net asset status of the appraised entity reflects the reality that its assets have accumulated depreciation over many years, resulting in a low book value. If value ratio based on book value, such as P/B or EV/TBVIC, were used at this time, it would easily lead to distorted appraisal results. Therefore, the asset value ratio was not adopted in this appraisal.

## 2) Earnings ratio

Earnings ratios include price-to-earnings ratio (P/E), enterprise value to earnings before interest and taxes ratio (EV/EBIT), and enterprise value to earnings before interest, taxes, depreciation and amortization ratio (EV/EBITDA) and others. As a wafer foundry enterprise, the appraised entity is characterized by high capital investment and a long return cycle. After deducting high depreciation and amortization expenses, earnings before interest and taxes (EBIT) often shows temporary losses or low profit levels. This situation will lead to a distortion of value ratios such as the price-to-earnings ratio (P/E) and the enterprise value to earnings before interest and taxes ratio (EV/EBIT). Therefore, the above value ratios are not applicable to this appraisal. In contrast, the enterprise value to earnings before interest, taxes, depreciation, and amortization ratio (EV/EBITDA), by adding back depreciation and amortization, eliminates the impact of high capital expenditure characteristics on EBIT, thus providing a fairer measure of the appraised entity's sustainable operations. Therefore, this appraisal adopts the Enterprise Value to Earnings Before Interest, Taxes, Depreciation and Amortization ratio (EV/EBITDA).

## 3) Revenue-to-value ratio

Revenue-to-value ratios include price-to-sales ratio (P/S), enterprise value-to-sales ratio (EV/S) and others. The valuation logic implied by the revenue-to-value ratio is that there is a direct and stable linear relationship between a company's core value and its sales revenue scale. However, for wafer foundries, their core value primarily depends on factors such as technological processes, which ultimately reflect the enterprise's sustainable operations. The earnings value ratio is more consistent with the valuation logic of the wafer foundry industry; therefore, the revenue value ratio was not adopted in this appraisal.

*(2) Relevance test*

The appraisers conducted a linear regression analysis of the EV/EBITDA value ratio for the three selected comparable companies, with Enterprise Value (EV) as the dependent variable and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) as the independent variable. The relevant analysis results are shown in the table below:

<b>Test indicators</b>	<b>EV/EBITDA</b>
R	0.9461
R-squared value	0.8951

After the relevance test, the R-squared value of EV/EBITDA is relatively high. An R-squared between 0.7 and 0.9 is generally considered to indicate a high degree of fit, meaning there is a strong positive correlation between EBITDA and enterprise value. Therefore, EV/EBITDA should be adopted as the valuation multiple for this appraisal.

***Determine the appraisal conclusion***

After adjusting and calculating the value ratios of comparable companies, and combining them with the relevant financial data or indicators of the appraised entity, the enterprise value of the appraised entity is calculated. By adjusting the non-operating assets, liabilities, and surplus assets of the appraised entity, the total equity value of the shareholders of the appraised entity is finally obtained.

***Consideration of liquidity and control***

The market approach in this appraisal adopts the listed company comparison method. Since the selected comparable companies are listed companies and the appraised entity is a non-listed company, the impact of liquidity on the value of the appraised entity has been considered in the valuation.

As there is currently no reliable control premium rate or authoritative statistical data on the lack of control discount rate for the Chinese market that is recognized by all market participants, the impact of control on the value of the appraisal subject was not considered in this market approach valuation.

**Valuation Process under Market Approach*****Selection of Comparable Companies***

Since the appraised entity is a non-listed company, its equity does not have a publicly traded market, and therefore its market value cannot be directly determined. We select comparable companies from domestic listed companies, and the screening process for comparable companies is as follows:

- (1) Preliminary screening is conducted based on the industry, main business model, and product type of the entity being evaluated. The screening criteria for comparable companies are as follows:
  - 1) As of the base date, it must have been listed for at least two years to avoid the impact of share price fluctuations caused by insufficient market information, IPO effects, market expectations, and other factors.
  - 2) The industry where it operates must be the semiconductor manufacturing or wafer foundry industry, i.e., the industry of the appraised entity, and its main business model is IDM or Foundry, which involves large-scale investment, high capital expenditure, and continuous investment in technology and processes, and its product application areas are similar to those of the appraised entity.
  - 3) The shares were normally traded on the base date and were not in an abnormal trading state such as a trading halt, nor did the share price fluctuate abnormally due to a recent merger, acquisition, or restructuring transaction on the base date.
  - 4) Given that ST shares are more likely to deviate significantly from their actual value due to speculative and manipulative factors in the market, ST shares are excluded from the scope of comparable companies.

The appraisers in this appraisal have screened listed companies that belong to the same category as the appraised entity under the SWS Industry Classification – Electronics – Semiconductors – Discrete Devices, Integrated Circuit Manufacturing, and a total of 25 listed companies was selected. These companies are screened in accordance with the aforementioned screening criteria, with details as follows:

Stock code	Name of securities	Date of listing	Screening process
688249.SH	Nexchip	May 5, 2023	Its operating model is mainly Foundry model with product application areas being similar to the appraised entity, so the company is eligible for further screening

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Stock code	Name of securities	Date of listing	Screening process
688347.SH	Hua Hong	August 7, 2023	The company experienced abnormal trading such as trading suspension during the recent period prior to the base date, so it is excluded from screening
<b>688396.SH</b>	<b>CR Micro</b>	<b>February 27, 2020</b>	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
688469.SH	UNT	May 10, 2023	The company experienced merger, acquisition and restructuring during the recent period prior to the base date, so it is excluded from screening
688691.SH	Brite	April 11, 2024	It mainly operates under Fabless model, which is significantly different from the operating model of the appraised entity, so it is excluded from screening
688981.SH	SMIC	July 16, 2020	It mainly operates under Foundry model, and there are significant differences in process technology, so it is excluded from screening
300456.SZ	SMEI	May 14, 2015	It mainly operates under Foundry model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
600360.SH	* ST Huawei	March 16, 2001	Its shares are under special treatment (ST), and its share price deviates significantly from its actual value, so it is excluded from screening
<b>600460.SH</b>	<b>Silan Microelectronics</b>	<b>March 11, 2003</b>	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
600745.SH	Wingtech Technology	August 28, 1996	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Stock code	Name of securities	Date of listing	Screening process
603290.SH	StarPower Semiconductor	February 4, 2020	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
605111.SH	NCE Power	September 28, 2020	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688048.SH	Everbright	April 1, 2022	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
688167.SH	Focuslight Technologies	December 24, 2021	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
688172.SH	Yandong Microelectronics	December 16, 2022	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
688230.SH	Prisemi	December 1, 2021	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688261.SH	Oriental Semiconductor	February 10, 2022	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688498.SH	Yuanjie Technology	December 21, 2022	It mainly operates under IDM model, and its product application areas are different from those of the appraised entity, so it is excluded from screening
688689.SH	Galaxy Microelectronics	January 27, 2021	It mainly conducts semiconductor packaging and testing, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
688693.SH	Convert	August 18, 2023	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening



## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Stock code	Name of securities	Date of listing	Screening process
688711.SH	MACMIC	September 1, 2021	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
300046.SZ	Tech Semi	January 20, 2010	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening
300373.SZ	Yangjie Technology	January 23, 2014	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
300623.SZ	Jie Jie Microelectronics	March 14, 2017	<b>Its operating model is mainly IDM model with product application areas being similar to the appraised entity, so the company is eligible for further screening</b>
300831.SZ	Peri	May 7, 2020	It mainly operates under Fabless model, and its business model is significantly different from that of the appraised entity, so it is excluded from screening

After preliminary screening, the company profiles that meet the above reference standards (namely they are comparable in terms of industry, main operational model and product types) are shown in the following table:

Stock Code	Name of security	Corporate Profile	Composition of Main Operations
688249.SH	Nexchip	The main business of Hefei Nexchip Semiconductor Corporation is 12-inch wafer foundry business and its supporting services. The company's main products are DDIC, CIS, PMIC, MCU, and Logic.	Integrated circuit wafer foundry: 98.5703%; Other operations: 1.4020%; Others: 0.0277%

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Stock Code	Name of security	Corporate Profile	Composition of Main Operations
688396.SH	CR Micro	The principal business of China Resources Microelectronics Limited is power semiconductors, smart sensors, and smart control, providing customers with a wide range of semiconductor products and system solutions. The Company's main products are MOSFETs, IGBTs, power diodes, IoT application-specific ICs, power ICs, optocouplers and sensors, SiC, and GaN.	Products and solutions: 50.9277%; Manufacturing and services: 46.3278%; Other businesses: 2.7445%
600460.SH	Silan Microelectronics	Hangzhou Silan Microelectronics Co., Ltd. is mainly engaged in the research and development, manufacturing, and sales of electronic components. The company's main products are silicon-based integrated circuits, discrete devices, and compound semiconductor devices (LED chips and finished products, SiC, GaN power devices).	Discrete device products: 48.4601%; Integrated circuits: 36.5858%; Light-emitting diode products: 6.8476%; Other businesses: 4.4177%; Others: 3.6887%
688172.SH	Yandong Microelectronics	The principal business of Beijing Yandong Microelectronics Co., Ltd. consists of two categories: products and solutions, and manufacturing and services. The Company's main products are products and solutions, manufacturing and services.	Products and solutions: 47.1756%; Manufacturing and services: 43.9067%; Others: 5.7855%; Other businesses: 3.1323%

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Stock Code	Name of security	Corporate Profile	Composition of Main Operations
300373.SZ	Yangjie Technology	The main business of Yangzhou Yangjie Electronic Technology Co., Ltd. is the design, manufacturing, packaging, testing, research and development, production, and sale of power semiconductor wafers, chips, and devices. The company's main products are semiconductor devices, semiconductor chips, and semiconductor wafers.	Semiconductor devices: 86.2474%; Semiconductor chips: 8.3270%; Semiconductor silicon wafers: 3.0766%; Other business income: 2.3490%
300623.SZ	Jie Jie Microelectronics	The main business of Jiangsu JieJie Microelectronics Co., Ltd. is the research and development, design, production, and sales of power semiconductor chips and devices. The Company's main products are thyristor series, protection device series, diode series, MOSFET series, IGBT series, thick film modules, silicon carbide devices, and others.	Power semiconductor devices: 66.9693%; power semiconductor chips: 31.0471%; other business income: 1.3637%; power device packaging and testing: 0.6199%

- (2) Given that the appraised entity is an independent wafer foundry, if the business scale of comparable listed companies is smaller than that of the appraised entity and the gap is significant, their comparability will be correspondingly weakened. In addition, considering that the book value of fixed assets of the appraised entity had been almost fully depreciated as of the base date, and its main production and operation sites were all leased, without self-owned factory buildings and land, comparable samples of equipment-type fixed assets with similar original book value were selected in this screening process.

