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

If you have sold or transferred all your shares in HI SUN TECHNOLOGY (CHINA) LIMITED, you should at once hand this circular with the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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HI SUN TECHNOLOGY (CHINA) LIMITED

高陽科技(中國)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 818)

**POSSIBLE MAJOR TRANSACTION
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
MEGAHUNT TECHNOLOGIES INC. ON
THE SCIENCE AND TECHNOLOGY INNOVATION BOARD
OF THE SHANGHAI STOCK EXCHANGE
AND
NOTICE OF SPECIAL GENERAL MEETING**

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



A letter from the Board is set out on pages 5 to 26 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 27 to 28 of this circular. A letter from the Gram Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 45 of this circular.

A notice convening the SGM to be held at Room 2515, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Monday, 12 June 2023 at 3:30 p.m. is set out on pages SGM-1 to SGM-2 of this circular.

Whether or not you are able to attend the SGM, you are encouraged to appoint the Chairman of the SGM as your proxy by completing the accompanying proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis 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 the holding of the SGM. The proxy form is attached to this circular and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hisun.com.hk). If you are a non-registered Shareholder, you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM if you so wish.

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated 22 May 2023 in relation to the Proposed Spin-off
“Board”	the board of Directors
“Company”	Hi Sun Technology (China) Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (stock code: 818)
“COVID-19”	the novel coronavirus disease 2019
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Company
“FY2021”	the financial year ended 31 December 2021
“FY2022”	the financial year ended 31 December 2022
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Board comprising Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Li Heguo, all of whom are independent non-executive Directors, formed to advise and provide recommendations to the Independent Shareholders on the Proposed Spin-off
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Spin-off

DEFINITIONS

“Independent Shareholders”	Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolution approving the Proposed Spin-off
“Latest Practicable Date”	22 May 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Megahunt HK”	Mega Hunt Microelectronics Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Megahunt Investors”	萬達百匯科技(深圳)有限公司 (unofficial English Translation being Wonder Pax Technology (Shenzhen) Co., Ltd.), 上海聚源聚芯集成電路產業股權投資基金中心(有限合夥) and 芯聯芯(平潭綜合實驗區)科技投資中心(有限合夥) (unofficial English translation being Xin Lian Xin (Pingtan Integrated Laboratory District) Technology Investment Centre (Limited Partnership)) (now known as 南通芯聯芯科技投資中心(有限合夥)(unofficial English translation being Nan Tong Xin Lian Xin Technology Investment Centre (Limited Partnership))
“Megahunt Put Option”	the put option granted to the Megahunt Investors pursuant to the Megahunt Subscription Agreement pursuant to which the Megahunt Investors could at their discretion to request Megahunt HK to repurchase all or part of the Spin-off Co’s shares held by the Megahunt Investors under certain conditions, at an exercise price of RMB80,000,000 plus 8.0% interest rate per annum subject to a cap, details of which are set out in the announcement of the Company dated 4 December 2019
“Megahunt Subscription Agreement”	the subscription agreement dated 4 December 2019 entered into between the Company, certain management team members of the Spin-off Co, Megahunt HK, Spin-off Co and the Megahunt Investors for the subscription of 14.55% of the then enlarged equity interest in the Spin-off Co, details of which are set out in the announcement of the Company dated 4 December 2019

DEFINITIONS

“Mr. CJ Xu”	Mr. Xu Changjun, an executive Director and a director of certain subsidiaries of the Company
“Mr. WS Xu”	Mr. Xu Wensheng, an executive Director and a director of certain subsidiaries of the Company
“Ms. Hui”	Ms. Hui Lok Yan, the group financial controller and a joint company secretary of the Company and a director of certain subsidiaries of the Company
“New Concept”	New Concept Services Limited, a wholly-owned subsidiary of the Company
“PN15”	Practice Note 15 of the Listing Rules
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposed Listing”	the proposed listing of the shares of the Spin-off Co on the SSE STAR MARKET
“Proposed Spin-off”	the proposed spin-off and separate listing of the Spin-off Co on the SSE STAR Market by way of issuance of new shares of the Spin-off Co
“Remaining Businesses”	businesses of the Group, excluding the Spin-off Business
“Remaining Group”	the Group, excluding the Spin-off Group
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company convened to be held at Room 2515, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Monday, 12 June 2023 at 3:30 p.m. for the purposes of, among other matters, considering and, if thought fit, approving the Proposed Spin-off, the notice of which is set out on pages SGM-1 to SGM-2 of this circular
“Shanghai Stock Exchange”	Shanghai Stock Exchange of the PRC
“Shares”	shares in the capital of the Company

DEFINITIONS

“Shareholders”	registered holders of the Shares from time to time
“SOC Board”	the board of directors of the Spin-off Co
“Spin-off Business”	sale of self-developed security SOC (system-on-chip) chips conducted by the Spin-off Group
“Spin-off Co”	兆訊恒達科技股份有限公司 (Megahunt Technologies Inc.), a company established in the PRC with limited liability and accounted for as an associated company of the Company as at the Latest Practicable Date
“Spin-off Group”	the Spin-off Co and its subsidiaries, namely 天津兆訊電子技術有限公司 (unofficial English translation being Tianjin Mega Hunt Microelectronics Company Limited) and 北京兆訊恒達技術有限公司 (unofficial English translation being Beijing Megahunt Hengda Technology Company Limited), each being a company incorporated in the PRC with limited liability and a direct wholly-owned subsidiary of the Spin-off Co
“SSE STAR Market”	the Science and Technology Innovation Board of the Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

For the purpose of this circular, all amounts denominated in RMB have been translated (for information only) into HK\$ using the exchange rate of RMB1.00 to HK\$1.13. No representation is made that any amounts in RMB or HK\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

LETTER FROM THE BOARD



HI SUN TECHNOLOGY (CHINA) LIMITED

高陽科技(中國)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 818)

Executive Directors:

Mr. Xu Wensheng (*Chairman*)
Mr. Kui Man Chun (*Chief Executive Officer*)
Mr. Li Wenjin
Mr. Xu Changjun

Registered office:

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

Independent Non-Executive Directors:

Mr. Tam Chun Fai
Mr. Leung Wai Man, Roger
Mr. Li Heguo

*Head Office and Principal Place of
Business in Hong Kong:*

Room 2515, 25th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Hong Kong, 25 May 2023

To the Shareholders

Dear Sir or Madam

**POSSIBLE MAJOR TRANSACTION
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
MEGAHUNT TECHNOLOGIES INC. ON
THE SCIENCE AND TECHNOLOGY INNOVATION BOARD
OF THE SHANGHAI STOCK EXCHANGE**

1. INTRODUCTION

Reference is made to the announcements of the Company dated 16 October 2020, 11 January 2023 and 22 May 2023 in relation to the Proposed Spin-off.

* *For identification purposes only*

LETTER FROM THE BOARD

On 16 October 2020, the Company submitted an application in relation to the Proposed Spin-off to the Stock Exchange for approval pursuant to PN15. On 12 March 2021, the Stock Exchange has confirmed to the Company that the Listing Committee had agreed that the Company may proceed with the Proposed Spin-off under PN15 and granted the waiver from strict compliance with the requirement of Paragraph 3(f) of PN15 of the Listing Rules (“**2021 Letter**”)

Recently, the Proposed Spin-off was reactivated and, on 11 January 2023, the Company submitted updated application in relation to the Proposed Spin-off to the Stock Exchange for approval pursuant to PN15. On 21 March 2023, the Stock Exchange confirmed to the Company that its view stated in the 2021 Letter would remain effective and the Company may proceed with the Proposed Spin-off under PN15.

The purpose of this circular is to provide you with information relating to the ordinary resolution to be proposed at the SGM, including, among others, (i) information on the Proposed Spin-off and the waiver in respect of the assured entitlement requirement under the Proposed Spin-off; (ii) the recommendation of the Independent Board Committee and the advice of Gram Capital regarding the Proposed Spin-off; and (iii) a notice of the SGM.

2. THE PROPOSED LISTING AND PROPOSED SPIN-OFF

(a) Background

The Spin-off Co proposes to make an application for a listing of its shares on the SSE STAR Market. As at the Latest Practicable Date, no formal application has been submitted by the Spin-off Co to the CSRC for the listing of its shares on the SSE STAR Market.

Based on the current tentative timetable, it is expected that the Spin-off Co will submit its formal listing application on the SSE STAR Market in or around June 2023, and subject to the approval process of the regulatory authorities of the PRC, the Proposed Listing is expected to take place in or around mid-2024.

The Company will make an announcement when the Spin-off Co submits the formal application. Further announcement(s) will be made by the Company as and when appropriate in accordance with the Listing Rules.

The Proposed Listing is expected to involve the issue of new shares of the Spin-off Co, representing not less than 25% of its enlarged issued share capital upon completion of the Proposed Listing. The size of the Proposed Listing has not been determined and is subject to further discussion between the Spin-off Co and the underwriter(s).

As at the Latest Practicable Date, the Spin-off Co has 59,800,000 issued shares and the Company’s indirect interest in the Spin-off Co is approximately 45.73% and the Spin-off Co is accounted for as an associated company of the Company.

LETTER FROM THE BOARD

Based on the current structure of the Proposed Listing which is subject to finalization by the Spin-off Co, upon completion of the Proposed Listing (which involves the public offering of not less than 19,933,334 and not more than 20,200,000 new shares of the Spin-off Co), the Company's equity interests in the Spin-off Co will decrease from 45.73% to approximately 34.30% (assuming 19,933,334 new shares of the Spin-off Co are issued) or approximately 34.19% (assuming 20,200,000 new shares of the Spin-off Co are issued).

Subsequent to completion of the Proposed Spin-off, the clear delineation between the Spin-off Business and the Remaining Business in terms of, among others, the nature of business, source of revenue, products/services offered, target customers and suppliers, will remain.

(b) Shareholding effects of the Proposed Spin-off

Set out below is the shareholding structure of the Spin-off Co (i) as at the Latest Practicable Date and (ii) immediately after the Proposed Spin-off (assuming 19,933,334 new shares of the Spin-off Co are issued in the Proposed Listing) (subject to the final determination of the size of the offering):

			Percentage of shareholding in the Spin-off Co as at the Latest Practicable Date	Percentage of shareholding in the Spin-off Co immediately after the Proposed Spin- off (assuming 19,933,334 new shares of the Spin- off Co are issued in the Proposed Listing) (subject to the final determination of the size of the offering)
	Name of shareholders	Notes		
1	Megahunt HK	(1)	45.73%	34.30%
2	Beijing Xin Hui	(2)	12.82%	9.61%
3	Tianjin Wei Hao	(3)	8.00%	6.00%
4	Ju Xin Fund	(4)	7.27%	5.45%
5	Tianjin Xin Zhi	(5)	3.99%	2.99%
6	Tianjin Xin Ju	(6)	3.80%	2.85%
7	Tianjin Xin Xin	(7)	3.64%	2.73%
8	Xin Lian Xin	(8)	3.64%	2.73%
9	Mr. WS Xu	–	3.29%	2.47%
10	Mr. CJ Xu	–	2.96%	2.22%
11	Chuang Yi Technology	(9)	1.24%	0.93%
12	Hai Chuang Yi He	(10)	1.20%	0.90%
13	Jin Wei Management	(11)	1.16%	0.87%
14	Ms. Hui	–	0.66%	0.49%
15	Tan Xue Investment	(12)	0.60%	0.45%
16	Public		–	25.00%
			<u>100.00%</u>	<u>100.00%</u>

LETTER FROM THE BOARD

Notes:

- (1) Megahunt HK is a company incorporated in Hong Kong with limited liability. It is wholly-owned by New Concept, which is wholly-owned by the Company.
- (2) 北京芯匯科技中心(有限合夥)(unofficial English translation being Beijing Xin Hui Technology Centre (Limited Partnership)) (“**Beijing Xin Hui**”), a limited partnership incorporated in the PRC. Its executive partner is 天津芯仁科技有限責任公司 (unofficial English translation being Tianjin Xin Ren Technology Co., Ltd.) (“**Tianjin Xin Ren**”), which is ultimately controlled by Mr. Li Li (“**Mr. Li**”), who is the director, legal representative and general manager of the Spin-off Co. As at the Latest Practicable Date, Beijing Xin Hui was owned as to approximately 55.56% by Mr. Li, approximately 44.43% by 30 senior management or employees of the Spin-off Co (with none of them owning more than 10% interests in Beijing Xin Hui) and 0.01% by Tianjin Xin Ren.
- (3) 天津韋豪泰達海河股權投資合夥企業(有限合夥)(unofficial English translation being Tianjin Wei Hao Tai Da Hai He Equity Investment Partnership (Limited Partnership)) (“**Tianjin Wei Hao**”), a limited partnership incorporated in the PRC. Its executive partner is 上海韋豪創芯投資管理有限公司 (Shanghai Weihao Chuangxin Investment Management Co., Ltd.) which is ultimately controlled by Mr. Zhou Siyuan. The largest limited partner holding 75% interest in Tianjin Wei Hao is 天津泰達海河智能製造產業發展基金合夥企業(有限合夥)(unofficial English translation being Tianjin Tai Da Hai He Smart Manufacturing Industry Development Fund Partnership (Limited Partnership)) (“**Haihe Fund**”). The major limited partners of Haihe Fund are (i) 天津泰達產業投資引導基金有限公司 (unofficial English translation being Tianjin Tai Da Industrial Investment Guidance Fund Co., Ltd.) (holding 59.98% interest in Haihe Fund) which is in turn ultimately controlled by 天津經濟技術開發區國有資產監督管理局 (unofficial English translation being State-owned Assets Supervision and Administration Bureau of Tianjin Economic and Technological Development Zone); and (ii) 天津市海河產業基金合夥企業(有限合夥)(unofficial English translation being Tianjin Hai He Industry Fund Partnership (Limited Partnership)) (holding approximately 39.99% interest in Haihe Fund), which is in turn ultimately controlled by 天津市國有資產監督管理委員會 (unofficial English translation being State-owned Assets Supervision and Administration Commission of Tianjin).
- (4) 上海聚源聚芯集成電路產業股權投資基金中心(有限合夥)(unofficial English translation being Shanghai Ju Yuan Ju Xin Integrated Circuit Industry Equity Investment Fund Centre (Limited Partnership)) (“**Ju Xin Fund**”), a limited partnership incorporated in the PRC. Its executive partner is 上海肇芯投資管理中心(有限合夥)(unofficial English translation being Shanghai Zhao Xin Investment Management Centre (Limited Partnership)) (“**Shanghai Zhao Xin**”), the major limited partners of which are (i) 中芯聚源股權投資管理(上海)有限公司 (unofficial English translation being China Fortune-Tech Capital Co., Ltd.) (“**Fortune-Tech**”) (holding 55% interest in Shanghai Zhao Xin); and (ii) 共青城興芯投資合夥企業(有限合夥)(unofficial English translation being Gong Qing Cheng Xing Xin Investment Partnership (Limited Partnership)) (“**Gong Qing Cheng Xing Xin**”) (holding 30% interest in Shanghai Zhao Xin). Both Fortune-Tech and Gong Qing Cheng Xing Xin are ultimately controlled by Mr. Sun Yu Wang. The major limited partners of Ju Xin Fund are (i) 國家集成電路產業投資基金股份有限公司 (unofficial English translation being National Integrated Circuit Industry Investment Fund Co., Ltd.) (holding approximately 45.09% interest in Ju Xin Fund), which is ultimately controlled by 中華人民共和國財政部 (unofficial English translation being the Ministry of Finance of the People’s Republic of China); and (ii) 中芯晶圓股權投資(寧波)有限公司 (unofficial English translation being Zhong Xin Jing Yuan Equity Investment (Ningbo) Co., Ltd.) (holding approximately 31.63% interest in Ju Xin Fund), which is an indirect wholly-owned subsidiary of Semiconductor Manufacturing International Corporation (“**SMIC**”), a company incorporated in the

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Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 981). As at the Latest Practicable Date, the largest shareholder of SMIC holding approximately 14.43% of its equity interest is 大唐控股(香港)投資有限公司 (unofficial English translation being Datang Holdings (Hong Kong) Investment Co., Ltd.), which was ultimately controlled by 國務院國有資產監督管理委員會 (unofficial English translation being State-owned Assets Supervision and Administration Commission of the State Council).

- (5) 天津芯智科技合夥企業(有限合夥)(unofficial English translation being Tianjin Xin Zhi Technology Partnership (Limited Partnership)) (“**Tianjin Xin Zhi**”), a limited partnership incorporated in the PRC. Its executive partner is 天津芯禮科技有限責任公司 (unofficial English translation being Tianjin Xin Li Technology Co., Ltd.) (“**Tianjin Xin Li**”), which is owned as to 60% by Ms. Wang Kui (“**Ms. Wang**”) and 40% by Ms. Zhou Na (“**Ms. Zhou**”). Both Ms. Wang and Ms. Zhou are employees of the Spin-off Co. As at the Latest Practicable Date, Tianjin Xin Zhi had 34 partners, including 1 executive partner (namely Tianjin Xin Li), 1 director of the Spin-off Co (namely Mr. Yang Lei), 2 supervisors of the Spin-off Co (namely Ms. Yang Yan Hong and Ms. Hua Yang), and 30 employees of the Spin-off Co and none of whom held more than 30% interest in Tianjin Xin Zhi.
- (6) 天津芯聚科技合夥企業(有限合夥)(unofficial English translation being Tianjin Xin Ju Technology Partnership (Limited Partnership)) (“**Tianjin Xin Ju**”), a limited partnership incorporated in the PRC. Its executive partner is 天津芯義科技有限責任公司 (unofficial English translation being Tianjin Xin Yi Technology Co., Ltd.) (“**Tianjin Xin Yi**”), which is ultimately controlled by Mr. Li. Tianjin Xin Ju is owned as to 50% and 50% by Tianjin Xin Yi and Mr. Li.
- (7) 天津信芯科技合夥企業(有限合夥)(unofficial English translation being Tianjin Xin Xin Technology Partnership (Limited Partnership)) (“**Tianjin Xin Xin**”), a limited partnership incorporated in the PRC. Its executive partner is Tianjin Xin Li. As at the Latest Practicable Date, Tianjin Xin Xin had 37 employees of the Spin-off Co and Tianjing Xin Li as its limited partners, and none of whom held more than 30% interest in Tianjin Xin Xin.
- (8) 南通芯聯芯科技投資中心(有限合夥)(unofficial English translation being Nan Tong Xin Lian Xin Technology Investment Centre (Limited Partnership)) (“**Xin Lian Xin**”) (formerly known as 芯聯芯(平潭綜合實驗區)科技投資中心(有限合夥)(unofficial English translation being Xin Lian Xin (Pingtan Integrated Laboratory District) Technology Investment Centre (Limited Partnership)), a limited partnership incorporated in the PRC). Its executive partner is Mr. Jiao Jiangang. As at the Latest Practicable Date, Xin Lian Xin had 5 limited partners, and of which Mr. Jiao Jiangang held 40.4% interest in Xin Lian Xin and none of the remaining limited partners held more than 30% interest in Xin Lian Xin.
- (9) 天津東方創益科技合夥企業(有限合夥)(unofficial English translation being Tianjin Dong Fang Chuang Yi Technology Partnership (Limited Partnership)) (“**Chuang Yi Technology**”), a limited partnership incorporated in the PRC. Its executive partner is Mr. Li Zhiling. As at the Latest Practicable Date, Chuang Yi Technology had 7 limited partners and 1 executive partner, none of whom held more than 30% interest in Chuang Yi Technology.

LETTER FROM THE BOARD

- (10) 天津海創益和科創合夥企業(有限合夥)(unofficial English translation being Tianjin Hai Chuang Yi He Ke Chuang Partnership (Limited Partnership)) (“**Hai Chuang Yi He**”), a limited partnership incorporated in the PRC. Its executive partner is 天津智瑞投資有限公司 (unofficial English translation being Tianjin Zhi Rui Investment Co., Ltd.), which is ultimately controlled by Mr. Xie Minglei. As at the Latest Practicable Date, Hai Chuang Yi He had 1 limited partner (namely 天津市利達鋼管集團有限公司 (unofficial English translation being Tianjin Li Da Steel Pipe Group Co., Ltd.)) which was owned as to 60% by Mr. Chen Baojian and 40% by Mr. Sun Quanxin) and 1 executive partner, holding 95% and 5% interest in Hai Chuang Yi He respectively.
- (11) 天津津緯企業管理合夥企業(有限合夥)(unofficial English translation being Tianjin Jinwei Enterprise Management Partnership (Limited Partnership)) (“**Jin Wei Management**”), a limited partnership incorporated in the PRC. Its executive partner is 上海仁海企業管理中心 (unofficial English translation being Shanghai Renhai Enterprise Management Center)), which is ultimately controlled by Mr. Zhong Guowei. As at the Latest Practicable Date, Jin Wei Management had 5 limited partners (none of them held more than 10% interest in Jin Wei Management) and 1 executive partner (who held approximately 69% interest in Jin Wei Management).
- (12) 贛州探雪合行股權投資合夥企業(有限合夥)(unofficial English translation being Ganzhou Tan Xue He Xing Equity Investment Partnership (Limited Partnership)) (“**Tan Xue Investment**”), a limited partnership incorporated in the PRC. Its executive partner is 上海探雪私募基金管理有限公司 (unofficial English translation being Shanghai Tan Xue Private Equity Fund Management Co., Ltd.), which is ultimately controlled by Ms. Shen Ying. As at the Latest Practicable Date, Tan Xue Investment had 7 limited partners (of which 浙江匯信中恒控股有限公司 (unofficial English translation being Zhejiang Hui Xin Zhong Heng Holdings Co., Ltd.) (“**Hui Xin Zhong Heng**”) holding approximately 62.46% interest in Tan Xue Investment) and 1 executive partner. None of the other partners of Tan Xue Investment held more than 10% interest in Tan Xue Investment. Hui Xin Zhong Heng is ultimately controlled by Mr. Li Jun.

(c) **Proceeds to be raised from the Proposed Spin-off**

The offer price of the Proposed Listing has not been fixed yet and is subject to market conditions close to the launch of the issuance and will be determined by a book-building process organised by the underwriter of and to be agreed by the Spin-off Co. Assuming that the offer price of each new share of the Spin-off Co is fixed between RMB50 and RMB75, the Company estimates that the gross proceeds to be raised from the Proposed Listing will be between RMB1 billion to RMB1.5 billion.

The proposed offer price range is determined primarily with reference to the analysis of price-to-earnings ratio (“**PER**”) of comparable companies, which are companies with security chip business or mainly engaged in SOC business and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange and the historical financial performance of the Spin-off Group.

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In the process of setting the offer price range of RMB50 and RMB75 per share of the Spin-off Co, the Spin-off Co has considered the PER of the following companies (“Reference Companies”):

Company name (Stock code)	Principal business	PER (Note 1)
Shanghai Fudan Microelectronics Group CO., LTD. (1385 & SH688385)	Large-scale integration design, development, testing and providing system solutions.	41.44
C*Core Technology Co., Ltd. (SH688262)	Providing intellectual property authorization, chip customization services, independent chip and module products.	161.90
Bestechnic (Shanghai) Co., Ltd. (SH688608)	Research, development, design and sales of intelligent audio and video system-on-chip chips.	140.62
Nations Technologies Inc. (SZ300077)	Research, development, design and sales of integrated circuit with independent technology and independent brands, providing corresponding system solutions and after-sales technical support services.	N/A (Note 2)
Unigroup Guoxin Microelectronics Co., Ltd. (SZ002049)	Special integrated circuit business, intelligent security chip business, quartz crystal frequency device business and semiconductor power device business.	30.54
GigaDevice Semiconductor Inc. (SH603986)	Research and development, technical support and sales of memories, microcontrollers and sensors.	36.82
Rockchip Electronics Co., Ltd. (SH603893)	Design, development and sales of large-scale integrated circuits and application solutions.	115.60

Notes:

- The PERs of the Reference Companies are calculated based on their respective latest published profit attributable to owners of the company according to their latest published annual results and their respective closing prices as quoted on relevant stock exchange and total issued shares as at the date of the Announcement.
- The subject company recorded loss attributable to the owners of the company in its latest financial year.

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The Directors noted that the price-to-earnings ratio of the Reference Companies as listed above ranges from about 30 times to 160 times. The proposed offer price is set within such range based on the unaudited profit after taxation of the Spin-off Group for FY2022 of approximately RMB49.7 million.

(d) Use of proceeds

The Spin-off Co intends to use the net proceeds of between RMB900 million to RMB1.4 billion (after deducting the fees and expenses payable by the Spin-off Co in the Proposed Listing) from the Proposed Listing in the following manner (subject to final approval by the CSRC):

- (i) approximately 31% of the net proceeds to fund the research and development (“R&D”) and commercialisation projects of its multi-core security SOC (system on-chip) chips;
- (ii) approximately 16% of the net proceeds to fund the R&D and commercialisation projects of its mobile payment security chips;
- (iii) approximately 23% of the net proceeds to fund the construction projects of its R&D centre; and
- (iv) approximately 30% of the net proceeds to fund the working capital requirements of its operations.

(e) Conditions of the Proposed Listing

Based on the information available to the Board, the Proposed Listing will be conditional upon, among other things, the following:

- (i) approval of the Proposed Spin-off by the Independent Shareholders at the SGM;
- (ii) the Stock Exchange having agreed that the Company may proceed with the Proposed Spin-off under PN15 and granted the waiver from strict compliance with the requirement of Paragraph 3(f) of PN15 of the Listing Rules;
- (iii) approval of the Proposed Listing by the CSRC and the Shanghai Stock Exchange;
- (iv) the approval of the board of directors and shareholders of the Spin-off Co; and
- (v) the market conditions.

