THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This Circular is issued by Nanfang Communication Holdings Limited (the "**Company**"). **If you are in any doubt** as to the action you should take, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser immediately.

If you have sold or transferred all your Shares in the Company, you should at once hand this Circular, the notice of the extraordinary general meeting (the "**EGM**") and attached proxy form to the purchaser or to the stockbroker or to the bank or to the agent through whom you effected the sale or transfer for onward transmission to the purchaser or transferee.

南方通信
Nanfang Communication

Nanfang Communication Holdings Limited
南方通信控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

VERY SUBSTANTIAL DISPOSAL
IN RELATION TO
DISPOSAL OF THE SALE SHARES
AND
NOTICE OF EGM

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out from pages 9 to 30 of this circular.

A notice convening the EGM to be held at Unit 902, 9/F, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong at 3:00 p.m. on 9 September 2024 (Monday) or any adjournment is set out from pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed.

Whether or not you are able to attend the EGM, you are requested to complete and return the proxy form accompanying this circular in accordance with the instructions printed thereon appointing the chairman of the EGM as your proxy, to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than forty-eight (48) hours before the time of the EGM (or at any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish and in such event, the form of proxy shall be deemed to be revoked.

23 August 2024

CONTENTS

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

"1st Announcement"	the announcement of the Company dated 4 December 2023 in relation to the Disposal
"1st Instalment"	the first instalment of US$10,995,201 (equivalent to approximately RMB79,891,130, converted at the Circular Exchange Rate) payable by the Purchaser to Pacific Smart, representing 51% of the Consideration
"2nd Announcement"	the announcement of the Company dated 28 June 2024 in relation to the Disposal
"2nd Instalment"	a second instalment of US$10,564,017 (equivalent to approximately RMB76,758,148, converted at the Circular Exchange Rate) payable by the Purchaser to Pacific Smart, representing the remaining 49% of the Consideration
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (other than a Saturday or Sunday) on which no "black rainstorm warning" or a tropical cyclone warning signal no. 8 or above or "extreme conditions" is hoisted or remains hoisted or remains in effect in Hong Kong at 9:00 a.m. on that day and on which licensed banks are open in Hong Kong to the general public for business
"BVI"	the British Virgin Islands
"Century Planet"	Century Planet Limited, a company incorporated with limited liability in BVI and a wholly-owned subsidiary of the Company
"Chinese Accounting Standards"	the Accounting Standards for Business Enterprises, the Interpretation Announcement of the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance* (財政部發佈的企業會計準則及其應用指南、解釋及其他有關規定)
"Circular Exchange Rate"	the exchange rate of US$1 to RMB7.266 for the sole purpose of disclosure in this circular

"Company"	Nanfang Communication Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1617)
"Completion"	completion of the Disposal in accordance with the terms and conditions of the Formal Sale and Purchase Agreement
"Completion Date"	the date of Completion
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration payable by the Purchaser to Pacific Smart for the Sale Shares
"Director(s)"	the director(s) of the Company
"Disposal"	the proposed disposal of the Sale Shares by Pacific Smart to the Purchaser
"EGM"	an extraordinary general meeting of the Company to be held on 9 September 2024 for the Shareholders to consider and, if thought fit, approve the Formal Sale and Purchase Agreement and the transactions contemplated thereby
"Employee Share Options"	the share options granted to the employees of the Target Company pursuant to the ESOP
"ESOP"	the 2017 employee share option scheme adopted by the Target Company, which holds 31,115,675 Employee Share Options of the Target Company which, if exercised, represent approximately 13.14% of the enlarged issued share capital of the Target Company
"ESOP Agreement"	the agreement dated 23 June 2024 entered into between the ESOP Participants Representative, the Purchaser and the Target Company related to the sale and purchase of the Employee Share Options
"ESOP Participants"	participants of the ESOP, including but not limited to the ESOP Participants Representatives
"ESOP Participants Representative"	Wang Hongyu, being the representative of the ESOP Participants

"Formal Sale and Purchase Agreement"	the formal sale and purchase agreement dated 23 June 2024 entered into between Pacific Smart and the Purchaser in respect of the Disposal
"Framework Agreement"	the legally-binding framework agreement dated 26 November 2023 entered into between the Purchaser, Pacific Smart, the Other Vendors, Jianshi Wang, the ESOP Participants Representative (representing the ESOP Participants as vendors) and the Target Company in relation to the Disposal
"fully-diluted basis"	all the 31,115,675 options of the Target Company held by the ESOP Participants are assumed to be exercised in full so that the Target Company's total number of issued shares is increased to 236,830,561 accordingly, but none of the said 31,115,675 options have been effectively exercised as at the Latest Practicable Date
"Gold Image"	Gold Image Limited, a company incorporated with limited liability in BVI and holds the entire issued share capital of Pacific Smart
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IFRS"	International Financial Reporting Standards
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons
"Jianshi Wang"	Jianshi Wang, one of the joint chief executive officers of the Target Company and an Independent Third Party
"Latest Practicable Date"	21 August 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main SPA"	the sale and purchase agreement dated 23 June 2023 entered into between the Other Vendors, the Purchaser, Jianshi Wang, the ESOP Participants Representative and the Target Company related to the sale and purchase of 115,518,410 shares (representing approximately 56.15% shareholding as at the Latest Practicable Date and approximately 48.78% shareholding on a fully-diluted basis) of the Target Company

"Mr. Lin"	Mr. Lin Yu, a person who held one issued share of Gold Image before such share was sold and transferred to Century Planet at US$1 upon its exercise of the call option granted under the Subscription Agreement
"Original Acquisition"	the Group's acquisition of the entire issued share capital of Gold Image and Shareholder's Loan pursuant to the Subscription Agreement
"Other Vendors"	11 shareholders of the Target Company who will sell a total of 115,518,410 shares (representing approximately 56.15% shareholding as at the Latest Practicable Date and approximately 48.78% shareholding on a fully-diluted basis) of the Target Company to the Purchaser at the price of US$2.6179 per share pursuant to the Main SPA
"Pacific Smart" or "PSD"	Pacific Smart Development Limited, a company incorporated with limited liability in BVI and an indirect wholly-owned subsidiary of the Company, and the vendor in the Formal Sale and Purchase Agreement
"Parties"	parties to the Formal Sale and Purchase Agreement
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Purchaser"	Vantone Neo Development Group Co., Ltd. (北京萬通新發展集團股份有限公司), a company incorporated with limited liability in the PRC, the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600246)
"Purchaser's Acquisition Report"	the Vantone Neo Development Group Co., Ltd. Material Asset Acquisition Report (Draft)* (北京萬通新發展集團股份有限公司重大資產購買報告書(草案)) published by the Purchaser on the website of Shanghai Stock Exchange on 24 June 2024
"Remaining Group"	the Group immediately after the Completion
"RMB"	Renminbi, the lawful currency of the PRC

"Sale Shares"	the 8,235,293 class A preferred shares (representing approximately 4.00% shareholding as at the Latest Practicable Date and approximately 3.48% shareholding on a fully-diluted basis) of the Target Company held by Pacific Smart, being all the class A preferred shares of the Target Company held by Pacific Smart as at the date of the Formal Sale and Purchase Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Shareholder's Loan"	the shareholder's loan in the sum of US$23,038,052 which Gold Image was indebted to Mr. Lin
"SPV2"	Venus Pearl SPV2 Co Limited, a company incorporated in the Cayman Islands which is principally engaged in investment holding
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the agreement dated 18 September 2020 entered into between Century Planet, Gold Image and Mr. Lin
"substantial shareholder(s)"	has the same meaning as given to it under the Listing Rules
"Target Company"	Source Photonics Holdings (Cayman) Limited, a company incorporated in the Cayman Islands with limited liability
"Target Group"	the Target Company and its subsidiaries
"US$"	United States dollar(s), the lawful currency of the United States of America
"Valuation"	the valuation conducted by the Valuer for assessing the value of the Target Company as at 31 December 2023
"Valuation Exchange Rate"	the exchange rate of US$1 to RMB7.0827 announced by China Foreign Exchange Trade System* (中國外匯交易中心) on 31 December 2023, being the benchmark date of the Valuation
"Valuation Report"	the report of Valuation issued on 23 June 2024 by the Valuer, the text of which is set out in Appendix IV

"Valuer"	Pan-China Assets Appraisal Co., Ltd., an independent professional valuer engaged by the Purchaser
"%"	per cent.

* *The English names of the PRC entities referred to in this circular are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.*

Any reference to a time of a day or date in this circular is a reference to Hong Kong time or date.

In the event of any inconsistency, save and except that the Chinese text in Appendix IV to this circular shall prevail over the English text, the English text in the remaining parts of this circular including the accompanying form of proxy shall prevail over the Chinese text.

In the Valuation Report contained in Appendix IV to this circular, the following abbreviations and expressions shall have the following meanings unless the context requires otherwise:

Antong Semiconductor	Chengdu Antong Semiconductor Co., Ltd.
Antong Technology	Chengdu Antong Technology Co., Ltd.
Asio-IO	Asia-IO SO2 SPV Limited
Axiom	A4J Ltd.
Dark Pool	Dark Pool Limited Partnership
Diamond Hill	Diamond Hill, L.P.
FinTrek	FinTrek China Industry Power Investment Fund Limited Partnership
Huarong International	China Huarong International Holdings Limited
PLANETARY GEAR	Planetary Gear Limited
Shanghai Anjian	Shanghai Anjian Corporate Management Consulting Partnership (Limited Partnership)
Shanghai Lucun	Shanghai Lucun Enterprise Management Consulting Partnership (Limited Partnership)
Shanghai Qilan	Shanghai Qilan Enterprise Management Consulting Partnership (Limited Partnership)
Shanghai Xiucheng	Shanghai Xiucheng Enterprise Management Consulting Partnership (Limited Partnership)
Shanghai Yucun	Shanghai YUCUN Enterprise Management Consulting Partnership (Limited Partnership)
Shengshi Chuangxin	Huoerguosi Shengshi Chuangxin Equity Investment Partnership (Limited Partnership)
Source Chengdu	Source Photonics (Chengdu) Co., Limited
Source Jiangsu	Jiangsu Source Communication Technology Co., Ltd.
Source Macau	Source Photonics (Macau) Commercial Offshore Limited
Source Photonics	Source Photonics Holdings (Cayman) Limited

Source Shenzhen	Source Photonics (Shenzhen) Co., Ltd.
Source Taiwan	Source Photonics Taiwan, Inc
SPV1	Venus Pearl SPV1 Co. Limited
SPV2	Venus Pearl SPV2 Co. Limited
Sunny Faith	Sunny Faith Holding Limited
TR Capital	TR Capital (Source Photonics) Limited
VPA	Venus Pearl Acquisition Co. Limited
Yicun International Holdings	V-Capital International Holding Co., Limited
Yicun Zhigeng	V-Capital Zhigeng International Co., Limited

Nanfang Communication Holdings Limited
南方通信控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

Executive Directors:
Mr. Shi Ming *(Chief Executive Officer)*
Ms. Yu Rumin
Ms. Yu Ruping

Non-executive Director:
Mr. Yu Jinlai *(Chairman)*

Independent Non-executive Directors:
Mr. Wu Wing Kuen
Mr. Chan Kai Wing
Mr. Liu Cheng Yi

Registered office:
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

Principal place of business in Hong Kong:
Unit 902, 9/F., Capital Centre
151 Gloucester Road
Wanchai, Hong Kong

23 August 2024

To: The Shareholders of Nanfang Communication Holdings Limited

Dear Sir/Madam,

VERY SUBSTANTIAL DISPOSAL
IN RELATION TO
DISPOSAL OF THE SALE SHARES
AND
NOTICE OF EGM

INTRODUCTION

Reference is made to the 1st Announcement and the 2nd Announcement of the Company in relation to the Disposal. On 23 June 2024, Pacific Smart (an indirect wholly-owned subsidiary of the Company) and the Purchaser entered into the Formal Sale and Purchase Agreement, pursuant to which Pacific Smart conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Sale Shares.

The purpose of this circular is to provide you with (i) further details of the Disposal; (ii) the Valuation Report; (iii) other information as required under the Listing Rules; and (iv) a notice of EGM.

FORMAL SALE AND PURCHASE AGREEMENT

The principal terms of the Formal Sale and Purchase Agreement are set out as follows:

Date

23 June 2024

Parties

(1) Pacific Smart (as vendor); and

(2) the Purchaser.

Subject matter

Pacific Smart has conditionally agreed to sell the Sale Shares, being 8,235,293 class A preferred shares (representing approximately 4.00% shareholding as at the Latest Practicable Date and approximately 3.48% shareholding on a fully-diluted basis) of the Target Company to the Purchaser at the Completion Date. The Sale Shares represent all the class A preferred shares of the Target Company held by Pacific Smart as at the date of the Formal Sale and Purchase Agreement.

Consideration and its basis

The Consideration payable to Pacific Smart by the Purchaser for the Sale Shares is US$21,559,218 (equivalent to approximately RMB156.6 million, converted at the Circular Exchange Rate). Therefore, the price for each Sale Share is US$2.6179.

Simultaneously with the signing of the Formal Sale and Purchase Agreement, the Purchaser also entered into the Main SPA with the Other Vendors and the Target Company for purchasing 115,518,410 shares (representing approximately 56.15% shareholding as at the Latest Practicable Date and approximately 48.78% shareholding on a fully-diluted basis) of the Target Company at the price of US$2.6179 per share. Save for the Framework Agreement which has been superseded by the Formal Sale and Purchase Agreement, Pacific Smart has not entered into any master agreement with the Other Vendors and/or the Purchaser in relation to the Disposal.

The Consideration was arrived at after arms-length negotiations between Pacific Smart, the Other Vendors and the Purchaser and having taken into account the value of the Target Company at RMB4,125 million (equivalent to approximately US$582.4 million, converted at the Valuation Exchange Rate) in accordance with the result appraised by the Valuer through market approach in the Valuation Report. The Parties have also taken into account (i) the potential dilution effect of the 31,115,675 Employee Share Options which may be exercised at the exercise price of US$1.19 per Employee Share Option, as the Parties consider that the exercise of the Employee Share Options will affect both the value of the Target Company and the value per share of the Target Company; and (ii) the fact that the Other Vendors are also selling their shares in the Target Company to the Purchaser at the same price of US$2.6179 per share. Therefore, the Board considers that it is fair and reasonable to take these factors into account for arriving at the amount of the Consideration.

If all the 31,115,675 Employee Share Options are exercised in full, the enlarged share capital of the Target Company will consist of 236,830,561 issued shares and the value of the Target Company will increase by approximately US$37 million from approximately US$582.4 million (as per the Valuation) to approximately US$620 million and therefore the value per share will become approximately US$2.6179. As Pacific Smart holds 8,235,293 class A preferred shares in the Target Company, the Parties agree that the Consideration shall be US$21,559,218.

Pursuant to the ESOP Agreement, the Purchaser agrees to purchase all the Employee Share Options from their holders upon fulfilment of certain performance targets by the Target Company in the financial years ending 31 December 2024, 2025 and 2026.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquires, all other shareholders of the Target Company (including but not limited to the Other Vendors) and all the holders of Employee Share Options are Independent Third Parties.

Payment of Consideration

The Consideration shall be satisfied in cash by the Purchaser to Pacific Smart as follows:

1. the 1st Instalment of US$10,995,201 (equivalent to approximately RMB79,891,130, converted at the Circular Exchange Rate), representing 51% of the Consideration, shall be payable by the Purchaser within 10 Business Days after the date on which all the conditions precedents for the 1st Instalment set out below have been satisfied;

2. the 2nd Instalment of US$10,564,017 (equivalent to approximately RMB76,758,148, converted at the Circular Exchange Rate), representing the remaining 49% of the Consideration, shall be payable by the Purchaser within 10 Business Days after the expiry of nine months' period from the date of the Formal Sale and Purchase Agreement but in any event not later than 31 March 2025, subject to the fulfilment of all the conditions precedent for the 2nd Instalment.