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

The original book value of equipment-type fixed assets for each company is calculated as follows:

Stock code	Name of security	Original book value of equipment assets (RMB100 million)
<b>688249.SH</b>	<b>Nexchip</b>	<b>373.37</b>
<b>688396.SH</b>	<b>CR Micro</b>	<b>208.96</b>
<b>600460.SH</b>	<b>Silan Microelectronics</b>	<b>114.24</b>
688172.SH	Yandong Microelectronics	67.74
300373.SZ	Yangjie Technology	47.07
300623.SZ	Jie Jie Microelectronics	54.72
Assessed entity	HLMC	153.59

The profiles of the comparable listed companies finally selected are shown in the following table:

Stock code	Name of security	Date of listing	Corporate profile	Main operation
688249.SH	Nexchip	May 5, 2023	The main business of Hefei Nexchip Semiconductor Corporation is 12-inch wafer foundry business and its supporting services. The company's main products are DDIC, CIS, PMIC, MCU, and Logic.	12-inch wafer foundry business.
688396.SH	CR Micro	February 27, 2020	The principal business of China Resources Microelectronics Limited is power semiconductors, smart sensors, and smart control, providing customers with a wide range of semiconductor products and system solutions. The Company's main products are MOSFETs, IGBTs, power diodes, IoT application-specific ICs, power ICs, optocouplers and sensors, SiC, and GaN.	Integrated operation of the entire industry chain, including chip design, wafer manufacturing, and packaging and testing.

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Stock code	Name of security	Date of listing	Corporate profile	Main operation
600460.SH	Silan Microelectronics	March 11, 2003	The principal business of Hangzhou Silan Microelectronics Co., Ltd. is the R&D, production and sale of electronic components. The company's main products are silicon-based integrated circuits, discrete devices, and compound semiconductor devices (LED chips and finished products, SiC, GaN power devices).	Research and development, production, and sales of electronic components.

### *Financial Overview of Comparable Companies*

Comparable Company 1: Silan Microelectronics (600460.SH)

Full Company Name: Hangzhou Silan Microelectronics Co., Ltd.

#### *(1) Balance Sheet (Consolidated Statement)*

*Unit: RMB0,000*

Item\Year	December 31, 2023	December 31, 2024	June 30, 2025
<b>Current Assets:</b>			
Monetary funds	613,122.98	452,033.46	444,510.01
Trading financial assets	0.00	0.00	0.00
Derivative financial assets	0.00	0.00	0.00
Notes receivable and accounts receivable	244,610.00	303,671.42	327,813.76
Receivables financing	93,839.37	151,269.10	192,637.98
Prepayments	4,152.76	3,582.99	3,654.47
Other receivables (total)	2,552.38	2,253.64	2,387.59
Contract assets	0.00	0.00	0.00
Inventories	373,203.41	389,894.30	378,229.34
Assets held for sale	0.00	0.00	0.00
Non-current assets due within one year	1,720.00	960.00	1,200.00
Other current assets	15,329.26	31,437.47	13,912.33
<b>Total current assets</b>	<b>1,348,530.16</b>	<b>1,335,102.39</b>	<b>1,364,345.47</b>

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Item\Year	December 31, 2023	December 31, 2024	June 30, 2025
<b>Non-current Assets:</b>			
Debt investments	0.00	0.00	0.00
Long-term receivables	3,610.00	2,650.00	1,750.00
Long-term equity investments	67,830.28	127,834.49	147,654.84
Other equity instrument investments	2,250.71	2,226.29	2,380.90
Other non-current financial assets	56,623.79	43,886.84	41,555.06
Investment property	0.00	0.00	0.00
Fixed assets (total)	643,080.08	687,001.45	686,726.42
Construction in progress (total)	149,717.00	180,666.10	207,442.93
Right-of-use assets	1,221.08	763.74	839.25
Intangible assets	47,186.51	36,951.98	31,462.31
Development expenditures	2,619.90	4,872.77	9,382.82
Goodwill	24,535.99	24,507.00	24,507.00
Long-term deferred expenses	10,177.79	7,209.44	6,702.13
Deferred income tax assets	10,736.87	15,788.13	14,577.91
Other non-current assets	22,638.42	10,236.49	11,561.12
<b>Total non-current assets</b>	<b>1,042,228.41</b>	<b>1,144,594.71</b>	<b>1,186,542.71</b>
<b>Total Assets</b>	<b>2,390,758.57</b>	<b>2,479,697.11</b>	<b>2,550,888.18</b>
<b>Current Liabilities:</b>			
Short-term borrowings	181,056.81	149,163.93	161,461.23
Trading financial liabilities	111.63	0.00	0.00
Derivative financial liabilities	0.00	0.00	0.00
Notes payable and accounts payable	217,922.27	310,155.65	315,075.33
Advances from customers	0.00	0.00	0.00
Contract liabilities	2,409.47	2,526.23	2,390.84
Employee compensation payable	38,896.57	41,966.48	29,584.98
Taxes payable	11,017.49	9,956.03	11,030.06
Other payables (total)	6,981.88	7,593.75	9,987.80
Non-current liabilities due within one year	105,257.17	196,825.01	192,653.20
Other current liabilities	227.62	295.63	160.50
<b>Total current liabilities</b>	<b>563,880.92</b>	<b>718,482.72</b>	<b>722,343.95</b>

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**APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT**


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<b>Item\Year</b>	<b>December 31, 2023</b>	<b>December 31, 2024</b>	<b>June 30, 2025</b>
<b>Non-current Liabilities:</b>			
Long-term borrowings	343,094.60	260,300.26	347,305.44
Bonds payable	0.00	0.00	0.00
Lease liabilities	784.06	504.01	490.86
Long-term payables (total)	26,741.41	12,047.05	5,408.06
Long-term employee compensation payables	0.00	0.00	0.00
Projected liabilities	0.00	0.00	0.00
Deferred income tax liabilities	10,714.38	5,843.59	4,736.08
Deferred income – non-current liabilities	11,857.93	13,584.62	15,085.78
Other non-current liabilities	91,684.17	86,576.66	89,016.44
<b>Total non-current liabilities</b>	<b>484,876.54</b>	<b>378,856.18</b>	<b>462,042.65</b>
<b>Total Liabilities</b>	<b>1,048,757.47</b>	<b>1,097,338.90</b>	<b>1,184,386.59</b>
<b>Owners' Equity</b>			
<b>(or Shareholders' Equity):</b>			
<b>Owners' Equity attributable to parent company (total)</b>	<b>1,202,160.63</b>	<b>1,221,478.52</b>	<b>1,230,102.77</b>
Minority interests	139,840.48	160,879.69	136,398.81
<b>Total owners' equity</b>	<b>1,342,001.10</b>	<b>1,382,358.20</b>	<b>1,366,501.59</b>

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

### (2) Income Statement (Consolidated Statement)

Unit: RMB0,000

Item/Year	December 31, 2023	December 31, 2024	June 30, 2025
<b>(1) Total Operating Revenue</b>	933,953.80	1,122,086.90	633,576.61
<b>(2) Total Operating Costs</b>	898,089.78	1,100,739.99	597,538.91
Operating Costs	726,479.50	907,870.61	504,223.06
Taxes and Surcharges	3,829.74	5,271.47	2,532.51
Selling Expenses	16,685.01	17,877.47	8,593.39
Administrative Expenses	37,866.14	46,075.83	23,036.89
Research and Development Expenses	86,377.31	103,448.04	47,820.57
Financial Costs	26,852.08	20,196.56	11,332.50
Gains from Changes in Fair Value	-61,282.20	-13,625.32	-2,331.78
Investment Income	21,622.84	-775.48	-2,841.70
Net Exposure Hedging Gains	0.00	0.00	0.00
Exchange Gains	0.00	0.00	0.00
Gains from Disposal of Assets	1,108.96	-274.65	60.88
Asset Impairment Losses	9,387.11	30,833.39	20,329.81
Credit Impairment Losses	2,459.33	4,554.64	2,825.29
Other Income	9,655.22	18,643.15	8,592.32
<b>(3) Operating Profit</b>	-4,877.60	-10,073.42	16,362.31
Add: Non-operating Income	116.34	445.96	185.88
Less: Non-operating Expenses	926.56	1,097.17	128.36
<b>(4) Total Profit</b>	-5,687.81	-10,724.63	16,419.83
Less: Income Tax Expense	767.95	-8,338.44	3,136.22
<b>(5) Net Profit</b>	-6,455.76	-2,386.19	13,283.62
Less: Gains and Losses Attributable to			
Minority Interest	-2,877.19	-24,372.98	-13,196.15
Net Profit Attributable to Owners of			
the Parent Company	-3,578.58	21,986.78	26,479.77

The above data is excerpted from Silan Microelectronics' historical annual reports.



## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Comparable Company 2: Nexchip (688249.SH)

Full Company Name: Hefei Nexchip Semiconductor Corporation

### (1) Balance Sheet (Consolidated Statement)

Unit: RMB0,000

Item/Year	December 31, 2023	December 31, 2024	June 30, 2025
<b>Current Assets:</b>			
Monetary funds	652,622.76	582,775.72	310,395.47
Trading financial assets	154,842.49	106,612.55	157,389.87
Derivative financial assets	0.00	0.00	0.00
Notes receivable and accounts receivable	85,720.04	99,257.58	95,632.97
Receivables financing	377.71	13.07	258.65
Prepayments	8,439.72	3,750.70	3,354.56
Other receivables (total)	2,571.80	5,245.43	4,170.25
Contract assets	0.00	0.00	0.00
Inventories	149,268.54	150,332.06	164,554.75
Assets held for sale	0.00	0.00	0.00
Non-current assets due within one year	0.00	3,180.48	6,360.97
Other current assets	140,689.44	23,219.06	41,381.92
<b>Total current assets</b>	<b>1,194,532.50</b>	<b>974,386.65</b>	<b>783,499.39</b>
<b>Non-current Assets:</b>			
Debt investments	0.00	0.00	0.00
Long-term receivables	0.00	0.00	0.00
Long-term equity investments	10,000.00	17,711.10	27,354.45
Other equity instrument investments	10,366.92	13,424.43	17,444.90
Other non-current financial assets	30,653.50	60,738.86	50,616.15
Investment property	0.00	0.00	0.00
Fixed assets (total)	2,287,260.63	2,479,217.17	2,671,579.01
Construction in progress (total)	1,095,959.78	1,322,186.48	1,334,338.64
Right-of-use assets	355.91	85.70	0.00
Intangible assets	135,802.02	131,341.88	137,113.98
Development expenditures	0.00	0.00	0.00
Goodwill	0.00	0.00	0.00
Long-term deferred expenses	8.87	0.00	0.00
Deferred income tax assets	0.00	0.00	0.00
Other non-current assets	50,687.84	40,765.67	98,702.02
<b>Total non-current assets</b>	<b>3,621,095.46</b>	<b>4,065,471.30</b>	<b>4,337,149.12</b>
<b>Total Assets</b>	<b>4,815,627.96</b>	<b>5,039,857.94</b>	<b>5,120,648.52</b>

