



20 October 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**REVISION OF ANNUAL CAPS OF
CONTINUING CONNECTED TRANSACTIONS
UNDER THE NEW COOPERATION AGREEMENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular issued by the Company to its Shareholders dated 20 October 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 26 March 2021, the Company and Fudan Communication entered into the New Cooperation Agreement for the agency of selling the reconfigurable devices and memory IC chips and the setting of the relevant annual caps (the “**Existing Annual Caps**”). Relevant resolutions were proposed and passed at the annual general meeting of the Company held on 2 June 2021.

As stated in the Board Letter, the Board envisages that the Existing Annual Caps will not be sufficient to fulfil the additional transactions that may take place under the New Cooperation Agreement. As such, the Board has resolved to revise the annual caps of the New Cooperation Agreement.

As at the Latest Practicable Date, Fudan Fukong holds approximately 13.46% of the issued share capital of the Company and is a substantial Shareholder of the Company. Fudan Fukong also holds approximately 33.84% of the issued share capital of Fudan Communication which is its controlled company. As defined in Chapter 14A of the Listing Rules, Fudan Communication is a Connected Person of the Company, therefore the transactions under the New Cooperation Agreement constitute connected transactions of the Company.

According to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for the continuing connected transactions, the Company will be required to re-comply with the provisions of Chapter 14A of the Listing Rules.

As the Revised Annual Caps exceed the applicable percentage ratios of 5% (except for ratios of profits), the continuing connected transactions are subject to the reporting, annual review, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Guo Li, Mr. Cao Zhongyong, Mr. Cai Minyong and Mr. Wang Pin, all being independent non-executive Directors, has been established to advise the Independent Shareholders (i) whether the terms of the New Cooperation Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the New Cooperation Agreement and the transactions contemplated thereunder will be conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (iii) whether the Revised Annual Caps are reasonably determined, fair and reasonable; and (iv) how the Independent Shareholders should vote in respect of the resolutions relating thereto at the EGM, taking into account the recommendation of the independent financial adviser to the Independent Board Committee and the Independent Shareholders. We, Akron Corporate Finance Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

We are not connected with the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date. In the last two years, there was no engagement between the Group and Akron Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to the Listing Rules.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinion and representations contained or referred to in the Circular and the statements, information, opinion and representations provided to us by the management of the Company (the "**Management**") and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Management and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so as at the date of the EGM, and the Shareholders will be informed of any material change

of information in the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors as set out in the Circular were reasonably made after due and careful inquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular as a whole misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the revision of the annual caps of the New Cooperation Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Akron Corporate Finance Limited to ensure that such information has been correctly extracted from relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following factors and reasons:

1. Background information of the parties involved in the New Cooperation Agreement

(i) Background information of the Group

The Group is principally engaged in design, development and sales of specific application of integrated circuit (“IC”) and provision of testing services for IC products.

We set out below a summary of the key financial information of the Group for the years ended 31 December 2019 (the “FY2019”) and 2020 (the “FY2020”) and six months ended 30 June 2020 (the “1H2020”) and 2021 (the “1H2021”) as extracted from the annual report of the Company for FY2020 (the “2020 Annual Report”) and the interim report of the Company for 1H2021 (the “2021 Interim Report”).

	1H2021 <i>RMB'000</i> (unaudited)	1H2020 <i>RMB'000</i> (unaudited) (restated) <i>(Note 1)</i>	FY2020 <i>RMB'000</i> (audited)	FY2019 <i>RMB'000</i> (audited)
Revenue/Operating income <i>(Note 2)</i>	1,128,664	723,274	1,665,087	1,454,772
Gross profit <i>(Note 3)</i>	623,312	337,550	748,102	516,779
Profit/(Loss) before taxation	217,985	72,276	170,868	(146,028)
Profit/(Loss) after taxation	211,693	68,604	161,104	(148,961)
		As at 30 June 2021 <i>RMB'000</i> (unaudited)	As at 31 December 2020 <i>RMB'000</i> (restated) <i>(Note 1)</i>	2019 <i>RMB'000</i> (audited)
Total assets		3,038,431	2,678,603	2,458,372
Total liabilities		714,278	566,552	520,086
Net asset value		2,324,153	2,112,051	1,938,286