The Valuation

According to the Valuation Report prepared by the Valuer, the Target Company was valued at RMB4,125 million as at 31 December 2023 (equivalent to approximately US$582.4 million, if converted at the Valuation Exchange Rate; and equivalent to approximately US$567.7 million, if converted at the Circular Exchange Rate). As the Valuer was engaged by the Purchaser to prepare the Valuation Report, the Company has provided no input in the Valuation Report.

The Valuation Report does not state any value per share of the Target Company.

In preparing the Valuation Report, the Valuer has relied upon (inter alia):

1. the audited consolidated financial statements of the Target Company for the two financial years ended 31 December 2022 and 2023;

2. corporate documents of the Target Group;

3. title documents, invoices, agreements, certificates and other documentary proofs of the material assets and intellectual property rights owned by the Target Group; and

4. various asset valuation rules, regulations and guidance published in the PRC.

The Valuation is based upon the following assumptions:

1. the Target Company will continue to operate as a going concern;

2. the Target Company strictly follows the relevant accounting standards, and all the audited financial statements of the Target Company in the past and for the year ended 31 December 2023 were true and reliable;

3. the data related to market comparables is reliable;

4. except as expressly stated and disclosed otherwise, all transactions in the capital markets are fair trades and are open, fair and voluntary;

5. no effect resulting from any act of God or special trading methods has been taken into consideration;

6. future possible charges and guarantees have not been taken into account.

In arriving at the market value of the Target Company of RMB4,125 million as at 31 December 2023, the Valuer adopted market approach in valuing the Target Company. Market value is defined as "the estimated amount for which the valuation target (i.e. the Target Company) should exchange on 31 December 2023, being the valuation date, between a willing buyer and a willing seller in an arm's length transaction and where the parties had each acted knowledgeably, prudently and without compulsion".

The Valuer has adopted market approach in preparing the Valuation Report, as it considers that the capital market constituted by the Shanghai Stock Exchange and Shenzhen Stock Exchange has sufficient number of companies (i.e. market comparables) which are in the same industry in which the Target Group is running its business and that the Valuer is able to obtain the market information, financial information and other relevant information of the market comparables from the public information in the capital market. The Valuer has conducted the Valuation by comparing the Target Company with the market comparables based on their enterprise value-to-sales (EV/S) and enterprise value-to-total assets (EV/Total Assets).

Selection of market comparables

As disclosed in the Purchaser's Acquisition Report which relied upon the Valuation Report, the Valuer has selected the following market comparables for preparing the Valuation Report:

	Names of market comparables	Stock code
1.	Accelink Technologies Co., Ltd. ("**Accelink**")	002281.SZ
2.	Huagong Technology Co., Ltd. ("**Huagong**")	000988.SZ
3.	Broadex Technologies Co., Ltd. ("**Broadex**")	300548.SZ
4.	Eoptolink Technology Inc., Ltd. ("**Eoptolink**")	300502.SZ
5.	Zhongji Innolight Co., Ltd. ("**Zhongji**")	300308.SZ
6.	T&S Communications Co., Ltd. ("**T&S**")	300570.SZ
7.	CIG Shanghai Co., Ltd. ("**CIG**")	603083.SH

The Valuer's selection market comparables which belong to the same industry in which the Target Group carries on its business or are affected by the same economic factors. The Valuer has also considered the business structure, business model, corporate scale, and business stage of market comparables in making the selection.

The Valuer has selected the above 7 market comparables by comparing the types of main products, types of customers that they serve, gross profit levels of the comparable companies and the Target Company, and also considering the completeness of data of the comparable companies, whether they have any major mergers, acquisitions or reorganisations recently which result in major changes in the ownership structure, business structure, future profitability, industry categories, etc., and whether there were any unusual stock price fluctuations recently, whether serious losses had occurred recently, whether trading of shares had been suspended recently, or whether there was any temporary suspension of trading of shares due to the cumulative rise and/or fall limits have been exceeded, and whether the history of such companies after listing are relatively short.

Calculation of the market value of the Target Company

The following information and calculations of the market value of the Target Company are extracted from the section of Valuation Purchaser's Acquisition Report which relied upon the Valuation Report.

By using the market information from the database of Wind Information Co., Ltd. (one of the leading providers of financial information services in the PRC) ("**Wind**") obtained by the Valuer, the enterprise value ("**EV**") of the seven market comparables are as follows:

Enterprise value (EV) of the market comparables

		Operating EV in full investment value	
		RMB	
	Market comparables	**2022**	**2023**
1	T&S	2,722,696,000	8,046,317,100
2	Broadex	4,091,321,700	8,117,578,100
3	Huagong	15,151,654,600	27,411,203,600
4	CIG	4,198,267,800	11,678,618,300
5	Zhongji	20,055,223,200	84,923,086,000
6	Eoptolink	10,893,599,700	33,621,210,300
7	Accelink	9,342,848,300	19,333,649,500

Calculation of value ratios

As mentioned above, the Valuer has chosen to use enterprise value-to-sales (EV/S) and enterprise value-to-total assets (EV/Total Assets) for conducting the Valuation. Based on the market information obtained from Wind, the Valuer has calculated that the EV/S and EV/Total Assets of the market comparables are as follows:

	Market comparables	**EV/S 1-year average**	**EV/Total Assets 1-year average**
1	T&S	9.09	9.01
2	Broadex	4.85	4.93
3	Huagong	2.69	2.52
4	CIG	3.78	2.50
5	Zhongji	7.92	6.10
6	Eoptolink	10.85	8.61
7	Accelink	3.19	2.76

Adjustments of value ratios

The Valuer considers that it is necessary to make adjustments on the above value ratios of the market comparables in respect of (i) financial indicators (for adjusting the differences in financial indicators, including rate of research and development investment, profitability, quality of assets, growth rate of business operation, risk of liabilities, and individual corporate factor between the Target Company and the market comparables); and (ii) corporate scale (for adjusting the differences in the number of employees and revenue between the Target Company and the market comparables).

After making the aforesaid adjustments and taking out the largest and smallest value ratios, the average enterprise value-to-sales (EV/S) and enterprise value-to-total assets (EV/Total Assets) calculated from the seven market comparables are 5.09 and 4.40 respectively.

Operating Corporate Shareholding Circulation Value

By using the average enterprise value-to-sales (EV/S) and enterprise value-to-total assets (EV/Total Assets) calculated from the seven market comparables of 5.09 and 4.40, the operating corporate shareholding circulation value of the Target Company is calculated by using the table below:

		Regular Valuation Indicators	
	Name of indicators	**EV/Sales 1-year average**	**EV/Total Assets 1-year average**
1	Value ratios taken for the Target Company	5.09	4.40
2	Corresponding parameter of the Target Company	129,346.57	185,742.08
3	Shareholding Price/Enterprise Value (P/EV) of the Target Company	658,066.10	816,571.40
4	Interest-bearing debt (D) of the Target Company	58,804.43	58,804.43
5	Calculated value of shareholding of the Target Company	599,261.67	757,766.97
6	Operating corporate shareholding circulation value of the Target Company		678,514.32

* *Note:* the monetary value in the above table is in ten thousand of RMB

According to the above calculation, the Valuer has determined that the operating corporate shareholding circulation value of the Target Company is RMB6,785,143,200.

Lack of liquidity discount rate

The Valuer has adopted the Black-Scholes options pricing model and calculated that the average lack of liquidity discount rate of the aforesaid seven market comparables is 38.36%.

Calculation of Valuation Result

The Valuer uses the following formula for calculating the market value of the Target Company:

Market Value of Target Company

= (Operating Corporate Shareholding Circulation Value + Surplus Asset + Non-operating Net Asset (Liability) – Minority Interest) x (1 – 38.36%)

By using the information in the Target Company's audited consolidated financial statement prepared by its PRC auditor for the year ended 31 December 2023, the Valuer has calculated that as at 31 December 2023, the Target Company had surplus asset of RMB164,695,800, non-operating net liability of RMB248,300,100 and minority interest of RMB8,946,500. Therefore, using the above formula, the value of the Target Company as at 31 December 2023 is calculated as follows:

Market Value of Target Company

= (RMB6,785,143,200 + RMB164,695,800 – RMB248,300,100 – RMB8,946,500) x (1-38.36%)

= RMB4,125,000,000 (rounded figure)

Sensitivity analyses

As disclosed in the Purchaser's Acquisition Report which relied upon the Valuation Report, the Valuer has conducted the following two sensitivity analyses in the Valuation:

(i) assuming all other factors are being unchanged in the future, (a) the increase or decrease in the Target Company's future revenue of 0.5% will result in a percentage of change in value of the Target Company of 4.94% or -4.87%; (b) the increase or decrease in the Target Company's future revenue of 1% will result in a percentage of change in value of the Target Company of 9.85% or -9.78%. The Target Company's revenue has a positive correlation with the value of the Target Company.

(ii) assuming all other factors are being unchanged in the future, (a) the increase or decrease in the discount rate of the Target Company of 0.5% will result in a percentage of change in value of the Target Company of -1.00% or 0.69%; (b) the increase or decrease in the discount rate of the Target Company of 1% will result in a percentage of change in value of the Target Company of -1.84% or 1.53%. The discount rate of the Target Company has a negative correlation with the value of the Target Company.

The Board considers that the assumptions, market comparables selection criteria, calculation and sensitivity analyses adopted and used by the Valuer in the Valuation are customary to the market practice and the result of the Valuation is fair and reasonable.

As the Consideration for the Disposal is US$21,559,218 and is determined based upon the Valuation and the factors mentioned in the section headed "Consideration and its basis", which is close to the value of the Sale Shares assessed by the Company's valuer at RMB154,121,000 (equivalent to US$21,800,000, converted at the rate of US$1 to RMB7.0697) as at 31 December 2023 as mentioned in the section headed "The Target Group" below, the Board considers that the result of the Company's valuer's valuation is not materially different from the result in the Valuation Report.

For further details of the Valuation Report, please refer to Appendix IV to this circular.

Conditions Precedent for the 1st Instalment

The payment of the 1st Instalment by the Purchaser is conditional upon the following conditions (unless otherwise specified in the Formal Sale and Purchase Agreement) being satisfied:

(a) the Formal Sale and Purchase Agreement and an undertaking to be given by Pacific Smart according to "Rules in relation to Material Assets Reorganisation"* (重大資產重組相關法律法規) having been duly signed, become effective and delivered to the Purchaser;

(b) completion of the respective necessary internal decision-making procedures by Pacific Smart, the Other Vendors and the Target Company, in particular, the Target Company's shareholders have given up their pre-emptive rights or other preferential rights which may affect the transactions contemplated under the Formal Sale and Purchase Agreement, and for the sale of the Sale Shares by Pacific Smart, the approval by the Shareholders of the Formal Sale and Purchase Agreement and the transactions contemplated thereby;

(c) Pacific Smart having executed and delivered to the Target Company for its custody the instrument of transfer in the form prescribed in the Formal Sale and Purchase Agreement;

(d) resolutions have been passed by the shareholders of the Target Company to appoint 6 individuals nominated by the Purchaser as the directors of the Target Company with effect from the Completion Date, and that the originals of such resolutions have been duly delivered to the Purchaser for its custody;

(e) there having no circumstances in the aspects of commercial or technical or legal or financial or other relevant area that would result in a direct economic loss for the Target Company exceeding US$12.4 million;

(f) the Purchaser has completed all the necessary procedures required by the relevant government departments and authorities in relation to overseas direct investment and foreign exchange;

(g) the representations and warranties given by Pacific Smart and the Target Company under the Formal Sale and Purchase Agreement remain to be true, accurate and complete in all material respects as at the Completion Date, and in the event of any inaccuracies or omissions, such inaccuracies or omissions will not result in a direct economic loss for the Target Company exceeding US$12.4 million;

(h) there being no laws, rules, judicial or governmental judgments, rulings, injunctions, or any undecided or anticipated litigations, arbitrations, judgments, rulings, injunctions, that may adversely affect the parties to the Formal Sale and Purchase Agreement or the transactions contemplated thereby, and if any such circumstances exists, those circumstances would not result in a direct economic loss for the Target Company exceeding US$12.4 million;

(i) the China Securities Regulatory Commission, the Shanghai Stock Exchange, and other relevant regulatory authorities have not issued any objection on the transactions contemplated by the Formal Sale and Purchase Agreement according to the "Rules on Material Asset Reorganisation for A-Shares"* (A股重大資產重組規則) upon fulfilment of the above conditions precedent, and if any such objection is issued, the Purchaser shall illustrate to Pacific Smart in relation to that objection in writing or by any other instrument; and

(j) the Target Company and holders of over 51% of the voting right in the Target Company have provided a written confirmation to the Purchaser that the relevant consideration has been satisfied in full.

The Formal Sale and Purchase Agreement does not expressly provide any time period and reference basis for calculating the "direct economic loss for the Target Company" in paragraphs (e), (g) and (h) above. The Company considers that it is very difficult to determine and quantify whether the Target Company has suffered any direct economic loss resulting from the matters mentioned in paragraphs (e), (g) and (h). If the Parties eventually cannot agree upon whether the aforesaid matters have caused any direct economic loss of the Target Company and the amount of it, the Parties should refer the matter to the court for its ruling. On the other hand, the fulfilment of conditions precedent in paragraphs (d), (e), (h) and (j) are not within the Company's control.

Given that the conditions precedent set out in the Formal Sale and Purchase Agreement and the conditions precedent set out in the Main SPA are basically the same, and that the Purchaser would not agree to sign the Formal Sale and Purchase Agreement with terms which are substantially different from the Main SPA, the Company considers that such terms are fair and reasonable for this transaction.

As at the Latest Practicable Date, only the condition precedent stated in paragraph (a) above has been fulfilled.

Condition Precedent for the 2nd Instalment

Subject to Completion, the 2nd Instalment shall be paid by the Purchaser to Pacific Smart after 10 Business Days upon the expiry of 9-month from the date of the Formal Sale and Purchase Agreement, but in any event not later than 31 March 2025.

Termination

The Formal Sale and Purchase Agreement shall be terminated upon occurrence of any of the following events:

(a) the Purchaser may elect to terminate the Formal Sale and Purchase Agreement without cause within 90 days after its meeting of its board of directors approving the Disposal. For the avoidance of doubt, such right to terminate extinguishes if Completion takes place during the said 90-day period;

(b) Pacific Smart may elect to terminate the Formal Sale and Purchase Agreement without cause; or

(c) paragraphs (b) and (f) set out in the section headed "Conditions Precedent for the 1st Instalment" are not satisfied and/or waived.

Termination penalty

The Parties shall pay the following termination penalty if the Formal Sale and Purchase Agreement is terminated:

(a) the Purchaser shall pay to the Target Company a penalty in the sum equivalent to 1% of the Consideration if it exercises the right to terminate as disclosed in paragraph (a) under the section headed "Termination" of this circular;

(b) the Purchaser shall pay to Pacific Smart a penalty in the sum equivalent to 5% of the Consideration if it fails to settle the Consideration after 90 days of the due date of the Consideration;

(c) Pacific Smart shall pay to the Purchaser a penalty in the sum equivalent to 5% of the Consideration if it fails to fulfil or confirm the following upon the deadline of the payment of the 1st Instalment, or the date on which the Purchaser has acquired 51% of the voting right in the Target Company (whichever is earlier):

    (i) due execution of the Formal Sale and Purchase Agreement and delivery to the Purchaser;

    (ii) completion of all internal procedure;

    (iii) delivery to the Purchaser written waiver to its pre-emptive right in the Sale Shares and other preferential rights which may affect the transactions;

    (iv) due execution and delivery of relevant transaction documents; and

    (v) the representations and warranties given to the Purchaser remain to be true and accurate.

