HUA HONG SEMICONDUCTOR LIMITED
華虹半導體有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01347)

Executive Director
Peng Bai *(Chairman and President)*

Non-executive Directors
Jun Ye
Guodong Sun
Bo Chen
Chengyan Xiong

Independent non-executive Directors
Stephen Tso Tung Chang
Kwai Huen Wong, JP
Songlin Feng

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22 January 2026

To Shareholders

Dear Sir or Madam,

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

I. INTRODUCTION

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

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

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

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

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

II. MAJOR AND CONNECTED TRANSACTION – PROPOSED ACQUISITION

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

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

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

Subject matter	Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase, and Vendors have conditionally agreed to sell, the Target Assets, being 97.4988% of the equity interests in the Target Company, at the Total Consideration.
Consideration	Pursuant to the relevant laws, rules and regulations in the PRC, the parties have agreed to engage the Valuer, a qualified asset appraisal agency in the PRC, to conduct a valuation on the Target Company and issue the Asset Valuation Report with the Valuation Benchmark Date as of 31 August 2025. In compliance with the requirement under Rule 11.4 of the Takeovers Code, the Valuer has confirmed that there is no material difference in the Valuation between the Valuation Benchmark Date and the date of the Valuation Report. Please refer to Appendix V to this circular for further details.

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

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

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

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

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

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

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

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

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

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

Issue of Consideration Shares

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

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

(1) a discount of approximately 44.79% to the closing price per RMB Share of RMB78.50 as quoted on the Shanghai Stock Exchange on the date of the Acquisition Agreement;

(2) a discount of approximately 59.82% to the closing price per RMB Share of RMB107.87 as quoted on the Shanghai Stock Exchange on the date of the Supplemental Agreement;

(3) a discount of approximately 44.79% to the closing price per RMB Share of RMB78.50 as quoted on the Shanghai Stock Exchange on the last trading day prior to the Pricing Benchmark Date;

(4) a discount of approximately 31.78% to the average trading price per RMB Share of RMB63.53 based on the prices as quoted on the Shanghai Stock Exchange of the last 20 trading days immediately prior to the Pricing Benchmark Date;

(5) a discount of approximately 24.94% to the average trading price per RMB Share of RMB57.74 based on the prices as quoted on the Shanghai Stock Exchange of the last 60 trading days immediately prior to the Pricing Benchmark Date;

(6) a discount of approximately 19.99% to the average trading price per RMB Share of RMB54.17 based on the prices as quoted on the Shanghai Stock Exchange of the last 120 trading days immediately prior to the Pricing Benchmark Date;

(7) a premium of approximately 65.85% over the audited net asset value attributable to the Shareholders of approximately US$3.64 per Share as at 31 December 2024, based on the exchange rate of US$1 to RMB7.1884 on 31 December 2024 as announced by People's Bank of China;

(8) a premium of approximately 65.97% over to the unaudited net asset value attributable to the Shareholders of approximately US$3.65 per Share as at 30 June 2025, based on the exchange rate of US$1 to RMB7.1586 on 30 June 2025 as announced by People's Bank of China; and

(9) a discount of approximately 67.92% to the closing price per RMB Share of RMB135.08 as quoted on the Shanghai Stock Exchange on the Latest Practicable Date.

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

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

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

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

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

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

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

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

$$P1 = P0 - D$$

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

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

where,

(i) P0 is the issue price of the Consideration Shares before adjustment;

(ii) n is the number of bonus shares or shares to be issued upon capitalization issue or conversion of share premium into share capital per Share;

(iii) k is the number of new Shares to be allotted per Share under rights issue or the allotment of Shares;

(iv) A is the issue price per new Share under rights issue or allotment of shares;

(v) D is the amount of cash dividend per Share; and

(vi) P1 is the issue price of the Consideration Shares after adjustment.

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

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

Lock-up period

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

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

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

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

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

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

(i) the approval of the Proposed Acquisition by the Board and the Proposed Acquisition LR Independent Shareholders and the Takeovers Code Independent Shareholders at the EGM of the Company;

(ii) the approval of the Proposed Acquisition by the internal and external competent governing bodies of the Vendors;

(iii) the approval of Proposed Acquisition by the shareholders of the Target Company, and the waiver of the first right of refusal by the shareholders of the Target Company having been obtained;

(iv) the approval of the Proposed Acquisition by the state-owned assets supervision and administration authorities;

(v) the granting of a Whitewash Waiver by the Executive and the approval of the same by the Takeovers Code Independent Shareholders at the EGM of the Company;

(vi) the approval of the Proposed Acquisition by the Shanghai Stock Exchange and registration by the CSRC;

(vii) the Proposed Acquisition having obtained other necessary prior approvals, approvals or consents (if any) as required by laws, regulations and regulatory authorities.