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Item/Year	December 31, 2023	December 31, 2024	June 30, 2025
<b>Current Liabilities:</b>			
Short-term borrowings	65,834.90	129,114.81	67,937.17
Trading financial liabilities	0.00	0.00	0.00
Derivative financial liabilities	0.00	0.00	0.00
Notes payable and accounts payable	799,976.35	219,372.58	271,923.94
Advances from customers	0.00	0.00	0.00
Contract liabilities	87,737.18	64,851.59	28,811.36
Employee compensation payable	11,638.49	17,094.28	21,061.78
Taxes payable	9,478.67	9,544.18	7,800.98
Other payables (total)	284,185.04	147,583.25	114,429.79
Non-current liabilities due within one year	140,334.36	150,494.10	171,357.91
Other current liabilities	2,475.00	4,521.77	6,656.28
<b>Total current liabilities</b>	1,401,659.99	742,576.55	689,979.22
<b>Non-current Liabilities:</b>			
Long-term borrowings	1,151,003.04	1,558,942.96	1,669,458.48
Bonds payable	0.00	79,988.88	99,991.02
Lease liabilities	0.00	0.00	0.00
Long-term payables (total)	0.00	0.00	0.00
Long-term employee compensation payables	977.20	700.83	1,225.90
Projected liabilities	0.00	0.00	0.00
Deferred income tax liabilities	0.00	0.00	0.00
Deferred income – non-current liabilities	48,171.21	48,751.98	45,663.14
Other non-current liabilities	0.00	0.00	0.00
<b>Total non-current liabilities</b>	1,200,151.45	1,688,384.65	1,816,338.54
<b>Total Liabilities</b>	2,601,811.44	2,430,961.20	2,506,317.76
<b>Owners' Equity</b>			
<b>(or Shareholders' Equity):</b>			
<b>Owners' Equity attributable to parent company (total)</b>	2,140,980.47	2,087,031.10	2,102,478.03
Minority interests	72,836.05	521,865.65	511,852.73
<b>Total owners' equity</b>	2,213,816.52	2,608,896.75	2,614,330.76

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

### (2) Income Statement (Consolidated Statement)

Unit: RMB0,000

Item/Year	December 31, 2023	December 31, 2024	June 30, 2025
<b>(1) Total Operating Revenue</b>	724,354.14	924,925.23	519,845.47
<b>(2) Total Operating Costs</b>	724,299.13	889,949.83	497,180.83
Operating Costs	567,817.38	689,047.20	385,910.05
Taxes and Surcharges	3,186.36	3,232.45	1,957.68
Selling Expenses	5,019.63	5,483.66	2,817.30
Administrative Expenses	27,119.33	34,063.15	18,333.08
Research and Development Expenses	105,751.18	128,397.52	69,482.02
Financial Costs	15,405.24	29,725.86	18,680.70
Gains from Changes in Fair Value	1,133.40	771.60	997.75
Investment Income	7,319.44	4,118.22	1,357.56
Net Exposure Hedging Gains	0.00	0.00	0.00
Exchange Gains	0.00	0.00	0.00
Gains from Disposal of Assets	2.34	0.07	0.00
Asset Impairment Losses	8,108.60	2,404.05	6,205.87
Credit Impairment Losses	-10.61	-174.97	13.74
Other Income	11,145.40	10,560.26	4,244.29
<b>(3) Operating Profit</b>	11,557.58	48,196.47	23,044.63
Add: Non-operating Income	601.39	217.73	160.07
Less: Non-operating Expenses	224.93	168.25	0.00
<b>(4) Total Profit</b>	11,934.04	48,245.94	23,204.70
Less: Income Tax Expense	17.56	26.31	4.74
<b>(5) Net Profit</b>	11,916.48	48,219.63	23,199.96
Less: Gains and Losses Attributable to			
Minority Interest	-9,246.44	-5,064.43	-10,012.92
Net Profit Attributable to Owners of			
the Parent Company	21,162.91	53,284.06	33,212.88

The above data is extracted from Nexchip's historical annual reports.

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Comparable Company Three: CR Micro (688396.SH)

Full Company Name: China Resources Microelectronics Ltd.

### (1) Balance Sheet (Consolidated Statement)

Unit: RMB0,000

Item/Year	December 31, 2023	December 31, 2024	June 30, 2025
<b>Current Assets:</b>			
Monetary funds	1,173,652.79	868,294.30	893,689.13
Trading financial assets	6,200.08	2,978.39	0.00
Derivative financial assets	0.00	0.00	0.00
Notes receivable and accounts receivable	155,442.95	185,302.92	209,681.80
Receivables financing	67,164.99	54,183.15	74,844.21
Prepayments	6,302.52	5,474.46	6,939.98
Other receivables (total)	1,803.39	319.26	701.31
Contract assets	0.00	0.00	0.00
Inventories	196,574.29	209,642.48	213,370.04
Assets held for sale	0.00	0.00	0.00
Non-current assets due within one year	0.00	0.00	0.00
Other current assets	3,587.57	8,808.96	9,479.90
<b>Total current assets</b>	<b>1,610,728.57</b>	<b>1,335,003.92</b>	<b>1,408,706.38</b>
<b>Non-current Assets:</b>			
Debt investments	0.00	0.00	0.00
Long-term receivables	0.00	0.00	0.00
Long-term equity investments	392,166.99	601,169.18	574,644.09
Other equity instrument investments	0.00	0.00	0.00
Other non-current financial assets	50,227.69	44,054.32	44,310.49
Investment property	279.81	3,840.81	3,757.76
Fixed assets (total)	654,105.14	775,116.93	750,960.71
Construction in progress (total)	76,476.36	34,865.18	43,587.64
Right-of-use assets	10,417.80	8,342.90	7,683.92
Intangible assets	36,062.04	36,594.23	35,465.17
Development expenditures	0.00	0.00	0.00
Goodwill	18,532.66	52,543.54	52,543.54
Long-term deferred expenses	3,094.94	3,848.03	2,728.98
Deferred income tax assets	9,781.77	10,316.94	10,396.03
Other non-current assets	59,652.22	4,986.99	19,209.26
<b>Total non-current assets</b>	<b>1,310,797.41</b>	<b>1,575,679.04</b>	<b>1,545,287.61</b>
<b>Total Assets</b>	<b>2,921,525.98</b>	<b>2,910,682.95</b>	<b>2,953,993.99</b>

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**APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT**


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<b>Item/Year</b>	<b>December 31, 2023</b>	<b>December 31, 2024</b>	<b>June 30, 2025</b>
<b>Current Liabilities:</b>			
Short-term borrowings	2,244.42	3,382.05	4,779.00
Trading financial liabilities	0.00	8,167.02	8,167.02
Derivative financial liabilities	0.00	0.00	0.00
Notes payable and accounts payable	118,231.87	132,429.98	139,053.35
Advances from customers	0.00	0.00	0.00
Contract liabilities	17,420.67	17,797.24	22,956.91
Employee compensation payable	57,776.56	56,308.37	45,534.33
Taxes payable	7,930.70	6,589.45	8,899.89
Other payables (total)	203,009.22	173,668.21	173,964.37
Non-current liabilities due within one year	6,530.00	2,426.67	2,143.53
Other current liabilities	13,645.44	12,535.73	13,611.27
<b>Total current liabilities</b>	<b>426,788.86</b>	<b>413,304.71</b>	<b>419,109.68</b>
<b>Non-current Liabilities:</b>			
Long-term borrowings	90,665.96	0.00	0.00
Bonds payable	0.00	0.00	0.00
Lease liabilities	7,728.96	6,422.44	6,032.96
Long-term payables (total)	0.00	0.00	48.20
Long-term employee compensation payables	0.00	0.00	0.00
Projected liabilities	1,455.59	2,177.20	2,056.48
Deferred income tax liabilities	9,510.27	7,394.97	7,261.25
Deferred income – non-current liabilities	21,927.62	35,137.56	39,047.92
Other non-current liabilities	403.81	16,650.77	16,337.67
<b>Total non-current liabilities</b>	<b>131,692.20</b>	<b>67,782.93</b>	<b>70,784.48</b>
<b>Total Liabilities</b>	<b>558,481.06</b>	<b>481,087.65</b>	<b>489,894.17</b>
<b>Owners' Equity</b>			
<b>(or Shareholders' Equity):</b>			
<b>Owners' Equity attributable to parent company (total)</b>	<b>2,155,805.67</b>	<b>2,230,621.31</b>	<b>2,270,626.79</b>
Minority interests	207,239.24	198,974.00	193,473.03
<b>Total owners' equity</b>	<b>2,363,044.92</b>	<b>2,429,595.31</b>	<b>2,464,099.82</b>

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

### (2) Income Statement (Consolidated Statement)

Unit: RMB0,000

Item/Year	December 31, 2023	December 31, 2024	June 30, 2025
<b>(1) Total Operating Revenue</b>	990,060.39	1,011,852.58	521,817.88
<b>(2) Total Operating Costs</b>	852,588.28	917,504.73	471,978.20
Operating Costs	671,021.63	736,683.88	387,973.12
Taxes and Surcharges	8,406.13	8,350.37	4,802.85
Selling Expenses	16,717.28	15,819.09	7,965.26
Administrative Expenses	65,511.45	52,316.06	26,337.17
Research and Development Expenses	115,411.23	116,711.32	54,794.38
Financial Costs	-24,479.45	-12,375.99	-9,894.58
Gains from Changes in Fair Value	-698.23	-2,846.35	256.17
Investment Income	8,574.85	-38,259.80	-23,155.15
Net Exposure Hedging Gains	0.00	0.00	0.00
Exchange Gains	0.00	0.00	0.00
Gains from Disposal of Assets	-494.02	-409.44	20.29
Asset Impairment Losses	2,553.45	7,423.00	2,147.16
Credit Impairment Losses	783.83	-136.26	85.41
Other Income	25,169.91	33,114.56	10,730.37
<b>(3) Operating Profit</b>	166,687.33	78,660.07	35,458.78
Add: Non-operating Income	2,256.61	986.55	251.26
Less: Non-operating Expenses	267.85	183.12	18.60
<b>(4) Total Profit</b>	168,676.08	79,463.50	35,691.43
Less: Income Tax Expense	24,861.52	13,293.21	7,791.06
<b>(5) Net Profit</b>	143,814.56	66,170.29	27,900.37
Less: Gains and Losses Attributable to			
Minority Interest	-4,112.01	-10,075.70	-5,979.16
Net Profit Attributable to Owners of the Parent Company	147,926.57	76,245.99	33,879.53

The above data is excerpted from CR Micro's historical annual reports.

### *Standardizing the Financial Statements of the Appraised Entity and Comparable Companies*

For any enterprise, its balance sheet may include both operating assets and liabilities as well as non-operating assets, liabilities, and surplus assets. Its income statement may also include both operating income and expenses related to operating assets, as well as income and expenses related to non-operating assets, liabilities, and surplus assets. When appraisal professionals use the market approach for enterprise value appraisal, the impact of non-operating income and expenses, non-operating assets, liabilities, and surplus assets and their related income and expenses may cause the value ratios calculated based on financial

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## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

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statements to be incomparable. Therefore, when adopting the market approach for business value appraisal in this valuation, the non-operating assets, liabilities, surplus assets, and their related income and expenses of the comparable entities and the appraised entity are stripped out in a unified manner. The non-operating assets, liabilities and surplus assets are then added back to the final appraisal result at their respective values.

Given that non-operating assets and non-operating gains and losses of comparable companies cannot be obtained through detailed due diligence as with the appraisal entity, and considering data availability, our analysis of non-operating assets and non-recurring gains and losses is primarily limited to the following accounting items:

### *(1) Non-operating Assets (Liabilities)*

Non-operating assets mainly include accounting items such as trading financial assets, derivative financial assets, assets held for sale, debt investments, long-term receivables, long-term equity investments, other equity instrument investments, other non-current financial assets and investment property. The full amounts of these items are generally treated as non-operating nature.

Non-operating liabilities mainly include accounting items such as trading financial liabilities, derivative financial liabilities and deferred income, and the full amounts of these items are generally treated as non-operating nature.