Notes:

- As disclosed in the 2021 Interim Report, the Company has adopted the Accounting Standards for Business Enterprises with effect from the year ended 31 December 2021, and certain comparative figures in 2020 have been restated to cope with the presentation for 1H2021.
- As a result of the change in presentation of financial statements, no revenue figures of the Company are disclosed in the 2021 Interim Report. Figures for 1H2021 and 1H2020 represent the operating income of the Company.
- As a result of the change in presentation of financial statements, no gross profit figures of the Company are disclosed in the 2021 Interim Report. Figures for 1H2021 and 1H2020 represent the implied gross profits of the Group (calculated as operating income minus operating costs) for our analysis purpose.

Financial performance (FY2020 vs FY2019)

Based on the 2020 Annual Report, the revenue of the Group increased from approximately RMB1,454.8 million for FY2019 to approximately RMB1,665.1 million for FY2020, representing an increase of approximately 14.5%. Such increase was mainly due to the increase in sales of products other than security and identification IC chips and smart meter ASIC chips.

The gross profit of the Group increased from approximately RMB516.8 million for FY2019 to approximately RMB748.1 million for FY2020, representing an increase of approximately 44.8%. Such increase was mainly due to non-volatile memory chips which had a relatively high gross margin as well as the programmable gate array chips products which accounted for a relative high proportion in the principal business of the Group had a substantial increase in sales. The change in product structure resulted in the rapid surge of gross profit in principle business.

As disclosed in the 2020 Annual Report, the Group recorded a turnaround from a net loss after taxation of approximately RMB149.0 million for FY2019 to a net profit after taxation of approximately RMB161.1 million for FY2020. Such improvement was primarily due to (i) the increase in revenue as discussed above; (ii) the increase in profit margin brought from the launch of new products; and (iii) the decrease in research and development expenditure.

Financial performance (1H2021 vs 1H2020)

Based on the 2021 Interim Report, the Group achieved an operating income of approximately RMB1,128.7 million for 1H2021, representing an increase of approximately 56.0% over the corresponding figure of approximately RMB723.3 million for 1H2020.

For 1H2021, the implied gross profit of the Group (calculated as operating income minus operating costs) was approximately RMB623.3 million, representing an increase of approximately 84.6% as compared to that of approximately RMB337.6 million for 1H2020.

As disclosed in the 2021 Interim Report, the Group recorded a net profit after taxation of approximately RMB211.7 million for 1H2021, representing a significant increase of approximately 208.6% as compared with approximately RMB68.6 million for 1H2020. The significant growth in net profit is primarily due to (i) strong demand of the downstream application market; and (ii) exploration of new customers and the launch of new products. These factors brought with significant growth in revenue as well as the comprehensive gross profit margin.

Financial position (30 June 2021 vs 31 December 2020)

The total assets of the Group increased from RMB2,678.6 million as at 31 December 2020 to approximately RMB3,038.4 million as at 30 June 2021, representing an increase of approximately 13.4%.

The total liabilities of the Group increased from approximately RMB566.6 million as at 31 December 2020 to approximately RMB714.3 million as at 30 June 2021, representing an increase of approximately 26.1%.

As such, it resulted in the increase in the net asset value of the Group by approximately 10.0% from approximately RMB2,112.1 million as at 31 December 2020 to approximately RMB2,324.1 million as at 30 June 2021.