As at the Latest Practicable Date, condition (ii) and the approval of the board of directors of the Spin-off Co referred to in condition (iv) have been fulfilled.

LETTER FROM THE BOARD

If any of the above conditions is not fulfilled, the Proposed Spin-off will not proceed and an announcement will be published by the Company as soon as practicable.

(f) Lock-up period

According to the requirement of the CSRC, the Company, New Concept and Megahunt HK, as the controlling shareholders of the Spin-off Co, shall not dispose of the shares of the Spin-off Co for a period of 36 months from the successful listing of the Spin-off Co on the SSE STAR Market (“**Lock-up Period**”). In case of disposal of the shares of the Spin-off Co during the period of two years after the expiry of the Lock-up Period, each of the Company, New Concept and Megahunt HK will undertake that it shall not (i) dispose of more than 25% of its shares of the Spin-off Co in each of the aforesaid two years; and (ii) dispose at a price lower than the offer price of the Proposed Listing.

3. INFORMATION ON THE SPIN-OFF GROUP AND THE REMAINING GROUP

(a) Business overview of Spin-off Co

The Spin-off Co’s main principal business activity is sale of its self-developed security SOC chips (the “**Spin-off Business**”). The Spin-off Business has been operated by the Spin-off Co since its incorporation on 3 August 2011. The Spin-off Co has four offices in the PRC and is headquartered in Beijing, the PRC where the Spin-off Co’s main R&D centre is also based. The Spin-off Co has two subsidiaries, namely 天津兆訊電子技術有限公司 (unofficial English translation being Tianjin Mega Hunt Microelectronics Company Limited), a company incorporated in the PRC with limited liability on 29 April 2019 and 北京兆訊恒達技術有限公司 (unofficial English translation being Beijing Megahunt Hengda Technology Company Limited), a company incorporated in the PRC with limited liability on 28 March 2022, each being a direct wholly-owned subsidiary of the Spin-off Co.

Security chips are an integral component of any central processing unit (CPU) which, among other functions, serves to encrypt the data passing through and monitor malicious attacks or surveillance.

A SOC (System on a chip) is essentially an integrated circuit that takes a single platform and integrates an entire electronic or computer system onto it. It is, as its name suggests, an entire system on a single chip. The components that a SOC generally looks to incorporate within itself include a secure central processing unit (CPU), embedded memories (SRAM and flash), hardware physical protection units, sorts of crypto-engines, as well as analog input and output blocks. The Spin-off Co’s SOC chip products are deployed in various applications (including traditional POS payment terminals, mobile POS and smart POS payment terminals, passcode pads, smart locks, fingerprint and facial recognition payment terminals, QR code payment terminals, magstripe card reader payment terminals, smart robots and smart printers).

LETTER FROM THE BOARD

(b) Financial Information of the Spin-off Group

As at 31 December 2022, the unaudited consolidated total assets value and net assets value of the Spin-off Group were approximately RMB476.38 million and RMB335.68 million respectively^{Note}.

The unaudited profit before and after taxation and extraordinary items of the Spin-off Group for FY2021 and FY2022^{Note} are as follows:

	FY2022	FY2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation and extraordinary items	45,428	46,373
Profit after taxation and extraordinary items [#]	51,076	32,920

Note: Derived from the unaudited financial information of the Spin-off Co for FY2021 and FY2022 which were prepared in accordance with accounting principles generally accepted in the PRC (PRC GAAP).

[#] Extraordinary items mainly represent share-based payment expenses and government subsidies.

(c) Clear delineation of businesses

There is clear business delineation between the Spin-off Group and the Remaining Group, in terms of products/services offered, customer base and suppliers as further explained below.

(i) Products/services

The Spin-off Group specialises in the R&D and sale of its self-developed security SOC (system-on-chip) chips. The Remaining Group, on the other hand, offers services in relation to payment and digital services, fintech services, platform operation solutions and financial solutions, which can be unambiguously differentiated from Spin-off Co's business.

(ii) Customers

The Spin-off Group's main customer base is payment industry enterprises while the Remaining Group's main customer base is domestic merchants accepting electronic payments, mobile technology companies, financial institutions and banks.

There is no overlapping customer base for the Remaining Group and the Spin-off Group.

LETTER FROM THE BOARD

According to Article 12 of “科創板首次公開發行股票註冊管理辦法(試行)” (unofficial English translation being the “Management Rules for Share Registration in respect of Initial Public Offering on the SSE STAR Market (Trial)”) published by the CSRC, an issuer shall have, inter alia, complete assets and its business, personnel, finance and organization shall be independent, such that there shall not be business competition having material adverse effect to the issuer, or connected transactions which seriously affect its independence or are manifestly unfair to the issuer, with its direct/indirect controlling shareholders or their controlled corporations.

Article 216 of the Company Law of the PRC stipulates that, *inter alia*, “控股股東 (controlling shareholder)” includes shareholders holding less than 50% of the shareholding but the voting rights enjoyed by them according to the amount of capital contribution or the shares they hold are sufficient to have a significant impact on the resolutions of the shareholders’ meeting.

Following completion of the Proposed Spin-off and the Proposed Listing, the Company (through New Concept and Megahunt HK) will remain as the single largest shareholder of the Spin-off Co and will enjoy voting rights which will be sufficient to have significant impact on the Spin-off Co’s shareholders’ meeting. As such, the Company is regarded as a “控股股東 (controlling shareholder)” of the Spin-off Co under the PRC laws.

According to paragraph 7-4-2 of 《關於發佈〈上海證券交易所科創板發行上市業務指南第1號－發行上市申請文件〉的通知》(上證函[2020]2034號)(unofficial English translation being the “Publication Notice in relation to Guide No.1 – Application Documents in respect of SSE STAR Market IPO” (SSE letter No.2034 of 2020)) published by the SSE, the application materials for the Proposed Spin-off must include “an agreement to eliminate or avoid business competition and the corresponding undertaking by the issuer’ controlling shareholders or actual controller”. Non-compete undertaking constitutes one of the listing application documents of the Proposed Spin-off. If the direct/indirect controlling shareholders of the Spin-off Co do not provide the relevant non-compete undertakings, the listing application in respect of the Proposed Spin-off may not be accepted and considered.

Accordingly, as one of the regulatory listing conditions of the Proposed Listing, Megahunt HK, New Concept and the Company (collectively, the “**Covenantors**”) will each execute a non-compete undertaking, pursuant to which (subject to terms and conditions to be finalised) each Covenantor will undertake, among other matters, that for as long as it remains a controlling shareholder of the Spin-off Co, it will not, directly or indirectly, be interested in or engage in any business which competes or may compete with any business carried out by and will cause any material adverse effect to the Spin-off Group.

LETTER FROM THE BOARD

Given that the Remaining Businesses and the Spin-off Business are clearly delineated and that the Spin-off Co will remain as an associated company of the Company, the Company has no intention to engage in any business which competes or may compete with the Spin-off Business (other than through the Spin-off Group). The Board considers that the Company's compliance with the terms and conditions of the non-compete undertaking will cause no material adverse effect to the Remaining Group.

The Board considers that the Proposed Spin-off will be commercially beneficial to both the Remaining Group and the Spin-off Group, detailed reasons of which are set out in paragraph headed "Reasons for and benefits of the Proposed Spin-off" below. As a prerequisite to the separate listing of the Spin-off Co on the SSE STAR Market, the Board considers that the entering into of the non-compete undertaking is commercially beneficial to the Remaining Group.

In view of the above, the Board considers that the terms of the non-compete undertaking are fair and reasonable and in the interest of the Company and its shareholders as a whole.

(iii) Suppliers

The Spin-off Group's major suppliers include distributors of semiconductor components, peripherals and modules and semiconductor system integration packaging and test providers, while the Remaining Group's major suppliers are software, integrated system and solutions providers and merchant recruitment agents.

Therefore, the Spin-off Group and the Remaining Group have substantially different suppliers.

(d) Operational Independence

There is clear business delineation between the Remaining Group and the Spin-off Group in relation to their respective product/service offered, major customer groups and major suppliers. Due to such differences, their respective business operations are also independent from each other. The non-administrative operating systems (including sales, procurement, production management, quality control, R&D, warehousing and logistics teams) of the Spin-off Business are separate from those of the Remaining Businesses and are expected to continue operating separately and independently of the Remaining Businesses. As such, the Spin-off Group will maintain its operational independence from the Remaining Group following the completion of the Proposed Spin-off.

(e) Management Independence

Following completion of the Proposed Spin-off, the Company and the Spin-off Co will have separate board of directors that will function independently of each other.

LETTER FROM THE BOARD

Mr. CJ Xu, an executive Director and a director of certain subsidiaries of the Company, and Ms. Hui, the group financial controller and a joint company secretary of the Company and a director of certain subsidiaries of the Company, will both be appointed as directors of the Spin-off Co.

Save for Mr. CJ Xu and Ms. Hui, there will be no overlapping directors and senior management between the Company and the Spin-off Co.

As a director of both the Company and the Spin-off Co, Mr. CJ Xu is expected to be involved in the management of both the Company and the Spin-off Co after the Proposed Spin-off and he will split his time between the management of the Remaining Group and the Spin-off Co. Having said that, Mr. CJ Xu will not be involved in the day-to-day operations of the Spin-off Co and his role in the Spin-off Co will primarily be related to the overseeing of matters relating to PRC tax and accounting as well as corporate finance.

Ms. Hui is not a director of the Company and her role as the group financial controller is mainly related to the supervision and management of the financial affairs of the Group rather than in the decision-making in the Company's business and operation. After the Proposed Spin-off, Ms. Hui will not be involved in the day-to-day operations of the Spin-off Co and her role in the Spin-off Co will primarily be related to corporate finance, mergers and acquisitions matters of the Spin-off Group, whereas for the Remaining Group, she will continue to serve as the group financial controller, the joint company secretary and a member of the risk management committee of the Company which is primarily supervisory in nature.

The SOC Board will comprise five directors and three independent directors. Mr. CJ Xu and Ms. Hui together do not constitute a majority of the SOC Board and thus do not control its decision-making.

In the event that any conflict of interest arises between the Remaining Group and the Spin-off Group, Mr. CJ Xu shall abstain from voting at the relevant meetings of the SOC Board and the meetings of the Board in respect of such matters where actual or potential conflict of interest arises. Mr. CJ Xu shall also comply with the respective bye-laws of the Company and the Spin-off Co, any applicable laws and regulations (including but not limited to the Listing Rules and any rules governing the SSE STAR Market) that is applicable to the Company and the Spin-off Co.

Given the different nature of her responsibilities in the Remaining Group and the Spin-off Group, it is expected that no conflict of interest is likely to arise for Ms. Hui as regards her positions in the Remaining Group and the Spin-off Group. In the unlikely event that any actual or potential conflict of interest arises, she shall abstain from voting at the relevant meetings of the SOC Board.

LETTER FROM THE BOARD

A director of the Spin-off Co shall abstain from voting and shall not exercise the voting rights of any other directors on their behalf in the matters to be approved by the SOC Board, if he is interested in such matter or related to the subject company which is interested in such matter. Further, the proposed independent directors of the Spin-off Co will independently and objectively review, monitor and offer balanced views over the decision-making of the SOC Board on significant transactions, connected transactions and other transactions involving any actual or potential conflict of interests. The Spin-off Co also has a team of experienced senior management independent of the Remaining Group which assist and support the SOC Board in the day-to-day management of the Spin-off Business.

Based on the above, despite the aforesaid overlapping directorship and management, the board of directors and senior management of the Spin-off Co could operate independently of the Company and in the interests of its shareholders as a body in general and not in the interests of the Company only, in case where the interests of the Spin-off Co and the Company are actually or potentially in conflict.

(f) Financial Independence

(i) Accounting and finance functions

The Spin-off Group has its own accounting and finance team and a separate accounting and financial system and makes financial decisions according to its own business needs.

(ii) Inter-company balances

As at the Latest Practicable Date, there was an amount of approximately HK\$5.3 million due from the Spin-off Group to the Remaining Group. Such amount was non-trade related and non-interest bearing loan and repayable on demand.

The net balance will be settled before the completion of the Proposed Spin-off. It is expected that there will not be any inter-company balances between the Remaining Group and the Spin-off Co at the time of completion of the Proposed Spin-off and no further inter-company balances will be created between them.

(iii) Corporate guarantees

As at the Latest Practicable Date, the Company has signed two guarantee agreements pursuant to which the Company guaranteed the payment obligations of the Spin-off Group in favour of two suppliers (“**Guarantee Agreements**”). The maximum guaranteed amount under the Guarantee Agreements is US\$30 million. It is intended that the Company will be released and discharged from the Guarantee Agreements and replaced by corporate guarantees to be provided by a member of the Spin-off Group after the Proposed Spin-off.

LETTER FROM THE BOARD

Following the Proposed Spin-off, it is expected that the Spin-off Co would have independent access to third party financing without corporate guarantees or other financial support from the Remaining Group following the release of the corporate guarantees from the Company as described above.