Due to data availability, the appraisal values of non-operating assets and liabilities are equal to their book values.

### *(2) Non-recurring Gains and Losses*

Adjusted operating profit = operating profit – non-recurring operating income subject to adjustment + non-recurring operating costs and expenses for the period subject to adjustment – other income – investment income – net exposure hedging gain – gains from changes in fair value – credit impairment loss – asset impairment loss – gains from disposal of asset

The adjusted non-recurring gains and losses mainly include other income, investment income, net exposure hedging gain, gains from changes in fair value, credit impairment loss, asset impairment loss, and gains from disposal of asset.

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

### Calculation of Value Ratios

Based on the above analysis process, the calculation of value ratios is as follows:

Specific Indicators	Formula	Assessed entity	Case 1	Case 2	Case 3
		HLMC	Silan Microelectronics	Nexchip	CR Micro
Share Price (RMB/share)	A		26.86	21.97	47.74
Total Share Capital (10,000 shares)	B		166,407.18	200,613.52	132,752.94
Lack-of-Liquidity Discount Rate	C		39.26%	39.26%	39.26%
Market Value After Deducting Liquidity Discount	$D=A \times B \times (1-C)$		2,715,100.00	2,676,700.00	3,849,500.00
Net Value of Non-operating Assets and Liabilities on the Base Date	E		193,340.81	252,780.46	608,688.12
Operating Equity Value	$F=D-E$		2,521,759.19	2,423,919.54	3,240,811.88
Interest-bearing Debt	G		706,452.88	2,003,102.12	4,827.20
Minority Interest	H		136,398.81	511,852.73	193,473.03
Monetary Funds	I		444,510.01	310,395.47	893,689.13
Operating Enterprise Value Excluding Funds (EV)	$J=F+G+H-I$		2,920,100.87	4,628,478.92	2,545,422.98
EBITDA	K	87,291.27	173,149.07	426,382.53	216,387.18
EV/EBITDA ratio	$L=J \div K$		16.86	10.86	11.76

### Calculation of Operating Equity Value

Operating equity value = Total shareholders' equity value (market capitalization of the listed company) – appraised value of non-operating assets and liabilities

Where: Total shareholders' equity value = Total share capital on the base date  $\times$  average trading price over the 120 days prior to the base date  $\times$  (1 – liquidity discount rate)

### Non-tradable Discount

Since the values of the selected listed companies are calculated based on the price of tradable shares, and the appraisal entity is not a listed company, the operating equity value calculated using the adjusted value ratio needs to take into account a non-tradable discount.



## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

It is generally believed that the price difference between non-tradable shares and tradable shares is mainly due to the following factors:

### (1) Risks Undertaken

Tradable shares are highly liquid. When risks arise, holders of tradable shares can quickly sell their shares to mitigate or avoid those risks, while holder of non-tradable shares are unable to respond quickly and thus incur losses in case of the same situation.

### (2) Level of Trading Activity

Tradable shares are traded on an active market with higher prices. Non-tradable shares lack sufficient trading volume, and given their typically large denominations, many investors lack the financial capacity to participate in their trading. Consequently, compared to tradable shares, trading in non-tradable shares is less active and prices tend to be lower..

Since the values of selected listed companies are calculated based on the price of tradable shares, and the appraisal entity is not a listed company, the market value calculated by reference to the tradable shares market of the comparable companies is subject to adjustment.

For liquidity discounts, appraisers make the calculation by reference to the pricing estimation for new share issuance, which involves studying the lack of liquidity by analyzing the difference between the new issuance price of domestic listed companies under their initial public offering (IPO) and the trading price of the shares upon their official listing.

Based on the sub-segment classification of the screened comparable companies, the appraisers collected the new issuance prices of companies within that industry classification that had been listed for at least one year as of the valuation benchmark date.. They then studied the relationship between the new issuance prices and the closing prices on the 90th, 120th, and 250th trading days after listing. The relevant information is summarized in the table below:

Stock code	Name of securities	Closing	Closing	Closing	Liquidity Discount on the 90th Day	Liquidity Discount on the 120th Day	Liquidity Discount on the 250th Day	
		Price on the	Price on the	Price on the				
		Initial	90th Day	120th Day				
		Offering	After Listing	After Listing				
600360.SH	*ST Huawei	8.4200	23.1000	19.7000	63.55%	57.26%	47.67%	
600460.SH	Silan Microelectronics	11.6000	16.1000	16.6000	35.0900	27.95%	30.12%	66.94%
603290.SH	StarPower Semiconductor	12.7400	190.3266	215.5800	242.4160	93.31%	94.09%	94.74%
605111.SH	NCE Power	19.9100	170.5000	166.5800	170.9505	88.32%	88.05%	88.35%
688048.SH	Everbright	80.8000	141.5232	110.8839	116.9314	42.91%	27.13%	30.90%

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Stock code	Name of securities	Closing	Closing	Closing	Liquidity	Liquidity	Liquidity	
		Price on the	Price on the	Price on the				
		Initial	90th Day	120th Day				
		Offering	After	After				
		Price	Listing	Listing	Listing	Discount	Discount	Discount
						on the	on the	on the
						90th Day	120th Day	250th Day
688167.SH	Focuslight Technologies	78.6900	99.7400	152.8600	93.7300	21.10%	48.52%	16.05%
688172.SH	Yandong Microelectronics	21.9800	22.8200	23.8300	17.5000	3.68%	7.76%	-25.60%
688230.SH	Prisemi	134.8100	90.5500	88.9800	83.7498	-48.88%	-51.51%	-60.97%
688249.SH	Nexchip	19.8600	18.5700	16.6800	14.3600	-6.95%	-19.06%	-38.30%
688261.SH	Oriental Semiconductor	130.0000	259.8600	299.8257	243.1371	49.97%	56.64%	46.53%
688347.SH	Hua Hong	52.0000	43.4700	35.0100	31.3794	-19.62%	-48.53%	-65.71%
688396.SH	CR Micro	12.8000	58.0960	50.2398	61.5187	77.97%	74.52%	79.19%
688469.SH	UNT	5.6900	5.3300	5.2800	3.9300	-6.75%	-7.77%	-44.78%
688498.SH	Yuanjie Technology	100.6600	221.3500	437.8892	209.0988	54.52%	77.01%	51.86%
688689.SH	Galaxy Microelectronics	14.0100	30.6329	40.8573	38.5684	54.26%	65.71%	63.67%
688691.SH	Brite	19.8600	44.2566	55.5099	61.9895	55.13%	64.22%	67.96%
688693.SH	Convert	40.8300	44.4300	26.1600	23.9836	8.10%	-56.08%	-70.24%
688711.SH	MACMIC	27.5100	120.8700	96.5443	89.8930	77.24%	71.51%	69.40%
688981.SH	SMIC	27.4600	58.6400	61.5900	51.8800	53.17%	55.41%	47.07%
300046.SZ	Tech Semi	41.3000	36.2176	47.7013	59.1849	-14.03%	13.42%	30.22%
300373.SZ	Yangjie Technology	19.5000	54.4516	52.0239	52.3650	64.19%	62.52%	62.76%
300456.SZ	SMEI	14.0100	103.2000	103.2000	86.9700	86.42%	86.42%	83.89%
300623.SZ	Jie Jie Microelectronics	27.6300	63.8216	70.0792	63.6609	56.71%	60.57%	56.60%
300831.SZ	Peri	3.9800	19.7037	25.3133	10.1774	79.80%	84.28%	60.89%
Average						40.09%	39.26%	31.63%

The lack-of-liquidity discount rate adopted in this appraisal was determined as 39.26%, the median of the liquidity discount rates observed on the 90th, 120th, and 250th trading days following the listing.

### *Operating Enterprise Value Excluding Funds (EV)*

Considering that an enterprise may have interest-bearing debt on one hand and monetary funds on the other, which are related to its monetary funds management practices, risk preferences, and seasonal fluctuations in operating capital, the influence of monetary funds is excluded when calculating the enterprise value to eliminate the impact of this factor. Therefore, the enterprise value excluding monetary funds is determined to calculate the value ratios. Unless specifically stated otherwise, the enterprise value (EV) in this assessment refers to the value excluding monetary funds. The calculation is as follows:

Enterprise Value (EV) = Total Enterprise Value (EV) – Non-operating assets and liabilities appraisal value

Total Enterprise Value (EV) = Operating equity value + interest-bearing debt + minority interests – monetary funds

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## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

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Due to the availability and insignificance of data, the appraisal value of minority interests is equal to their book value.

### *Operating Profit and Loss*

The base date for this appraisal is August 31, 2025. Since the comparable companies had only disclosed their interim financial reports for 2025 as of the base date, to ensure comparability of operating data over a complete accounting period, the financial data for 2024 has been uniformly adopted by the appraisers for the appraisal entity and all comparable companies as the basis for profit and loss comparisons.

### *Value Ratio Adjustments*

This appraisal quantifies differences between the appraisal entity and comparable companies in terms of financial indicators and non-financial indicators. Financial indicators mainly cover a company's operating scale, solvency, operation capability and earnings, while non-financial indicators mainly refer to trading dates, trading conditions, development stage, R&D investment, equipment newness ratio, and main business model. Based on this foundation, we assigned corresponding weights to each indicator by considering industry characteristics and the inherent meaning of the selected value ratios. The specific details are shown in the table below:

Characteristic Indicators			Weights
Financial Indicators	Operating Scale	Total Assets	50%
		Operating Revenue	50%
	Solvency	Asset-Liability Ratio	50%
		Current Ratio	50%
	Operation Capability	Current Asset Turnover	50%
		Total Asset Turnover	50%
Non-Financial Indicators	Transaction Date		100%
	Transaction Condition		100%
	Development Stage		100%
	R&D Investment		100%
	Equipment Net Value Ratio		100%
	Main Business Model		100%

Explanation of the adjustment system is as follows:

#### *Operating Scale Adjustment*

Different enterprises vary in their operating scale. When evaluating market position and market share, operating income and total assets are extremely important indicators. Given equal conditions, acquirers will have a stronger motivation to pursue mergers and acquisitions involving larger enterprises.

The metrics used to measure the operating scale in this instance include, among others, operating income and total assets. By adjusting scores to these two indicators affecting operating scale and weighting them according to their respective degree of importance in affecting the operating scale, the adjusted weighted scores are then used to establish the adjustment factors for each indicator.

The adjustment for operating scale is positive, which means the adjustment will be made upward for larger operating scale, and vice versa.

#### *Solvency Adjustment*

A company's solvency refers to its ability to repay both long-term and short-term debts using its assets. It is crucial for the company's healthy survival and development, serving as a key indicator of its financial condition and operational risks. Static solvency measures the company's capacity to settle debts using existing assets; dynamic solvency assesses its ability to repay debts using existing assets and the revenue generated by its ongoing operations.

The metrics used to measure solvency mainly include, among others, current ratio and asset-liability ratio. By adjusting scores to these two indicators affecting solvency and weighting them according to their respective degree of importance in affecting the solvency, the adjusted weighted scores are then used to establish the adjustment factors for each indicator.

The adjustment for asset-liability ratio is negative, which means the adjustment will be made downward for higher asset-liability ratio, and vice versa. The adjustment for current ratio is positive, which means the adjustment will be made upward for higher current ratio, and vice versa.