(ii) *Information of Fudan Communication*

As stated in the Board Letter, Fudan Communication is mainly engaged in design, development and production of telecommunication devices in the PRC. As at the Latest Practicable Date, Fudan Communication's equity interest is being held as 33.84% by Fudan Fukong; 16.34% by the Company; 22.76% by 39 individuals who are existing employees and past employees of Fudan Communication, employees of the Company and third party investors, and Mr. Yu Jun, the executive Director, who has 1.19% equity interest through his spouse; and 14.78% and 12.28% respectively by two limited partnership enterprises which consist 38 and 9 individuals who are existing employees, past employees of Fudan Communication and third party investors. Approximately 70.2% of equity interest of Fudan Fukong is held by SCI. SCI is wholly owned by Bailian Group Company Limited which is a state-owned enterprise in Shanghai mainly engaged in operating department stores, shopping malls, outlet, large stores, supermarket, convenience stores, specialty retail formats, trading in non-ferrous metals, ferrous metals, automotive, chemical light, electrical, timber, fuel, etc. involving fields of e-commerce, logistics, consumer services, and electronic information.

2. **The New Cooperation Agreement**

Nature of the agreement

Pursuant to the New Cooperation Agreement, the Company agreed to appoint Fudan Communication as the qualified agent to sell the reconfigurable devices and memory IC chips manufactured by the Company (the "**Products**") for a term of three years from 12 June 2021 to 11 June 2024. The Company has set the unified selling prices for end customers and qualified agents (the "**Product Selling Prices**") based on the "*Guide on Product Pricing*" (as described below). Fudan Communication shall purchase the Products from the Company at the Product Selling Prices, policies and terms consistent with other qualified agents that are uniformly formulated by the Company. The actual sales and purchase of both parties shall be executed by signing separate contracts.

Pricing policy

The Company has established a product pricing system with issuance of a "*Guide on Product Pricing*" which sets out the principles of product pricing. The Product Selling Prices shall be set based on the market situation, the acceptance by customers and the prices offered by market competitors, and also with the consideration of production costs and related expenses. The Product

Selling Prices (subject to adjustments from time to time) are set by the relevant divisions. Upon obtaining of approval from the management, the unified product catalogs and prices will be offered to qualified agents respectively.

According to the Management, all sales to Fudan Communication under the New Cooperation Agreement have been and will continue to be conducted in accordance with the Product Selling Prices. These procedures can ensure that the transactions will be conducted on normal commercial terms and the terms and prices of the Products offered to Connected Persons are no more favourable than those offered to independent qualified agents.

Our view on the pricing policy

We have discussed with the Management and understand that even that the Existing Annual Caps are proposed to be revised to the Revised Annual Caps, the pricing policy under the New Cooperation Agreement will remain unchanged.

We have reviewed the terms of the New Cooperation Agreement and understand that the sales to Fudan Communication would be based on the Product Selling Prices, which are identical to all qualified agents. The Company has formulated an actual product price list ("**Actual Price List**") based on the "*Guide on Product Pricing*" which applies to both Fudan Communication and Independent Third Parties. We have reviewed the Actual Price List and noted that the selling prices of the Products would be adjusted in accordance with purchase quantity which is applicable to Fudan Communication as well as Independent Third Parties.

We have also reviewed a transaction list (the "**Transaction List**") for the eight months ended 31 August 2021 (the "**Review Period**") covering over 18,000 transaction records (setting out the date, name of customers, product name, product model number and price) of Fudan Communication and Independent Third Parties. We are advised by the Management that such list is exhaustive and therefore is considered fair and representative. Based on our review, we observed that the selling prices of the Products sold to Fudan Communication are based on the Actual Price List and thus is no more favourable than that offered to Independent Third Parties.

3. Determination basis of the Revised Annual Caps

As stated in the Board Letter, to fulfil the increasing demand of the customers of Fudan Communication and the future development of the Company and Fudan Communication, it is expected that the sales transactions under the framework agreement of the New Cooperation Agreement will be sharply increased. Thus, the Board envisages that the Existing Annual Caps will not be sufficient to fulfil the transactions that may take place under the New Cooperation Agreement.

