

ALTUS CAPITAL LIMITED

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30 September 2022

*To the Independent Board Committee and
the Independent Shareholders*

China Electronics Huada Technology Company Limited

Room 3403, 34th floor

China Resources Building

26 Harbour Road

Wanchai, Hong Kong

Dear Sirs,

CONTINUING CONNECTED TRANSACTION: REVISION OF THE EXISTING CAPS FOR THE TRANSACTIONS CONTEMPLATED UNDER THE 2021 BUSINESS SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps), details of which are set out in the letter from the Board contained in the circular dated 30 September 2022 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

In light of the change in product mix of the Group with growing demand of products (such as eSIM chips, intelligent connected vehicle secure element chips and high-end SIM chips) to cater for the rapid development of the 5G and Internet of Things markets, and the upsurge in market prices of integrated circuit chips due to a surge in the market prices of raw materials and processing cost, coupled with a serious global “integrated circuit chips shortage”, on 9 September 2022, the Company and CEC entered into the First Supplemental 2021 Business Services Agreement to revise the existing caps for the transactions contemplated under the 2021 Business Services Agreement for the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024. All other terms and conditions under the 2021 Business Services Agreement remain the same.

As at the Latest Practicable Date, CEC is the ultimate controlling shareholder of the Company indirectly holding 59.42% of the issued share capital of the Company. CEC is therefore a connected person of the Company under the Listing Rules. Accordingly, as the Company proposes to revise the caps for continuing connected transactions contemplated under the 2021 Business Services Agreement, the Company is required to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to the relevant continuing connected transactions.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules for the proposed revised caps for the transactions contemplated under the First Supplemental 2021 Business Services Agreement exceed 5%, the entering into of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Kay Cheung, Mr. Qiu Hongsheng and Mr. Chow Chan Lum, has been established to advise the Independent Shareholders as to (i) whether the terms of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are on normal commercial terms and are fair and reasonable; (ii) whether the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to be proposed at the SGM, taking into account the recommendation of the independent financial adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are on normal commercial terms and are fair and reasonable; (ii) whether the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to be proposed at the SGM.

We have acted as the independent financial adviser to the Company regarding the continuing connected transactions contemplated under the 2021 Business Services Agreement and the 2021 Financial Services Agreement respectively (details of which were set out in a circular of the Company dated 4 June 2021). Save for the aforesaid transactions, we have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years from the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) is at market level and not conditional upon successful passing of the resolution to be proposed at the SGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder or connected person(s).

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, among others (i) the 2021 Business Services Agreement; (ii) the First Supplemental 2021 Business Services Agreement; (iii) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”); (iv) the interim report of the Company for the six months ended 30 June 2021; (v) the interim results announcement of the Company for the six months ended 30 June 2022 (the “**2022 Interim Results Announcement**”); and (vi) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the Latest Practicable Date. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any representation in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of the Group. The Company will notify the Shareholders of any material change after the Latest Practicable Date and after the despatch of the Circular.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

(i) Principal businesses of the Group and CEC

The Company is an investment holding company. The Group is principally engaged in the design and sale of integrated circuit chips.

The Group's integrated circuits design operation comprises the design of smart cards and security chips and the development of application system. The Group does not involve in the direct manufacturing of the integrated circuit chips itself. Currently, the Group's products are mainly used in the sectors of identity authentication, financial payment, government utilities, telecommunications, Internet of Things and intelligent connected vehicles.

CEC, a state-owned enterprise established under the laws of the PRC, was established in 1989 with the approval of the State Council of the PRC and is the ultimate controlling shareholder of the Company. CEC is a nationwide electronics and information technology conglomerate, which actively focuses on communications, consumer electronic products, semi-conductor and software sectors in the PRC.

For years, the CEC Group has been providing technology development, processing, testing and assembling services for the production of the Group's products and supplying raw materials, integrated circuit modules, softwares, equipments and intellectual properties to the Group for its research and development purposes, and the Group has also been selling products and providing technology development services to the CEC Group.

(ii) Prospects of the Group

As described in the 2022 Interim Results Announcement, the Management believes that there will be growing market opportunities for the Group's business due to (i) the continuous enhancement of domestic-made smart cards and security chips in terms of technology, products' performance and competitiveness helps to expand the market coverage of the domestic-made smart cards and security chips into the international market; and (ii) the continuous deepening of emerging applications in areas such as 5G, the intelligent connected vehicles and the Internet of Things raising the demand for security chips continuously.