The guarantees given by the Company under the Guarantee Agreements are not in relation to any financing or borrowings of the Spin-off Group but as a performance guarantee pertaining to the payment obligations of the Spin-off Group under its purchase orders placed with the two suppliers. As at the Latest Practicable Date, there has not been any instance where the Spin-off Group has defaulted on in fulfilling its contractual or payment obligations to the relevant suppliers causing the Company to assume responsibility under the guarantees.

(iv) Independent ability to obtain third-party financing

The Spin-off Group is independent in terms of business, finance and assets. The Spin-off Group is in good financial condition and has good credit standing. The Spin-off Group has not been involved in any debt disputes with its suppliers. Depending on future operating conditions, if the Spin-off Group has capital needs, it can obtain financing through capital increase, bank loans, etc.. If the Proposed Spin-off is successful, the Spin-off Co can also obtain financing through various means such as public or non-public issuance of shares or debt securities.

(g) Independence of administrative capability

All administrative functions were carried out by the Spin-off Co and the Remaining Group independently.

(h) Ongoing and future connected transactions between the Remaining Group and the Spin-off Co

It is expected that there will be no ongoing or future transactions between the Remaining Group and the Spin-off Co after the Proposed Spin-off. Should there be any transactions between the Remaining Group and the Spin-off Co, they will be properly transacted in compliance with the applicable requirements under the Listing Rules and the listing rules of the SSE STAR Market.

LETTER FROM THE BOARD

4. INFORMATION ABOUT THE REMAINING GROUP

Upon completion of the Proposed Spin-off, the four existing main business segments of the Remaining Group subsequent to the Spin-off Co becoming an associated company of the Company in May 2022 will remain unchanged. The four main business segments of the Remaining Group, which are organised into different business units based on their products and services, are as follows:

- (i) Payment and digital services – It mainly refers to the provision of payment processing services, merchants recruiting, and provision of other related products and solutions (the “**Payment and Digital Services Business**”);
- (ii) Fintech services – It mainly refers to the provision of micro-lending, supply chain financing, factoring business, credit assessment services and related products and solutions (the “**Fintech Services Business**”);
- (iii) Platform operation solutions – It mainly refers to provision of telecommunication and mobile payment platform operation services and operation value-added services (the “**Platform Operation Solutions Business**”); and
- (iv) Financial solutions – It mainly refers to the provision of information system consultancy, integration and operation services and sales of information technology products to financial institutions and banks (the “**Financial Solutions Business**”). ((i) the Payment and Digital Services Business, (ii) the Fintech Services Business; (iii) the Platform Operation Solutions Business and (iv) the Financial Solutions Business are collectively referred to as the “**Remaining Businesses**”).

5. FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP

Upon completion of the Proposed Spin-off, the Group is expected to hold approximately 34.30% of the enlarged issued share capital of the Spin-off Co (assuming 25% of the enlarged issued share capital of the Spin-off Co is being issued in the Proposed Listing), the Spin-off Co will continue to be an associated company of the Company. The operating results of the Spin-off Co are not and will not be consolidated into the consolidated financial statements of the Company.

LETTER FROM THE BOARD

The Proposed Listing, which is expected to involve the issue of new shares of the Spin-off Co, will constitute a deemed disposal of the Group's interest in the Spin-off Co. The Proposed Listing is expected to involve the issue of new shares of the Spin-off Co, representing approximately 25% of its enlarged issued share capital upon completion of the Proposed Listing. It is expected that the Company will recognise an unaudited net gain of approximately HK\$257.9 million on the deemed disposal of the Spin-off Co, which is calculated on the assumption that the deemed disposal was effected on 31 December 2022, the deemed consideration received of approximately HK\$387.6 million being the Group's share of net proceeds received from the issue of new shares of the Spin-off Co and with reference to the Company's proportionate investment cost of approximately HK\$129.7 million of the Spin-off Co deemed disposed as at 31 December 2022. The net gain on deemed disposal of Spin-off Co will be recorded in the profit or loss of the Group with the corresponding adjustment of the same amount debited to the investments accounted for using the equity method on the consolidated balance sheet. However, the actual gain on deemed disposal of the Spin-off Co may differ as it is estimated based on a number of assumptions and the amount will be calculated upon completion of the Proposed Spin-off. Shareholders should note that the exact financial effect of the Proposed Spin-off is subject to the review of the auditors of the Company.

Following completion of the Proposed Listing, the Megahunt Put Option, a derivative financial liability at fair value through profit or loss, amounted to approximately HK\$4.9 million as at 31 December 2022, will be derecognised from the consolidated financial statements of the Group with the corresponding entry of the same amount credited to the profit or loss of the Group.

6. REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Board believes that it is commercially beneficial to the Company and in the interests of the Shareholders to effect the Proposed Spin-off for the following reasons:

- (a) the Spin-off Business has grown to a sufficient size that warrants a separate listing, which can further unlock its value. The Proposed Spin-off and a separate listing of the shares of the Spin-off Co will enhance its corporate profile amongst its customers and other business partners. It will also enable the Spin-off Co to face the investors directly, which will promote its brand awareness;

LETTER FROM THE BOARD

- (b) the Proposed Spin-off will enable the Spin-off Co to have its own fund raising platforms, allowing it to (i) have direct and independent access to both the debt and equity capital markets, which in turn potentially provide it with greater debt capacity to deploy funds towards its development, operations and investment opportunities; and (ii) gain exposure to more specialized investors and have better chances to obtain more targeted investments and attract strategic investors for forming strategic partnerships with the Spin-off Co;
- (c) the cash proceeds to be received from the public offering and/or placing of shares of the Spin-off Co will provide capital to the Spin-off Co for its operations and expansion plan and help it become more competitive, which in turn will provide better returns to the shareholders of the Spin-off Co;
- (d) the Proposed Spin-off will lead to a more direct alignment of the responsibilities and accountability of the Spin-off Co's management with its operating and financial performance, as a result of heightened scrutiny of the investor community, through the enhanced clarity on the business and financial status of the Spin-off Co on a stand-alone basis. This is anticipated to enhance management focus, lead to faster response-time to market changes as well as increase operational efficiency. It will also allow the investors to better measure the management's performance against the stock market performance of the Spin-off Co in comparison with other industry peers listed on the SSE STAR Market;
- (e) the Proposed Spin-off will enable more focused development, strategic planning and better allocation of resources for the Remaining Group and the Spin-off Co with respect to their respective businesses. In addition, the Proposed Spin-off will improve the ability of the Spin-off Co to recruit, motivate and retain key management personnel; and
- (f) all benefits enjoyed by the Spin-off Co through the Proposed Spin-off are expected to accelerate its expansion and improve its overall operating and financial performance, thereby creating greater value for the Company and its shareholders as a whole. Given that upon the completion of the Proposed Spin-off, the Company (through New Concept and Megahunt HK) will remain as the single largest shareholder of the Spin-off Co, it is expected that the Company will continue to enjoy the benefits of the growth and development of the Spin-off Co. At the same time, the Proposed Spin-off provides the Company and its shareholders with an opportunity to realise the value of their investment in the Spin-off Co on a separate stand-alone platform.

LETTER FROM THE BOARD

7. VIEWS OF DIRECTORS

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the Proposed Spin-off is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Since Mr. WS Xu and Mr. CJ Xu, who are both executive Directors, owned approximately 3.29% and 2.96% of the Spin-off Co respectively as at the date of passing the Board resolution in respect of the Proposed Spin-off, they have both abstained from voting on the relevant Board resolution. Save for Mr. WS Xu and Mr. CJ Xu, no other Director was considered to have a material interest in the Proposed Spin-off, and was therefore required to abstain from voting on the Board resolution approving the Proposed Spin-off.

8. WAIVER FROM STRICT COMPLIANCE WITH PARAGRAPH 3(F) OF PN15

Paragraph 3(f) of PN15 requires the Company to have due regard to the interests of the existing Shareholders by providing them with an assured entitlement to the shares of the Spin-off Co, either by way of a distribution in specie of the existing shares of the Spin-off Co or by way of preferred application in any offering of existing or new shares in the Spin-off Co.

However, based on the legal advice given by the PRC counsel of the Spin-off Co on the Proposed Spin-off, non-PRC investors (other than certain qualified investors) are not permitted under the PRC laws and regulations to acquire the shares of the Spin-off Co which are to be listed on the SSE STAR Market. Only Chinese citizens, Chinese legal persons, Chinese partnership and qualified foreigners can satisfy the condition to open a securities account in China so as to obtain shares of the Spin-off Co upon listing. Additionally, priority allocation in public offering is generally prohibited under the PRC laws and regulations to ensure fair and equal treatment of investors. As such, unless the existing shareholders of the Company can meet the requirements for eligible investors, there are legal obstacles for the existing shareholders of the Company to acquire the shares of the Spin-off Co and therefore they are not entitled to the assured entitlements to the shares of the Spin-off Co in accordance with the PRC laws and regulations.

Taking into account the legal restrictions as mentioned above, the Board considers that it would be unduly burdensome and practically impossible for the Company to obtain and verify the background information of all its shareholders for the purpose of ascertaining whether they are so qualified. Therefore, the Board is of the view that the Proposed Spin-off and a waiver from strict compliance with the assured entitlement requirement are fair and reasonable and in the interest of the Company and its shareholders as a whole.

Accordingly, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15.

LETTER FROM THE BOARD

9. IMPLICATIONS UNDER THE LISTING RULES

The Spin-off Co is an associated company of the Company as at the Latest Practicable Date and was a subsidiary of the Company until May 2022. Pursuant to PN15, the Stock Exchange will treat an entity as if it were a subsidiary of the issuer if such entity is at the time of submission of the issuer's spin-off proposal, an associated company of the issuer and was, at any time during the latest completed financial year of the issuer (comprising at least 12 months) up to the date of submission of the spin-off proposal, a subsidiary of the issuer.

As one or more of the applicable percentage ratios represented by the Proposed Spin-off is expected to exceed 25% but all of the applicable percentage ratios are less than 75%, the Proposed Spin-off constitutes a major transaction of the Company and is subject to the announcement, circular and shareholders' approval requirements under the Listing Rules.

The Proposed Spin-off will therefore be subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules. The Company will comply with the requirements under paragraph 3(e)(1) of PN15 and applicable requirements of Chapter 14 of the Listing Rules (including the announcement, circular, appointment of an independent financial adviser and shareholders' approval requirements) as and when necessary.

The Company will reassess the applicable percentage ratios in respect of the Proposed Spin-off should the actual proceeds raised from the Proposed Spin-off vary from the estimated amount. If the then applicable percentage ratios in respect of the Proposed Spin-off no longer renders the Proposed Spin-off a major transaction, the Company will comply with the applicable requirements for notifiable transactions in accordance with Chapter 14 of the Listing Rules as and when appropriate.

10. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Li Heguo, being all independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the terms of the Proposed Spin-off. The letter from the Independent Board Committee is set out on pages 27 to 28 of this circular.

The Company has also appointed Gram Capital as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Spin-off. The letter from Gram Capital is set out on pages 29 to 45 of this circular.

LETTER FROM THE BOARD

11. SGM

The SGM will be held at Room 2515, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Monday, 12 June 2023 at 3:30 p.m. for the purpose of, among other matters, considering and, if thought fit, approving the Proposed Spin-off. The notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Mr. WS Xu and Mr. CJ Xu is a Shareholder holding 4,566,000 and 16,563,000 Shares respectively, representing approximately 0.16% and 0.6% of the total issued shares respectively. As both Mr. WS Xu and Mr. CJ Xu, are also interested in the Spin-off Co (holding 3.29% and 2.96% of shares of the Spin-off Co respectively), both of them, have or are deemed to have material interest in the Proposed Spin-off and shall abstain from voting on the resolution in respect of the Proposed Spin-off at the SGM. Save as the aforesaid, no other Shareholder has or is deemed to have a material interest in the Proposed Spin-off, or is interested in the Proposed Spin-off in a manner which is different from other Shareholders by virtue only of his interest in the Shares. As such, no other Shareholder shall otherwise be required to abstain from voting on the resolution in relation to the Proposed Spin-off at the SGM.

In accordance with the Listing Rules, all resolutions will be voted by poll at the SGM.

Whether or not you are able to attend the SGM, you are encouraged to appoint the Chairman of the SGM as your proxy by completing the accompanying proxy form in accordance with the instructions printed thereon and return it to the the Company's branch share registrar in Hong Kong, Tricor Tengis 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 the holding of the SGM. The proxy form is attached to this circular and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hisun.com.hk). If you are a non-registered Shareholder, you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM if you so wish.

12. RECOMMENDATION

The Directors (including the independent non-executive Directors having taken into account of the advice of Gram Capital) consider that the Proposed Spin-off and the waiver in respect of the assured entitlement requirement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Proposed Spin-off.