The Board has resolved to revise the annual caps of the New Cooperation Agreement as follows:

	For the year ending 31 December			For the period from
	2021	2022	2023	1 January to
	RMB'000	RMB'000	RMB'000	11 June 2024
	(Note)			(Note)
Annual cap of the Old Cooperation Agreement	60,000	-	-	-
Annual caps of the New Cooperation Agreement	<u>60,000</u>	<u>150,000</u>	<u>180,000</u>	<u>100,000</u>
Existing Annual Caps	120,000	150,000	180,000	100,000
Annual caps to be increased under the New Cooperation Agreement	<u>80,000</u>	<u>130,000</u>	<u>190,000</u>	<u>100,000</u>
Revised Annual Caps	<u>200,000</u>	<u>280,000</u>	<u>370,000</u>	<u>200,000</u>

Note: The New Cooperation Agreement was effective on 12 June 2021 and will expire on 11 June 2024.

As stated in the Board Letter, the revision of annual caps proposed by the Directors under the New Cooperation Agreement was based on the following factors:

- (a) to fulfil the increasing demand of the customers of Fudan Communication;
- (b) the sales record for the months from January to July 2021 amounted to RMB69,620,000 and the seasonal factor which will expedite the sales of the 3rd and 4th quarters;
 - (i) it is a characteristic of the downstream products of the IC industry to fulfil high market demand during Mid-Autumn Festival, National Day, Double Eleven large scale promotion activities, Christmas, New Year and Chinese New Year;
 - (ii) because of long holidays and prolonged factory closure in China during Chinese New Year, customers use to stock up goods during year end in order to meet market demand in the first quarter of the coming year; and
 - (iii) sales records of the Company for the past 3 years are set out as follows for reference:

Year	January - June <i>RMB million</i>	July - December <i>RMB million</i>	% increase
2018	672	738	9.82
2019	639	816	27.70
2020	712	953	33.85

- (c) as at 31 July 2021, the sales orders placed by Fudan Communication to the Company still have a total outstanding of approximately RMB66,354,000;
- (d) the Company has entered into new sales orders amounted to RMB83,002,000 in August 2021, RMB29,900,000 of which will be delivered and completed in 2022, with conditional terms which is subject to the approval of the proposed revision of annual caps by the Company's shareholders in the general meeting;
- (e) Fudan Communication has entered into a letter of intent with the Company in relation to its increasing customer demand for 2022 to 2024.

As the trade war between China and the USA started two years ago, there has been short supplies of IC chips around the world. The domestic IC industry is now facing increase in costs, prolonged raw materials delivery and delay in product shipment. In order to secure its sales supply as well as to fulfil increasing end user demands, Fudan Communication has to lock up the Company's supply to meet its orders in coming years. On the other hand, the Company also has to decrease its business risk in production by securing orders placed by Fudan Communication. According to the letter of intent, the sales orders that Fudan Communication will place during the 2 years ending 31 December 2023 and for the period from 1 January 2024 to 11 June 2024 are RMB280,000,000, RMB370,000,000 and RMB200,000,000 respectively. As the sales amounts entered into the letter of intent are higher than the existing annual caps, the Company is required to revise the annual caps to meet the increasing demand from Fudan Communication;

- (f) the Company has launched approximately 20 new products during the year with satisfactory sales performance that will support sales growth in future; and
- (g) the Directors, having further reviewed the sales performance and market development of the relevant products, anticipate an increasing demand which is far more than the original estimation.

The Directors confirm that they will use their best endeavors to ensure the actual transaction amount under the New Cooperation Agreement will not exceed the Existing Annual Cap for the year ending 31 December 2021 before the approval of the Revised Annual Caps in the EGM.

4. Analysis on the Revised Annual Cap

In assessing the reasonableness and fairness of the Revised Annual Caps, we have taken into account the following factors:

(i) Prospect of the IC chips industry in the PRC

In order to get a better grasp of the outlook of the IC chips industry in the PRC, we have conducted our own desktop research.