2. Reasons for and benefits of the First Supplemental 2021 Business Services Agreement

The consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group for the seven months ended 31 July 2022 was RMB117,000,000, representing 65.6% of the existing cap for the transactions contemplated under the 2021 Business Services Agreement for the year ending 31 December 2022.

The consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group for the seven months ended 31 July 2022 was RMB146,119,000, representing 82.2% of the existing cap for the transactions contemplated under the 2021 Business Services Agreement for the year ending 31 December 2022.

Save for the revision of existing caps for the years ending 31 December 2022 and 2023 and six months ending 30 June 2024, the services to be provided under the First Supplemental 2021 Business Services Agreement are the same as those prescribed in the 2021 Business Services Agreement. All other terms and conditions under the 2021 Business Services Agreement remained the same.

In view of the reasons set out in the section headed “Reasons for entering into the First Supplemental 2021 Business Services Agreement” in the letter from the Board, the proposed revised caps as contemplated under the First Supplemental 2021 Business Services Agreement are to cater for the business needs and expansion of the Group.

Considering (i) the continuing business development of the Group’s business operations and the growing demand for more products in the integrated circuit chips industry; (ii) the long term satisfactory and mutual business relationship with the CEC Group; (iii) the products and services provided by the CEC Group are vital and integral to the business operations of the Group; (iv) the cooperation with the CEC Group generated a stable revenue stream to the Group; and (v) the fact that all terms and conditions under the 2021 Business Services Agreement remained the same (except for the revision of the existing caps), the Management believes and we concur that the terms of the First Supplemental 2021 Business Services Agreement are normal commercial terms and are fair and reasonable and the entering into of the First Supplemental 2021 Business Services Agreement is in the interests of the Company and the Shareholders as a whole.

3. Existing caps and proposed revised caps

(i) Existing caps and actual utilisation rate

Below is a table setting out (i) each category of continuing connected transactions contemplated under the 2021 Business Services Agreement; (ii) the existing caps approved for the 2021 Business Services Agreement; and (iii) the utilisation rate of the existing caps for the year ended 31 December 2020, for the six months ended 31 December 2021, for the year ended 31 December 2021 and for the year ending 31 December 2022:

Types of transaction	Existing caps/historical transaction amount			
	For the			
	For the	six months	For the	For the
	year ended	ended	year ended	year ending
	31 December	31 December	31 December	31 December
	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
	Approximate	Approximate	Approximate	Approximate
(a) Provision of technology development, processing, testing and assembling services by the CEC Group and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group				
Approved cap	948,000 ^a	81,100 ^b	579,100 ^c	178,400 ^b
Historical transaction amount	102,919	54,582 ^d	107,603	117,000 ^e
Utilisation rate	10.9%	67.3%	18.6%	65.6%
(b) Sale of products and provision of technology development services to the CEC Group				
Approved cap	223,000 ^a	80,800 ^b	197,800 ^f	177,700 ^b
Historical transaction amount	76,352	29,214 ^d	85,342	146,119 ^e
Utilisation rate	34.2%	36.2%	43.1%	82.2%

Notes:

- (a) It was approved at the special general meeting of the Company held on 28 June 2018. Details were set out in the circular of the Company dated 8 June 2018.
- (b) It was approved at the special general meeting of the Company held on 29 June 2021. Details were set out in the circular of the Company dated 4 June 2021.
- (c) It was the combination of the approved cap of RMB498,000,000 for the six months ended 30 June 2021 as set out in the circular of the Company dated 8 June 2018 and the approved cap of RMB81,100,000 as set out in the circular of the Company dated 4 June 2021.
- (d) The actual amount for the six months ended 31 December 2021 was derived from the actual amount for the year ended 31 December 2021 as set out in the 2021 Annual Report minus the actual amount for the six months ended 30 June 2021 as set out in the interim report of the Company for the six months ended 30 June 2021.
- (e) Such figures represent the actual amount based on the management accounts of the Group for the seven months ended 31 July 2022.
- (f) It was the combination of the approved cap of RMB117,000,000 for the six months ended 30 June 2021 as set out in the circular of the Company dated 8 June 2018 and the approved cap of RMB80,800,000 as set out in the circular of the Company dated 4 June 2021.