(d) Pacific Smart shall pay to the Purchaser a penalty in the sum equivalent to 5% of the Consideration if it exercises the right to terminate as disclosed in paragraph (b) under the section headed "Termination" of this circular.

Completion

Completion shall take place on the 5th Business Day after the following conditions are fulfilled in full:

(a) the Purchaser having paid to Pacific Smart the 1st Instalment;

(b) the Purchaser having obtained finances designated for the transactions contemplated by the Formal Sale and Purchase Agreement from a bank that the said finances obtained shall prove to the satisfaction of Pacific Smart that the 2nd Instalment will be paid in full; and

(c) the Purchaser and Pacific Smart have agreed the manner on the management of certain funds in the Purchaser's account.

The term "certain funds" in paragraph (c) above has not been defined in the Formal Sale and Purchase Agreement. The Company expects that the Parties would be able to reach an agreement on the amount of such funds in due course when the Disposal proceeds to Completion.

As disclosed in the section headed "Conditions Precedent for the 1st Instalment" in this circular, one of the conditions precedent for the Purchaser to pay the 1st Instalment is that the Target Company and holders of over 51% of the voting right in the Target Company have provided a written confirmation to the Purchaser that the relevant consideration has been satisfied in full. In view of this condition precedent, Completion may not proceed if the Other Vendors do not sell their shares in the Target Company or any part thereof to the Purchaser.

Following Completion, the Company will cease to have any interests in the Target Company.

INFORMATION ON THE TARGET GROUP

The Target Company

The Target Company is a company incorporated in the Cayman Islands with limited liability. Its principal businesses are designing, manufacturing and selling of a broad portfolio of optical communications devices, components, modules and subsystems used in communication networks.

As at the Latest Practicable Date, the range of shareholding in the Target Company held by the 11 Other Vendors was as follow:

Percentage of shareholding held in the Target Company	Number of the Other Vendors
Less than 1%	2
1% to less than 5%	4
5% to less than 10%	3
10% to less than 25%	1
25% to less than 35%	1

Please refer to page IV-20 in Appendix IV for details of the shareholding held in the Target Company by the Other Vendors.

Seven of the Other Vendors are limited partnerships and four of the Other Vendors are companies incorporated with limited liability. The principal business of all the Other Vendors is investment holding.

The Target Group

The Target Group is a leading global provider of advanced technology solutions for optical communications and data connectivity.

Set out below is a combined financial summary of the fair value of the Company's investment in the Target Company as extracted from the annual reports of the Company for the three financial years ended 31 December 2021, 2022 and 2023, which were prepared in accordance with the IFRS:

	Year ended 31 December		
	2023	**2022**	**2021**
	(Audited)	(Audited)	(Audited)
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss ("**FVTPL**")			
Opening balance	167,150	153,016	151,599
Change in fair value of financial asset at FVTPL	(13,029)	–	1,417
Foreign exchange gains	–	14,134	–
Closing balance	154,121	167,150	153,016

The Company's investment in the Target Company has been recognised and measured at fair value at the end of each reporting period as a level 3 instrument, i.e. financial assets at FVTPL which is not traded in an active market and its valuation was undertaken by APAC Appraisal and Consulting Limited ("**APAC**"), an independent qualified professional valuer. Market approach was used to determine the underlying equity value of the Company and guideline public company method model were adopted to determine the fair value of the Company's investment in the Target Company at FVTPL as at 31 December 2021, 2022 and 2023. As the valuation on the Target Company conducted by APAC was solely for the purpose of preparing the Company's consolidated financial statements for the years ended 31 December 2021, 2022 and 2023, the Company is unable to obtain APAC's consent in disclosing the market comparables selected by APAC in this circular.

As at the Latest Practicable Date, the Company has not conducted valuation of the Target Company for the purpose of preparing its interim financial results for the 6-month period ended 30 June 2024.

Set out below is the net profits/(loss) (both before and after taxation) of the Target Company as extracted from its audited consolidated financial statements for the two financial years ended 31 December 2022 and 2023, which were prepared in accordance with the Chinese Accounting Standards:

	Year ended 31 December	
	2023	**2022**
	(Audited)	(Audited)
	RMB'000	*RMB'000*
Net profits/(loss) (before taxation)	(16,230)	138,069
Net profits/(loss) (after taxation)	(17,499)	124,567

There has been a decrease in net result by 114% from net profit of RMB124,567,000 for the year ended in 31 December 2022 to net loss of RMB17,499,000 for the year ended 31 December 2023. The main reason for the loss in 2023 was the contraction of downstream telecom market demand. After the expansion in 5G infrastructure due to technology iteration and equipment upgrade starting 2019, the demand for optical modules in the telecom market reached a relatively high point in 2022. In recent years, as 5G infrastructure coverage reached its peak, the growth in demand for key equipment such as optical modules has slowed down. According to the data from LightCounting (an independent market research firm which focuses in telecommunication industry), the global optical module market declined in 2023, because the sales of ethernet and wireless fronthaul optical modules in the telecom market decreased by 10% and 30%, respectively, and therefore optical module industry companies experienced varying degrees of profit decline. As a result, the revenue of Target Company decreased 14% from RMB1.500,841,000 for the year ended 31 December 2022 to RMB1,293,466,000 for the year ended 31 December 2023.

INFORMATION ON PACIFIC SMART

Pacific Smart is a company incorporated with limited liability in the BVI and an indirect wholly-owned subsidiary of the Company. Pacific Smart is principally engaged in investment holding.

INFORMATION ON THE COMPANY AND THE GROUP

The Company is a well-established supplier for optical telecommunication products with the Group's headquarters based in Changzhou City, Jiangsu Province, the PRC. The Group is principally engaged in manufacturing and sales of a wide range of optical fibre cable products and related devices as well as processing and sales of prepainted steel sheets. The Group's customers principally include national and regional telecommunications network operators and telecommunications supporting services providers in the PRC.

INFORMATION ON THE PURCHASER

The Purchaser is a company incorporated with limited liability in the PRC, the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600246). The Purchaser is principally engaged in three core businesses, namely (i) real estate development and sales; (ii) urban renewal and operation; and (iii) telecommunication and digital technology.

To the best of the Directors' knowledge, information and belief and upon having made all reasonable enquiries, each of the Purchaser and its ultimate beneficial owners is an Independent Third Party.

FINANCIAL EFFECTS OF THE DISPOSAL

According to the Company's annual report for the financial year ended 31 December 2022, the Company has recognized foreign exchange gains of approximately RMB14,134,000 through its investment in the Target Company and according to the Company's annual report for the financial year ended 31 December 2023, the Company has recognized fair value loss of approximately RMB13,029,000 through its investment in the Target Company.

Since the interest in the Target Company held by the Company is less than 5%, the Target Company is not a subsidiary of the Company. The Company has always treated such investment as a one-line item under financial assets at fair value through profit or loss (FVTPL) in the Company's consolidated statements of financial position and consolidated statement of profit or loss and other comprehensive income since the Group's acquisition of the interest in the Target Company in 2020. As such, the Company has not consolidated the financial information of the Target Company in the Company's consolidated financial statements.

As disclosed in the 1st Announcement, the fair value of the Company's investment in the Target Company (the "**Fair Value**") was approximately RMB173,471,000 as at 30 June 2023, which was disclosed in the interim report of the Company. As disclosed in the annual report of the Company for the financial year ended 31 December 2023, the Fair Value as at 31 December 2023 was approximately RMB154,121,000. As a result, it is expected that the Company will record a gross profit of approximately RMB2.5 million and a net profit of approximately RMB1.0 million from the Disposal after deducting the estimated expenses (including professional fees) of approximately RMB1.5 million.

However, the amount of any profit or loss can only be determined at Completion and subject to audit by the Company's auditors, which is also subject to fluctuations in the exchange rate.

USE OF PROCEEDS

Based on the Consideration of approximately US$21,559,218 (equivalent to approximately RMB156.6 million, if converted at the Circular Exchange Rate), the net cash proceeds for the Disposal are estimated to be approximately RMB155.1 million. The Group intends to use all the net cash proceeds for repayment of existing bank loans which have been utilized as general working capital for the daily operations of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

In 2020, the Group acquired 8,095,527 class A preferred shares (approximately 4.59% shareholding) of SPV2 and the Shareholder's Loan at an aggregate consideration of US$23,048,052 (equivalent to approximately RMB151.6 million, calculated at the prevailing exchange rate when the Company completed the Original Acquisition). The Target Company was an indirect wholly-owned subsidiary of SPV2 when the Original Acquisition was completed on 31 December 2020.

The Board considered that the Original Acquisition was an investment in the businesses of the Target Group that will (i) provide the Company with potential business opportunities and co-operation which can leverage on its optical fibre cable supplies; (ii) enable the Group to become a strategic partner of the Target Group; (iii) expand the Group's product and service lines for telecommunication operators and supporting services providers and enhance its competitiveness; (iv) allow the Company to tap into the advanced technology products in the telecommunication industry; (v) expand its exposure in the overseas markets; and (vi) provide the Group with an opportunity to establish a joint venture for production of transceivers.

The Original Acquisition constituted a discloseable transaction of the Company under the Listing Rules and the details of which were disclosed in the Company's announcements dated 18 September 2020 and 31 December 2020.

Nevertheless, in 2021, there were changes in the management of the Target Group and a shift of the Target Group's business strategy. As a result, the Target Group has chosen to focus on operating its business through its pre-existing corporate structure and its management has not accepted the Group's invitation to establish a joint venture for production of transceivers. Hence, the positive business synergies originally expected to be generated between the Group and the Target Group as well as other business objectives of the Group in respect of the Original Acquisition have not materialized after the Group's acquisition of the Sale Shares in 2020.

In 2022, the Target Company and its direct and indirect holding companies completed a corporate reorganization, pursuant to which all the class A preferred shares of SPV2 held by Pacific Smart were exchanged for equivalent number of class A preferred shares (and therefore equivalent percentage of shareholding) of the Target Company. And as there were a couple of rounds of new investors making new investments in the Target Company after the Original Acquisition was completed, pursuant to the anti-dilution provisions in the Target Company's constitutional document, the number of class A preferred shares in the Target Company held by Pacific Smart was increased to 8,235,293 before signing of the Formal Sale and Purchase Agreement.

The Sale Shares are a private company's shares and there is no public trading platform for the Group to sell them. From the past experience, the Group has faced difficulty in finding buyers who are interested in acquiring the Sale Shares and at a price which is acceptable to the Board. The relatively high market value of the Target Company of RMB4,125 million (as at 31 December 2023, as per the Valuation Report) is also an obstacle for the Group to find potential buyer(s) who is/are willing to pay over US$20 million for acquiring only approximately 4% shareholding in the Target Company, especially when the recovery of economy in the PRC as well as other countries after COVID-19 pandemic has been slower than expected.

In 2023, the Group attempted to sell the Sale Shares and was only able to get into discussions with two potential buyers, including a well-established PRC company and a venture capital fund. However, the offers from such potential buyers were not considered acceptable by the Board either because the potential buyers only intended to acquire part of the Sale Shares from Pacific Smart or that the offer price was much lower than the price of US$2.6179 per Sale Share subsequently offered by the Purchaser.

As at the Latest Practicable Date, the Group has not received any dividend from the Target Group since the Original Acquisition.

On 26 November 2023, the Group entered into the Framework Agreement with, among others, the Purchaser for the Disposal. Details of the Framework Agreement were disclosed in the 1st Announcement. The Framework Agreement has been superseded by the Formal Sale and Purchase Agreement, the Main SPA and the ESOP Agreement, all of which were entered into on 23 June 2024.

As mentioned above, the Group acquired the Sale Shares at the consideration of US$23,048,052 in 2020. The Group will sell the Sale Shares at the Consideration of approximately US$21,559,218. On the face of it, the Group would incur a loss of approximately US$1,488,834. However, there has been a change in exchange rate from 2020 to 2024 and RMB has depreciated. The Group's original acquisition cost of US$23,048,052 was recorded as equivalent to approximately RMB151.6 million in the Company's consolidated financial statement of financial position as at 31 December 2020 (calculated at the prevailing exchange rate when the Company completed the Original Acquisition on 31 December 2020), whereas the Consideration which will be paid in US dollars for the Disposal in the sum of US$21,559,218 is equivalent to approximately RMB156.6 million (calculated at the Circular Exchange Rate) and higher than the Group's original acquisition cost of the Sale Shares of approximately RMB151.6 million when calculated in Renminbi and booked in the Company's financial statements.

For reasons mentioned above, the Board considers that the Disposal provides a good opportunity to liquidate the Group's investment in the Target Company so that the Group can reduce its finance costs and strengthen its cash position which can better equip itself to withstand any market downturn. Also, as the Sale Shares represent less than 5% shareholding in the Target Company, the fact that the Other Vendors are also selling their shareholding in the Target Company to the Purchaser has provided a golden chance for the Group to dispose of the Sale Shares at a higher consideration than that the Group could fetch if Pacific Smart was the only shareholder of the Target Company who sold its shareholding to the Purchaser or any other person.

Having considered the above, the Directors (including independent non-executive Directors) consider that the terms of the Formal Sale and Purchase Agreement and the Consideration are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14.68(2)(a)(i) of the LISTING RULES

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 14.68(2)(a)(i) of the Listing Rules based on the following grounds:

(a) Since the acquisition of the Sale Shares, the Company's investment in the Target Company (i.e. the Sale Shares) has been categorised as a financial investment valued by fair value through profit or loss (FVTPL) approach during the Company's annual audit and the Company has never consolidated the financial statements of the Target Company into the Company's financial statements.

(b) The Company as a minority shareholder holds only approximately 4.00% shareholding in the Target Company as at the Latest Practicable Date (and approximately 3.48% shareholding on a fully-diluted basis). Therefore, save and except the Target Company's shareholders' meeting, the Company only has minimal involvement in the Target Company's daily business and the Company has no right to request additional financial information (for example, underlying management accounts of the Target Company) regarding the Disposal. The Target Company has refused the Company's repeated requests for the relevant financial information and supporting documents of the Target Company for the Company's auditor to perform the required review works on the financial information of the Target Company required by Rule 14.68(2)(a)(i) of the Listing Rules.

(c) The Target Company has adopted different accounting policies over the years. The audited consolidated financial statements of the Target Company for the year ended 31 December 2021 were prepared in accordance with IFRS and for the two years ended 31 December 2022 and 2023 were prepared in accordance with the Chinese Accounting Standards. The change to Chinese Accounting Standards in preparing the consolidated financial statements of the Target Company for the two years ended 31 December 2022 and 2023 was for the purpose of complying with the requirements of the "Rules in relation to Material Assets Reorganisation" * (重大資產重組相關法律法規). The Company is unable to provide a reconciliation between the Chinese Accounting Standards and the IFRS in respect of the audited consolidated financial statements of the Target Company, as the Company is unable to obtain the relevant underlying management accounts and supporting documents of the Target Company for reasons stated in paragraph (b) above.

(d) As an alternative disclosure, the Appendix II to this circular contains the summaries of (i) the consolidated statements of financial position of the Target Company as at 31 December 2021, 2022 and 2023; (ii) the consolidated statements of profit or loss and other comprehensive income; and (iii) the consolidated statements of cash flows of the Target Company for each of the three years ended 31 December 2021, 2022 and 2023. All the audited consolidated financial statements of the Target Company mentioned above were prepared by its PRC auditors which are certified public accountants practising in the PRC. As the PRC auditors of the Target Company have refused the Company's request for giving their consent for inclusion of the audited consolidated financial statements of the Target Company for the three years ended 31 December 2021, 2022 and 2023 in this circular, the Company can only provide the summaries of the Target Company's financial information mentioned above.