LETTER FROM THE BOARD

13. ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee, (ii) the letter from Gram Capital and (iii) the additional information set out in the appendices to this circular and the notice of the SGM.

If Shareholders have any questions about the relevant resolutions, or about the Company or any matters for communication with the Board, please contact the Company's investor relations department as follows:

Investor Relations
Email: ir@hisun.com.hk
Tel: (852) 2588 8841
Fax: (852) 2802 3300

Shareholders and prospective investors of the Company should note that the Proposed Spin-off and the final structure of the Proposed Listing will be subject to, among other things, obtaining approvals from the relevant PRC regulators in accordance with all applicable regulations and suitable market conditions, thus may or may not materialise. Accordingly, Shareholders and prospective investors are advised to exercise caution when dealing in the shares of the Company.

Yours faithfully
By Order of the Board
HI SUN TECHNOLOGY (CHINA) LIMITED
Hui Lok Yan
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



HI SUN TECHNOLOGY (CHINA) LIMITED

高陽科技(中國)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 818)

25 May 2023

To the Independent Shareholders

Dear Sir or Madam

**POSSIBLE MAJOR TRANSACTION
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
MEGAHUNT TECHNOLOGIES INC. ON
THE SCIENCE AND TECHNOLOGY INNOVATION BOARD
OF THE SHANGHAI STOCK EXCHANGE**

We refer to the circular of the Company dated 25 May 2023 (“**Circular**”), of which this letter forms part. Unless otherwise required, capitalised terms herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the Proposed Spin-off. Gram Capital has been appointed as the independent financial adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out on pages 29 to 45 of the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendices thereto.

Having considered the principal factors and reasons considered by, and the advice of, Gram Capital as set out in its letter of advice, we are of the opinion that the terms of the Proposed Spin-off are fair and reasonable. We also consider that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote for the resolution approving the Proposed Spin-off at the SGM.

Yours faithfully

Independent Board Committee

Mr. Tam Chun Fai Mr. Leung Wai Man, Roger Mr. Li Heguo

Independent non-executive Directors

LETTER FROM GRAM CAPITAL

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



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

25 May 2023

*To: The independent board committee and the independent shareholders
of Hi Sun Technology (China) Limited*

Dear Sirs,

POSSIBLE MAJOR TRANSACTION PROPOSED SPIN-OFF AND SEPARATE LISTING OF MEGAHUNT TECHNOLOGIES INC. ON THE SCIENCE AND TECHNOLOGY INNOVATION BOARD OF THE SHANGHAI STOCK EXCHANGE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Spin-off, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 25 May 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Spin-off Co proposes to make an application for a listing of its shares on the SSE STAR Market. As at the Latest Practicable Date, the Company’s indirect interest in the Spin-off Co is approximately 45.73% and the Spin-off Co is an associated company of the Company. The Proposed Listing is expected to involve the issue of new shares of the Spin-off Co, representing not less than 25% of its enlarged issued share capital upon completion of the Proposed Listing. The Proposed Spin-off constitutes a major transaction of the Company for the purposes of Chapter 14 of the Listing Rules, and is subject to among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Li Heguo (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Proposed Spin-off are fair and reasonable; (ii) whether the Proposed Spin-off is 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 approve the Proposed Spin-off at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of (i) any relationships or interests between Gram Capital and the Company; or (ii) any services provided by Gram Capital to the Company, during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Proposed Spin-off. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

LETTER FROM GRAM CAPITAL

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Spin-off, we have taken into consideration the following principal factors and reasons:

Background of the Proposed Spin-off

1. Information on the Group

With reference to the Board Letter and as confirmed by the Directors, the Group has four main business segments which are organised into different business units based on their products and services, namely, Payment and Digital Services Business, Fintech Services Business, Platform Operation Solutions Business and Financial Solutions Business.

With reference to the Board Letter and as confirmed by the Directors, as at the Latest Practicable Date, the Company's indirect interest in the Spin-off Co is approximately 45.73% and the Spin-off Co is an associated company of the Company. The Spin-off Co's main principal business activity is the Spin-off Business. The Company is also interested in approximately 33.71% of PAX Global's issued shares. PAX Global is an associated company of the Company and is principally engaged in development and sales of electronic funds transfer point-of-sale products, provision of maintenance and installation and payment solution services.

LETTER FROM GRAM CAPITAL

Set out below is the audited consolidated financial information of the Group for the two years ended 31 December 2022 as extracted from the Company's annual report for the year ended 31 December 2022 (the "2022 Annual Report"):

	For the year ended 31 December 2022 ("FY2022") HK\$'000	For the year ended 31 December 2021 ("FY2021") HK\$'000	Year-on- year change %
Revenue	3,432,728	4,182,684	(17.93)
– Payment and Digital Services Business	2,652,007	3,342,837	(20.67)
– Fintech Services Business	228,704	212,552	7.60
– Platform Operation Solutions Business	169,476	189,723	(10.67)
– Financial Solutions Business	346,068	336,396	2.88
– Others	36,473	101,176	(63.95)
Gross profit	1,283,582	1,224,081	4.86
Profit attributable to owners of the Company	939,416	3,521,526	(73.32)
	As at	As at	
	31 December	31 December	Year-on-
	2022	2021	year change
Net assets value	7,554,282	7,490,994	0.84

As depicted from the above table, the Group's revenue for FY2022 decreased by approximately 17.93% as compared to that for FY2021. With reference to the 2022 Annual Report, such decrease in revenue was mainly due to decrease in revenue generated from the Payment and Digital Services Business as a result of decline in consumer consumption of goods and services in the PRC (resulting from regional spread of COVID-19 pandemic and adoption of epidemic prevention and control measures across the country) which led to decrease in transaction volume being processed.

Despite the aforesaid decrease in the Group's revenue, the Group's gross profit for FY2022 increased by approximately 4.86% as compared to that for FY2021 as the Group's gross profit margin increased from approximately 29.27% for FY2021 to approximately 37.39% for FY2022. With reference to the 2022 Annual Report, such increases in the Group's gross profit and gross profit margin were mainly due to provision of more diversified services such as new digital service products.

LETTER FROM GRAM CAPITAL

The profit attributable to owners of the Company for FY2022 decreased by approximately 73.32% as compared to that for FY2021. With reference to the 2022 Annual Report, such decrease was mainly due to the combination effect of (i) the Group's net other losses for FY2022 as compared to net other gains for FY2021; (ii) increase in the Group's selling expenses and administrative expenses from FY2021 to FY2022; and (iii) the Group did not record gains on deemed disposals of associated companies for FY2022 (gains on deemed disposals of associated companies were approximately HK\$2.86 billion for FY2021), as partially offset by increase in the Group's profit from discontinued operation.

With reference to the 2022 Annual Report, the Group expects to see explosive growth in domestic consumption in 2023, which will drive rapid growth in the Group's merchant transactions. On the other hand, the PRC's supply chain advantage is expected to be further strengthened, leading to growth in export trade and better market opportunities for the Group's cross-border payment business. Moreover, the Group will continue to expand their in-depth cooperation with financial institutions combining their asset securitisation business to provide efficient and low-cost financial services to enterprises. In addition, the Group will continue to expand their business to industries and customers beyond telecoms operators, resulting in continued growth in the Group's contract size. The Group will also continue to increase investment in research and development, and launch new products in the areas of micro-services platform, container cloud platform and enterprise marketing tools to empower their enterprise customers. Looking ahead, as the market gradually recovers, the Group will develop more revenue in new markets in addition to stabilizing the Group's existing revenue scale.

2. Information of the Spin-off Group

With reference to the Board Letter, the Spin-off Co's main principal business activity is sale of its self-developed security SOC (system on a chip) chips (i.e. the Spin-off Business). The Spin-off Business has been operated by the Spin-off Co since its incorporation on 3 August 2011. The Spin-off Co has four offices in the PRC and is headquartered in Beijing, the PRC where the Spin-off Co's main R&D centre is also based. The Spin-off Co has two direct wholly-owned subsidiaries, namely 天津兆訊電子技術有限公司 (unofficial English translation being Tianjin Mega Hunt Microelectronics Company Limited), a company incorporated in the PRC with limited liability on 29 April 2019 and 北京兆訊恒達技術有限公司 (unofficial English translation being Beijing Megahunt Hengda Technology Company Limited), a company incorporated in the PRC with limited liability on 28 March 2022.

LETTER FROM GRAM CAPITAL

As advised by the Directors, the Spin-off Group adopts the typical “fabless” business model (the “**Fabless Model**”) which focuses on the integrated circuit design and entrusts wafer manufacturing, packaging and testing of the integrated circuits to wafer manufacturing companies, packaging companies and testing companies, respectively. The term “fabless” means that the company (i) only designs and sells the hardware and semiconductor chips but does not manufacture the silicon wafers, or chips used in its products; and (ii) outsources the fabrication to manufacturers.

With reference to the Board Letter, security chips are an integral component of any central processing unit (CPU) which, among other functions, serves to encrypt the data passing through and monitor malicious attacks or surveillance. A SOC is essentially an integrated circuit that takes a single platform and integrates an entire electronic or computer system onto it. It is, as its name suggests, an entire system on a single chip. The components that a SOC generally looks to incorporate within itself include a secure CPU, embedded memories (SRAM (static random-access memory) and flash), hardware physical protection units, sorts of crypto-engines, as well as analog input and output blocks. The Spin-off Co’s SOC chip products are deployed in various applications (including traditional POS (point-of-sale) payment terminals, mobile POS and smart POS payment terminals, passcode pads, smart locks, fingerprint and facial recognition payment terminals, QR code (quick response code) payment terminals, magstripe card reader payment terminals, smart robots and smart printers).

Set out below is the unaudited consolidated financial information of the Spin-off Group for the two years ended 31 December 2022 (prepared in accordance with accounting principles generally accepted in the PRC (PRC GAAP) as provided by the Company (the “**Spin-off Group FI**”):

	For the year ended 31 December 2022 RMB’000	For the year ended 31 December 2021 RMB’000	Year-on- year change %
Revenue	367,168	376,693	(2.53)
Operating income	46,556	33,256	39.99
Profit after tax	51,076	32,920	55.15
	As at 31 December 2022 RMB’000	As at 31 December 2021 RMB’000	Year-on- year change %
Net assets	335,675	278,992	20.32

LETTER FROM GRAM CAPITAL

3. Information of the Remaining Group

With reference to the Board Letter, upon completion of the Proposed Spin-off, the four existing main business segments (i.e. Payment and Digital Services Business, Fintech Services Business, Platform Operation Solutions Business and Financial Solutions Business) of the Remaining Group subsequent to the Spin-off Co becoming an associated company of the Company in May 2022 will remain unchanged.

Reasons for and benefits of the Proposed Spin-off and use of proceeds

With reference to the Board Letter, the Board believes that it is commercially beneficial to the Company and in the interests of the Shareholders to effect the Proposed Spin-off for the following reasons:

- (a) The Spin-off Business has grown to a sufficient size that warrants a separate listing, which can further unlock its value. The Proposed Spin-off and a separate listing of the shares of the Spin-off Co will enhance its corporate profile amongst its customers and other business partners. It will also enable the Spin-off Co to face the investors directly, which will promote its brand awareness.

Based on the the Spin-off Group FI, expected size of offering of the Proposed Listing and our discussion with the Company, the Spin-off Co can satisfy relevant financial requirements as stipulated under 《上海證券交易所科創板股票發行上市審核規則(2020年修訂)》 (Rules of Shanghai Stock Exchange for Issuance and Listing Review of Stocks on the SSE STAR Market (Revised in 2020)).

- (b) The Proposed Spin-off will enable the Spin-off Co to have its own fund raising platforms, allowing it to (i) have direct and independent access to both the debt and equity capital markets, which in turn potentially provide it with greater debt capacity to deploy funds towards its development, operations and investment opportunities; and (ii) gain exposure to more specialized investors and have better chances to obtain more targeted investments and attract strategic investors for forming strategic partnerships with the Spin-off Co.

As the Spin-off Co's main principal business activity is sale of its self-developed security SOC chips, the Spin-off Co may require capital to support its business development (including R&D) from time to time. Based on the Spin-off Group FI, the Spin-off Group incurred substantial R&D expenses as a percentage to the Spin-off Group's revenue for each of FY2021 and FY2022. We consider that it is beneficial for the Spin-off Co to have its own fund raising platforms.

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- (c) The cash proceeds to be received from the public offering and/or placing of shares of the Spin-off Co will provide capital to the Spin-off Co for its operations and expansion plan and help it become more competitive, which in turn will provide better returns to the shareholders of the Spin-off Co.

Details of the intended use of proceeds from the Proposed Listing are set out under the latter part of this section.