#### *Operation Capability Adjustment*

Operation capability refers to the extent to which an enterprise, constrained by the external market environment, leverages combination of internal human resources and production materials to achieve financial objectives. In gist, it is the ability of the company to use various assets to generate revenue.

Financial analysis ratios for operation capability include, among others, total asset turnover and current asset turnover, which reveal the operation turnover of enterprise funds and reflect the enterprise's efficiency of managing and utilizing economic resources. The faster the asset turnover, the higher the liquidity, and the quicker the assets generate profits.

By adjusting scores to total asset turnover and current asset turnover and weighting them according to their respective degree of importance in affecting the company's solvency, the adjusted weighted scores are then used to establish the adjustment factors for each indicator.

The adjustment for operation capability is positive, which means the adjustment will be made upward for higher turnover rate, and vice versa.

#### *Profitability Adjustment*

The ratio of enterprise value to earnings before interest, taxes, depreciation, and amortization (EV/EBITDA) is adopted for this appraisal. Since this indicator is an earnings ratio, it is not appropriate to make further profitability adjustment. Therefore, no such adjustment is made for this value ratio.

#### *Transaction Date Adjustment*

Asset prices fluctuate over time, and the transaction dates of comparable enterprises generally differ from the appraisal base date. Thus, the prices of comparable enterprises at their transaction dates need to be adjusted to reflect the prices at the base date. This adjustment is referred to as "market condition adjustment" or "transaction date adjustment." After applying this adjustment, the prices of comparable enterprises at the transaction date are converted to reflect the prices at the appraisal base date.

In this appraisal, the listed company comparison method is used, and the calculation is based on the recent average trading price of shares at the appraisal base date. Therefore, no transaction date adjustment is needed.

#### *Transaction Condition Adjustment*

The transaction price of comparable companies is for real, which may reflect normal and fair market value or may be under certain special conditions or terms. Since the appraised entity's value must be objective and fair, any abnormal transaction price of a comparable company should be adjusted to a normal value. This adjustment to comparable transaction prices is referred to as "transaction condition adjustment."

After due verification, the appraisers believe that the transaction prices of listed companies are all normal market prices under active and open trading conditions, so no transaction condition adjustment is needed.

### *Development Stage Adjustment*

Comparable companies may be at different development stages, and the impact of development stage on enterprise value fundamentally originates from differences in market expectations for companies' future earnings growth. Capital markets rely on these expectations to determine valuation logic of corporate merger and acquisition considerations and to assess equity trends of listed companies: the higher the growth expectation, the higher the corresponding valuation; conversely, the lower the expectation, the lower the valuation.

Given that the appraised entity is currently operating at near full production capacity, its future revenue growth will mainly depend on product price increases driven by overall market development. In contrast, the selected comparable listed companies are mostly in their stage of growth or maturity, with growth driven by capacity expansion and other factors, and their expected growth exceeds that of the appraised entity. Therefore, the development stage is adjusted according to capital market expectations for the comparable companies' growth.

The maximum adjustment we make for the development stage is 10 units.

### *R&D Investment Adjustment*

R&D investment refers to all expenses incurred by an enterprise for research and development of products, technology, materials, processes, and standards, which includes, among others, direct costs for materials, fuel and power relating to R&D activities, salaries, bonuses, allowances, subsidies, social insurance and housing funds for in-house R&D staff, and labor costs for external part-time R&D personnel, as well as depreciation or leasing costs for instruments, equipment and buildings and other fixed assets used for R&D activities.

A key indicator for measuring R&D investment is the R&D expense ratio, which is the proportion of R&D expenses to operating income. A higher R&D expense ratio indicates stronger willingness of a company to invest in innovation and technology R&D, which is beneficial for the company to maintain advancement in the future.

The adjustment to R&D expense ratio is positive, which means the adjustment will be made upward for higher R&D expense ratio, and vice versa.

### *Equipment Net Value Ratio Adjustment*

The equipment net value ratio is a key indicator measuring the quality and technical status of an enterprise's fixed assets. A higher net value ratio means less physical wear, more reliable overall operating efficiency, and typically a more recent commissioning date, implying higher technical advancement and process level.

For wafer foundry enterprises, production equipment is the core production factor. A higher equipment net value ratio not only directly correlates to better production capacity performance, but also suggests lower future maintenance costs and capital expenditure for large-scale updates in the short term, which benefits the enterprise's cash flow.

Based on the above logic, adjustments have been made to the net value ratio of production equipment. Considering that the financial depreciation period for semiconductor equipment is shorter than its useful life, resulting in a relatively low book net value ratio, adjustments are made by revising the financial depreciation period to align with the average useful life before applying the final adjustment.

The equipment net value ratio positively affects enterprise value – the higher the net value ratio, the higher the upward adjustment, and vice versa.

#### *Other Factor Parameters*

In the semiconductor manufacturing field, there are mainly two business models: integrated device manufacturer (IDM) and foundry model (Foundry). They differ in industry chain positioning, operating logic, and value creation, as detailed below:

##### (1) Integrated Device Manufacturer (IDM) Model

The IDM model covers the entire industry chain from chip design and manufacturing to packaging and testing.

##### 1) Core Advantages:

- ① **Industry Chain Integration Capability:** By internally integrating design, manufacturing, and packaging/testing, IDM enterprises can achieve full-process optimization, maximizing technical potential and balancing product performance, power consumption, and cost.
- ② **Independent Production Capacity and Supply Chain Security:** During market supply-demand tensions, their own independent production capacity can prioritize internal needs and quickly respond to market price changes, resulting in significant supply chain security and competitive advantages.
- ③ **Deep Technical Barriers:** Capability in design and manufacturing enables them to accumulate more technology and experience, forming higher technical barriers and core competitiveness.

2) Operating Risks:

- ① Higher Operating Risks: IDM enterprises, which are engaged in the whole production process throughout the entire industry chain, including design, manufacturing, packaging and testing, are susceptible to insufficient utilization rate and subject to relatively concentrated operating risks during market volatility, particularly during downturns.
- ② Management Complexity and Slower Technology Iteration: Managing a large organization across multiple fields may reduce efficiency. Besides, the necessity of conducting R&D iteration and technology innovation for the whole industry chain covering design, manufacturing, packaging and testing makes the IDM enterprises slower in their innovation as compared to the highly specialized foundry enterprises.

(2) Foundry Model

The foundry model specializes in one or multiple stages of chip sector, manufacturing, packaging or others, without engaging in chip design. Instead, they provides services to professional chip design companies (Fabless).

1) Core Advantages:

- ① Rapid Technology Iteration: By specializing in manufacturing and packaging processes, foundries can quickly iterate and optimize technology platforms, responding nimbly to market demand.
- ② Economies of Scale and Cost Advantage: Serving solely as foundries, they maximize capacity utilization, reduces unit costs, and achieves economies of scale by accepting orders from chip design companies across the entire market.
- ③ Open Partner Ecosystem: As they do not compete in chip design, foundries can collaborate with many Fabless companies, building an open industry ecosystem.

2) Operating Risks:

- ① Insufficient Industry Chain Value Addition: Being midstream players in the industry chain, their value addition depend on design of Fabless companies and demand of terminal market. Their ability to further meet customization needs may be limited.
- ② Weaker Resistance to Market Fluctuations: Their capacity utilization and financial position are directly affected by downstream order fluctuations, with more direct performance pressure during industry downturns.



## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Considering the aforementioned factors, although the IDM model presents disadvantages such as concentrated operational risks, complex management, and insufficient technological iteration speed, it still holds certain advantages over the foundry model attributable to the synergistic optimizations achieved through full-industry-chain integration, independent control over supply chain, and higher technological added value. We have revised our assessment of the IDM model upward. However, recognizing that differing business models also impact respective financial indicators, the maximum adjustment for business model differences is capped at 5 percentage points.

### Comparison and Scoring Table

		Assessed entity	Case 1	Case 2	Case 3
			Silan		
Items		HLMC	Microelectronics	Nexchip	CR Micro
Value Ratio EV (Excluding Monetary Funds)/EBITDA			16.86	10.86	11.76
Transaction Date Adjustment	Transaction	100	100	100	100
	Index				
	Scoring Coefficient	100.0	100.0	100.0	100.0
Transaction Condition Adjustment	Transaction	Normal market	Normal market	Normal market	Normal market
	Condition	transaction	transaction	transaction	transaction
	Scoring Coefficient	100.0	100.0	100.0	100.0
Development Stage Adjustment	Expected	Maturity stage	Growth stage –	Growth stage –	Growth stage –
	Earnings Growth		Maturity stage	Maturity stage	Maturity stage
	Scoring Coefficient	100.0	110.0	110.0	110.0
Operating Scale Adjustment	Total Assets	718,952.0	2,357,547.4	4,867,843.2	2,331,281.7
	Scoring Coefficient	100.0	105.0	105.0	105.0
	Operating income	451,697.1	1,122,086.9	924,925.2	1,011,852.6
	Scoring Coefficient	100.0	105.0	105.0	105.0
	Subtotal	100.0	105.0	105.0	105.0
	Solvency Adjustment	Asset-Liability	72.9%	49.6%	50.5%
	Ratio				
	Scoring Coefficient	100.0	102.0	102.0	104.0
	Current Ratio	2.5	1.9	0.9	3.4
	Scoring Coefficient	100.0	99.0	97.0	102.0
	Subtotal	100.0	100.5	99.5	103.0

## APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT

Items	Assessed entity	Case 1	Case 2	Case 3
		Silan Microelectronics	Nexchip	CR Micro
Operation Capability Adjustment	Current Asset	0.9	0.8	1.5
	Turnover			
	Scoring	100.0	99.0	103.0
	Coefficient			
	Total Asset	0.6	0.5	0.2
	Turnover			
	Scoring	100.0	99.0	97.0
	Coefficient			
R&D Investment Adjustment	Subtotal	100.0	99.0	100.0
				98.5
	R&D Expense	7.2%	9.2%	13.9%
	Ratio			
Equipment Newness Ratio Adjustment	Scoring	100.0	101.0	105.0
	Coefficient			
	Equipment	60.6%	78.1%	85.0%
	Newness Ratio			
Other Factors Adjustment	Scoring	100.0	103.0	104.0
	Coefficient			
	Business Model	Foundry	IDM	Foundry
	IDM			
	Scoring	100.0	105.0	100.0
	Coefficient			
				105.0

### Calculation of Total Shareholders' Equity Value under the Market Approach

#### Valuation Estimate of the Subject of Appraisal

Items	Case 1	Case 2	Case 3
	Silan Microelectronics	Nexchip	CR Micro
Value Ratio EV (Excluding Monetary			
Funds)/EBITDA	16.86	10.86	11.76
Transaction Date Adjustment	100/100	100/100	100/100
□ Transaction Condition Adjustment	100/100	100/100	100/100
□ Development Stage Adjustment	100/110	100/110	100/110
□ Operating Scale Adjustment	100/105	100/105	100/105
□ Solvency Adjustment	100/100.5	100/99.5	100/103
□ Operation Capability Adjustment	100/99	100/100	100/98.5
□ Profitability Adjustment	100/100	100/100	100/100
R&D Investment Adjustment	100/101	100/105	100/103
Equipment Newness Ratio Adjustment	100/103	100/104	100/101
Other Factors Adjustment	100/105	100/100	100/105

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**APPENDIX V FURTHER EXPLANATORY NOTES TO THE VALUATION REPORT**


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	Case 1	Case 2	Case 3
	Silan		
Items	Microelectronics	Nexchip	CR Micro
Adjusted Value Ratio EV/EBITDA	13.43	8.65	9.19
Weight	33%	33%	33%
Adjusted Value Ratio × Weight	4.48	2.88	3.06
Weighted Adjusted Value Ratio EV/EBITDA			<b>10.42</b>
Target Entity EBITDA			<b>87,781.97</b>
Comprehensive Operating Enterprise Value (Excluding Monetary Funds)			<b>914,688.16</b>
Less: Interest-bearing Debt			<b>373,753.75</b>
Less: Minority Interest			<b>0.00</b>
Operating Equity Value (Excluding Monetary Funds)			<b>540,934.41</b>
Add: Non-operating Assets and Liabilities			<b>6,898.29</b>
Add: Monetary Funds			<b>300,352.21</b>
<b>Appraised Value</b>			<b>848,000.00</b>

**Appraisal Conclusion under Market Approach**

Under the market approach, the value of total shareholders' equity in the enterprise was appraised with the appraisal result as of the base date as follows:

The book value of the appraised entity's shareholders' equity is RMB2,001,913,800, and the appraised value is RMB8,480,000,000, representing an appraisal appreciation of RMB6,478,086,200 and an appreciation rate of 323.59%.