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

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

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

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

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

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

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

Completion

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

Completion audit

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

Termination

The Acquisition Agreement shall be terminated in the following circumstances:

(i) If the parties mutually agree to terminate the Acquisition Agreement in writing prior to the date of Completion;

(ii) If the Acquisition Agreement is terminated, revoked, or deemed invalid due to objections to the content and performance of the Acquisition Agreement by the competent regulatory authorities, government authorities, securities registration or trading authorities, or judicial authorities, or the inability to perform the major terms and provisions of the Acquisition Agreement, which seriously affects the purpose of the Acquisition Agreement;

(iii) If the competent regulatory authorities, government authorities, securities registration or trading authorities, or judicial authorities expressly disagree with certain terms of the Acquisition Agreement which have a substantive impact on the Proposed Acquisition and would seriously affect the purpose of the Acquisition Agreement;

(iv) If there is a change in laws, regulations and rules on which the Acquisition Agreement is relied upon, rendering the key content of the Acquisition Agreement illegal, or as a result of national policies and orders, any party to the Acquisition Agreement becomes unable to perform its main obligations under the Acquisition Agreement;

(v) If any of the warranties and undertakings made by any party in the Acquisition Agreement becomes untrue or inaccurate in any material respect.

2. Compensation Agreement

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

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

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

3. Information on the Target Company

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

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

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

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

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

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

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

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

4. Information on the parties to the Acquisition Agreement

(i) The Company

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

(ii) Huahong Group

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

(iii) Shanghai IC Fund

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

(iv) China IC Fund II

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

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

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

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

Notes:

\# denotes an overlapping shareholder of China IC Fund and China IC Fund II.

(1) a department of the Central People's Government of the PRC.

(2) a wholly-owned subsidiary of China Development Bank, which is in turn ultimately owned by the Ministry of Finance of the PRC.

(3) the largest limited partner owning more than 50% of the limited partnership interest is Chongqing Yuzi Optoelectronic Industry Investment Co., Ltd. (重慶渝資光電產業投資股份有限公司), which is in turn ultimately owned by Chongqing Municipal State-owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會).

(4) shareholders holding 30% or more of the shares are (i) Chengdu Advanced Manufacturing Industry Investment Co., Ltd. (成都先進製造產業投資股份有限公司), which is in turn ultimately owned by Chengdu Municipal State-owned Assets Supervision and Administration Commission (成都市國有資產監督管理委員會), and (ii) Chengdu High-tech Investment Group Co., Ltd. (成都高新投資集團有限公司), which is in turn ultimately owned by Chengdu High-tech Industrial Development Zone Finance and State-owned Assets Supervision and Administration Bureau (成都高新技術產業開發區財政國資局).

(5) shareholders holding 30% or more of the shares are (i) Hubei Provincial Science and Technology Investment Group Co., Ltd. (湖北省科技投資集團有限公司) and (ii) Wuhan High-Tech State-Owned Holding Group Co., Ltd. (武漢高科國有控股集團有限公司), both of which are in turn ultimately owned by Wuhan East Lake High-tech Development Zone Management Committee (武漢東湖新技術開發區管理委員會).

(6) none of its shareholders holds 30% or more of the shares.

(7) a state-owned enterprise wholly-owned by the State Council of the PRC.

(8) ultimately owned by Shanghai SASAC.

(9) ultimately owned by Beijing Economic-Technological Development Area Finance and State-owned Assets Supervision and Administration Commission (北京經濟技術開發區財政國資局).

(10) the only shareholder holding 30% or more of the shares is Jiangsu Provincial Government Investment Fund (Limited Partnership) (江蘇省政府投資基金(有限合夥)), which is in turn ultimately owned by Jiangsu Provincial Department of Finance (江蘇省財政廳).

(11) ultimately owned by Beijing Municipal State-owned Assets Supervision and Administration Commission (北京市國有資產監督管理委員會).

(12) ultimately owned by State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會).