(e) Although the Company is unable to disclose the full audited financial statements and reports of the Target Company for the three financial years ended 31 December 2021, 2022 and 2023 in this circular, the Directors believe that the summaries of the financial information of the Target Company as disclosed in Appendix II already contain all the key historic financial information of the Target Company and can enable the Shareholders to have a good understanding of the financial performance of the Target Company.

(f) The PRC auditor who prepared the audited consolidated financial statements of the Target Company for the three financial years ended 31 December 2021, 2022 and 2023 is qualified as one of the approved PRC accounting firms eligible for acting as reporting accountants and/or auditors of companies incorporated in the PRC which are listed in the main board or GEM of the Stock Exchange. It shows that the Target Company's PRC auditor is a sizeable accounting firm with sufficient corporate governance, quality controls and internal controls for meeting the stringent criteria laid down by the PRC Ministry of Finance in order to obtain such qualification. Thus, the Directors are confident that the audited financial information of the Target Company as summarized in Appendix II is reliable and can be used for the Shareholders to make an informed decision.

(g) The fair values of the Sale Shares as unlisted equity shares for the three financial years ended 31 December 2021, 2022 and 2023 assessed by market approach as extracted from the Company's annual reports were RMB153,016,000, RMB167,150,000 and RMB154,121,000 respectively and further details of the changes in such fair values are also disclosed in the section headed "The Target Group" in this circular. The Directors consider that such information will assist the Shareholders to appraise the fair value of the Sale Shares and to assess whether or not the Consideration is fair and reasonable.

(h) The Valuation Report contained in Appendix IV to this circular together with the additional information related to the Valuation Report extracted from the Purchaser's Acquisition Report and disclosed under the section headed "The Valuation" on pages 11 to 17 in this circular provide the Shareholders with the information on how the Valuer calculated and concluded that the value of 100% shareholding of the Target Company was RMB4,125,000,000 as at 31 December 2023 by adopting market approach. Having considered that (i) the information relied upon by the Valuer for conducting the Valuation came from reliable sources; (ii) the assumptions made by the Valuer and the calculations of the market value are reasonable and conform to the market practice in conducting valuation of business by market approach, the Directors consider that the Valuation and the Valuer's conclusion on the market value of the Target Company are fair and reasonable.

Given the constraints mentioned above for the Company to obtain and/or disclose the financial information of the Target Company, the Board considers that the alternative disclosure provides sufficient information for the Shareholders to assess the Target Company's historic financial performance and to make an informed decision. Hence, the grant of waiver by the Stock Exchange will not result in any undue risks to the Shareholders.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14.68(1) AND PARAGRAPH 29(2) OF APPENDIX D1B OF THE LISTING RULES

The Company has also applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements for profit forecast under Rule 14.68(1) and paragraph 29(2) of Appendix D1B of the Listing Rules based on the following grounds:

(a) The Valuer was only engaged by the Purchaser to prepare the Valuation Report and the Company has no involvement in preparing the Valuation Report and the profit forecast included therein.

(b) The reason for the Valuer to conduct valuation on the Target Company by adoption of both income approach and market approach was solely for the reason that the Valuer is mandatorily required under the PRC regulatory regime (in particular, Article 22 of "Assets Valuation Practice Standards – Assets Valuation Method (2019)"* (〈資產評估執業準則 – 資產評估方法 (2019)〉) issued by China Appraisal Society (中國資產評估協會) to use at least two valuation methods in conducting asset valuation. The aforesaid Article 22 states that whenever the conditions for using different valuation methods are met, the valuer must use two or more than two valuation methods to conduct the valuation and then come to a reasonable valuation conclusion after a comprehensive analysis.

(c) When determining the Consideration, the Board has only taken into consideration of the result appraised by the Valuer through market approach, as it is the final appraisal conclusion selected by the Valuer as the value of the Target Company after comparing and analysing the appraisal results from income approach and market approach. The Board has not taken into consideration the profit forecast (that is, the valuation result by income approach) included in the Valuation Report in determining the Consideration.

(d) The Company has practical difficulty in complying with the requirements of Rule 14.68(1) and paragraph 29(2) of Appendix D1B of the Listing Rules, as the Valuer has only given its consent for inclusion of the Valuation Report in this circular but it does not agree to provide the Company with any of its working papers related to the accounting policies and calculations for the forecast, it is not possible for the reporting accountant or auditor of the Company to conduct any examination or reporting on it.

EGM

Set out on pages EGM-1 to EGM-2 is a notice convening the EGM to be held at Unit 902, 9/F, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong at 3:00 p.m. on 9 September 2024 (Monday). or any adjournment at which resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Formal Sale and Purchase Agreement and the transactions contemplated thereby.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the proxy form accompanying this circular in accordance with the instructions printed thereon appointing the chairman of the EGM as your proxy, to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not later than forty-eight (48) hours before the time of the EGM (or at any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish and in such event, the form of proxy shall be deemed to be revoked.

To the best of the knowledge, information and belief of the Board having made all reasonable enquiries, none of the Shareholders has a material interest in the Disposal and therefore, no Shareholder will be required to abstain from voting on the resolution to be proposed at the EGM to approve the Formal Sale and Purchase Agreement and the transactions contemplated thereby.

Pursuant to Article 66(1) of the articles of association of the Company and Rule 13.39(4) of the Listing Rules, a resolution put to vote at a general meeting of the Company must be decided by way of a poll save that the chairman of the meeting may in good faith allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolution to be proposed at the EGM will be voted by way of a poll by the Shareholders.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that terms of the Formal Sale and Purchase Agreement are fair and reasonable and that the Disposal is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution set out in the notice of EGM enclosed with this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Completion of the Disposal is subject to the fulfilment of certain conditions precedent and therefore may or may not take place. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares of the Company.

By Order of the Board
Nanfang Communication Holdings Limited
Yu Jinlai
Chairman

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the three years ended 31 December 2021, 31 December 2022 and 31 December 2023 are disclosed in the following documents which have been published on the website of the Stock Exchange (http://www.hkexnews.hk) and on the website of the Company (www.jsnfgroup.com).

- 2023 Annual Report, pages 51 to 128:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0426/2024042604515.pdf

- 2022 Annual Report, pages 50 to 132:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0427/2023042703785.pdf

- 2021 Annual Report, pages 49 to 132:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042701736.pdf

2. SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinion that, after taking into account the internal resources and the net cash proceeds expected to be received from the Disposal, the working capital available to the Group is sufficient to satisfy its present requirements for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

3. INDEBTEDNESS STATEMENT

As the close of business on 30 June 2024, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the total indebtedness of the Group was as follows:

	RMB'000
Bank borrowings – Secured and guaranteed *(note a)*	10,000
Bank borrowings – Unsecured and guaranteed *(note a)*	170,000
Bank borrowings – Unsecured and unguaranteed *(note a)*	100,000
Other payables *(note b)*	1,615
Lease liabilities *(note c)*	30
	281,645

Notes:

a. **Bank borrowings**

Included in the balance at 30 June 2024 are fixed-rate bank borrowings of approximately RMB110,000,000 which carry interest at rate 2.45% to 3.00% per annum. At 30 June 2024, bank borrowings of approximately RMB170,000,000 carry interest at variable market interest rates ranging from 2.50% to 4.00% per annum.

At 30 June 2024, bank borrowings of approximately RMB10,000,000 is secured by bills receivables issued by a group company.

At 30 June 2024, except for fixed bank borrowing of approximately RMB100,000,000, all other bank borrowings are guaranteed by group companies.

All bank borrowings are denominated in the functional currency of the group entities at 30 June 2024.

b. **Other payable**

At the close of business on 30 June 2024, there was other payable of RMB654,000 due to advance from the ultimate holding company and RMB961,000 due to a director. The amounts are unsecured, interest-free and repayable on demand.

c. **Lease liabilities**

At the close of business on 30 June 2024, the Group has lease liabilities of approximately RMB30,000.

Save as aforesaid, and apart from intra-group liabilities, as at 30 June 2024, being the most recent practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Directors were not aware of the Group having any other debt securities, any outstanding loan capital, any lease liabilities, any borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, pledges, mortgages, charges, finance leases, guarantees or other material contingent liabilities.

4. NO MATERIAL ADVERSE CHANGE

The Directors confirmed that there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2023 (being the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is a well-established supplier for optical telecommunication products in the PRC and its customers principally include national and regional telecommunications network operators and telecommunications supporting services providers in the PRC.

The recovery of economy in the PRC as well as other countries after COVID-19 pandemic has been slower than expected. National Bureau of Statistics of China announced in July 2024 that the gross domestic product (GDP) of the PRC for the first quarter of 2024 grew by 5.3% and for the second quarter of 2024 grew only by 4.7%, being the slowest growth since the first quarter of 2023. Insufficient domestic effective demand, job insecurity and continued falls in property market contributed to a weak consumer sentiment in the PRC. The prolonged war between Ukraine and Russia and the conflict between Israel and Hamas in the Middle-East have intensified global geopolitical tensions. Such tensions increased trade restrictions and disruption of supply chain which in turn causes surges in oil, commodity and raw materials prices.

On the other hand, the PRC government continues to implement its policy on improving the national computility, and targets to have an easy-to-use, green and safe comprehensive computing power infrastructure system taken shape by the end of 2025. With the implementation of such policy, computing power is accelerating its penetration into transportation, finance, education, medical care, technology, energy and other fields. The construction of a national integrated computing power network will empower the digital transformation and upgrading of all walks of life and promote the in-depth development of new industrialization and digital economy in the PRC.

Optical communication is the foundation for computility in the AI era and an important support for the digital economy, while optical fibre and optical fibre cable are indispensable underlying infrastructure for optical communication.

For the year 2024, the Group will continue to adhere to its core business, focus on consolidating and expanding the market share of its products, strive to improve its operational efficiency, implement more stringent cost-control measures, and intensify the research and development of new optical fibre and optical fibre cable to meet the new demands for computility in the AI era. The Group anticipates that challenging geopolitical and economic environment will persist for some time, but it remains cautiously optimistic in the economic outlook of 2024 and considers that the Group is well equipped against the potential challenges.

The net cash proceeds from the Disposal are estimated to be approximately RMB155.1 million. The Group intends to use all the net cash proceeds for repayment of existing bank loans so that the Group can reduce its finance costs and strengthen its cash position which can better equip itself to withstand any market downturn.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

It is expected that the Disposal will not give rise to any material adverse impact to the operations of the Group.

Set out below is the management discussion and analysis of the Group for each of the three years ended 31 December 2021, 2022 and 2023 as derived from the annual reports of the Company for each of the three years ended 31 December 2021, 2022 and 2023 respectively.

For the year ended 31 December 2021

1. Business Overview

For the year ended 31 December 2021 ("**FY2021**") with the introduction of processing and sales of prepainted steel sheet, the Group recorded an increase of total revenue by 15.5% to approximately RMB438.3 million, whereas the total revenue for the year ended 31 December 2020 ("**FY2020**") was approximately RMB379.5 million. The gross profit of the Group was approximately RMB13.0 million (FY2020: approximately RMB38.7 million), representing a reduction of approximately 66.6%. The Company recorded a loss and total comprehensive expense for the year attributable to owners of the Company of approximately RMB59.9 million (FY2020: approximately RMB19.2 million). During FY2021, the Company's basic loss per share was approximately RMB0.05 (FY2020: approximately RMB0.02).

2. Financial Review

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices as well as processing and sales of prepainted steel sheet. During the year ended 31 December 2021, the Group's total revenue was approximately RMB438.3 million, representing an increase of 15.5% from approximately RMB379.5 million for FY2020.

By product segment, a total revenue of approximately RMB356.8 million was contributed by the optical fibre cables and optical distribution network devices segment, representing a decrease of approximately 6.0% as compared to 2020 of approximately RMB379.5 million. This accounted for 81.4% (FY2020: 100%) of the Group's revenue. On the other hand, a total revenue of approximately RMB81.5 million was contributed by prepainted steel sheet segment, which accounted for 18.6% of the Group's revenue.

Cost of sales

For FY2021, the cost of sales of the Group amounted to approximately RMB425.4 million, representing an increase of approximately 24.8% from approximately RMB340.8 million for FY2020.

Gross profit and gross profit margin

Gross profit of the Group decreased by approximately 66.6% to approximately RMB13.0 million for the year ended 31 December 2021 from approximately RMB38.7 million for FY2020. During FY2021, the Group's gross profit margin was approximately 3.0% as compared to a gross profit margin of approximately 10.2% for FY2020. There was an overall decrease in tender prices for optical fibre cables in the industry, the Group's awarded tender prices have plummeted. Coupled with the significant increase in the costs of raw materials, it resulted in a material impact on the Group's gross profit and gross profit margin.

Other income, gains, expenses and losses, net

The Group recorded a net gain of approximately RMB23.0 million for FY2021 as compared to approximately RMB18.0 million for FY2020. The increase in net gain was mainly attributable to the recognition of net foreign exchange gains of approximately RMB5.6 million, whereas net foreign exchange loss of approximately RMB0.7 million was recorded for FY2020.

Selling and distribution expenses

The Group incurred selling and distribution expenses of approximately RMB18.0 million for FY2021 which has decreased moderately by approximately 6.8% compared to approximately RMB19.3 million for FY2020. The decline in expenses was driven by the decrease in sales related manpower cost.

Administrative expenses

The Group's administrative expenses increased by approximately 35.5% to approximately RMB53.4 million for FY2021 from approximately RMB39.4 million for FY2020. The increase was due to a one-off equity-settled share-based payment expenses amounting to approximately RMB14.9 million for FY2021 as a result of the share options granted to eligible participants pursuant to the share option scheme on 27 May 2021.

Research costs

The Group's research costs rose by approximately 26.9% to approximately RMB29.0 million for FY2021 from approximately RMB22.8 million for FY2020. The increase was mainly attributable to more resources were deployed to enhance product quality and structural transformation as well as development of new products.

Finance costs

During FY2021, the Group's finance costs increased by approximately 72.4% to approximately RMB8.6 million from approximately RMB5.0 million for FY2020. The increase was in line with the increase in the average bank borrowings during FY2021.

Income tax credit

During FY2021, the Group's income tax credit increased by approximately 77.0% to approximately RMB10.2 million from approximately RMB5.8 million for FY2020. The increment is attributable to more available tax loss.

Loss and total comprehensive expense attributable to owners of the Company

The Company incurred a loss and total comprehensive expense attributable to owners of approximately RMB59.9 million for FY2021 as compared to approximately RMB19.2 million for FY2020.

3. *Currency risk*

While the Group's operations were principally conducted in the PRC during FY2021 and it mainly recorded sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, advance from the ultimate holding company, amount due to a director and a bank borrowing denominated in foreign currencies other than RMB. The Group may use any contracts to hedge against its exposure to currency risk, as appropriate. The Directors have managed the foreign currency risk by closely monitoring the movement of the foreign currency rate.

4. *Charge on the Group's assets*

As at 31 December 2021, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totaling approximately RMB51.1 million (as at 31 December 2020: approximately RMB152.0 million) to secure bank borrowings, performance bonds, bills payable and a letter of guarantee issued by a bank.

5. *Liquidity and Financial Resources*

During FY2021, the Group's operational and capital requirements were financed principally through share capital, reserves, bank borrowings, loan from a joint venture and an amount due to a director.

6. *Contingent Liabilities*

As at 31 December 2021, the Group did not have any material contingent liabilities.

7. *Employees and Remuneration Policies*

As at 31 December 2021, the Group had approximately 320 employees (as at 31 December 2020: approximately 370). For FY2021, the Group incurred staff costs of approximately RMB50.5 million (FY2020: approximately RMB37.4 million). As required by applicable laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

8. *Future Plans for Material Investments*

As at 31 December 2021, the Group did not have any plans for material investments.