According 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*) published by the state Council of the PRC in July 2020, the PRC Government has instituted a series of policies to encourage development of IC chips industry. The policies including investment and financing, industrial technology, export, human talent, protection of intellectual property rights and industry administration. In addition, under 《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》 (The Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035*) which was approved at the fourth session of the 13th National People's Congress in March 2021, the development of IC chips industry was listed as a priority of the PRC Government.

In addition, according to the National Bureau of China, the total number of IC chips produced in the PRC increased from approximately 1,852.6 billion to 2,614.7 billion from 2018 to 2020, representing a compound annual growth rate of 18.80%. These statistics demonstrate that the PRC IC chips industry has experienced rapid growth in recent years.

In view of the favorable policies and growth of the IC chips industry in the PRC, it would benefit the sales of Fudan Communication and therefore may further increase the Company's sales to Fudan Communication.

(ii) Utilisation of the Existing Annual Caps

Based on the Transaction List, the total sales to Fudan Communication during the Review Period amounted to approximately RMB70,052,000, representing approximately 58.4% of the Existing Annual Cap for the year ending 31 December 2021 of RMB120,000,000. The remaining Existing Annual Cap available for the year ending 31 December 2021 is approximately RMB49,948,000. The outstanding sales orders placed by Fudan Communication as at 31 August 2021 amounted to approximately RMB65,866,000.

We observed that the remaining quota of the Existing Annual Cap for the year ending 31 December 2021 will not be sufficient to fulfill the outstanding sales orders.

* For identification purposes only

(iii) New sales orders for 2021

On 27 August 2021, the Company has entered into new sales orders (the “**New Sales Orders**”) amounted to approximately RMB83,002,000, which is subject to obtaining the approval of the proposed Revised Annual Caps by the Independent Shareholders at the EGM. We have reviewed the New Sales Orders, which set out the product model number, order quantity and sales amount. Based on our discussion with the Management, we understand that the Company is currently unable to execute the New Sales Orders given the remaining quota of the Existing Annual Cap for the year ending 31 December 2021 will not be sufficient to fulfill the above-mentioned outstanding sales orders. Such circumstance has hindered the Company’s sales performance and therefore the Management considers that it is necessary to revise the Existing Annual Caps to cope with the business need.

We have discussed with the Management and understand that there is always timing difference between entering into of sales orders and delivery of the Products and such time difference may vary depending on the technical requirement of the production as well as production capacity of the Company. After assessing the current production capacity, the Management estimated that part of the New Sales Orders in amount of approximately RMB29,900,000 will be executed in 2022. Having taken into account this factor, the proposed Revised Annual Caps for the year ending 31 December 2021 would be sufficient for the New Sales Orders.

(iv) Purchase intention of Fudan Communication

On 27 August 2021, the Company had received a letter of intent (the “**LoI**”) from Fudan Communication regarding its purchase intention during the terms of the New Cooperation Agreement. We have obtained the LoI as part of our due diligence work. Pursuant to the LoI, Fudan Communication intended to purchase the Products from the Company in estimated amounts of approximately RMB280 million and RMB370 million for the two years ending 31 December 2023 respectively and RMB200 million for the period from 1 January to 11 June 2024 (the “**Estimated Purchasing Amounts**”). The Revised Annual Caps are therefore matched with the Estimated Purchasing Amounts.

We have obtained the summary list of sales orders placed by Fudan Communication from 12 June 2020 (being the commencement date of the Old Cooperation Agreement) to 31 August 2021 provided by the Company. We noted that the aggregate amount of the sales orders has registered a significant increase of approximately 285.3%, from approximately RMB29.9 million for the six months ended 31 December 2020 to approximately RMB115.2 million for the six months ended 30 June 2021. In view of the historical growth trend of the sales orders placed by Fudan Communication and the positive industry outlook discussed earlier, we consider that the Estimated Purchasing Amounts were reasonably estimated.