As shown in the above table, the utilisation rates of annual caps for the year ended 31 December 2020 were (i) 10.9% for the purchase of products and services from the CEC Group; and (ii) 34.2% for the sale of products and services to the CEC Group. The low utilisation rate of the annual cap for 2020 was mainly due to the outbreak of COVID-19 pandemic. In early 2021, due to the continual impact of COVID-19 pandemic and the restrictions on resumption of work and production in various industries implemented during the pandemic, the Management then expected the business operation would gradually recover and therefore proposed to lower the cap for the six months ended 31 December 2021 to approximately RMB81 million as compared to the approved cap for the six months ended 30 June 2021 of approximately RMB498 million. Given that the global integrated circuits market was stable in 2021 and the domestic economic situation had been improving with industry boom rebounding and market demand recovering in 2021, the utilisation rates of the annual caps for the year ended 31 December 2021 were (i) 18.6% for the purchase of products and services from the CEC Group; and (ii) 43.1% for the sale of products and services to the CEC Group, and higher than the utilisation rates of the annual caps of the previous year.

(a) Provision of technology development, processing, testing and assembling services by the CEC Group and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group

As shown in the above table, the historical consideration payable by the Group for the provision of services by the CEC Group and the purchase of materials from the CEC Group for the seven months ended 31 July 2022 amounted to RMB117,000,000, representing an utilisation rate of 65.6% of the existing cap for the consideration payable by the Group for the year ending 31 December 2022. Such amount already represents an increase of 8.7% as compared to the total consideration of RMB107,603,000 payable by the Group for the year ended 31 December 2021 due to the combined effect of (i) the successful promotion of the Group's products to the intelligent connected vehicle and Internet of Things security chips application markets resulting from the rapid development of the 5G and Internet of Things markets since the second half of 2021; and (ii) the upsurge in the market rates for the provision of technology development, processing, testing and assembling services and market prices for, among other things, raw materials, integrated circuits modules and softwares due to the tight integrated circuits production capacity caused by the rapid development of the 5G and Internet of Things markets.

We have discussed with the Management on the expected sales of products and provision of technology development services to the CEC Group for the second half of 2022 and going forward, and noted that (i) the continual growth in the application areas such as the 5G, intelligent connected vehicle and Internet of Things markets in the PRC, (ii) the market prices for smart cards and security chips as well as the market rates for services and market prices for raw materials and processing costs will remain high in the near term given the continuing shortage of integrated circuits production capacity, and (iii) the related government policy to enhance the semiconductor industry in the PRC (as described in paragraph headed "3(ii) Proposed revised caps - (b) Sale of products and provision of technology development services to the CEC Group" below), which in turn, will continue to boost the demand for more integrated circuit products. We also noted the Group intends to strengthen cooperation with the CEC Group on the related production in the next few years in order to obtain more production capacity support.

Based on the aforesaid information, the Management believes the amount of purchases from the CEC Group will continue to increase and, accordingly, we concur that the existing caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group for the year ending 31 December 2022 and going forward will not be sufficient and will require to revise upward to cater for the growing needs of the Group.

(b) Sale of products and provision of technology development services to the CEC Group

As shown in the above table, the historical consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group for the seven months ended 31 July 2022 amounted to RMB146,119,000, representing an utilisation rate of 82.2% of the existing cap for the year ending 31 December 2022. Such amount also represents an increase of 71.2% as compared to the total consideration of RMB85,342,000 receivable by the Group for the year ended 31 December 2021 due to (i) the upsurge of the market prices of the integrated circuit chips as a result of the shortage of integrated circuits production capacity and (ii) the enrichment of the products portfolio of the Group to cater for the rapid development of 5G and Internet of Things markets.

In view of (i) the continuing shortage of integrated circuits production capacity, it is expected the market prices of integrated circuit chips will remain high in the near term; (ii) the related government policy to enhance the semiconductor industry in the PRC, which will in turn, give rise to more applications for the 5G and Internet of Things sector and the continual growing demand for the Group's products (such as secure element chips and secure microcontroller unit chips for the Internet of Things market); (iii) the CEC Group has long been engaged in the integrated circuits industry, and due to the rapid development of the industry, it is expected that there will be increase in demand for the abovementioned products (such as secure element chips and secure microcontroller unit chips for the Internet of Things market) by the CEC Group as well; and (iv) some of the existing smart cards and security chips products will be replaced by the new generation products, the performance of the new generation products will be improved and the cost of production will increase, resulting in a significant increase in the expected market price of the new generation products when comparing with the existing products, the Management believes and we concur that the existing caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group for the year ending 31 December 2022 and going forward will not be sufficient and require to revise upward to cater for the growing demand of the Group's products.