*The following is the text of a letter received from the Hong Kong Independent Financial Adviser to the Independent Board Committee, the Takeovers Code Independent Shareholders, and the Proposed Acquisition LR Independent Shareholders, addressed to the Board and prepared for the sole purpose of inclusion in this circular.*



Innovax Capital Limited  
Flat B, 13/F  
Neich Tower  
128 Gloucester Road, Wanchai  
Hong Kong, PRC

22 January 2026

The Board of Directors  
Hua Hong Semiconductor Limited  
Room 2212,  
Bank of America Tower  
12 Harcourt Road, Central  
Hong Kong, PRC

Dear Sirs,

We refer to the valuation report (the “Valuation Report”) of the Target Assets prepared by Shanghai Orient Appraisal Co., Ltd. (the “Valuer”) as set out in appendix V to this circular (the “Circular”), of which this letter forms part. We are required to report on the Valuation Report under Rule 11.1(b) of the Takeovers Code. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We have relied on the information and materials supplied, and the opinions expressed to us, by the management of the Group and the Valuer which we have assumed to be true, accurate, complete, and not misleading in all material aspects at the relevant time they were supplied or expressed. We have no reason to believe that any material information has been withheld from us, or to doubt the truth, accuracy, or completeness of the information furnished.

We have reviewed the Valuation Report and the underlying calculations relating to the Valuation, and have discussed with the Valuer the Valuation Report, including, in particular, the valuation approach and the key bases and assumptions adopted therein. We have also carried out reasonable review work to assess the qualifications and experience of the Valuer responsible for the preparation of the Valuation Report, including reviewing documentary evidence regarding their professional qualifications, and holding discussions with representatives of the Valuer in respect of their credentials, experience, expertise and industry knowledge. On the basis of the foregoing, we concur with the Valuer that the valuation approach, the bases and assumptions adopted in the Valuation Report and, the Valuation Report

itself, have been prepared by the Valuer with due care, due consideration and objectivity, and on a reasonable basis. We are also satisfied that the Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation Report competently.

Our work does not constitute any valuation of the Target Company. Our opinion in this letter has been given for the sole purpose of compliance with Rule 11.1(b) of the Takeovers Code. We and our respective director and affiliates will not, whether jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the foregoing, nor will we, our respective director and affiliates, whether jointly or severally, owe any responsibility to anyone other than the Company. Nothing in this letter should be construed as an opinion or recommendation to any person as to how to vote on the Proposed Acquisition (including the issue of consideration shares under specific mandate), the Whitewash Waiver and the Special Deal in relation to the Proposed Non-Public Issuance of RMB Shares. Shareholders are recommended to read all information as set out in the Circular.

Yours faithfully,

For and on behalf of

**Innovax Capital Limited**

**Alvin Kam**

*Managing Director*

**Erica Ling**

*Director*

## 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.

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

## 2. MARKET PRICES

The table below shows the closing market prices of the RMB Shares as quoted on the Shanghai Stock Exchange and the Hong Kong Shares as quoted on the Hong Kong Stock Exchange (i) on the Latest Practicable Date; (ii) on the last trading day immediately preceding the date of the Announcement and the Update Announcement; and (iii) on the last trading day of each month during the Relevant Period:

	<b>Closing price per RMB Share (RMB)</b>	<b>Closing price per Hong Kong Share (HK\$)</b>
28 February 2025	52.40	34.30
31 March 2025	45.78	31.05
30 April 2025	51.35	35.45
30 May 2025	47.88	31.60
30 June 2025	54.91	34.70
31 July 2025	60.02	40.60
29 August 2025 (being the last trading day immediately preceding the Announcement)	78.50	53.80
30 September 2025	114.56	80.00
31 October 2025	125.05	79.75
28 November 2025	108.50	74.50
30 December 2025 (being the last trading day immediately preceding the Update Announcement)	109.90	75.25
31 December 2025	107.87	74.30
19 January 2026 (being the Latest Practicable Date)	135.08	102.60

During the Relevant Period, the highest closing price of the Shares was RMB140.00 per RMB Share and HK\$106.80 per Hong Kong Share quoted on the Shanghai Stock Exchange and the Hong Kong Stock Exchange respectively on 29 October 2025/16 January 2026 and 16 January 2026, and the lowest closing price of the Shares was RMB40.76 per RMB Share and HK\$25.75 per Hong Kong Share quoted on the Shanghai Stock Exchange and the Hong Kong Stock Exchange respectively on 7 April 2025 and 7 April 2025.

The Issue Price of the Consideration Shares of RMB43.34 per Consideration Share represents a discount of approximately 44.79% to the closing price per RMB Share of RMB78.50 per RMB Share as quoted on the Shanghai Stock Exchange, on 29 August 2025, being the last business day immediately preceding the Announcement.

*Note:*

- (i) The closing prices of the RMB Shares and the Hong Kong Shares are sourced from Bloomberg and the website of the Hong Kong Stock Exchange, respectively.

### 3. SHARE CAPITAL

Set out below are the issued share capital of the Company:

- (i) as at the Latest Practicable Date;

	<b>Number of Shares</b>
RMB Shares	407,750,000
Hong Kong Shares	1,329,869,193
	<u>1,737,619,193</u>

All the Shares currently in issue rank *pari passu* in all respects with each other, including, in particular, as to rights in respect of capital, dividends and voting.

- (ii) immediately after Completion (assuming that (a) there will not be any further adjustments to the issue price of the Consideration Shares of RMB43.34 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company since the Latest Practicable Date save for the issue of the RMB Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement)):

	<b>Number of Shares</b>
RMB Shares as at the Latest Practicable Date	407,750,000
Consideration Shares to be issued immediately after the Completion (assuming that (a) there will not be any further adjustments to the issue price of the Consideration Shares of RMB43.34 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company since the Latest Practicable Date save for the issue of the RMB Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement))	190,768,392
Hong Kong Shares	<u>1,329,869,193</u>
<b>Total</b>	<b><u>1,928,387,585</u></b>

- (iii) immediately after Completion and the Proposed Non-public Issuance of RMB Shares (assuming that (a) the total amount of supporting funds to be raised under the Proposed Non-public Issuance of RMB Shares is RMB7,556,286,000; (b) there will not be any further adjustments to the issue price of the Consideration Shares of RMB43.34 per Consideration Share; (c) the issue price of the Proposed Non-public Issuance of RMB Shares shall be RMB95.85 per RMB Share (assuming the price determination date is the Latest Practicable Date); and (d) there will be no change in the total issued share capital of the Company since the date of the Latest Practicable Date save for the issue of the RMB Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement) and under the Proposed Non-public Issuance of RMB Shares):

	<b>Number of Shares</b>
RMB Shares as at the Latest Practicable Date	407,750,000



	Number of Shares
Consideration Shares to be issued immediately after the Completion (assuming that (a) there will not be any further adjustments to the issue price of the Consideration Shares of RMB43.34 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company since the Latest Practicable Date save for the issue of the RMB Shares pursuant to the Acquisition Agreement (as supplemented by the Supplemental Agreement))	190,768,392
RMB Shares to be issued under the Proposed Non-public Issuance of RMB Shares (assuming that (a) the total amount of supporting funds to be raised under the Proposed Non-public Issuance of RMB Shares is RMB7,556,286,000; (b) there will not be any further adjustments to the issue price of the Consideration Shares of RMB43.34 per Consideration Share; and (c) the issue price of the Proposed Non-public Issuance of RMB Shares shall be RMB95.85 per RMB Share (assuming the price determination date is the Latest Practicable Date)	78,834,491
Hong Kong Shares	<u>1,329,869,193</u>
<b>Total</b>	<b><u><u>2,007,222,076</u></u></b>

All the Shares in issue are fully-paid and rank pari passu in all respects including all rights as to dividends, voting and capital.

The RMB Shares to be issued under the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares when issued and fully paid, shall rank pari passu in all aspects amongst themselves and with the RMB Shares in issue at the time of the issuance of such RMB Shares including, in particular, as to dividends, voting and capital.

Since 31 December 2024 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, other than Hong Kong Shares issued pursuant to the Company's share option scheme adopted in 2015, no new Shares have been issued by the Company.

As at the Latest Practicable Date, save for 179,209 Hong Kong Shares which may be issued pursuant to the share option scheme of the Company adopted in 2015, the Company has no outstanding warrants, options or securities convertible into the Shares.

#### 4. DISCLOSURE OF INTERESTS

##### Interests and short positions of Directors and chief executives in the Shares, underlying shares and debentures

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive(s) of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, supervisors or chief executive(s) is taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company or which were required to be disclosed under the Takeovers Code.

So far as known to any Directors, as at the Latest Practicable Date, none of the Directors of the Company or any of their associates had or was deemed to have any interest or short position in the Shares, underlying Shares and debentures of the Company and its associated corporations as defined in Part XV of the SFO, which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register; or (iii) required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

##### Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the persons or entities, other than a Director or chief executive of the Company, who had an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Name of substantial Shareholder	Nature of interest	Number of Shares directly or indirectly held	Approximate percentage of interests (%)
Shanghai Hua Hong International, Inc. ("Hua Hong International") (Note 1)	Legal and beneficial owner	347,605,650	20.00
Huahong Group (Note 1)	Interest in a controlled corporation	347,605,650	20.00

Name of substantial Shareholder	Nature of interest	Number of Shares directly or indirectly held	Approximate percentage of interests (%)
	Legal and beneficial owner	1,198,517	0.07
Sino-Alliance International, Ltd. ("Sino-Alliance International") (Note 2)	Legal and beneficial owner	160,545,541	9.24
Sino-Alliance International (Note 2)	Interest in a controlled corporation	28,415,606	1.64
SAIL (Note 3)	Interest in a controlled corporation	188,961,147	10.87

*Notes:*

1. Hua Hong International is a wholly-owned subsidiary of Huahong Group. Huahong Group directly holds 1,198,517 RMB Shares.
2. Including 3,084 shares held in escrow by Sino-Alliance International pursuant to an escrow arrangement. As at Latest Practicable Date, Sino-Alliance International directly held 160,545,541 shares and indirectly held 28,415,606 shares in the Company through its wholly-owned subsidiary.
3. SAIL indirectly held beneficial ownership in the Company through two wholly-owned subsidiaries, including Sino-Alliance International.
4. Xinxin (Hongkong) Capital Co., Limited is a wholly-owned subsidiary of Xun Xin (Shanghai) Investment Co., Ltd., which is in turn a wholly-owned subsidiary of China IC Fund.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, the Company has not been notified by any persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

## 5. DIRECTORS' OTHER INTERESTS

- (a) None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

- (b) None of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or lease to member of the Group since 31 December 2024, being the date to which the latest published audited accounts of the Group were made up.