- (d) The Proposed Spin-off will lead to a more direct alignment of the responsibilities and accountability of the Spin-off Co's management with its operating and financial performance, as a result of heightened scrutiny of the investor community, through the enhanced clarity on the business and financial status of the Spin-off Co on a standalone basis. This is anticipated to enhance management focus, lead to faster response time to market changes as well as increase operational efficiency. It will also allow the investors to better measure the management's performance against the stock market performance of the Spin-off Co in comparison with other industry peers listed on the SSE STAR Market.
- (e) The Proposed Spin-off will enable more focused development, strategic planning and better allocation of resources for the Remaining Group and the Spin-off Co with respect to their respective businesses. In addition, the Proposed Spin-off will improve the ability of the Spin-off Co to recruit, motivate and retain key management personnel.

As explained in the sub-section headed "3. INFORMATION ON THE SPIN-OFF GROUP AND THE REMAINING GROUP – (e) Management Independence" of the Board Letter, following completion of the Proposed Spin-off, the Company and the Spin-off Co will have separate board of directors that will function independently of each other and the board of directors and senior management of the Spin-off Co could operate independently of the Company and in the interests of its shareholders as a body in general and not in the interests of the Company only, in case where the interests of the Spin-off Co and the Company are actually or potentially in conflict.

In addition, the Spin-off Co may utilise equity-based remuneration to recruit, motivate and retain key management personnel as its equity is expected to have market value upon completion of the Proposed Listing.

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- (f) All benefits enjoyed by the Spin-off Co through the Proposed Spin-off are expected to accelerate its expansion and improve its overall operating and financial performance, thereby creating greater value for the Company and its shareholders as a whole. Given that upon completion of the Proposed Spin-off, the Company (through New Concept and Megahunt HK) will remain as the single largest shareholder of the Spin-off Co, it is expected that the Company will continue to enjoy the benefits of the growth and development of the Spin-off Co. At the same time, the Proposed Spin-off provides the Company and its shareholders with an opportunity to realise the value of their investment in the Spin-off Co on a separate stand-alone platform.

With reference to the Board Letter, based on the current structure of the Proposed Listing which is subject to finalization by the Spin-off Co, upon completion of the Proposed Listing (which involves the public offering of not less than 19,933,334 and not more than 20,200,000 new shares of the Spin-off Co), the Company's equity interests in the Spin-off Co will decrease from 45.73% to approximately 34.30% (assuming 19,933,334 new shares of the Spin-off Co are issued) or approximately 34.19% (assuming 20,200,000 new shares of the Spin-off Co are issued). Nevertheless, the Spin-off Co will continue to be an associated company of the Company. It is reasonable to expect that the Company will continue to enjoy the benefits of the growth and development of the Spin-off Co (e.g. possible increase in share price of the Spin-off Co (as a listed company) leading to increase in value of the Company's equity interests in the Spin-off Co).

With reference to the Board Letter, the Spin-off Co intends to use the net proceeds of between RMB900 million to RMB1.4 billion (after deducting the fees and expenses payable by the Spin-off Co in the Proposed Spin-off) from the Proposed Listing in the following manner (subject to final approval by the CSRC):

- (i) approximately 31% of the net proceeds to fund the R&D and commercialisation projects of its multi-core security SOC chips (the “**Multi-core Security SOC Chips Project**”);
- (ii) approximately 16% of the net proceeds to fund the R&D and commercialisation projects of its mobile payment security chips (the “**Mobile Payment Security Chips Project**”);
- (iii) approximately 23% of the net proceeds to fund the construction projects of its R&D centre (the “**R&D Centre Project**”); and
- (iv) approximately 30% of the net proceeds to fund the working capital requirements of its operations.

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For our due diligence purpose, we obtained further breakdown of the above intended uses of net proceeds (including (a) leasing expenses, equipment and software purchase costs, R&D costs and funding reserves for the Multi-core Security SOC Chips Project and the Mobile Payment Security Chips Project; and (b) leasing expenses, decoration costs, equipment and software purchase costs of R&D Centre Project). Based on our discussion with the Company, we understood each of the aforesaid projects is essential for the Spin-off Group's continuous operation and business development, in particular, (i) after implementing the Multi-core Security SOC Chips Project, the Spin-off Co will further improve the SOC performance, strengthen the security protection of the IoT (Internet of Things) end devices on information transmission, processing and storage, strengthen the "terminal-channel-cloud" integration strategy for security solution of the Spin-off Co, enter into the smart IoT end and industry internet market and broaden the business scope of the Spin-off Co; and (ii) after the implementing the Mobile Payment Security Chips Project, the Spin-off Co will conduct R&D of and produce wearable devices, embedded security chip for mobile payment end devices, which could broaden the business scope of the Spin-off Co and further consolidate the market position of the Spin-off Co. Accordingly, we consider that the net proceeds from the Proposed Listing will provide capital to the Spin-off Co for its operations and expansion plan.

Having considered the above, we are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

The Proposed Spin-off

Percentage of shares to be issued

The Proposed Listing is expected to involve the issue of new shares of the Spin-off Co, representing not less than 25% of its enlarged issued share capital upon completion of the Proposed Listing. The size of the offering has not been determined and is subject to further discussion between the Spin-off Co and the underwriter(s).

As at the Latest Practicable Date, the Spin-off Co has 59,800,000 issued shares and the Company's indirect interest in the Spin-off Co is approximately 45.73% and the Spin-off Co is accounted for as an associated company of the Company. Based on the current structure of the Proposed Listing which is subject to finalization by the Spin-off Co, upon completion of the Proposed Listing (which involves the public offering of not less than 19,933,334 and not more than 20,200,000 new shares of the Spin-off Co), the Company's equity interests in the Spin-off Co will decrease from 45.73% to approximately 34.30% (assuming 19,933,334 new shares of the Spin-off Co are issued) or approximately 34.19% (assuming 20,200,000 new shares of the Spin-off Co are issued).

LETTER FROM GRAM CAPITAL

Conditions of the Proposed Listing

With reference to the Board Letter, the Proposed Listing will be conditional upon, among other things, the following:

- (i) approval of the Proposed Spin-off by the Independent Shareholders at the SGM;
- (ii) the Stock Exchange having agreed that the Company may proceed with the Proposed Spin-off under PN15 and granted the waiver from strict compliance with the requirement of Paragraph 3(f) of PN15 of the Listing Rules;
- (iii) approval of the Proposed Listing by the CSRC and the Shanghai Stock Exchange;
- (iv) approval of the board of directors and shareholders of the Spin-off Co; and
- (v) the market conditions and other considerations.

As at the Latest Practicable Date, condition (ii) and the approval of the board of directors of the Spin-off Co referred to in condition (iv) have been fulfilled.

If any of the above conditions is not fulfilled, the Proposed Spin-off will not proceed and an announcement will be published by the Company as soon as practicable.

Proceeds to be raised from the Proposed Spin-off

With reference to the Board Letter, the offer price of the Spin-off Co's initial public offering has not been fixed yet and is subject to market conditions close to the launch of the issuance and will be determined by a book-building process organised by the underwriter of and to be agreed by the Spin-off Co. Assuming that the offer price of each new share of the Spin-off Co is fixed between RMB50 (the "**Minimum Assumed Price**") and RMB75, the Company estimates that the gross proceeds to be raised from the Proposed Listing will be between RMB1 billion to RMB1.5 billion.

The proposed offer price range is determined primarily with reference to the analysis of price-to-earnings ratio of comparable companies, which are listed companies with security chip business or mainly engaged in SOC business and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange and the historical financial performance of the Spin-off Group.

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We noted that the trading multiples analysis, such as price to earnings ratio (“**PER**”) and price to book ratio (“**PBR**”), are commonly adopted valuation methods in the market. Based on the Spin-off Group FI, the Spin-off Group recorded profit after tax for each of the two years ended 31 December 2022. Accordingly, we considered that the PER could compare value of the Spin-off Co with its peers from profitability perspective. Based on our discussion with the Company on the Spin-off Group FI, we understood that the major assets items of the Spin-off Group as at 31 December 2022 include inventories, receivables, fixed assets (mainly R&D equipment) and intangible assets (intelligent property) (represented approximately 76% of the Spin-off Group’s total assets in aggregate), which are essential for the Spin-off Group’s continuous operation and business development and may reflect the Spin-off Group’s operation scale. PBR could compare value of the Spin-off Co with its peers from assets perspective. Accordingly, we adopted PER and PBR to assess the Minimum Assumed Price. We searched for companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange which offer, amongst others, similar products of the Spin-off Group and operate under the Fabless Model (the “**Comparable Company(ies)**”). To the best of our knowledge and as far as we are aware of, we found 7 companies which met the said criteria and they are exhaustive.

Set out below are PERs and PBRs of the Comparable Companies based on their closing prices as at 22 May 2023 (being the date of announcement of the Proposed Spin-off, the “**Announcement Date**”), and their latest published financial information:

Company name (Stock code)	Principal business	Market Capitalisation <i>(approximate RMB billion)</i>	PER <i>(Note 1)</i>	PBR <i>(Note 2)</i>
Shanghai Fudan Microelectronics Group CO., LTD. (1385 & SH688385)	Large-scale integration design, development, testing and providing system solutions.	34.45	41.44	9.40
C*Core Technology Co., Ltd. (SH688262)	Providing intellectual property authorization, chip customization services, independent chip and module products.	13.43	161.90	4.86
Bestechnic (Shanghai) Co., Ltd. (SH688608)	Research, development, design and sales of intelligent audio and video system-on-chip chips.	17.22	140.62	2.88

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Company name (Stock code)	Principal business	Market Capitalisation <i>(approximate RMB billion)</i>	PER <i>(Note 1)</i>	PBR <i>(Note 2)</i>
Nations Technologies Inc. (SZ300077)	Research, development, design and sales of integrated circuit with independent technology and independent brands, providing corresponding system solutions and after-sales technical support services.	8.86	N/A <i>(Note 3)</i>	5.56
Unigroup Guoxin Microelectronics Co., Ltd. (SZ002049)	Special integrated circuit business, intelligent security chip business, quartz crystal frequency device business and semiconductor power device business.	80.38	30.54	7.82
GigaDevice Semiconductor Inc. (SH603986)	Research and development, technical support and sales of memories, microcontrollers and sensors.	75.58	36.82	4.92
Rockchip Electronics Co., Ltd. (SH603893)	Design, development and sales of large-scale integrated circuits and application solutions.	34.38	115.60	11.78
Maximum			161.90	11.78
Minimum			30.54	2.88
Average			87.82	6.75
The Spin-off Co (based on the Minimum Assumed Price)			58.54 <i>(Note 4)</i>	8.91 <i>(Note 5)</i>
The Company			2.19	0.31

Source: the Hong Kong Stock Exchange's website, the cninfo website and Wind Financial Terminal

Notes:

- The PERs of the Comparable Companies and the Company were calculated based on their respective latest published profit attributable to owners of the company according to their latest published annual results and their respective closing prices as quoted on relevant stock exchange and total issued shares as at the Announcement Date.

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2. The PBRs of the Comparable Companies and the Company were calculated based on their respective net assets attributable to the owners of the company according to their latest published annual results or quarterly reports and their respective closing prices as quoted on relevant stock exchange and total issued shares as at the Announcement Date.
3. The subject company recorded loss attributable to the owners of the company in its latest financial year.
4. The implied PER of the Spin-off Co was calculated based on the Spin-off Group's profit after tax for FY2022, the Spin-off Co's issued shares as at the Latest Practicable Date and the Minimum Assumed Price.
5. The implied PBR of the Spin-off Co was calculated based on the Spin-off Group's net asset value as at 31 December 2022, the Spin-off Co's issued shares as at the Latest Practicable Date and the Minimum Assumed Price.

We noticed from the above table that the PERs of the Comparable Companies ranged from approximately 30.54 times to 161.90 times, with an average of approximately 87.82 times; while the PBRs of the Comparable Companies ranged from approximately 2.88 times to 11.78 times, with an average of approximately 6.75 times. The implied PER of approximately 58.54 times of the Spin-off Co based on the Minimum Assumed Price is within the aforesaid PER range and below the average PER of the Comparable Companies. The implied PBR of approximately 8.91 times of the Spin-off Co based on the Minimum Assumed Price is within the aforesaid PBR range and above average PBR of the Comparable Companies. Although the implied PER of approximately 58.54 times of the Spin-off Co based on the Minimum Assumed Price is below the average PER of the Comparable Companies, (i) such implied PER is based on the Minimum Assumed Price; and (ii) with reference to the Board Letter, the offer price under the Proposed Listing is subject to market conditions close to the launch of the issuance and will be determined by a book-building process organised by underwriter(s) and to be agreed by the Spin-off Co. Given the above, we consider that the pricing of the Proposed Listing is fair and reasonable.

In addition, as depicted from the above table, the Company's PER and PBR are substantially lower than those of the implied PER and PBR of the Spin-off Co based on the Minimum Assumed Price. Accordingly, the Proposed Spin-off is expected to unlock the value of the Spin-off Co.