(ii) *Proposed revised caps*

Types of transaction	Proposed revised caps		
	For the year ending		For the six months
	31 December		ending
	2022	2023	30 June
	RMB'000	RMB'000	RMB'000
(a) Provision of technology development, processing, testing and assembling services and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties			
Proposed cap	225,812	251,084	146,650
(b) Sale of products and provision of technology development services			
Proposed cap	327,281	409,587	225,558
(a) <i>Provision of technology development, processing, testing and assembling services by the CEC Group and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group</i>			

According to the Management, the above proposed revised caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group are determined based on (i) the historical transaction amounts, especially the transaction amount for the seven months ended 31 July 2022; (ii) the expected growing demand of the Group for the provision of technology development, processing, testing and assembling services by the CEC Group in the forthcoming years; (iii) the expected growing demand of the Group for the raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group in the forthcoming years; (iv) the expected market rate for such technology development, processing, testing and assembling services in the forthcoming years; and (v) the expected market price for such raw materials, integrated circuit modules, softwares, equipments and intellectual properties in the forthcoming years.

In assessing the fairness and reasonableness of the proposed revised caps for the consideration payable by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group, we have considered the following:

- (i) the actual consideration payable by the Group for the seven months ended 31 July 2022;
- (ii) the expected amount to be required by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group by reference to the expected sales of products and provision of technology development services of the Group for the six months ending 31 December 2022;
- (iii) the expected amount to be required by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group by reference to the expected sales of products and provision of technology development services of the Group for the year ending 31 December 2023; and
- (iv) the expected amount to be required by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group by reference to the expected sales of products and provision of technology development services of the Group for the six months ending 30 June 2024.

Separately, we noted that the average unit market rates and market prices of services or raw materials and processing costs payable by the Group to the CEC Group had increased by 30% (partly due to the upsurge in the market prices or rates for raw materials and processing costs of integrated circuit chips arising from the shortage of integrated circuits production capacity and partly due to the complexity of the products) on a year-on-year basis between 2021 and 2022 and is expected to remain high in the near term.

We also noted that (i) the proposed revised cap of RMB225,812,000 for the year ending 31 December 2022 representing an increase of approximately 12.9% as compared to the annualised consideration payable by the Group of approximately RMB200 million for the year ending 31 December 2022, calculated by reference to the actual consideration payable by the Group for the seven months ended 31 July 2022; (ii) the proposed revised cap of RMB251,084,000 for the year ending 31 December 2023, representing an increase of 11.2% as compared to the proposed revised cap of RMB225,812,000 for the year ending 31 December 2022; and (iii) the annualised consideration payable by the Group for the year ending 31 December 2024, calculated by reference to the proposed revised cap payable by the Group for the six months ending 30 June 2024 of RMB146,650,000, representing an increase of 16.8% as compared to the proposed revised cap for the consideration payable to the CEC Group for the year ending 31 December 2023.

As the Group does not involve in the direct manufacturing of the integrated circuit chips itself and the CEC Group has been providing technology development, processing, testing and assembling services for the production of the Group's products and supplying raw materials, integrated circuit modules, softwares, equipments and intellectual properties to the Group for its research and development purposes, the Group intends to strengthen cooperation with the CEC Group on the related production in the next few years to obtain more production capacity support. Hence, we believe the expected sales of the Group as described in the paragraph headed "3(ii) Proposed revised caps - (b) Sale of products and provision of technology development services to the CEC Group" below will provide a fair and reasonable ground for the Group to derive the expected amount to be required by the Group for the provision of technology development, processing, testing and assembling services by the CEC Group, and the purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group.

We further noted that the abovementioned percentage increase of the proposed revised caps for the provision of services by the CEC Group also correlates with the percentage increase of the expected sales of products and provision of technology development services by the Group as described in the paragraph headed "3(ii) Proposed revised caps - (b) Sales of products and provision of technology development services to the CEC Group" below.