## 6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, (i) none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any of its subsidiaries which is expiring within one year or determinable by the Group within one year without payment of compensation (other than statutory compensation) and (ii) save as disclosed below, none of the Directors had entered into a service contract with the Company or any of its subsidiaries or associated companies (as defined under the Takeovers Code), which (a) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (b) are continuous contracts with a notice period of 12 months or more; or (c) are fixed term contracts with more than 12 months to run irrespective of the notice period.

<b>Name of Director</b>	<b>Date of service contract</b>	<b>Term of service contract</b>	<b>Remuneration payable under the service contract</b>
Mr. Bo Chen	7 March 2025	3 years	Nil

There is no variable remuneration payable to Mr. Bo Chen under his service contract with the Company or any of its subsidiaries or associated companies.

## 7. ARRANGEMENTS IN CONNECTION WITH THE PROPOSED ACQUISITION

As at the Latest Practicable Date:

- (i) other than the Acquisition Agreement, the Supplemental Agreement, the Compensation Agreement, and the Proposed Acquisition contemplated thereunder, no agreement, arrangement or understanding exists between the Vendors or parties acting concert with them and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Proposed Acquisition and/or the Whitewash Waiver;
- (ii) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Proposed Acquisition and/or the Whitewash Waiver;

- (iii) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Proposed Acquisition and/or the Whitewash Waiver or otherwise connected with the Proposed Acquisition and/or the Whitewash Waiver;
- (iv) there was no material contract entered into by the Vendors in which any Director has a material personal interest; and
- (v) there was no agreement, arrangement or understanding pursuant to which the RMB Shares to be issued to the Vendors (including, for the avoidance of doubt, the Huahong Group) under the Proposed Acquisition would be transferred, charged or pledged to any other persons.

#### **8. SHAREHOLDINGS OF AND DEALINGS IN THE SECURITIES OF THE COMPANY AND THE VENDORS**

As at the Latest Practicable Date:

- (i) the Company did not own any equity interests or convertible securities, warrants, options and derivatives in respect of equity interests of any member of the Huahong Concert Group, and it has not dealt for value in any equity interests or convertible securities, warrants, options and derivatives in respect of equity interests of any member of the Huahong Concert Group during the Relevant Period;
- (ii) none of the Directors were interested (within the meaning of Part XV of the SFO) in any equity interests or convertible securities, warrants, options and derivatives in respect of equity interests of any member of the Huahong Concert Group and none of them have dealt for value in any equity interests or convertible securities, warrants, options and derivatives in respect of equity interests of any member of the Huahong Concert Group during the Relevant Period;
- (iii) none of the subsidiaries of the Company, the pension fund of the Company or of its subsidiaries, any persons presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding exempt principal traders and exempt fund managers), held or controlled any Shares, options, warrants, derivatives or convertible securities in respect of the Shares;
- (iv) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert”, or any person who is an associate of the Company by virtue of classes (2), (3) or (4) of the definition of “associate” under the Takeovers Code;

- (v) no Shares or convertible securities, warrants, options and derivatives in respect of the Shares were managed on a discretionary basis by fund managers connected with the Company;
- (vi) none of the Directors were interested (within the meaning of Part XV of the SFO) any Shares, warrants, options, derivatives or convertible securities in respect of the Shares which would entitle them to vote on any of the resolutions to be proposed at the EGM;
- (vii) none of the Directors were interested (within the meaning of Part XV of the SFO) in any Shares or convertible securities, warrants, options and derivatives in respect of the Shares and none of them has dealt for value in any Shares, warrants, options, derivatives or convertible securities in respect of the Shares during the Relevant Period; and
- (viii) neither the Company nor any of the Directors has borrowed or lent any Shares, warrants, options, derivatives or convertible securities in respect of the Shares.

As at the Latest Practicable Date, other than holding of voting rights as disclosed in the paragraph headed “V. Effects on the Shareholding Structure of the Company” in the Letter from the Board, the Acquisition Agreement, the Supplemental Agreement, the Compensation Agreement and the Proposed Acquisition contemplated thereunder:

- (a) save as disclosed in the section headed “3. Information on the Target Company” and “V. Effects on the Shareholding Structure of the Company” above, none of Huahong Group or the Huahong Concert Group holds, owns, controls or directs any shares, convertible securities, warrants, options or has entered into any derivatives in respect of the securities in the Company;
- (b) none of Huahong Group or the Huahong Concert Group has received an irrevocable commitment to vote in favor of or against the Proposed Acquisition and the Whitewash Waiver;
- (c) other than the Acquisition Agreement, the Compensation Agreement and the Supplemental Agreement, none of Huahong Group or the Huahong Concert Group has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code;
- (d) none of the directors of Huahong Group were interested (within the meaning of Part XV of the SFO) in any Shares, warrants, options, derivatives or convertible securities in respect of the Shares, and none of them have dealt for value in any Shares, warrants, options, derivatives or convertible securities in respect of the Shares during the Relevant Period;

- (e) other than the Acquisition Agreement, the Compensation Agreement and the Supplemental Agreement, there is no agreement or arrangement to which Huahong Group is a party which relates to the circumstances in which it may or may not invoke or seek to invoke any conditions to the Proposed Acquisition and the Whitewash Waiver;
- (f) none of Huahong Group or the Huahong Concert Group has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (g) there is no consideration or benefit in whatever form paid or to be paid by Huahong Group and the Huahong Concert Group to the Company or any party acting in concert with it in connection with the Proposed Acquisition;
- (h) save for the Consideration Shares to be issued by the Company under the Proposed Acquisition (and the cash consideration in lieu of fractional Shares as disclosed in the section headed “1. Acquisition Agreement (as supplemented by the Supplemental Agreement)” in the “Letter from the Board”), there is no other consideration or benefit in whatever form paid or to be paid by the Company and parties acting in concert with it to Huahong Group or the Huahong Concert Group in connection with the Proposed Acquisition; and
- (i) other than the Acquisition Agreement, the Compensation Agreement and the Supplemental Agreement and save for the Special Deal, there is no understanding, arrangement, agreement or special deal between (1) any Shareholder; and (2) (a) the Huahong Concert Group; or (b) the Company, its subsidiaries or associated companies.

During the Relevant Period, save for the Acquisition Agreement, the Compensation Agreement and the Supplemental Agreement, none of Huahong Group or the Huahong Concert Group has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights of the Company, or has dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the securities in the Company within the six months period prior to and including the date of this circular. Other than pursuant to the Acquisition Agreement and the Supplemental Agreement, none of Huahong Group or the Huahong Concert Group will acquire or dispose of any voting rights of the Company after the date of this circular until Completion.

**9. COMPETING INTERESTS**

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

**10. NO MATERIAL CHANGE**

As at the Latest Practicable Date, other than those disclosed in the section headed “5. Material Change” in Appendix I to this Circular, the Directors are not aware of any material change in the financial or trading position of the Group since 31 December 2024, being the date to which the latest published audited financial statements of the Group were made up.

**11. LITIGATION**

As at the Latest Practicable Date, no material litigation to which any member of the Enlarged Group is, or may become, a party was known to the Directors to be pending or threatened against any member of the Enlarged Group.

**12. MATERIAL INTERESTS**

As at the Latest Practicable Date:

- (a) none of the Directors or the supervisors had any direct or indirect interest in any assets which had been, since 31 December 2024 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) none of the Directors or the supervisors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**13. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors, nor any of their respective close associates had any interest in other business which competes or may compete, either directly or indirectly, with the business of the Group as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules.



**14. EXPERTS' QUALIFICATIONS AND CONSENT**

The following are the qualifications of the experts who have given their opinions or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Innovax Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Shanghai Orient Appraisal Co., Ltd (上海東洲資產評估有限公司)	Qualified PRC valuer
Da Hua Moore International CPA Limited	Certified Public Accountants, Hong Kong
Ernst & Young	Certified Public Accountants, Hong Kong

As at the Latest Practicable Date, each of the abovementioned experts had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and/or the reference to its name and opinions in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the abovementioned experts did not have any shareholding in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, each of the abovementioned experts did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2024 (being the date to which the latest published audited statements of the Group were made up).

**15. MATERIAL CONTRACTS**

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date:

- (a) the Acquisition Agreement;
- (b) the Supplemental Agreement; and
- (c) the Compensation Agreement.

Save as disclosed above, there is no material contract (not being entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date.

## 16. DOCUMENTS ON DISPLAY

Copies of the following documents are available for display on (1) the website of the Company at [www.huahonggrace.com](http://www.huahonggrace.com), (2) the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and (3) the website of the SFC at [www.sfc.hk](http://www.sfc.hk) from the date of this circular up to and including the date of the EGM:

- (a) the Articles of Association;
- (b) the annual reports of the Company for the three financial years ended 31 December 2022, 31 December 2023, and 31 December 2024;
- (c) the interim report of the Company for the six months ended 30 June 2025;
- (d) the letter from the Board, the text of which is set out in the section headed “Letter from the Board” in this circular;
- (e) the letter from the Independent Board Committee to the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (f) the letter from the Hong Kong Independent Financial Adviser to the Independent Board Committee and the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders, the text of which is set out in the section headed “Letter from the Hong Kong Independent Financial Adviser” in this circular;
- (g) the material contracts referred to in the paragraph headed “15. Material Contracts” in this appendix;
- (h) the accountant’s report on the Target Company prepared by Da Hua Moore International CPA Limited, the text of which is set out in Appendix II to this circular;
- (i) the report on the unaudited pro forma financial information of the Group prepared by Ernst & Young, the text of which is set out in Appendix III to this circular;
- (j) the Asset Valuation Report, the full text of which are set out in Appendix V to this circular;

- (k) the letter from the Hong Kong Independent Financial Adviser in relation to the Valuation Report and the qualification of the Valuer, the text of which is set out in Appendix VI to this circular;
- (l) the written consents referred to in the paragraph headed “Experts’ Qualifications and Consent” in this appendix;
- (m) the service contract of Mr. Bo Chen referred to the paragraph headed “Directors’ Service Contracts” in this appendix; and
- (n) this circular.