9. *Significant Investment Held*

As at 31 December 2021, the Group held the following significant investments:

(i) Jiangsu Nanfang Communication Technology Company Limited* (江蘇南方通信科技有限公司) ("**Nanfang Communication**"), an indirect wholly-owned subsidiary of the Company, holds 49% of the shareholding in Jiangsu Nanfang Optic Electric Technology Company Limited* (江蘇南方光纖科技有限公司) ("**Nanfang Optic**"), and made a total investment of approximately RMB73.5 million up to 31 December 2021. Nanfang Optic is a company incorporated in the PRC which is principally engaged in the manufacturing and sales of optical fibre. No market fair value was available as at 31 December 2021 as this is a private company. The investment is intended to be held for a long term. During FY2021, the Group shared an associated profit of approximately RMB77,000 in respect of its investment in Nanfang Optic.

(ii) Nanfang Communication also holds 51% of the shareholding in Jiangsu Yingke Optical Material Technology Company Limited* (江蘇盈科光導科技有限公司) ("**Yingke Optical Material**"), and made a total investment of approximately RMB76.5 million up to 31 December 2021. Yingke Optical Material is principally engaged in the manufacturing and sales of optical fibre preforms. No market fair value was available as at 31 December 2021 as this is a private company. The investment is intended to be held for a long term. During FY2021, the Group shared a profit of approximately RMB4.6 million in respect of its investment in Yingke Optical Material.

(iii) Pacific Smart owned 8,095,527 class A preferred shares of SPV2, representing approximately 4.59% of its total issued share capital, with a total investment of approximately US$23 million contributed by the Group up to 31 December 2021. SPV2 is a company incorporated in the Cayman Islands which is principally engaged in investment holding. The fair value of the investment was approximately RMB153,016,000 as at 31 December 2021, representing approximately 11.3% of the total assets of the Group. During FY2021, the Group had not received any dividend or recorded any investment gain/loss.

The investment was intended to be a long-term investment in view of the positive business synergies to be generated in the long run between the Company and the Target Group, which is a leading global provider of advanced technology solutions for optical communications and data connectivity.

Save as aforesaid, the Company did not hold any other significant investments during FY2021.

10. Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During FY2021, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures by the Group.

For the year ended 31 December 2022

1. Business Overview

For the year ended 31 December 2022 ("**FY2022**"), the Group recorded an increase of total revenue by 44.6% to approximately RMB633.7 million (FY2021: approximately RMB438.3 million). The gross profit of the Group was approximately RMB57.4 million (FY2021: approximately RMB13.0 million), representing a significant increment of approximately 343.0%. The Company reported a loss and total comprehensive expense for the year attributable to owners of the Company of approximately RMB8.1 million (FY2021: approximately RMB59.9 million). During FY2022, the Company's basic loss per share was approximately RMB0.01 (FY2021: approximately RMB0.05).

2. Financial Review

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices as well as processing and sales of prepainted steel sheet. During FY2022, the Group's total revenue was approximately RMB633.7 million, representing an increase of 44.6% from approximately RMB438.3 million for FY2021.

By product segment, revenue of approximately RMB569.9 million was contributed by the optical fibre cables and optical distribution network devices segment, representing an increase of approximately 59.8% as compared to 2021 of approximately RMB356.8 million. This accounted for 89.9% (FY2021: 81.4%) of the Group's revenue.

On the other hand, revenue of approximately RMB63.8 million was contributed by prepainted steel sheet segment, representing a decrease of approximately 21.8% as compared to 2021 of approximately RMB81.5 million. This accounted for 10.1% (FY2021: 18.6%) of the Group's revenue.

Cost of sales

For FY2022, the cost of sales of the Group amounted to approximately RMB576.3 million, representing an increase of approximately 35.5% from approximately RMB425.4 million for FY2021.

Gross profit and gross profit margin

Gross profit of the Group increased by approximately 343.0% to approximately RMB57.4 million for FY2022 from approximately RMB13.0 million for FY2021. During FY2022, the Group's gross profit margin was approximately 9.1% as compared to a gross profit margin of approximately 3.0% for FY2021. There was an overall increase in tender prices for optical fibre cables in the industry, the Group's awarded tender prices have increased. Coupled with the strict control over the cost of production, it resulted in a multiplication on the Group's gross profit and gross profit margin.

Other income, gains, expenses and losses, net

The Group recorded a net gain of approximately RMB29.5 million for FY2022 as compared to approximately RMB23.0 million for FY2021. The increase was mainly attributable to the recognition of larger net foreign exchange gains and other sales income during FY2022.

Selling and distribution expenses

The Group incurred selling and distribution expenses of approximately RMB19.6 million for FY2022 which has increased by approximately 8.8% compared to approximately RMB18.0 million for FY2021. The Group scaled up its operations during FY2022, and this led to an increase in transportation expenses.

Administrative expenses

The Group's administrative expenses decreased by approximately 14.1% to approximately RMB45.9 million for FY2022 from approximately RMB53.4 million for FY2021. The decrease was mainly due to an equity-settled share-based payment expenses amounting to approximately RMB0.7 million for FY2022, whereas such expenses of approximately RMB14.9 million was recorded in FY2021.

Research costs

The Group's research costs rose by approximately 34.4% to approximately RMB38.9 million for FY2022 from approximately RMB29.0 million for FY2021. The increase was mainly attributable to the deployment of more resources to enhance product quality and structural transformation as well as development of new products

Finance costs

During FY2022, the Group's finance costs decreased by approximately 10.7% to approximately RMB7.7 million from approximately RMB8.6 million for FY2021. This was mainly due to the interest rate of the bank borrowings dropped. As a result, the finance costs decreased as compared to same period in 2021.

Income tax expense/credit

During FY2022, the Group incurred an income tax expense of approximately RMB2.3 million as compared to an income tax credit of approximately RMB10.2 million recorded for FY2021. The change was due to additional tax provision for deferred tax liabilities arising from probable distributable profits of subsidiaries.

Loss and total comprehensive expense attributable to owners of the Company

The Company incurred a loss and total comprehensive expense attributable to owners of approximately RMB8.1 million for FY2022 as compared to approximately RMB59.9 million for FY2021.

3. *Currency risk*

While the Group's operations were principally conducted in the PRC during FY2022 and it mainly recorded sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, advance from the ultimate holding company, amount due to a director and a bank borrowing denominated in foreign currencies other than RMB. The Group may use any contracts to hedge against its exposure to currency risk, as appropriate. The Directors have managed the foreign currency risk by closely monitoring the movement of the foreign currency rate.

4. *Charge on the Group's assets*

As at 31 December 2022, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totaling approximately RMB174.3 million (as at 31 December 2021: approximately RMB51.1 million) to secure bank borrowings, bills payable and a letter of guarantee issued by a bank.

5. *Liquidity and Financial Resources*

During FY2022, the Group's operational and capital requirements were financed principally through share capital, reserves, bank borrowings, loan from a joint venture and an amount due to a director.

6. *Contingent Liabilities*

As at 31 December 2022, the Group did not have any material contingent liabilities.

7. *Employees and Remuneration Policies*

As at 31 December 2022, the Group had approximately 320 employees (as at 31 December 2021: approximately 320). For FY2022, the Group incurred staff costs of approximately RMB36.5 million (FY2021: approximately RMB50.5 million). As required by applicable laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

8. *Future Plans for Material Investments*

As at 31 December 2022, the Group did not have any plans for material investments.

9. *Significant Investment Held*

As at 31 December 2022, the Group held the following significant investments:

(i) Nanfang Communication, holds 49% of the shareholding in Nanfang Optic, and made a total investment of approximately RMB73.5 million up to 31 December 2022. Nanfang Optic is a company incorporated in the PRC which is principally engaged in the manufacturing and sales of optical fibre. No market fair value was available as at 31 December 2022 as this is a private company. The investment is intended to be held for a long term. During FY2022, the Group shared an associated profit of approximately RMB11.6 million (FY2021: approximately RMB77,000) in respect of its investment in Nanfang Optic.

(ii) Nanfang Communication also holds 51% of the shareholding in Yingke Optical Material, and made a total investment of approximately RMB76.5 million up to 31 December 2022. Yingke Optical Material is principally engaged in the manufacturing and sales of optical fibre preforms. No market fair value was available as at 31 December 2022 as this is a private company. The investment is intended to be held for a long term. During FY2022, the Group shared a profit of approximately RMB9.2 million (FY2021: approximately RMB4.6 million) in respect of its investment in Yingke Optical Material.

(iii) Pacific Smart owned certain number of class A preferred shares of SPV2, representing less than 5% of its then total issued share capital before the Reorganisation (as defined below). SPV2 is a company incorporated in the Cayman Islands which is principally engaged in investment holding. SPV2 indirectly held the entire issued shares of the Target Company. The Target Group is a leading global provider of advanced technology solutions for optical communications and data connectivity.

In December 2022, SPV2, being the indirect shareholder of the Target Company, procured the sole shareholder of the Target Company to pass a written resolution approving (i) a repurchase, redesignation and reclassification of the entire issued shares of the Target Company; and (ii) a share exchange (collectively, the "**Reorganisation**"). Pursuant to the Reorganisation, all the issued shares of the Target Company indirectly held by SPV2 was repurchased, redesignated and reclassed, and the shareholders of SPV2 agreed with SPV2 to exchange their respective shares in SPV2 for the same type of shares of the Target Company. As such, upon the completion of the Reorganisation in December 2022, Pacific Smart exchanged the class A preferred shares of SPV2, for 8,116,697 class A preferred shares of the Target Company, representing approximately 4.03% of the total issued share capital of Target Company. The fair value of the investment was approximately RMB167,150,000 as at 31 December 2022 (as at 31 December 2021: approximately RMB153,016,000), representing approximately 11.3% of the total assets of the Group. During FY2022, the Group had not received any dividend or recorded any investment gain/loss. The total investment contributed by the Group was approximately US$23 million up to 31 December 2022.

The investment was intended to be a long-term investment in view of the positive business synergies to be generated in the long run between the Company and the Target Group.

Save as aforesaid, the Company did not hold any other significant investments during FY2022.

10. Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During FY2022, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures by the Group.

For the year ended 31 December 2023

1. Business Overview

For the year ended 31 December 2023 ("**FY2023**"), the Group recorded a decrease of total revenue by approximately 17.6% to approximately RMB522.3 million (FY2022: approximately RMB633.7 million). The gross profit of the Group was approximately RMB70.7 million (FY2022: approximately RMB57.4 million), representing an increment of approximately 23.2%. The Company reported a profit and total comprehensive income for FY2023 attributable to owners of the Company of approximately RMB5.2 million (FY2022: loss and total comprehensive expense of approximately RMB8.1 million). During FY2023, the Company's earnings per share was approximately RMB0.003 (FY2022: basic loss per share of approximately RMB0.01).

2. Financial Review

Revenue

Revenue of the Group represents revenue derived from manufacturing and sales of optical fibre cables and optical distribution network devices as well as processing and sales of prepainted steel sheet. During FY2023, the Group's total revenue was approximately RMB522.3 million, representing a decrease of approximately 17.6% from approximately RMB633.7 million for FY2022.

By product segment, revenue of approximately RMB478.1 million was contributed by the optical fibre cables and optical distribution network devices segment, representing a decrease of approximately 16.1% as compared to FY2022 of approximately RMB569.9 million. These accounted for approximately 91.6% (FY2022: approximately 89.9%) of the Group's revenue.

On the other hand, revenue of approximately RMB44.1 million was contributed by prepainted steel sheet segment, representing a decrease of approximately 30.8% as compared to FY2022 of approximately RMB63.8 million. This accounted for approximately 8.4% (FY2022: approximately 10.1%) of the Group's revenue.

Cost of sales

For FY2023, the cost of sales of the Group amounted to approximately RMB451.6 million, representing a decrease of approximately 21.6% from approximately RMB576.3 million for FY2022.

Gross profit and gross profit margin

Gross profit of the Group increased by approximately 23.2% to approximately RMB70.7 million for FY2023 from approximately RMB57.4 million for FY2022. During FY2023, the Group's gross profit margin was approximately 13.5% as compared to a gross profit margin of approximately 9.1% for FY2022. While the unit selling price remaining fairly stable, the Group's gross profit and gross profit margin were boosted in the FY2023 owing to a significant drop in the cost of raw materials (including non-ferrous metals and some other chemical feedstocks) and a strict control of the overall production costs.

Other income, gains, expenses and losses, net

The Group recorded a net gain of approximately RMB17.0 million for FY2023 as compared to approximately RMB29.5 million for FY2022. The decrease was mainly attributable to the recognition of net foreign exchange losses during FY2023 whereas net foreign exchange gains were recognised for FY2022.

Selling and distribution expenses

The Group incurred selling and distribution expenses of approximately RMB19.5 million for FY2023 which has slightly dropped by approximately 0.5% compared to approximately RMB19.6 million for FY2022.

Administrative expenses

The Group's administrative expenses decreased by approximately 23.0% to approximately RMB35.3 million for FY2023 from approximately RMB45.9 million for FY2022 ascribed to the implementation of more stringent cost-control measures.

Research costs

The Group's research costs dropped by approximately 12.9% to approximately RMB33.9 million for FY2023 from approximately RMB38.9 million for FY2022. The change was mainly due to the completion of some product development projects during the year.

Finance costs

During FY2023, the Group's finance costs increased by approximately 20.8% to approximately RMB9.3 million from approximately RMB7.7 million for FY2022. This was mainly due to the bank borrowings and the general borrowing rate increased during FY2023. As a result, the finance costs increased as compared with FY2022.

Income tax credit/expense

During FY2023, the Group recorded an income tax credit of approximately RMB14.5 million as compared to an income tax expense of approximately RMB2.3 million incurred for FY2022, owing to an increase in income tax credit recognised under the laws of the PRC.

Profit/(Loss) and total comprehensive income/(expense) attributable to owners of the Company

As a result of the foregoing, the Company recorded a profit and total comprehensive income attributable to owners of approximately RMB5.2 million for FY2023 as compared to a loss and total comprehensive expense of approximately RMB8.1 million for FY2022.

3. Currency risk

While the Group's operations were principally conducted in the PRC during FY2023 and it mainly recorded sales and incurred production costs and expenses in RMB, the Group has certain bank deposits and balances, advance from the ultimate holding company, amount due to a director and a bank borrowing denominated in foreign currencies other than RMB. The Group may use any contracts to hedge against its exposure to currency risk, as appropriate. The Directors have managed the foreign currency risk by closely monitoring the movement of the foreign currency rate.

4. Charge on the Group's assets

As at 31 December 2023, the Group pledged certain of its bank deposits with original maturity more than three months and restricted bank deposits totaling approximately RMB173.8 million (31 December 2022: approximately RMB174.3 million) to secure bank borrowings, bills payable and a letter of guarantee issued by a bank.

5. Liquidity and Financial Resources

During FY2023, the Group's operational and capital requirements were financed principally through share capital, reserves, bank borrowings, loan from a joint venture and an amount due to a director.

6. Contingent Liabilities

As at 31 December 2023, the Group did not have any material contingent liabilities.

7. Employees and Remuneration Policies

As at 31 December 2023, the Group had approximately 310 employees (31 December 2022: approximately 320). For FY2023, the Group incurred staff costs of approximately RMB33.6 million (FY2022: approximately RMB36.5 million). As required by applicable laws and regulations, the Group participates in various employee benefit plans, including pension insurance, medical insurance and personal injury insurance. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed periodically with reference to the then prevailing market employment practices and legislation.

8. Future Plans for Material Investments

As at 31 December 2023, the Group did not have any plans for material investments.

9. Significant Investment Held

As at 31 December 2023, the Group held the following significant investments:

(i) Nanfang Communication, holds 49% of the shareholding in Nanfang Optic, and made a total investment of approximately RMB73.5 million up to 31 December 2022. Nanfang Optic is a company incorporated in the PRC which is principally engaged in the manufacturing and sales of optical fibre. No market fair value was available as at 31 December 2023 as this is a private company. The investment is intended to be held for a long term. During FY2023, the Group (i) shared an associated profit of approximately RMB10.9 million (FY2022: approximately RMB11.6 million); (ii) received a dividend of approximately RMB14.7 million (FY2022: nil) in respect of its investment in Nanfang Optic.