(13) the only shareholder holding 30% or more of the shares is CDB Capital (45%) which is in turn ultimately owned by the Ministry of Finance of the PRC (see Note 2 above). All other shareholders of Sino IC capital hold less than 30% of the shares therein, namely (i) Yingfutai Venture Capital Co., Ltd. (盈富泰克創業投資有限公司), (ii) Beijing CCID Venture Capital Co., Ltd. (北京賽迪創業投資有限公司), (iii) Suzhou Yuanhe Holding Co., Ltd. (蘇州元禾控股股份有限公司), (iv) Beijing CCID Innovation Technology Co., Ltd. (北京賽迪科創技術有限公司), each of which holding 10% of the share capital of Sino IC Capital, and (v) China Mobile Communications Group Co., Ltd. (中國行動通訊集團有限公司), (vi) Shanghai Pudong Science and Technology Innovation Group Co., Ltd. (上海浦東科創集團有限公司) and (vii) Beijing Yizhuang International Investment and Development Co., Ltd. (北京亦莊國際投資發展有限公司), each of which holding 5% of the share capital of Sino IC Capital. Sino IC Capital also held 0.12% shareholding interest in China IC Fund as at the Latest Practicable Date.

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

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

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

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

(v) Guotou IC Fund

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

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

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

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

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

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

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

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

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

Number of RMB Shares to be issued

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

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

Price Determination Date, pricing principles and issue price

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

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

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

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

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

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

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

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

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

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

(i) Completion;

(ii) the approval of the Proposed Non-public Issuance of RMB Shares by the Board and the Non-public Issuance Independent Shareholders at the EGM;

(iii) the consent to the Special Deal from the Executive and the approval of the Special Deal by the Takeovers Code Independent Shareholders;

(iv) the approval of the Proposed Acquisition and the Proposed Non- public Issuance of RMB Shares by the competent state-owned assets supervision and administrative authorities or its authorized entities;

(v) the approval of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares by the Shanghai Stock Exchange and the registration of the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares by the CSRC; and

(vi) the obtaining of any other necessary approval and/or filings in respect of the Proposed Non-public Issuance of RMB Shares from any applicable regulatory authorities.

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

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

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

Lock-up period

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

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

Place of listing of the RMB Shares to be issued

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

Use of proceeds

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

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

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

(1) ***Upgrading and renovating the Target Company's technology***: Having assessed market landscape, it is considered that the Target Company has pressing need to comprehensively upgrade the technological specifications of its 12-inch production line by way of replacing and updating the equipment. This will foster the Target Company's adaptation to the market's demand of various specialty processes, thereby optimizing the existing factory production lines, expanding production capacity and further enhancing the Company's core competitiveness amid market fluctuations. The net proceeds will also be used for maintenance costs of the production line. This limb takes up a larger trunk of the net proceeds since the new equipment with advanced technological specifications and an overhaul and renovation of the entire production line are inherently capital-intensive, based on the Company's and the Target Company's preliminary assessment. Before commencement of the renovation work, the Company and the Target Company shall conduct a comprehensive study of the technological specifications which best suit its future needs and conduct a robust selection of suppliers through its standard procurement procedure.

(2) ***Research and development (R&D) and industrialization of the Target Company's specialized process*****:** The diversity of specialized process platforms is an important factor in assessing the overall strength of a semiconductor wafer foundry. The Target Company urgently needs to enhance the depth and breadth of its process platform products through developing new products. The proceeds will serve as an important source of funds for the R&D expenses of the Target Company in the upcoming years. This project entails an investment in R&D which seeks to explore new markets, and is different from the first limb which focuses on enhancing hardware, equipment and production capacity. The allocation between the two limbs has been determined having balanced the need for capital and cost-efficiency of each project.

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

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

Specific mandate to issue RMB Shares

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

Rights of the RMB Shares to be issued

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

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

IV. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

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

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

(i) as at the Latest Practicable Date;

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

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

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

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

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

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

Notes:

1. The shareholding of Huahong Group includes Shanghai Hua Hong International, Inc., its wholly-owned subsidiary. The shareholding of SAIL includes Wisdom Power Technology Limited, its wholly-owned subsidiary. Others include Haitong Innovation Securities Investment Co., Ltd. (海通創新證券投資有限公司), Guotai Junan Zhengyu Investment Co., Ltd. (國泰君安證裕投資有限公司) and Shanghai Technology Venture Investment (Group) Co., Ltd. (上海科技創業投資(集團)有限公司).