## **17. GENERAL**

- (a) The company secretary of the Company is Ms. Sui Har Lee, who is a practicing solicitor admitted in the Hong Kong.
- (b) The registered office of the Company is at Room 2212, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.
- (c) The share registrar and transfer office of the Company is Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) The registered office address of Huahong Group is 4th Floor, Area A, Huahong Science Park, No. 177 Bibo Road, Zhangjiang High-Tech Park, Pudong, Shanghai, PRC and the correspondence address of Huahong Group in Hong Kong is c/o Room 2212, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. Huahong Group is ultimately owned by Shanghai SASAC. As at the Latest Practicable Date, the board of directors of Huahong Group comprises Jian Qin, Rong Zhao, Jun LI, Weiqiang Zhu, Xiaoli Liang, Xiangnong Li and Wei Wei.
- (e) The registered office address of the Hong Kong Independent Financial Adviser is at Level 6, Three Pacific Place, 1 Queen’s Road East, Hong Kong.
- (f) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### HUA HONG SEMICONDUCTOR LIMITED

### 華虹半導體有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 01347)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Hua Hong Semiconductor Limited (the “Company”) will be held as a hybrid meeting on 10 February 2026 at 2:30 p.m., (or at any adjournment thereof) with a combination of a physical meeting at No. 288, Halei Road, Zhangjiang Hi-Tech Park, Shanghai, PRC and a virtual meeting online to consider and, if thought fit, pass the following resolutions.

Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 22 January 2026 (the “Circular”).

#### ORDINARY RESOLUTIONS

1. To consider and approve the proposal on the Company’s issuance of RMB Shares to purchase the Target Assets and raise supporting funds, and related party/connected transactions complying with relevant laws and regulations;
2. To consider and approve the proposal on adjusting the Company’s plan for purchasing assets and raising supporting funds and related party/connected transactions, where the final Consideration will be settled by way of issuing Consideration Shares only instead of a mix of Cash Consideration and Consideration Shares, and such adjustment does not constitute a material change to the overall transaction;
3. To consider and approve the proposal on the Company’s plan for issuance of RMB Shares to purchase assets and raise supporting funds, and related party/connected transactions:
  - (a) Detailed plan for issuance of RMB Shares to purchase assets
    - 3.01 Summary of the plan
    - 3.02 Counterparty
    - 3.03 Transaction consideration and payment method for the target assets
    - 3.04 Type, par value, and listing venue of the shares to be issued

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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3.05 Issuance targets (recipients of the RMB Shares)

3.06 Pricing method and price for the RMB Share issuance

3.07 Number of RMB Shares to be issued

3.08 Lock-up period arrangements

3.09 Impairment compensation arrangements

3.10 Arrangements for profits and losses during the transition period

3.11 Arrangements of accumulated undistributed profits

(b) Detailed plan for raising supporting funds

3.12 Type, par value, and listing venue of the RMB Shares to be issued

3.13 Issuance method and issuance targets (recipients) of the RMB Shares

3.14 Pricing method and price for the RMB Share issuance

3.15 Issuance size and number of RMB Shares to be issued

3.16 Lock-up period for the RMB Shares

3.17 Intended use of the raised supporting funds

3.18 Arrangement of accumulated undistributed profits

(c) Shareholder's approval

3.19 Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders approval and specific authorization as required under the relevant provisions of the Listing Rules

(d) Validity period

3.20 The resolution for this transaction will remain valid for 12 months from the date it is approved in the EGM;

4. To consider and approve the proposal on the “Draft Report on Hua Hong Semiconductor Limited’s Issuance of RMB Shares to Purchase Assets and Raise Supporting Funds, and Related Party/Connected Transactions” and its summary;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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5. To consider and approve the proposal on entering into the “Agreement on Issuance of RMB Shares and Cash Payment to Purchase Assets” subject to conditions precedent therein;
6. To consider and approve the proposal on entering into the “Supplemental Agreement on Issuance of RMB Shares to Purchase Assets” subject to conditions precedent;
7. To consider and approve the proposal on entering into the Compensation Agreement subject to conditions precedent;
8. To consider and approve the proposal on confirming that the Proposed Acquisition constitutes a related party/connected transaction;
9. To consider and approve the proposal on confirming that the Proposed Acquisition does not constitute a material asset restructuring nor a listing through restructuring;
10. To consider and approve the proposal on confirming that the Proposed Acquisition complies with articles 11 and 43 of the “Measures for the Administration of the Material Asset Restructurings of Listed Companies” in the PRC;
11. To consider and approve the proposal on confirming that the Proposed Acquisition complies with article 4 of the “Guidelines No. 9 for the Regulation of Listed Companies – Regulatory Requirements for Listed Companies’ Planning and Implementation of Material Asset Restructurings” in the PRC;
12. To consider and approve the proposal on confirming that the Proposed Acquisition complies with article 11.2 of the Shanghai Listing Rules, article 20 of the “Measures for the Continuous Supervision of Companies Listed on the STAR Market (for Trial Implementation)”, and article 8 of the “Rules of the Shanghai Stock Exchange for the Examination of Significant Asset Restructurings of Listed Companies” in the PRC;
13. To consider and approve the proposal on confirming that relevant parties to the Proposed Acquisition do not fall under circumstances prohibiting participation in any material asset restructuring of listed companies;
14. To consider and approve the proposal on the stock price fluctuation of the Company prior to disclosure of information concerning the Proposed Acquisition;
15. To consider and approve the proposal on confirming that the Proposed Acquisition complies with article 11 of the “Measures for the Administration of Registration of Securities Offerings by Listed Companies” in the PRC;
16. To consider and approve the purchase and sale of assets within 12 months prior to the Proposed Acquisition;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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17. To consider and approve the confidentiality measures and policies adopted for the Proposed Acquisition;
18. To consider and approve the completeness and compliance of statutory procedures for the Proposed Acquisition and the validity of submitted legal documents;
19. To consider and approve the independence of the valuer of the Target Assets, the reasonableness of the assumptions and the relevance of valuation methods for the purpose of the Asset Valuation, and the fairness of Asset Valuation results of the Proposed Acquisition;
20. To consider and approve the accountants' report, pro forma financial information review report, and Asset Valuation Report related to the Proposed Acquisition;
21. To consider and approve the basis and fairness of pricing for the Proposed Acquisition;
22. To consider and approve the impact of the Proposed Acquisition on the dilution of immediate returns and measures to compensate returns;
23. To consider and approve the engagement of third-party advisers of the Company for the Proposed Acquisition;
24. To consider and approve the Special Deal; and
25. To consider and approve the request for the general meeting of shareholders to authorize the board of directors to fully handle matters related to the Proposed Acquisition.

### SPECIAL RESOLUTION

26. To consider and approve the Whitewash Waiver applied for by Huahong Group on behalf of the Huahong Concert Group.

By order of the Board  
**Hua Hong Semiconductor Limited**  
**Mr. Peng Bai**  
*Chairman and Executive Director*

Shanghai, the PRC  
22 January 2026

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. Details of the resolutions are set out in the Circular. Resolutions number 1 to 25 above are proposed as ordinary resolutions while resolution number 26 above is proposed as a special resolution.

As set out in the Circular, it is a condition precedent to the Acquisition Agreement and the Supplemental Agreement that the Proposed Acquisition is approved by the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders, and that the grant of Whitewash Waiver is approved by the Takeovers Code Independent Shareholders. Accordingly, (a) the special resolution number 26 is required to be passed by (i) at least 75% of the votes cast by Takeovers Code Independent Shareholders present and voting in person or by proxy at the EGM; and (ii) a majority of votes by way of poll by the Proposed Acquisition LR Independent Shareholders present and voting in person or by proxy at the EGM; (b) the ordinary resolution number 3(c) required to be passed by a majority of votes by way of poll by the Proposed Acquisition LR Independent Shareholders present and voting in person or by proxy at the EGM.

In addition, as set out in the Circular, it is a condition precedent to the Proposed Non-public Issuance of RMB Shares that the Proposed Non-public Issuance of RMB Shares and the Special Deal are approved by the Non-public Issuance Independent Shareholders at the EGM. Accordingly, for the purpose of compliance with the Takeovers Code, the ordinary resolutions number 3(b) and 24 are required to be passed by a majority by way of poll by Non-public Issuance Independent Shareholders present and voting in person or by proxy at the EGM.

For the purpose of compliance with the Administrative Measures for Major Asset Restructuring of Listed Companies (《上市公司重大資產重組管理辦法》) in the PRC, resolutions number 1, 2, 3(a)(b)(d), 4 to 23 and 25 are required to be passed by not less than two-thirds of the votes cast by way of poll by the eligible Shareholders present at the EGM.

2. The Company will conduct a hybrid Extraordinary General Meeting with the combination of a physical meeting and a virtual meeting online. Shareholders will have the option of joining the Extraordinary General Meeting either (a) through the physical meeting at No. 288, Halei Road, Zhangjiang Hi-Tech Park, Shanghai, PRC; or (b) through the Internet by using their computer, tablet device or smartphone. Registered Shareholders will be able to attend the Extraordinary General Meeting, vote and submit questions online. Each registered Shareholder's personalized login and access code will be sent to him or her under separate letter.
3. Non-registered Shareholders whose Shares are held in the Central Clearing and Settlement System through banks, brokers, custodians or Hong Kong Securities Clearing Company Limited may also be able to attend the Extraordinary General Meeting, vote and submit questions online. In this regard, you should consult directly with your banks, brokers, custodians, nominees or HKSCC Nominees Limited through which your shares are held (as the case may be) (collectively the **"Intermediary"**) and instruct the Intermediary to appoint you as proxy or corporate representative to attend and vote at the EGM electronically and in doing so, you will be asked to provide your email address, before the time limit required by the relevant Intermediary. Details regarding the e-Meeting System including the login details will be emailed to you by the Company's Share Registrar, Tricor Investor Services Limited.
4. For the purpose of holding the EGM, the register of members of the Company will be closed from 5 February 2026 to 10 February 2026 (both days inclusive), during which period no transfer of Shares of the Company will be registered. Holders of the Company's Shares whose names appear on the Register of Members on 10 February 2026 are entitled to attend and vote at the EGM.
5. In order to attend and vote at the EGM, the Shareholders shall lodge all transfer documents together with the relevant share certificates to Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on 4 February 2026.
6. Each Shareholder who has the right to attend and vote at the EGM is entitled to appoint in writing one or more proxies, whether a Shareholder or not, to attend and vote on his/her behalf at the EGM.
7. The form of proxy must be signed by the Shareholder or his/her attorney duly authorised in writing or, in the case of a legal person, must either be executed under its common seal or under the hand of a legal representative or other attorney duly authorised to sign the same. If the form of proxy is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign, or other document of authorisation, must be notarially certified.



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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8. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or via the designated URL(<https://evoting.vistra.com/>) using the username and password provided on the notification letter sent by the Company on 22 January 2026, not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. In calculating the aforesaid 48 hours period, no account will be taken of any part of a day that is a public holiday. Accordingly, the form of proxy must be delivered not later than 2:30 p.m. on 7 February 2026. Delivery of the form of proxy shall not preclude a Shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
9. Pursuant to the Listing Rules and the Takeovers Code, any vote of Shareholders at a general meeting must be taken by way of poll. As such, the resolutions set out in the Notice of the EGM will be voted on by poll. Results of the poll voting will be published on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) after the EGM.
10. Where there are joint registered holders of any share of the Company, only the person whose name stands first on the Register of Members in respect of such share may vote at the EGM, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto.
11. Shareholders who attend the EGM in person or by proxy shall bear their own transportation and accommodation expenses.

*As at the date of this notice, the Board comprises:*

***Executive Director:***

Peng Bai (*Chairman and President*)

***Non-Executive Directors:***

Jun Ye

Guodong Sun

Bo Chen

Chengyan Xiong

***Independent Non-Executive Directors:***

Stephen Tso Tung Chang

Kwai Huen Wong, JP

Songlin Feng