(ii) Nanfang Communication also holds 51% of the shareholding in Yingke Optical Material, and made a total investment of approximately RMB76.5 million up to 31 December 2022. The investment cost was reduced to approximately RMB38.3 million for FY2023. Yingke Optical Material is principally engaged in the manufacturing and sales of optical fibre preforms. No market fair value was available as at 31 December 2023 as this is a private company. The investment is intended to be held for a long term. During FY2023, the Group (i) shared a profit of approximately RMB5.6 million (FY2022: approximately RMB9.2 million); (ii) received a dividend of approximately RMB4.6 million (FY2022: approximately RMB8.8 million) in respect of its investment in Yingke Optical Material.

(iii) Pacific Smart, an indirectly wholly owned subsidiary of the Company, owned 8,235,293 of class A preferred shares of the Target Company, representing approximately 3.48% (on a fully-diluted basis) of its total issued share capital. The Target Group is a leading global provider of advanced technology solutions for optical communications and data connectivity.

The fair value of the investment was approximately RMB154,121,000 as at 31 December 2023 (31 December 2022: approximately RMB167,150,000), representing approximately 10.9% of the total assets of the Group. During FY2023, the Group had not received any dividend or recorded any investment gain/loss. The total investment contributed by the Group was approximately US$23 million up to 31 December 2023.

Save as aforesaid, the Company did not hold any other significant investments during FY2023.

10. Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During FY2023, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures by the Group.

Set out below is the financial information of the Target Company which comprises summaries of (i) the consolidated statements of financial position of the Target Company as at 31 December 2021, 2022 and 2023; (ii) the consolidated statements of profit or loss and other comprehensive income; and (iii) the consolidated statements of cash flows of the Target Company for each of three years ended 31 December 2021, 2022 and 2023.

The financial information disclosed in this appendix is extracted from the audited consolidated financial statements of the Target Company prepared by its PRC auditor for the year ended 31 December 2021 in accordance with the IFRS and for the two years ended 31 December 2022 and 2023 in accordance with the Chinese Accounting Standards, respectively.

SUMMARY OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December		
	2023	**2022**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	1,293,466	1,500,841	1,417,425
Cost of sales	(1,033,081)	(1,107,544)	(1,091,592)
Gross profit	260,385	393,297	325,833
(Loss)/profit for the year	(17,499)	124,567	66,135
Attributable to:			
Owners of the parent	(16,381)	125,014	66,135
Non-controlling interests	(1,118)	(447)	–
	(17,499)	124,567	66,135
(Loss)/profit for the year	(17,499)	124,567	66,135
Other comprehensive (loss)/income	(7,375)	8,206	–
Total comprehensive (loss)/income	(24,874)	132,773	66,135
Attributable to:			
Owners of the parent	(23,750)	133,245	66,135
Non-controlling interests	(1,124)	(472)	–
	(24,874)	132,773	66,135

SUMMARY OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2023	**2022**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Total non-current assets	902,388	887,997	862,308
Total current assets	1,420,546	1,096,568	939,417
Total current liabilities	(1,511,503)	(919,936)	(857,223)
Total non-current liabilities	(206,383)	(461,236)	(520,015)
Net assets	605,048	603,393	424,487
Equity attributable to owners of the parent	596,101	593,323	424,487
Non-controlling interests	8,947	10,070	–
	605,048	603,393	424,487

SUMMARY OF CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December		
	2023	**2022**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Net cash provided by operating activities	104,726	271,019	161,905
Net cash used in investing activities	(203,280)	(76,476)	(131,498)
Net cash provided by/(used in) financing activities	181,452	(64,634)	(42,382)
Net increase/(decrease) in cash and cash equivalents	82,898	129,909	(11,975)

INTRODUCTION

The following is the unaudited pro forma consolidated statement of financial position as at 31 December 2023, and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2023, and related notes (the "**Unaudited Pro Forma Financial Information**") of the Group excluding the Target Company (as defined below) (the "**Remaining Group**") in connection with the proposed disposal of the Group's equity interests in Source Photonics Holdings (Cayman) Limited (the "**Target Company**") (the "**Disposal**"), which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Disposal, as if the Disposal had been completed on 31 December 2023 or 1 January 2023, as appropriate.

The unaudited pro forma consolidated statement of financial position of the Remaining Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2023 as extracted from the Group's 2023 annual report after making pro forma adjustments relating to the Disposal as set out below. The Group's 2023 annual report includes the audited consolidated financial statements of the Group for the year ended 31 December 2023.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group are prepared based on the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2023 as extracted from the Group's 2023 annual report after making pro forma adjustments relating to the Disposal as set out below.

The Unaudited Pro Forma Financial Information has been prepared by the Directors in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Remaining Group as at 31 December 2023 or at any future date had the Disposal been completed on 31 December 2023, or the results of and cash flows of the Remaining Group for the year ended 31 December 2023 or for any future period had the Disposal been completed on 1 January 2023.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the Group's 2023 annual report and other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE REMAINING GROUP

	The Group for the year ended 31 December 2023	Pro forma adjustments			The Remaining Group for the year ended 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 4)*	*(Note 6)*	*(Note 7)*	
Revenue	522,261	–	–	–	522,261
Cost of sales	(451,588)	–	–	–	(451,588)
Gross profit	70,673	–	–	–	70,673
Other income, gains, expenses and losses, net	17,018	–	–	–	17,018
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	(2,451)	–	–	–	(2,451)
Changes in fair value of financial assets at fair value through profit or loss	(13,029)	–	13,029	(14,731)	(14,731)
Selling and distribution expenses	(19,491)	–	–	–	(19,491)
Administrative expenses	(35,323)	(1,500)	–	–	(36,823)
Research costs	(33,884)	–	–	–	(33,884)
Finance costs	(9,286)	–	–	–	(9,286)
Share of profit of an associate	10,854	–	–	–	10,854
Share of profit of a joint venture	5,583	–	–	–	5,583
Loss from income tax	(9,336)	(1,500)	13,029	(14,731)	(12,538)
Income tax credit	14,534	–	–	–	14,534
Profit and total comprehensive income for the year	5,198	(1,500)	13,029	(14,731)	1,996

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP

	The Group as at 31 December 2023	Pro forma adjustments				The Remaining Group as at 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current assets						
Property, plant and equipment	150,488	–	–	–	–	150,488
Right-of-use assets	47,380	–	–	–	–	47,380
Interest in an associate	97,145	–	–	–	–	97,145
Interest in a joint venture	47,756	–	–	–	–	47,756
Financial assets at fair value through profit or loss	154,121	(154,121)	–	–	–	–
Restricted bank deposits and balances	108,122	–	–	–	–	108,122
Bank deposits with original maturity more than three months	10,500	–	–	–	–	10,500
Deferred tax assets	31,013	–	–	–	–	31,013
	646,525	(154,121)	–	–	–	492,404
Current assets						
Inventories	32,882	–	–	–	–	32,882
Trade and bills receivable	342,535	–	–	–	–	342,535
Prepayments, deposits and other receivables	84,513	–	74,685	–	–	159,198
Restricted bank deposits and balances	65,672	–	–	–	–	65,672
Bank deposits, bank balances and cash	247,767	–	77,734	(1,500)	–	324,001
	773,369	–	152,419	(1,500)	–	924,288

	The Group as at 31 December 2023		Pro forma adjustments			The Remaining Group as at 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Current liabilities						
Trade and bills payable	259,318	–	–	–	–	259,318
Other payables	34,014	–	–	–	–	34,014
Contract liabilities	3,619	–	–	–	–	3,619
Lease liabilities	212	–	–	–	–	212
Bank borrowings	230,000	–	–	–	–	230,000
Tax payables	10,880	–	–	–	–	10,880
	538,043	–	–	–	–	538,043
Net current assets	235,326	–	152,419	(1,500)	–	386,245
Total assets less current liabilities	881,851	(154,121)	152,419	(1,500)	–	878,649
Capital and reserves						
Share capital	1,418	–	–	–	–	1,418
Reserves	776,630	–	–	–	(3,202)	773,428
Equity attributable to owners of the Company	778,048	–	–	–	(3,202)	774,846
Non-current liabilities						
Bank borrowings	80,000	–	–	–	–	80,000
Deferred tax liabilities	9,070	–	–	–	–	9,070
Deferred income – government grants	14,733	–	–	–	–	14,733
	103,803	–	–	–	–	103,803
	881,851	–	–	–	(3,202)	878,649

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE REMAINING GROUP

	The Group for the year ended 31 December 2023		Pro forma adjustments			The Remaining Group for the year ended 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 4)*	*(Note 6)*	*(Note 7)*	*(Note 8)*	
OPERATING ACTIVITIES						
Loss before income tax	(9,336)	(1,500)	13,029	(14,731)	–	(12,538)
Adjustments for:						
Interest income	(6,595)	–	–	–	–	(6,595)
Depreciation of property, plant and equipment	10,781	–	–	–	–	10,781
Depreciation of right-of-use assets	1,393	–	–	–	–	1,393
Loss on disposal of property, plant and equipment	15	–	–	–	–	15
Changes in fair value of financial assets at fair value through profit or loss	13,029	–	(13,029)	14,731	–	14,731
Government grants recognised	(466)	–	–	–	–	(466)
Foreign exchange losses, net	707	–	–	–	–	707
Impairment losses on trade and other receivables under expected credit loss model, net of reversal	2,451	–	–	–	–	2,451
Finance costs	9,286	–	–	–	–	9,286
Share of profit of an associate	(10,854)	–	–	–	–	(10,854)
Share of profit of a joint venture	(5,583)	–	–	–	–	(5,583)
Operating cash flows before movements in working capital	4,828	(1,500)	–	–	–	3,328

	The Group for the year ended 31 December 2023	Pro forma adjustments				The Remaining Group for the year ended 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 4)*	*(Note 6)*	*(Note 7)*	*(Note 8)*	
Decrease in inventories	25,774	–	–	–	–	25,774
Decrease in trade, bills and other receivables, deposits and prepayments	46,695	–	–	–	–	46,695
Increase in trade, bills and other payables	(67,086)	–	–	–	–	(67,086)
Increase in contract liabilities	673	–	–	–	–	673
Cash generated from operations	10,884	(1,500)	–	–	–	9,384
Income tax paid	(1,060)	–	–	–	–	(1,060)
Net cash generated from operating activities	9,824	(1,500)	–	–	–	8,324

	The Group for the year ended 31 December 2023		Pro forma adjustments			The Remaining Group for the year ended 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 4)*	*(Note 6)*	*(Note 7)*	*(Note 8)*	
INVESTING ACTIVITIES						
Purchases of property, plant and equipment and right-of-use assets	(77,931)	–	–	–	–	(77,931)
Dividend received from an associate	14,700	–	–	–	–	14,700
Dividend received from a joint venture	4,580	–	–	–	–	4,580
Withdrawal of interest in a joint venture	38,250	–	–	–	–	38,250
Withdrawal of bank deposits with original maturity more than three months	24,288	–	–	–	–	24,288
Placement of restricted bank deposits and balances	(144,471)	–	–	–	–	(144,471)
Withdrawal of restricted bank deposits and balances	144,969	–	–	–	–	144,969
Proceed from disposal of financial assets at fair value through profit or loss	–	–	–	–	152,419	152,419
Interest received	2,398	–	–	–	–	2,398
Net cash generated from investing activities	6,783	–	–	–	152,419	159,202

	The Group for the year ended 31 December 2023	Pro forma adjustments				The Remaining Group for the year ended 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 4)*	*(Note 6)*	*(Note 7)*	*(Note 8)*	
FINANCING ACTIVITIES						
Proceeds from bank borrowings	200,000	–	–	–	–	200,000
Repayments of bank borrowings	(168,020)	–	–	–	–	(168,020)
Repayments to a joint venture	(20,617)	–	–	–	–	(20,617)
Payments of interest expense on bank borrowings	(10,583)	–	–	–	–	(10,583)
Interest paid on lease liabilities	(11)	–	–	–	–	(11)
Payments of lease liabilities	(355)	–	–	–	–	(355)
Net cash generated from financing activities	414	–	–	–	–	414
Net increase in cash and cash equivalents	17,021	(1,500)	–	–	152,419	167,940
Cash and cash equivalents at beginning of the year	229,931	–	–	–	–	229,931
Effect of exchange rate changes on the balances of cash held in foreign currencies	815	–	–	–	–	815
Cash and cash equivalents at end of the year	247,767	(1,500)	–	–	152,419	398,686

Notes to the Unaudited Pro Forma Financial Information of the Remaining Group

1 The amounts are extracted from the audited consolidated financial statements as set out in the published annual report of the Company for the year ended 31 December 2023 dated 27 March 2024.

2 The adjustment represented derecognition of the carrying amount of the Sale Shares classified as financial assets at fair value through profit or loss as at 31 December 2023 as if the Disposal had taken place on 31 December 2023. The carry amount is extracted from the audited consolidated financial statements for the year ended 31 December 2023.

3 The adjustment represents the recognition of the Consideration from the Disposal of US$21,559,218 (equivalent to approximately RMB152,419,000) assuming that the 1st instalment of US$10,995,201 (equivalent to approximately RMB77,734,000) had been settled on Completion and the 2nd instalment of US$10,564,017 (equivalent to approximately RMB74,685,000) will be settled within nine month's period from the Completion by the Purchaser as if Completion had taken place on 31 December 2023. The details are as follows:

	RMB'000
Consideration in cash:	
Consideration	152,419
1st instalment	(77,734)
Consideration receivable	74,685

4 The adjustment represents the estimated transaction costs directly attributable to the Disposal, such as fee incurred for professional service, amounting to approximately RMB1,500,000 and assumed to be fully settled by cash on Completion. This adjustment will not have any continuing effect on the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Remaining Group.

5 The adjustment represents the estimated effect on profit or loss arising from the Disposal as if Completion had taken place on 31 December 2023 and the details of the calculation are as follows:

	RMB'000
Consideration	152,419
Carrying amount of the Sale Shares as at 31 December 2023	(154,121)
Estimated loss arising from the Disposal	(1,702)
Estimated transaction costs attributable to the Disposal	(1,500)
Estimated effect on profit or loss arising from the Disposal	(3,202)

6 The adjustment represents the reversal of the changes in fair value of the Sales Shares classified as financial assets at fair value through profit or loss for the year ended 31 December 2023, as if Completion had taken place on 1 January 2023. The changes in fair value are extracted from the audited consolidated financial statements for the year ended 31 December 2023. This adjustment will not have any continuing effect on the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Remaining Group.

7 The adjustment represents the estimated loss arising from the Disposal as if Completion had taken place on 1 January 2023 and the details of the calculation are as follows:

	RMB'000
Consideration	152,419
Carrying amount of the Sale Shares as at 1 January 2023	(167,150)
Estimated loss arising from the Disposal	(14,731)

This adjustment will not have any continuing effect on the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Remaining Group. The carrying amount of the Sale Shares is extracted from the audited consolidated financial statements for the year ended 31 December 2023.

8 The adjustment represents the recognition of the Consideration from the Disposal of US$21,559,218 (equivalent to approximately RMB152,419,000) assuming that the 1st Instalment of US$10,995,201 (equivalent to approximately RMB77,734,000) had been settled on Completion and the 2nd instalment of US$10,564,017 (equivalent to approximately RMB74,685,000) has been settled within nine month's period from the Completion by the Purchaser as if Completion had taken place on 1 January 2023. This adjustment will not have any continuing effect on the consolidated statement of cash flows of the Remaining Group.