LETTER FROM GRAM CAPITAL

Lock-up period

With reference to the Board Letter, according to the requirement of the CSRC, the Company, New Concept and Megahunt HK, as the controlling shareholders of the Spin-off Co, shall not dispose of its shares of the Spin-off Co for a period of 36 months from the successful listing of the Spin-off Co on the SSE STAR Market (“**Lock-up Period**”). In case of disposal of the shares of the Spin-off Co during the period of two years after the expiry of the Lock-up Period, each of the Company, New Concept and Megahunt HK will undertake that it shall not (i) dispose of more than 25% of its shares of the Spin-off Co in each of the aforesaid two years; and (ii) dispose at a price lower than the offer price of the Proposed Listing.

Upon our enquiry, the Directors confirmed us that the Company has no present intention to dispose the shares of the Spin-off Co immediately after the Proposed Spin-off. Accordingly, notwithstanding the aforesaid lock-up arrangement and subsequent disposal undertakings, the Proposed Spin-off will be beneficial to the Company in long-term as (i) the shares of the Spin-off Co held by the Company (through New Concept and Megahunt HK) will become publicly tradable asset as a result of the Proposed Spin-off; and (ii) the Company (through New Concept and Megahunt HK) will remain as the single largest shareholder of the Spin-off Co upon completion of the Proposed Spin-off.

Taking into account the principal factors as discussed above, we consider that the Proposed Spin-off is in the interest of the Company and the Shareholders as a whole and the term of the Proposed Spin-off are fair and reasonable.

Possible financial effects

With reference to the Board Letter, upon completion of the Proposed Spin-off, the Group is expected to hold approximately 34.30% of the enlarged issued share capital of the Spin-off Co (assuming 25% of the enlarged issued share capital of the Spin-off Co is being issued in the Proposed Listing), the Spin-off Co will continue to be an associated company of the Company. The operating results of the Spin-off Co are not and will not be consolidated into the consolidated financial statements of the Company.

With reference to the Board Letter, the Proposed Spin-off, which is expected to involve the issue of new shares of the Spin-off Co, will constitute a deemed disposal of the Group’s interest in the Spin-off Co. It is expected that the Company will recognise an unaudited net gain on the deemed disposal of the Spin-off Co as set out in the section headed “5. FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP” of the Board Letter. The net gain on deemed disposal of Spin-off Co will be recorded in the profit or loss of the Group with the corresponding adjustment of the same amount debited to the investments accounted for using the equity method on the consolidated balance sheet. However, the actual gain on deemed disposal of the Spin-off Co may differ as it is estimated based on a number of assumptions and the amount will be calculated upon completion of the Proposed Spin-off.

LETTER FROM GRAM CAPITAL

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Spin-off.

WAIVER FROM STRICT COMPLIANCE WITH PARAGRAPH 3(F) OF PN15

With reference to the Board Letter, paragraph 3(f) of PN15 requires the Company to have due regard to the interests of the existing Shareholders by providing them with an assured entitlement to the shares of the Spin-off Co, either by way of a distribution in specie of the existing shares of the Spin-off Co or by way of preferred application in any offering of existing or new shares in the Spin-off Co.

With reference to the Board Letter, based on the legal advice given by the PRC counsel of the Spin-off Co on the Proposed Spin-off, non-PRC investors (other than certain qualified investors) are not permitted under the PRC laws and regulations to acquire the shares of the Spin-off Co which are to be listed on the SSE STAR Market. Only PRC citizens, PRC legal persons, PRC partnership and qualified foreigners can satisfy the condition to open a securities account in PRC so as to obtain shares of the Spin-off Co upon listing. Additionally, priority allocation in public offering is generally prohibited under the PRC laws and regulations to ensure fair and equal treatment of investors. As such, unless the existing shareholders of the Company can meet the requirements for eligible investors, there are legal obstacles for the existing shareholders of the Company to acquire the shares of the Spin-off Co and therefore they are not entitled to the assured entitlements to the shares of the Spin-off Co in accordance with the PRC laws and regulations.

With reference to the Board Letter, taking into account the legal restrictions as mentioned above, the Board considers that it would be unduly burdensome and practically impossible for the Company to obtain and verify the background information of all its shareholders for the purpose of ascertaining whether they are so qualified. Therefore, the Board is of the view that the Proposed Spin-off and a waiver from strict compliance with the assured entitlement requirement are fair and reasonable and in the interest of the Company and its shareholders as a whole. Accordingly, the Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15.

Given the extent of the PRC laws and regulations as stated above, we concur with the Company that it would not be practicable or feasible to provide any entitlement to all its Shareholders to subscribe for the shares of the Spin-off Co.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Proposed Spin-off are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Proposed Spin-off and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

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

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022 together with the relevant notes thereto are disclosed in the annual reports for the years ended 31 December 2020, 2021 and 2022 respectively, which have been published and are available on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.hisun.com.hk>):

- the annual report 2020 of the Company for the year ended 31 December 2020 published on 13 April 2021 (pages 108 to 239)

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0413/2021041300019.pdf>

- the annual report 2021 of the Company for the year ended 31 December 2021 published on 1 April 2022 (pages 120 to 275)

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0401/2022040102566.pdf>

- the annual report 2022 of the Company for the year ended 31 December 2022 published on 18 April 2023 (pages 119 to 279)

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0418/2023041800011.pdf>

2. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 March 2023, being the latest practicable date for the purpose of this indebtedness statement, the indebtedness of the Group was as follows:

Lease Liabilities

As at 31 March 2023, lease liabilities of the Group relating to office premises and factory leased by the Group as lessee.

	As at 31 March 2023 (unaudited) <i>HK\$'000</i>
Non-current	25,713
Current	<u>26,094</u>
	<u><u>51,807</u></u>

Bank borrowings

	As at 31 March 2023 (unaudited) <i>HK\$'000</i>
Current	
Bank borrowings – secured, guaranteed (<i>Note</i>)	36,571
Bank borrowing – unsecured, unguaranteed	<u>1,142</u>
	<u><u>37,713</u></u>

Note: As at 31 March 2023, the bank borrowings approximate their fair value are denominated in RMB and secured by certain loan receivables of the Group.

Asset-backed securities

	As at 31 March 2023 (unaudited) <i>HK\$'000</i>
Current	
Asset-backed securities – secured, unguaranteed	<u><u>302,615</u></u>

As at 31 March 2023, the Group's asset-backed securities with carrying amount of approximately HK\$302,615,000 were collateralised by the loans receivable of the Group with an aggregate carrying amount of approximately HK\$303,031,000.

Contingent liabilities**(A) Performance Guarantee Agreement with a customer**

In 2015, the Company entered into a performance guarantee agreement with a customer (the “**Performance Guarantee Agreement**”), pursuant to which the Company agreed to provide the customer with a guarantee in relation to the due and punctual performance of a service project of a subsidiary of the Company with a surety of not more than HK\$60 million and to indemnify the customer against any third-party claim of intellectual property right infringement resulting from the acts of the said subsidiary. The Performance Guarantee Agreement remained in full force and effect as at 31 March 2023. As at 31 March 2023, the Company did not recognise any liability in relation to the Performance Guarantee Agreement. The Directors considered the possibility of reimbursement not probable.

(B) Guarantee Agreements with associates of the Company

- (i) In 2019, the Company entered into a guarantee agreement (the “**2019 Manufacturer Guarantee Agreement**”) with 3 then subsidiaries of the Company (two of which have become associates of the Company since May 2022), pursuant to which the Company shall guarantee to repay the due and unsettled debts of the said associates individually and/or collectively of up to US\$10 million (equivalent to approximately HK\$78 million) incurred in relation to manufacturing orders placed against a named manufacturer, should any of the said subsidiary/associates individually and/or collectively cease or fail to honour its payment obligations.

In respect of the further expansion of order scale, the Company entered into another guarantee agreement in 2021 (the “**2021 Manufacturer Guarantee Agreement**”) with the same counterparties, pursuant to which the amount of guarantee was increased to up to US\$20 million (equivalent to approximately HK\$156 million) and the 2019 Manufacturer Guarantee Agreement was terminated and the entirety of the Company’s obligations and liability thereunder, if any, was effectively transferred to the 2021 Manufacturer Guarantee Agreement. As at 31 March 2023, the Company did not recognise any liability in relation to the 2021 Manufacturer Guarantee Agreement. The Directors considered the possibility of reimbursement not probable.

- (ii) In 2020, the Company entered into a guarantee agreement (the “**2020 OEM Guarantee Agreement**”) with a then subsidiary of the Company (an associate of the Company since May 2022) and an independent manufacturer (“**OEM**”), pursuant to which the Company shall guarantee to repay the said associate’s due and unsettled debts of up to US\$10 million (equivalent to approximately HK\$78 million) owed to the OEM incurred in relation to manufacturing orders placed against the OEM should it cease or fail to honour its payment obligations. As at 31 March 2023, the Company did not recognise any liability in relation to the 2020 OEM Guarantee Agreement. The Directors considered the possibility of reimbursement not probable.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, the Group did not have any other outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease, hire purchases commitments, which either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities at the close of business on 31 March 2023.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources and financing facilities available to the Group, the Group will have sufficient working capital to satisfy its present requirements for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In 2022, the regional spread of the COVID-19 pandemic put China’s economy under greater pressure. With the changes in the pandemic situation, the popularization of vaccination and the improvement in prevention and control experience and capacity, the epidemic prevention and control in China has entered a new stage. As epidemic prevention and control measures continue to be optimised and adjusted in response to the prevailing circumstances, we are optimistic about China’s economic recovery. However, under the trend and influence of global economic integration, it is expected that the economic outlook and operating environment will remain challenging throughout 2023.

Payment and digital services

According to the Administrative Measures for Payment Services of Non-financial Institutions issued by the People’s Bank of China, non-financial institutions acting as the intermediaries providing online payment, issuance and acceptance of prepaid cards, bankcard acquiring and other payment services as specified by the People’s Bank of China to payers and payees shall obtain a “Payment Business Permit”. The Group’s “Payment Business Permit” was successfully renewed on 27 June 2022 for a term of 5 years until 27 June 2027.

In 2022, the Group entered into strategic cooperation agreements with a number of banks, telecommunication operators, China Post and other organisations to provide full range of payment services to its merchants, committed to foster their growth. The Group achieved a 74% increase in digital payment transactions despite the even more acute COVID-19 pandemic as compared to the previous year. The Group has also made breakthroughs in the cross-border payment business. During 2022, the Group continued to connect with overseas mainstream e-commerce platforms, and managed to build a global overseas payment network to offer export enterprises with one-stop cross-border capital services such as cross-border payment collection, global payment as an agent, and foreign exchange management. As of December 2022, the monthly transaction amount of the cross-border payment business exceeded US\$100 million, with operations spanning across Hong Kong, the United States, Europe, Japan, Singapore and other countries and regions. With the optimisation of epidemic control measures, the Group expects to see explosive growth in domestic consumption in 2023, which will drive rapid growth in the merchant transactions. On the other hand, China's supply chain advantage is expected to be further strengthened, leading to growth in export trade and better market opportunities for the cross-border payment business.

In terms of digital service business, after two years of development, the Group has, based on its well established payment business, built an open PaaS platform and gained connection to a number of Independent Software Vendors (ISV) and offered a number of integrated industry digital solutions, including retail, hotels, gas stations, university canteens, brand chains, scenic spots, etc., to over 1.17 million merchants. The Group's smart decision-making products provide intelligent management of the entire cycle of commodity circulation, targeting and providing retail merchants such as offline supermarket chains, convenience stores and fresh food stores with digital solutions for the retail industry that integrate four functional modules including "operation status diagnosis", "smart supply chain", "commodity category management" and "on-site AI management" to comprehensively improve the operational efficiency of merchants. In addition, the Group focused on the digital transformation of traditional wet markets, to assist in the smart transformation of farmers' markets, provide market managers, merchants and consumers with smart solutions that integrate management, marketing, and user experience to create a digital ecosystem for wet markets.

Fintech services

The Group's financial technology services are principally provided through its Suixin Cloud Chain Financial Service Platform and Commercial Bill Financing Service Platform. The Suixin Cloud Chain Financial Service Platform is based on blockchain technology and provides various fintech services and products such as Suixin, Suirong, Quick Financing of Commercial Bills and Quick Discounting of Bank Bills. The platforms connect the Group with a number of banks serving state-owned enterprises and central enterprises, through which the Group's high-quality and efficient financial products are made available to the upstream and downstream micro, small and medium-sized manufacturing enterprises along the industry chain of those state-owned enterprises and central enterprises, easing the financing issues as being difficult, expensive and slow, as encountered particularly by the small and medium-sized enterprises.

The global economic growth momentum slowed down in 2022, which affected the operation of various industries in China in varying degrees. With the easing of epidemic prevention and control and the increasing intensity of macroeconomic regulations in China, the economy is expected to resume an overall positive growing trend in 2023, and the market business development is relatively optimistic. Bills business grew steadily in 2022. As of October 2022, the amount of bills accepted was RMB22.20 trillion, an increase of 13.90% over the same period in 2021. From the market perspective, the increasing transparency of the bills market following the launch of the Bills Information Disclosure System has raised the creditability of bills to an unprecedented level, further improving the credit system and commercial credit environment significantly. The launch of the next-generation bills business system and supply chain bills has laid the technical foundation for the stable development of the bills market and provided a favourable ecological environment for the development of commercial promissory notes.