Taking into account the above, we are of the view that the proposed revised caps for the consideration payable to the CEC Group for the years ending 31 December 2022 and 2023 of RMB225,812,000 and RMB251,084,000 and for the six months ending 30 June 2024 of RMB146,650,000 respectively are fair and reasonable.

(b) Sale of products and provision of technology development services to the CEC Group

As discussed with the Management, the proposed revised caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group is determined based on (i) the historical transaction amounts, especially the transaction amount for the seven months ended 31 July 2022; (ii) the expected growing demand of the Group's products and technology development services by the CEC Group in the forthcoming years; and (iii) the expected market price or rate for such products and technology development services in the forthcoming years.

In assessing the fairness and reasonableness of the proposed revised caps for the consideration receivable by the Group for the sale of products and provision of technology development services to the CEC Group, we have considered the following:

- (i) the actual consideration receivable by the Group for the seven months ended 31 July 2022;
- (ii) the expected sales of products and provision of technology development services of the Group to the CEC Group for the six months ending 31 December 2022; and
- (iii) the historical transactions amount of the customers of the Group.

We observed from the historical transactions of the Group that (i) it had been successful in expanding its customers base and enriching its product portfolio; and (ii) the actual consideration receivable by the Group for the seven months ended 31 July 2022 already represented an increase of 71.2% as compared to the total consideration receivable by the Group of RMB85,342,000 for the year ended 31 December 2021 due to (i) the upsurge of the market prices of the integrated circuit chips as a result of the shortage of integrated circuits production capacity and (ii) the enrichment of the products portfolio of the Group to cater for the rapid development of 5G and Internet of Things markets.

Separately, we have randomly selected 3 major connected customers of the Group (the aggregate transaction amount accounted for approximately 90% of the total sales of products and provision of technology development services to connected customers for the six months ended 30 June 2022) and reviewed their projected orders for the six months ending 31 December 2022 and the six months ending 30 June 2023 of the Group. As the aggregate transaction amount of the abovementioned major connected customers of the Group accounted for the majority of the total sales of products and provision of technology development services to connected customers for the six months ended 30 June 2022, we believe their historical transaction amount forms a fair and reasonable ground to project the expected sales of products and provision of technology development services for the year ending 31 December 2022.

We noted that the projected orders (in terms of quantity) from these 3 major connected customers have either maintained or increased by 15% to 50% on a period-on-period basis between the six months ending 31 December 2022 and the six months ending 30 June 2023 due to the successful enrichment of the products portfolio of the Group (in particular, in areas such as, secure element chips and secure microcontroller unit chips for the Internet of Things market). As the expected sales of products and provision of technology development services to the CEC Group for the six months ending 31 December 2022 and the year ending 31 December 2023 are determined by reference to the historical transaction amounts as well as supported by certain customers' non-binding indicative orders for the six months ending 31 December 2022 and for the six months ending 30 June 2023 respectively, we believe that the information gathered is sufficient to enable the Group to form a fair and reasonable ground to project the expected sales of products and provision of technology development services for the six months ending 31 December 2022 and the year ending 31 December 2023 respectively.

We also noted that of the proposed revised cap of RMB327,281,000 for the year ending 31 December 2022, 82.2% of the existing cap of RMB177,700,000 for the year ending 31 December 2022 had already been utilised in the first seven months ended 31 July 2022, and the majority of the incremental amount of approximately RMB150 million (i.e. the difference between the proposed revised cap of RMB327,281,000 for the year ending 31 December 2022 and the existing cap of RMB177,700,000 for the year ending 31 December 2022) is supported by the projected sales of products and provision of technology development services to the abovementioned 3 major connected customers for the six months ending 31 December 2022, which in turn is reasonable.

Taking into account the above, we are of the view that the proposed revised cap for the projected sales of products and provision of technology development services to the CEC Group for the year ending 31 December 2022 of RMB327,281,000 is fair and reasonable.

In addition, we noted that there is growing demand of sales and purchases of products and services in relation to semiconductor industry due to:

- (i) further advancement of the application of domestic-made integrated circuits and the application of the state cryptographic algorithm, as well as the rapid development of the 5G and Internet of Things in the PRC¹; and

¹This is supported by the PRC's "14th Five-Year Plan" for the integrated circuit chips market development, which amongst others, encouraged the development of domestic production of integrated circuit chips and to accelerate the development and implementation of 5G network and new infrastructure in the PRC.