2. Percentage holdings are subject to rounding adjustments and may not add up to the aggregate figures shown or 100%.

3. China IC Fund is not one of the Vendors, and is not considered to be part of the Huahong Concert Group given it is not a party acting in concert with Huahong Group nor China IC Fund II to consolidate control over the Company, based on its historical investment in the Company and different compositions of fund investors and decision-making process vis-à-vis China IC Fund II.

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

V. SPECIAL DEAL

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

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

VI. FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

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

VII. FINANCIAL EFFECTS OF PROPOSED ACQUISITION

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

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

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

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

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

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

Proposed Acquisition

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

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

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

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

(1) Business Integration

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

(2) Asset Integration

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

(3) Financial Integration

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

(4) Personnel Integration

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

(5) Organizational Integration

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

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

(1) **Process Technology Platforms**

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

(2) Customers and Suppliers

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

(3) Technology and Capacity

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

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

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

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

Proposed Non-public Issuance of RMB Shares

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

Intention of Huahong Group regarding the Company

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

IX. IMPLICATIONS UNDER THE LISTING RULES

Proposed Acquisition

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

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

As at the Latest Practicable Date,

(i) Huahong Group, one of the Vendors, is a substantial shareholder of the Company and a connected person of the Company under Chapter 14A of the Listing Rules; and

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

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

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

Proposed Non-public Issuance of RMB Shares

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

Waivers from strict compliance with certain provisions of the Listing Rules

For the purpose of the issuance of the Consideration Shares under the Proposed Acquisition and the Proposed Non-public Issuance of RMB Shares, in light of the fact that (a) the RMB Shares and the Hong Kong Shares will not be fungible (even though the RMB Shares are the same class as the Hong Kong Shares) and the RMB Shares to be issued will not be listed on the Hong Kong Stock Exchange; and (b) the Hong Kong Shares has a clear open market as demonstrated in the section headed "V. Effects on the Shareholding Structure of the Company" in this circular, the Company has applied for, and the Stock Exchange has granted, a one-off waiver from strict compliance with Rules 8.20 and 13.26(1) of the Listing Rules such that there is no need to seek listing in respect of the Consideration Shares and the Proposed Non-public Issuance of RMB Shares on the Hong Kong Stock Exchange under Rules 8.20 and 13.26(1) of the Listing Rules, on the following basis:

(i) Rule 6.11 of the Hong Kong Stock Exchange Listing Rules is modified such that the requirements of obtaining the prior approval of shareholders and holders of any other class of listed securities (where applicable) for voluntary withdrawal of listing on the Hong Kong Stock Exchange shall apply to holders of the Hong Kong Shares only;

(ii) Rule 6.12 of the Listing Rules is modified such that the requirement of obtaining the prior approval of shareholders for voluntary withdrawal of listing on the Hong Kong Stock Exchange by (i) at least 75% of the votes attaching to any class of listed securities held by holders voting either in person or by proxy at the meeting before voluntarily withdrawing its listing on the Hong Kong Stock Exchange; and (ii) the number of votes cast against the resolution is not more than 10% of the votes attaching to any class of listed securities held by holders permitted under Rule 6.12(1) of the Listing Rules to vote in person or by proxy at the meeting, shall apply to holders of the Hong Kong Shares only;

(iii) Rule 6.15 of the Listing Rules is modified such that the requirement of fulfilling shareholders' approval requirements under the Takeovers Code for voluntary withdrawal of listing on the Hong Kong Stock Exchange shall apply to holders of the Hong Kong Shares only;

(iv) Rule 13.36(2)(b) of the Listing Rules is further modified such that the Shareholders (including both holders of Hong Kong Shares and holders of RMB Shares) can by ordinary resolution in general meeting give a repurchase mandate to the Directors under which (i) only the Hong Kong Shares may be repurchased; and (ii) the maximum number of Hong Kong Shares repurchased by the Company will be 10% of the number of the issued Hong Kong Shares as at the date of the resolution granting the repurchase mandate.

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

X. IMPLICATIONS UNDER THE TAKEOVERS CODE

1. Application for Whitewash Waiver

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

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

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

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

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

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

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

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

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

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

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

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

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

XI. INDEPENDENT BOARD COMMITTEE AND HONG KONG INDEPENDENT FINANCIAL ADVISER

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

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

XII. EGM

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

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

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

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

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

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

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

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

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

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

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

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

XIII. RECOMMENDATIONS

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

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

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

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

XIV. ADDITIONAL INFORMATION

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

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

By order of the Board
Hua Hong Semiconductor Limited

Mr. Peng Bai
Chairman and Executive Director

* *For identification purpose only*