9 Apart from the above, no adjustments have been made to reflect any trading or other transactions of the Remaining Group (a) entered into subsequent to 31 December 2023 for the purpose of the unaudited pro forma consolidated statement of financial position, and (b) entered into subsequent to 1 January 2023 for the purpose of unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows.

10. The conversion of US$ into RMB as of 1 January 2023 and 31 December 2023 and for the year ended 31 December 2023 is based on the exchange rate of approximately US$1 to RMB7.070.

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

Set out below is the text of the independent reporting accountants' assurance report received from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

TO THE DIRECTORS OF NANFANG COMMUNICATION HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Nanfang Communication Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2023 and the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2023, and related notes as set out on III-1 to III-10 of Appendix III of the circular dated 23 August 2024 (the "**Circular**") in connection with the proposed disposal of the Group's equity interest in Source Photonics Holdings (Cayman) Limited (the "**Target Company**"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the proposed disposal of the Group's equity interest in the Target Company (the "**Disposal**") on the Group's financial position as at 31 December 2023 as if the Disposal had taken place at 31 December 2023, and the Group's financial performance and cash flows for the year ended 31 December 2023 as if the Disposal had taken place at 1 January 2023. As part of this process, information about the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows has been extracted by the directors of the Company from the Group's audited consolidated financial statements for the year ended 31 December 2023, on which an independent auditor's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Management 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Disposal as at 31 December 2023 or 1 January 2023 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong
23 August 2024

STATEMENT

1. The assets appraisal report is prepared in accordance with the Assets Appraisal Basic Standards issued by the Ministry of Finance and the Code of Practice for Assets Appraisal and Code of Professional Ethics issued by China Appraisal Society.
2. The client or any other user of the assets appraisal report shall use the assets appraisal report in accordance with the provisions of laws and administrative regulations and the scope of use specified in the assets appraisal report; If the client or any other user of the assets appraisal report uses the assets appraisal report in violation of the foregoing provisions, the assets appraisal institution and the assets appraisers shall not be liable. The assets appraisal report shall only be used by the client, other users of the assets appraisal report as agreed in the Assets Appraisal Commission Contract and users of the assets appraisal report as stipulated by laws and administrative regulations. No other institution or individual can be the user of the assets appraisal report. The assets appraisal institution and the assets appraisers remind the user of the assets appraisal report to correctly understand the appraisal conclusion, which is not equal to the realizable price of the appraisal object, and shall not be regarded as a guarantee for the realizable price of the appraisal object.
3. The assets appraisal institution and its assets appraisers abide by laws, administrative regulations and assets appraisal standards, adhere to the principles of independence, objectivity and impartiality, and assume responsibility for the assets appraisal report issued according to law.
4. The list of assets and liabilities relating to the appraisal object is declared by the client and the evaluated unit and confirmed by them with signature, seal or other means permitted by law; The client and other relevant parties shall be responsible for the authenticity, completeness and legality of the materials provided by them according to law.
5. The assets appraisal institution and the assets appraisers have no existing or expected interest relation with the appraisal object in the assets appraisal report, no existing or expected interest relation with the relevant parties, and no bias against the relevant parties.
6. The assets appraisers have carried out field investigation on, paid necessary attention to the legal ownership status of and checked the legal ownership information of the appraisal object and the assets involved in the assets appraisal report, truthfully disclosed the problems discovered, and asked the client and other relevant parties to improve the property rights to meet the requirements for issuing the assets appraisal report.
7. The analysis, judgment and results in the assets appraisal report issued by the assets appraisal institution shall be subject to the assumptions and restrictions in the assets appraisal report, and the user of the assets appraisal report shall take full account of the assumptions, restrictions and special matters stated in the assets appraisal report and their impact on the appraisal conclusion.

Vantone Neo Development Group Co., Ltd
All equity items of shareholders of Source Photonics Holdings (Cayman) Limited involved in the proposed cash purchase of assets
Summary of Asset Appraisal Report

TXPBZI [2024] No. 0768

PAN-CHINA ASSETS APPRAISAL CO., LTD. has accepted the commission of Vantone Neo Development Group Co., Ltd to evaluate the market value of all equity items of shareholders of Source Photonics Holdings (Cayman) Limited involved in the proposed cash purchase of assets by Vantone Neo Development Group Co., Ltd. as of December 31, 2023 by the income approach and market approach in accordance with relevant laws, administrative regulations, and asset appraisal standards and in the principles of independence, objectivity, and impartiality and necessary appraisal procedures. The asset appraisal report is as follows.

1. Appraisal purpose: Vantone Neo Development Group Co., Ltd intends to pay cash to purchase the equity of Source Photonics Holdings (Cayman) Limited according to the *Announcement of the 33rd Extraordinary Meeting of the 8th Board of Directors of Vantone Neo Development Group Co., Ltd*. Therefore, it is necessary to evaluate all the equity of the shareholders involved in Source Photonics Holdings (Cayman) Limited to provide value reference basis for economic behavior.
2. Appraisal object: All the equity of the shareholders of shareholder equity of Source Photonics Holdings (Cayman) Limited as of the appraisal benchmark date.
3. Appraisal scope: The overall assets of Source Photonics Holdings (Cayman) Limited, including all assets and related liabilities.
4. Value type: market value.
5. Appraisal benchmark date: December 31, 2023.
6. Appraisal methods: income approach, market approach.
7. Appraisal conclusion:

The appraisers have evaluated the evaluated objects separately by the income approach and market approach in the appraisal and ultimately selected the appraisal results by the market approach as the appraisal conclusion after analysis.

Under the assumption of continuous operation on the benchmark date, The total equity value of shareholders of Source Photonics Holdings (Cayman) Limited is 4,125 million yuan (equivalent to 582.405 million US dollars based on middle price 7.0827 of the US dollar to RMB exchange rate authorized by the China Foreign Exchange Trading Center on the benchmark date) after appraisal by the market approach, including 596.1008 million yuan of the owner's equity attributable to the parent company and assessed appreciation of 3528.8992 million yuan and appreciation rate of 592.00%.

When using the appraisal conclusion of this report, users should pay attention to the impact of item 11 "Special Notes" in the main text of this report on the appraisal conclusion; and pay attention to the appraisal assumptions and prerequisites for the establishment of the appraisal conclusion.

Users of the report are reminded to pay special attention to the significant matters mentioned in item 11 "Special Notes" in the main text of this report that may affect the appraisal conclusion but are not assessed and estimated by asset appraisers based on the professional level and ability.

This report and its conclusions are only intended for the appraisal purposes set forth in this report and cannot be used for other purposes.

According to relevant national regulations, the validity period for the use of this appraisal report is one year, from the appraisal benchmark date of December 31, 2023 to December 30, 2024.

The above content is excerpted from the main body of the appraisal report. The report user should carefully read the entire appraisal report with the permission of the owner of the appraisal report, and pay attention to the section of special notes to understand the comprehensive situation of this appraisal project and reasonably understand the appraisal conclusion.

PAN-CHINA ASSETS APPRAISAL CO., LTD. (sealed)

Vantone Neo Development Group Co., Ltd
All equity items of shareholders of Source Photonics Holdings (Cayman) Limited involved in the proposed cash purchase of assets
Assets Appraisal Report

TXPBZI [2024] No. 0768

Vantone Neo Development Group Co., Ltd.:

PAN-CHINA ASSETS APPRAISAL CO., LTD. has accepted your commission to evaluate the market value of all equity items of shareholders of Source Photonics Holdings (Cayman) Limited involved in the proposed cash purchase of assets by Vantone Neo Development Group Co., Ltd. as of December 31, 2023 by the income approach and market approach in accordance with relevant laws, administrative regulations, and asset appraisal standards and in the principles of independence, objectivity, and impartiality and necessary appraisal procedures. The asset appraisal report is as follows.

1. OVERVIEW OF THE CLIENT, THE EVALUATED UNIT, AND OTHER USERS OF THE APPRAISAL REPORT AS STIPULATED IN THE APPRAISAL COMMISSION CONTRACT

(1) Overview of the client

1. Basic information

Company name: Vantone Neo Development Group Co., Ltd. (hereinafter referred to as "Vantone Neo Development")

Unified Social Credit Code: 91110000633715962Q

Registered address: Room 501-551, Floor 5, Building 9, No.1 Nongda South Road, Haidian District, Beijing

Legal representative: Yihui Wang

Registered capital: RMB1987.381962 million

Enterprise type: Other limited liability companies (listed)

Established on: December 30, 1998

Business term: December 30, 1998 to long-term

Business scope: Technical services and development of smart cities, smart buildings, digital technology, intelligent technology, and smart systems; software development; data processing (excluding bank card centers and cloud computing data centers with PUE values above 1.4); big data services; information system integration services; real estate development; sales of commercial housing; construction and operation management of parking lots; information consulting (excluding intermediaries); technical consultation; labor dispatch; investment; investment management; asset management; Internet information service; the first type of value-added telecommunications services; network cultural management.

2. Company profile

Vantone Neo Development is a pioneer explorer and contributor to urban planning and construction in China, as well as an important witness and participant in the high-quality development of the capital market in China. Having been listed on the A-share market for over 20 years (share code: 600246. SH), it has maintained a positive attitude and pursued a long-term goal, firmly controlled the scale, operated rationally, and pursued value enhancement, deeply involved in real estate investment and development, real estate operation and management, and industrial finance research and operation and demonstrated strong resilience and strategic potential.

Vantone Neo Development presses ahead and sets sail based on a higher starting point. Relying on forward-looking planning ability, key resource ability and asset reserve strength, it seeks good resources, aims at good markets, cultivates good technology, builds a good team, lays out the transformation in the era of AI and satellite Internet, continues to promote the development strategy with communication and digital technology as the strategic transformation direction, and works hard to write a new chapter of high-quality development in the new era.

(2) Overview of the evaluated unit

1. Basic information

Company name: Source Photonics Holdings (Cayman) Limited (hereinafter referred to as "Source Photonics")

Registered address: British Cayman Islands

Statutory capital: $50,000 (with 500 million shares to be issued)

Paid-up capital: $20,571.48 (with 205.7148 million shares issued)

Established on: November 17, 2010

2. Company profile and historical evolution

(1) The establishment of Source Photonics and equity change phase from November 2010 to July 2016

1) Source Photonics was established and transferred the shares for the first time in November 2010

The Cayman agent made a resolution agreeing to establish Source Photonics on November 17, 2010. Source Photonics would issue 1 ordinary share with book value of $1 to the Cayman agent and agreed the Cayman agent to transfer its 1 ordinary share to Francisco Partners II (Cayman), L.P. The Cayman agent shall sign the corresponding share transfer documents.

The equity structure of Source Photonics is as follows after the completion of share transfer:

Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
Francisco Partners II (Cayman), L.P.	Ordinary shares	1	100.00

2) Source Photonics issued shares in December 2010 for the first time

The directors of Source Photonics made a resolution on December 17, 2010 to: (1) issue 97.64464 shares to Francisco Partners II (Cayman), L.P.; (2) issue 1.35536 shares to Francisco Partners Parallel Fund II, L.P.

The equity structure of Source Photonics is as follows after the completion of share issuance:

Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
Francisco Partners II (Cayman), L.P.	Ordinary shares	98.64464	98.64
Francisco Partners Parallel Fund II, L.P.		1.35536	1.36
Total	–	**100.00**	**100.00**

3) Source Photonics issued shares in December 2010 for the second time

Francisco Partners II (Cayman), L.P. and Francisco Partners Parallel Fund II, L.P. made a shareholder resolution on December 23, 2010 to: (1) divide the registered capital of $50,000 of Source Photonics into 500,000,000 shares; (2) repurchase all shares of Source Photonics held by Francisco Partners II (Cayman), L.P, Francisco Partners Parallel Fund II, L.P.

The directors of Source Photonics made a resolution on the same day to agree (1) Francisco Partners II (Cayman), L.P. to subscribe for 98.47 ordinary shares of Source Photonics at a price of $82.99 and 131,863,404.544 preferred shares of Source Photonics at a price of $111,129,206.9; (2) Francisco Partners Parallel Fund II, L.P. to subscribe for 1.353 ordinary shares of Source Photonics at a price of $1.15 and 1,811,778.625 preferred shares of Source Photonics at a price of $1,526,894.61; (3) InSite Partners, LLC to subscribe for 0.1777 ordinary shares of Source Photonics at a price of $0.15 and 237,315.301 preferred shares of Source Photonics at a price of $199,999.85.

The equity structure of Source Photonics is as follows after the completion of share issuance:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Francisco Partners II (Cayman), L.P	Ordinary shares	98.47	98.47
2		Preferred shares	131,863,306.074	
Subtotal		**–**	**131,863,404.544**	
3	Francisco Partners Parallel Fund II, L.P.	Ordinary shares	1.353	1.35
4		Preferred shares	1,811,778.625	
Subtotal		**–**	**1,811,779.978**	
5	InSite Partners, LLC	Ordinary shares	0.177	0.18
6		Preferred shares	237,315.301	
Subtotal		**–**	**237,315.478**	
Total		**–**	**133,912,500**	**100.00**

(2) *The establishment of SPV2, senior shareholder of Source Photonics, and equity change phase from August 2016 to November 2022*

1) The SPV2 framework was established, and SPV2 transferred and issued shares for the first time in August 2016

The directors of Venus Pearl SPV2 Co. Limited (hereinafter referred to as "SPV2") made a resolution on August 4, 2016 to agree: (1) SPV2 will issue 1 ordinary share to the Cayman agent and the Cayman agent will transfer it to Venus Pearl Holding Co. Limited; (2) SPV2 will issue 999 ordinary shares to Venus Pearl Holding Co Limited. The Cayman agent and Venus Pearl Holding Co Limited signed corresponding share transfer documents.

The equity structure of SPV2 is as follows after the completion of share transfer and issuance:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Venus Pearl Holding Co Limited	Ordinary shares	1,000	100.00

SPV1 and VPA were established as investment holding companies in the Cayman Islands in August 2016. The Cayman agent made a resolution on August 5, 2016 to agree to establish Venus Pearl SPV1 Co. Limited (hereinafter referred to as "SPV1"), which will issue 1 ordinary share with book value of 1 US dollar to the Cayman agent, and agree the Cayman agent to transfer 1 ordinary share to SPV2. The Cayman agent made a resolution on August 8, 2016 to agree to establish Venus Pearl Acquisition Co. Limited (hereinafter referred to as "VPA"), which will issue 1 ordinary share with book value of $1 to the Cayman agent, and agree the Cayman agent to transfer 1 ordinary share to SPV1. SPV2 indirectly holds 100% equity of VPA by holding 100% equity of SPV1, and the SPV architecture is completed.

2) SPV2 repurchased and issued shares for the second time in December 2016

SPV2 shareholders made a resolution on December 28, 2016 to agree to: (1) Divide SPV2's registered capital of $50,000 into 500,000,000 ordinary shares; (2) Repurchase 1000 shares of ordinary share held by Venus Pearl Holding Co Limited in SPV2 and re-issue 10,000,000 shares of ordinary share to it.