- (ii) several favourable government policy, including but not limited to, the 《新時期促進集成電路產業和軟件產業高質量發展的若干政策》 (Several Policies to Promote the High-quality Development of the IC Industry and the Software Industry in the New Era), 《關於做好2022年享受稅收優惠政策的集成電路企業或項目、軟件企業清單制定工作有關要求的通知》 (Notice on the Requirements for the Preparation of List of Integrated Circuit Enterprises or Projects and Software Enterprises Eligible for Preferential Tax Policies) published by the State Council of the PRC to facilitate the growth of the integrated circuit industry; and
- (iii) other complementary government policy, including but not limited to, the 《物聯網新型基礎設施建設三年行動計劃 (2021-2023年)》 (Three-Year Action Plan (2021-2023) for the Construction of New Types of Infrastructure for the Internet of Things), 《5G應用“揚帆”行動計劃 (2021-2023年)》 (“Set Sail” Action Plan for 5G Applications (2021-2023)) published by the State Council of the PRC to facilitate the growth of 5G network and Internet of Things in the PRC.

Taking into account (i) the proposed revised cap for the year ending 31 December 2022 of RMB327,281,000 (as the historical reference for the proposed revised cap for the year ending 31 December 2023); (ii) of the proposed revised cap for the year ending 31 December 2023 of RMB409,587,000, the majority of the incremental amount of approximately RMB80 million (i.e. the difference between the proposed revised cap for the year ending 31 December 2023 of RMB409,587,000 and the proposed revised cap for the year ending 31 December 2022 of RMB327,281,000) is supported by the projected sales of products and provision of technology development services to the abovementioned 3 major connected customers for the six months ending 30 June 2023, which is reasonable; and (iii) the abovementioned reasons for the continual growing demand of sales and purchases of products and services in relation to semiconductor industry (which the Group had been successful in enriching its product portfolio), we are of the view that the proposed revised cap for the projected sales of products and provision of technology development services to the CEC Group for the year ending 31 December 2023 of RMB409,587,000 is fair and reasonable.

Furthermore, (i) with reference to the proposed revised cap for the year ending 31 December 2023 of RMB409,587,000 (as the historical reference for the proposed revised cap for the six months ending 30 June 2024); (ii) with the emerging areas of applications for the 5G and Internet of Things sector are expected to be on the rise, the market demand for these type of products will continue to grow in the near term, the annualised consideration receivable by the Group for the year ending 31 December 2024 calculated by reference to the proposed revised cap receivable by the Group for the six months ending 30 June 2024 of RMB225,558,000, representing an increase of 10.1% as compared to the proposed revised cap receivable by the Group for the year ending 31 December 2023 of RMB409,587,000 is a prudent estimation. Accordingly, we believe the proposed revised cap for the projected sales of products and provision of technology development services to the CEC Group for the six months ending 30 June 2024 of RMB225,558,000 as fair and reasonable.

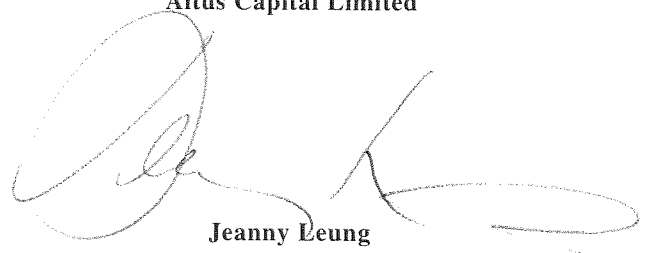
Taking into account the above analysis, we are of the view that the proposed revised caps for (i) the provision of technology development, processing, testing and assembling services by the CEC Group and purchase of raw materials, integrated circuit modules, softwares, equipments and intellectual properties from the CEC Group; and (ii) the sales of products and provision of technology development services to the CEC Group, for the years ending 31 December 2022 and 2023 and the six months ending 30 June 2024 with regard to the transactions contemplated under the First Supplemental 2021 Business Services Agreement are fair and reasonable.

RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that (i) the terms of the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) are on normal commercial terms and are fair and reasonable; (ii) the entering into the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the proposed revised caps) is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution approving the First Supplemental 2021 Business Services Agreement and the transactions contemplated thereunder (including the propose revised caps) to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited



Jeanny Leung
Executive Director

Ms. Jeanny Leung (“Ms. Leung”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.