(v) *Sales performance of new products*

We have obtained the list of new products offered to Fudan Communication in 2021 with respective sales performance. It is observed that a total of 20 new products have been offered to Fudan Communication since February 2021. Based on our discussion with the Management, most of these new products are programmable gate array chips which has been in a high market demand in recent years.

We also noted that the total turnover of these new products accounted for a significant portion of the total sales to Fudan Communication. During the Review Period, these new products contributed turnover of approximately RMB17.4 million, representing approximately 24.9% of the total sales to Fudan Communication.

In view of the above, we concur with the Management that these new products will support sales growth in future and therefore may further increase the Company's sales to Fudan Communication.

Our view

Based on our discussion with the Management, we understand that the continuing connected transactions under the New Cooperation Agreement are primarily market-driven. On this basis, the volume and aggregate value of each of the continuing connected transactions under the New Cooperation Agreement may vary from time to time and depends on a number of external factors including seasonal factors, fluctuations in the economic conditions or new policies/measures promulgated by the relevant government or regulatory bodies which is not within the control of the Group nor possible to anticipate. As such, there are inherent difficulties in accurately estimating the relevant annual caps. Based on our review on the business development of the Company and relevant sales orders entered into by the Company, we concur with the Management that the Existing Annual Caps will not be sufficient to fulfil the transactions that may take place under the New Cooperation Agreement

Having considered the factors set out above and based on our work performed, we are of the view that the Revised Annual Caps are reasonably determined, fair and reasonable in so far as the Independent Shareholders are concerned.

5. Internal control

The Company has adopted and will continue to apply various internal control procedures. The Company has established an internal control system and pursuant to the system, an internal control division (the "**Internal Control Division**") will be responsible to monitor and review the continuing connected transactions contemplated under and the New Cooperation Agreement to ensure that the transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the pricing policy of the Company. In addition, the Internal Control Division will pay close attention to the sales contracts so as to control the aggregate transaction amount under the annual cap or to alert the relevant division to publish revision announcement when the transaction amounts nearly reach the Existing Annual Caps in order to comply with the Listing Rules.

In respect of the pricing, as discussed in the section headed “Pricing Policy” above, the pricing for the Products will be referred to the “Guide on Product Pricing”. Based on the “Guide on Product Pricing”, an actual price list for different products under different bulk purchase quantity will be decided by the manufacturing department, sales department and finance department and monitored by the management of the Group in charge. These procedures are to ensure the products prices offered to connected persons are no more favourable than that offered to Independent Third Parties.

In respect of monitoring the aggregate amount for transactions contemplated under the New Cooperation Agreement, we understand from the Management that the sales department would inform the financial department before entering into sales contracts with Fudan Communication and the financial department would monitor the remaining quota of the annual caps by computing an aggregate transactions amount list to ensure that the aggregated amounts have not exceeded the relevant annual caps.

Based on our review, we noted that (i) the selling prices of the Products sold to Fudan Communication are based on the Actual Price List and thus is no more favourable than that offered to Independent Third Parties; and (ii) the total sales to Fudan Communication during the Review Period did not exceed the Existing Annual Caps.

Having considered the above, we concur with the Management that the internal control system and the internal control adopted are sufficient to ensure transactions under the New Cooperation Agreement will be conducted on normal commercial terms and shall safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that (i) the terms of the New Cooperation Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the New Cooperation Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) the Revised Annual Caps are reasonably determined, fair and reasonable.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Revised Annual Caps.

Yours faithfully,
For and on behalf of
Akron Corporate Finance Limited



Felix Tsang
Assistant Director

Mr. Felix Tsang is a licensed person registered with the Securities and Futures Commission of Hong Kong and regarded as a responsible officer of Akron Corporate Finance Limited to carry on Type 6 (advising on corporate finance) regulated activity as defined under the SFO.