The Group's platforms are linked to a number of financial institutions, including banks, trusts and factoring companies. Through the Group's platforms, financial institutions provide funding support to many micro, small and medium-sized enterprises, helping them to expand their production operations, reduce financing costs and enhance their business vitality. As of 31 December 2022, the amount of funds raised by the Group's clients through bills approximated RMB10 billion and the business volume has continued to grow. At the same time, the Group also gained direct access to primary market capital through asset securitisation, providing more capital protection for enterprises. As of the end of 2022, the Group had successfully issued three tranches of ABS with a total issue amount of RMB974 million. The Group will continue to expand in-depth cooperation with financial institutions combining asset securitisation business to provide efficient and low-cost financial services to enterprises. Meanwhile, the Group is in the process of building the infrastructure for supply chain bills, through which enterprises can issue commercial bills and bank bills. These billing enterprises and their suppliers can realise the full operation lifecycle of bills on the Group's platform, including bill issuance, endorsement, splitting, guarantee, pledge, discount, and encashment. The platform also allows enterprises and their suppliers to achieve the full life cycle of bills, including bill creation, endorsement, bill splitting, guarantee, pledge, discounting, payment, etc., and to accumulate credit.

Platform operation solutions

In 2022, the Group continued to provide product technology services and business operation support services to its major customer, China Mobile Financial Technology Co., Ltd. The Group's business scale remained stable and its services were recognised by the customers. In 2023, the Group continued to expand its business to industries and customers beyond telecoms operators, resulting in continued growth in the contract size. The Group also continued to increase investment in research and development, and launched new products in the areas of micro-services platform, container cloud platform and enterprise marketing tools to empower its enterprise customers. Looking ahead, as the market gradually recovers, the Group will acquire more revenue in new markets in addition to stabilizing the existing revenue scale.

Financial solutions

In 2022, Beijing Hi Sun Advanced Business Solutions Information Technology Limited (“**BJ ABS**”) continued to provide banking system operation and maintenance support services to its customers in Mainland China, helping them to achieve business innovation and system security operation and maintenance management. At the same time, BJ ABS has also made some breakthrough in the fields of IT application innovation, payment and wealth management. In the field of IT application innovation, the Group is the first in the industry to propose three major downshifting strategies and nine downshifting techniques to facilitate the migration and upgrade of the business system of bank customers, and help customers to realize a senseless business upgrade and transformation within the framework of IT application innovation. In the payment field, the Group has initiated the research and development of business systems such as FPS, ISO 20022 Swift reporting standard upgrade, and cross-border clearing, and has received purchase orders from customers successively. As regards the Group's wealth management system, taking full advantage of the development of cross-border financial services, the Group has built a comprehensive wealth management system, empowering a number of bank customers to serve the high net worth population.

Facing the overseas financial IT service opportunities, Hi Sun FinTech Global Company Limited (“**Shenzhen Hi Sun**”) actively carried out market expansion and research and development of new products and new technologies on the basis of continuously improving overseas service capabilities. To improve overseas service capabilities, Shenzhen Hi Sun has set up overseas representative offices in Laos and Cambodia, and established local support teams to enhance the local technical service capabilities and support business expansion. In terms of market expansion, the Group has signed service contracts with eight new customers during the year and achieved business breakthrough in new markets such as Thailand and Vanuatu. In terms of research and development of new products and technologies, the Group’s newly developed decentralised and micro-service core system has achieved certain results and was successfully put into production in a virtual bank during the year; and service contract was signed for the newly developed e-purse payment product.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, the date to which the latest published audited consolidated financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

2.1 Interests of Directors

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company 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: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

Director	Number of Shares held				Interests in associated corporations			Approximate percentage of shareholding in the shares of the associated corporations
	Beneficial interest	Interest of controlled corporation	Total	Approximate percentage of shareholding in the Shares	Beneficial interest	Interest of controlled corporation	Total	
Mr. Kui Man Chun	28,650,000 (L)*	617,083,636 (L)* (note 1)	645,733,636	23.25%**	-	-	-	-
Mr. WS Xu	4,566,000 (L)*	-	4,566,000	0.16%**	RMB1,965,447 (note 2)	-	RMB1,965,447	3.29%***
					RMB550,000 (note 3)	-	RMB550,000	2%****
Mr. Li Wenjin	6,400,000 (L)*	-	6,400,000	0.23%**	RMB550,000 (note 3)	-	RMB550,000	2%****
Mr. CJ Xu	16,563,000 (L)*	-	16,563,000	0.6%**	RMB1,768,884 (note 2)	-	RMB1,768,884	2.96%***
					RMB550,000 (note 3)	-	RMB550,000	2%****

Notes:

1. Representing Shares held by Mr. Kui Man Chun through (1) Hi Sun Limited, a company which he holds a 99.16% interest, and (2) Rich Global Limited, a wholly-owned subsidiary of Hi Sun Limited.
2. Representing in interest in the Spin-off Co held by the respective Director.

3. Representing the interest in the registered share capital of Shenzhen Hi Sun FinTech Global Company Limited (“**Shenzhen Hi Sun**”) held by the respective Director.
- * The Letter “L” denotes a long position in shares.
- ** Calculated based on the total number of issued Shares as at the Latest Practicable Date, which was 2,776,833,835 ordinary shares.
- *** Calculated based on the total number of issued shares of the Spin-off Co as at the Latest Practicable Date, which was 59,800,000 shares.
- **** Calculated based on the registered share capital of Shenzhen Hi Sun as at the Latest Practicable Date, which was RMB27,500,000.

Save as disclosed in this paragraph 2.1 of this appendix, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

2.2 Interests of Substantial Shareholders

As at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered in the register to be kept by the Company pursuant to section 336 of the SFO:

Interest in Shares

Name of shareholder	Capacity	Number of ordinary shares	Approximate percentage of shareholding**
Rich Global Limited (“RGL”)	Beneficial owner	617,083,636 (L)*	22.22%
Hi Sun Limited (“HSL”)	Interest of controlled corporation	617,083,636 (L)* (Note 1)	22.22%
Mr. Kui Man Chun	Beneficial owner	28,650,000 (L)* (Note 2)	1.03%
	Interest of controlled corporation	617,083,636 (L)* (Note 2)	22.22%
Ever Union Capital Limited (“Ever Union”)	Beneficial owner	334,314,000 (L)*	12.04%
Mr. Che Fung	Interest of controlled corporation	334,314,000 (L)* (Note 3)	12.04%
Kopernik Global Investors LLC	Investment manager	139,557,000 (L)*	5.03%

Notes:

1. Representing HSL's interests in the Company's share capital by virtue of its control of 100% shareholding in RGL.
 2. Representing Mr. Kui Man Chun's (i) deemed interests in the Company's share capital by virtue of his control of 99.16% shareholding of HSL; and (ii) personal interests in the Company's share capital as disclosed in the preceding section.
 3. Representing Mr. Che Fung's interests in the Company's share capital by virtue of his control of 100% shareholding in Ever Union, which holds beneficial interests in 334,314,000 Shares.
- * The letter "L" denotes a long position in shares.
- ** Calculated based on the total number of issued Shares as at the Latest Practicable Date, which was 2,776,833,835 ordinary shares.

2.3 Directors' Positions in the Substantial Shareholders

As at the Latest Practicable Date, HSL and RGL were both companies with interests which fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, Mr. Kui Man Chun, the chief executive officer and an executive Director, was the chairman, chief executive officer and a director of HSL. Mr. WS Xu, the Chairman of the Company and an executive Director, and Mr. Li Wenjin, an executive Director, were directors of HSL. Mr. Kui Man Chun and Mr. Li Wenjin were both directors of RGL.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had any interest or short position in the Shares and 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.

3. DIRECTORS' SERVICE CONTRACTS

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

4. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any subsisting contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, neither the Directors nor their respective close associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has given its opinion or advice dated 25 May 2023 for incorporation in this circular:

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

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with inclusion herein of its letter or report and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, Gram Capital did not have any interest in the share capital of 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, Gram Capital did not have any interest, direct or indirect, in any assets which have been, since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of or leased to any member of the Group.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the date of this circular and are or may be material:

- (a) the agreement dated 15 December 2021 entered into by and among Megahunt HK (as vendor), the Spin-off Co and 天津韋豪泰達海河股權投資合夥企業(有限合夥)(Tianjin Wei Hao Tai Da Hai He Equity Investment Partnership (Limited Partnership)) (as purchaser), in relation to the Group's sale of approximately 4.36% of the issued share capital of the Spin-off Co at a consideration of RMB52,363,200;
- (b) the agreement dated 15 December 2021 entered into by and among Megahunt HK (as vendor), the Spin-off Co and 天津芯聚科技合夥企業(有限合夥)(Tianjin Xin Ju Technology Partnership (Limited Partnership) (as purchaser) in relation to the Group's sale of 8% of the issued share capital of the Spin-off Co at a consideration of RMB80,000,000;
- (c) the agreement dated 15 December 2021 entered into by and among Megahunt HK (as vendor), the Spin-off Co and 天津芯智科技合夥企業(有限合夥)(Tianjin Xin Zhi Technology Partnership (Limited Partnership) (as purchaser), in relation to the Group's sale of approximately 3.99% of the issued share capital of the Spin-off Co at a consideration of RMB39,931,000; and
- (d) the agreement dated 15 December 2021 entered into by and among Megahunt HK (as vendor), the Spin-off Co and 天津信芯科技合夥企業(有限合夥)(Tianjin Xin Xin Technology Partnership (Limited Partnership)) (as purchaser), in relation to the Group's sale of approximately 3.64% of the issued share capital of the Spin-off Co at a consideration of RMB36,433,000.

9. GENERAL

- (a) The joint company secretaries of the Company are Ms. Hui Lok Yan, *HKICPA* and Mr. Chan Yiu Kwong, *FCCA, HKICPA*.
- (b) The registered office of the Company is at Clarendon House, Church Street, Hamilton, HM 11, Bermuda.
- (c) The principal place of business of the Company in Hong Kong is at Room 2515, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text thereof.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the Stock Exchange's website at www.hkexnews.hk and the Company's website www.hisun.com.hk for 14 days from the date of this circular:

- (a) the letter from Gram Capital;
- (b) the letter from the Independent Board Committee;
- (c) the written consent as referred to under the section headed "6. Expert and Consent" in this appendix; and
- (d) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix.

NOTICE OF SGM



HI SUN TECHNOLOGY (CHINA) LIMITED

高陽科技(中國)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 818)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (“**Meeting**”) of HI SUN TECHNOLOGY (CHINA) LIMITED (“**Company**”) will be held at Room 2515, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Monday, 12 June 2023 at 3:30 p.m. to consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the spin-off of 兆訊恒達科技股份有限公司 (Megahunt Technologies Inc.) (the “**Spin-off Co**”), a company established in the the People’s Republic of China with limited liability, and a separate listing of the shares of the Spin-off Co on the Science and Technology Innovation Board of the Shanghai Stock Exchange, details of which are set out in the circular of the Company dated 25 May 2023 (the “**Proposed Spin-off**”) be and is hereby approved; and
- (b) any one director of the Company (“**Director**”) be and is hereby authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and take such actions as he or she considers necessary, appropriate, desirable and expedient for the purpose of implementing, giving effect to or in connection with the Proposed Spin-off.”

On behalf of the Board
HI SUN TECHNOLOGY (CHINA) LIMITED
Hui Lok Yan
Company Secretary

Hong Kong, 25 May 2023

* *For identification purposes only*

NOTICE OF SGM

Registered office:
Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

Principal place of business in Hong Kong:
Room 2515, 25th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Notes:

- (1) A member of the Company entitled to attend and vote at the Meeting (or any adjournment thereof) convened by this notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the Meeting is enclosed.
- (3) Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the Meeting if the member so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (4) To be valid, a form of proxy must be duly completed and signed in accordance with the instructions printed thereon and lodged, 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, at the principal place of business of the Company at Room 2515, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.
- (5) Record date (being the last date of registration of any share transfer given there will be no book closure) for determining the entitlement of the shareholders of the Company to attend and vote at the Meeting will be Tuesday, 6 June 2023. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Tengis Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 6 June 2023.
- (6) All votings on the resolutions in this notice by the members at the Meeting shall be conducted by poll.
- (7) Where there are joint registered holders of any shares of the Company, any one of such joint holders may vote either in person or by proxy in respect of such shares of the Company as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company.

As at the date of this notice, the board of directors of the Company consists of four executive directors, namely, Mr. Xu Wensheng, Mr. Kui Man Chun, Mr. Li Wenjin and Mr. Xu Changjun; and three independent non-executive directors, namely Mr. Tam Chun Fai, Mr. Leung Wai Man, Roger and Mr. Li Heguo.