The equity structure of SPV2 is as follows after the completion of share issuance:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Venus Pearl Holding Co Limited	Ordinary shares	10,000,000	100.00

3) SPV2 repurchased and issued shares for the third time in January 2017

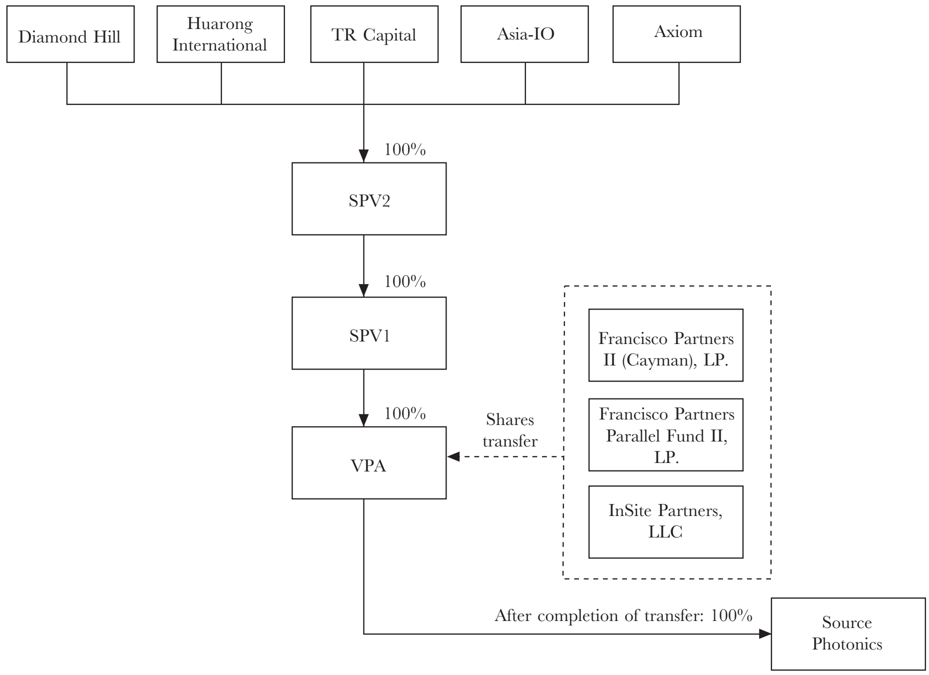
The directors of SPV2 made a resolution on December 28, 2016 to agree that the following five subscribers would subscribe to SPV2 ordinary shares at a price of $2.04 per share, including: (1) Diamond Hill subscribing to 64,215,686 ordinary shares of SPV2 at a price of $131,000,000; (2) Asia-IO subscribes for 3,560,372 ordinary shares of SPV2 at a price of $7,263,158; (3) Huarong International subscribes for 14,705,882 ordinary shares of SPV2 at a price of $30,000,000; (4) TR Capital subscribes for 12,254,902 ordinary shares of SPV2 at a price of $25,000,000; (5) Axiom subscribed for 5,263,158 ordinary shares of SPV2 at a price of $10,736,842. It agrees to repurchase and cancel the SPV2 shares held by Venus Pearl Holding Co Limited at a price of $1.

The equity structure of SPV2 is as follows after the completion of repurchase and share issuance:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Diamond Hill	Ordinary shares	64,215,686	64.22
2	Huarong International		14,705,882	14.71
3	TR Capital		12,254,902	12.25
4	Axiom		5,263,158	5.26
5	Asio-IO		3,560,372	3.56
Total		**–**	**100,000,000**	**100.00**

4) Source Photonics transferred and repurchased shares for the second time and issued shares for the third time, as well as SPV2 took over Source Photonics in January 2017

The board of directors of Source Photonics made a resolution on January 9, 2017 to approve the transfer of all shares of Source Photonics held by Francisco Partners II (Cayman), L.P, Francisco Partners Parallel Fund II, L.P., and InSite Partners, LLC to VPA, a wholly-owned subsidiary of SPV2. The aforementioned entities signed corresponding share transfer documents, as shown in the following figure:



Five shareholders including Diamond Hill indirectly hold all the shares of Source Photonics through the SPV structure after the completion of transfer. The equity structure of Source Photonics is as follows:

Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
VPA	Ordinary shares	100	100.00
	Preferred shares	133,912,400	
Total	–	**133,912,500**	

Shareholders of Source Photonics made a resolution on the same day to repurchase all the shares held by VPA in the company and reissue 133,912,500 ordinary shares to VPA.

SPV2 holds 100% of the shares of Source Photonics through VPA after the completion of repurchase and share issuance. The equity structure of Source Photonics is as follows:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	VPA	Ordinary shares	133,912,500	100.00

5) SPV2 transferred shares for the second time in December 2017

The board of directors of SPV2 made a resolution on December 26, 2017 to agree Huarong International to transfer its 1,273,003 ordinary shares of SPV2 to Dark Pool for a price of $7,500,000. The aforementioned entities signed corresponding share transfer documents.

The equity structure of SPV2 is as follows after the completion of share transfer:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Diamond Hill	Ordinary shares	64,215,686	64.22
2	Huarong International		13,432,879	13.43
3	TR Capital		12,254,902	12.25
4	Axiom		5,263,158	5.26
5	Asio-IO		3,560,372	3.56
6	Dark Pool		1,273,003	1.27
Total			**100,000,000**	**100.00**

6) SPV2's third share transferred shares for the third time in June 2018

The Board of Directors of SPV2 made a resolution on June 28, 2018 to agree that Dark Pool would return to Huarong International 925,049 ordinary shares corresponding to the price in accordance with the share transfer agreement signed between Huarong International and Dark Pool, as Dark Pool only paid share transfer price of $2,050,000 to Huarong International without paying share transfer price of $5,450,000. The aforementioned entities shall sign corresponding share transfer documents.

The equity structure of SPV2 is as follows after the completion of share transfer:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Diamond Hill	Ordinary shares	64,215,686	64.22
2	Huarong International		14,357,928	14.36
3	TR Capital		12,254,902	12.25
4	Axiom		5,263,158	5.26
5	Asio-IO		3,560,372	3.56
6	Dark Pool		347,954	0.35
Total			**100,000,000**	**100.00**

7) SPV2 issued shares for the fourth time in May 2019 (Series A financing)

On August 20, 2018, Diamond Hill and FinTrek respectively signed a *Share Subscription Agreement* with SPV2, agreeing to subscribe for SPV2 series A preferred shares at a price of $3.9009 per share, of which Diamond Hill subscribed for 2,591,425 shares at a price of $10,108,889; FinTrek subscribed for 5,127,022 shares at a price of $20,000,000.

SPV2 board of directors made a resolution on December 27, 2018 to agree to the subscription of 6,408,613 series A preferred shares of SPV2 by PSD at a price of $3.1208 per share, totaling $20,000,000.

The board of directors of SPV2 made a resolution on January 2, 2019 to agree to the subscription of 9,612,920 series A preferred shares of SPV2 by Shanghai Xiucheng at a price of $3.1208 per share, totaling $30,000,000.

The board of directors of SPV2 made a resolution on January 4, 2019 to agree to the subscription of 464,624 series A preferred shares of SPV2 by Shengshi Chuangxin at a price of $3.1208 per share, totaling $1,450,000.

SPV2 issued 647,773 and 1,281,591 series A preferred shares to Diamond Hill and FinTrek respectively on January 11, 2019 due to the adjustment of the price of series A preferred shares to the aforementioned $3.1208 per share.

The board of directors of SPV2 made resolutions on January 16 and May 23, 2019 to agree to the subscription of 19,225,840 series A preferred shares of SPV2 by Shanghai Lucun in two installments at a price of $3.1208 per share, totaling $60,000,000.

The equity structure of SPV2 is as follows after the completion of series A preferred share financing:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Diamond Hill	Ordinary shares	64,215,686	46.41
		Series A preferred shares	3,239,198	
	Subtotal		**67,454,884**	
2	Huarong International	Ordinary shares	14,357,928	9.88
3	TR Capital	Ordinary shares	12,254,902	8.43
4	Axiom	Ordinary shares	5,263,158	3.62
5	Asio-IO	Ordinary shares	3,560,372	2.45
6	Dark Pool	Ordinary shares	347,954	0.24
7	Shanghai Lucun	Series A preferred shares	19,225,840	13.23
8	Shanghai Xiucheng	Series A preferred shares	9,612,920	6.61
9	FinTrek	Series A preferred shares	6,408,613	4.41
10	PSD	Series A preferred shares	6,408,613	4.41
11	Shengshi Chuangxin	Series A preferred shares	464,624	0.32
Total			**145,359,808**	**100.00**

8) SPV2 issued shares for the fifth time (series B preferred share financing) and issued additional shares to shareholders of series A preferred shares in July 2020.

The board of directors of SPV2 made a resolution on March 31, 2020 to agree to: (1) the subscription of 6,490,019 series B preferred shares of SPV2 by Shanghai Yucun at a price of $2.2342 per share, totaling $14,500,000; (2) the subscription of 3,580,700 series B preferred shares of SPV2 by Diamond Hill at a price of $2.2342 per share, totaling $8,000,000.

The board of directors of SPV2 made a resolution on June 30, 2020 to agree to: (1) the subscription of 8,056,575 series B preferred shares of SPV2 by Shanghai Yucun at a price of $2.2342 per share, totaling $18,000,000; (2) the subscription of 895,175 series B preferred shares of SPV2 by Sunny Faith at a price of $2.2342 per share, totaling $2,000,000.

SPV2 issues series A preferred shares to shareholders of series A preferred shares due to the triggering of the anti-dilution clause in the *Shareholders Agreement*, and the issuance is as follows:

SN.	**Shareholder of Series A preferred shares**	**Number of reissued shares (shares)**
1	Shanghai Lucun	5,060,741
2	Shanghai Xiucheng	2,530,371
3	FinTrek	1,686,914
4	PSD	1,686,914
5	Diamond Hill	852,641
6	Shengshi Chuangxin	122,301

The equity structure of SPV2 is as follows after the completion of series B preferred share financing:

SN.	**Shareholders**	**Type of shares**	**Number of shares held (shares)**	**Shareholding ratio (%)**
1	Diamond Hill	Ordinary shares	64,215,686	40.77
		Series A preferred shares	4,091,839	
		Series B preferred shares	3,580,700	
	Subtotal		**71,888,225**	
2	Huarong International	Ordinary shares	14,357,928	8.14
3	TR Capital	Ordinary shares	12,254,902	6.95
4	Axiom	Ordinary shares	5,263,158	2.98
5	Asio-IO	Ordinary shares	3,560,372	2.02
6	Dark Pool	Ordinary shares	347,954	0.20
7	Shanghai Lucun	Series A preferred shares	24,286,581	13.77
8	Shanghai Xiucheng	Series A preferred shares	12,143,291	6.89
9	FinTrek	Series A preferred shares	8,095,527	4.59
10	PSD	Series A preferred shares	8,095,527	4.59
11	Shengshi Chuangxin	Series A preferred shares	586,925	0.33
12	Shanghai Yucun	Series B preferred shares	14,546,594	8.25
13	Sunny Faith	Series B preferred shares	895,175	0.51
Total			**176,322,159**	**100.00**

9) SPV2 transferred shares for the fourth time in May 2021

The SPV2 board of directors made a resolution on February 5, 2021 to agree: (1) Axiom to transfer its 5,263,158 ordinary shares of Source Photonics to Shanghai Qilan at a price of $11,868,948; (2) Shengshi Chuangxin to transfer its 292,091 series A preferred shares of Source Photonics to Shanghai Qilan for a price of $658,694. The aforementioned entities signed corresponding share transfer documents.

The equity structure of SPV2 is as follows after the completion of share transfer:

<table>
<tr><th>SN.</th><th>Shareholders</th><th>Type of shares</th><th>Number of shares held (shares)</th><th>Shareholding ratio (%)</th></tr>
<tr><td rowspan="4">1</td><td rowspan="3">Diamond Hill</td><td>Ordinary shares</td><td>64,215,686</td><td rowspan="4">40.77</td></tr>
<tr><td>Series A preferred shares</td><td>4,091,839</td></tr>
<tr><td>Series B preferred shares</td><td>3,580,700</td></tr>
<tr><td colspan="2">Subtotal</td><td>71,888,225</td></tr>
<tr><td rowspan="3">2</td><td rowspan="2">Shanghai Qilan</td><td>Ordinary shares</td><td>5,263,158</td><td rowspan="3">3.15</td></tr>
<tr><td>Series A preferred shares</td><td>292,091</td></tr>
<tr><td colspan="2">Subtotal</td><td>5,555,249</td></tr>
<tr><td>3</td><td>Huarong International</td><td>Ordinary shares</td><td>14,357,928</td><td>8.14</td></tr>
<tr><td>4</td><td>TR Capital</td><td>Ordinary shares</td><td>12,254,902</td><td>6.95</td></tr>
<tr><td>5</td><td>Asio-IO</td><td>Ordinary shares</td><td>3,560,372</td><td>2.02</td></tr>
<tr><td>6</td><td>Dark Pool</td><td>Ordinary shares</td><td>347,954</td><td>0.20</td></tr>
<tr><td>7</td><td>Shanghai Lucun</td><td>Series A preferred shares</td><td>24,286,581</td><td>13.77</td></tr>
<tr><td>8</td><td>Shanghai Xiucheng</td><td>Series A preferred shares</td><td>12,143,291</td><td>6.89</td></tr>
<tr><td>9</td><td>FinTrek</td><td>Series A preferred shares</td><td>8,095,527</td><td>4.59</td></tr>
<tr><td>10</td><td>PSD</td><td>Series A preferred shares</td><td>8,095,527</td><td>4.59</td></tr>
<tr><td>11</td><td>Shengshi Chuangxin</td><td>Series A preferred shares</td><td>294,834</td><td>0.17</td></tr>
<tr><td>12</td><td>Shanghai Yucun</td><td>Series B preferred shares</td><td>14,546,594</td><td>8.25</td></tr>
<tr><td>13</td><td>Sunny Faith</td><td>Series B preferred shares</td><td>895,175</td><td>0.51</td></tr>
<tr><td colspan="3">Total</td><td>176,322,159</td><td>100.00</td></tr>
</table>

10) SPV2 issued shares for the sixth time in June 2021 (series C preferred share financing)

Shanghai Anjian and SPV2 signed the *Share Subscription Agreement* on June 16, 2021 to subscribe for 12,031,394 series C preferred shares of SPV2 at a price of $2.4102 per share, totaling $29,000,000; on the same day, Yicun Zhigeng signed the *Share Subscription Agreement* with SPV2 to subscribe for 8,297,514 series C preferred shares of SPV2 at a total price of $2.4102 per share, totaling $20,000,000; on June 20, Yicun International Holdings signed the *Share Subscription Agreement* with SPV2 to subscribe for 4,563,632 series C preferred shares of SPV2 at a price of $2.4102 per share, totaling $11,000,000.

SPV2 shareholders made a resolution on December 28, 2021 to agree to the above-mentioned share subscription.

The equity structure of SPV2 is as follows after the completion of series C preferred share financing:

<table>
<tr><th>SN.</th><th>Shareholders</th><th>Type of shares</th><th>Number of shares held (shares)</th><th>Shareholding ratio (%)</th></tr>
<tr><td rowspan="4">1</td><td rowspan="3">Diamond Hill</td><td>Ordinary shares</td><td>64,215,686</td><td rowspan="4">35.73</td></tr>
<tr><td>Series A preferred shares</td><td>4,091,839</td></tr>
<tr><td>Series B preferred shares</td><td>3,580,700</td></tr>
<tr><td colspan="2">Subtotal</td><td>71,888,225</td></tr>
</table>

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
2	Shanghai Qilan	Ordinary shares	5,263,158	2.76
		Series A preferred shares	292,091	
	Subtotal		**5,555,249**	
3	Huarong International	Ordinary shares	14,357,928	7.14
4	TR Capital	Ordinary shares	12,254,902	6.09
5	Asio-IO	Ordinary shares	3,560,372	1.77
6	Dark Pool	Ordinary shares	347,954	0.17
7	Shanghai Lucun	Series A preferred shares	24,286,581	12.07
8	Shanghai Xiucheng	Series A preferred shares	12,143,291	6.03
9	FinTrek	Series A preferred shares	8,095,527	4.02
10	PSD	Series A preferred shares	8,095,527	4.02
11	Shengshi Chuangxin	Series A preferred shares	294,834	0.15
12	Shanghai Yucun	Series B preferred shares	14,546,594	7.23
13	Sunny Faith	Series B preferred shares	895,175	0.44
14	Shanghai Anjian	Series C preferred shares	12,031,394	5.98
15	Yicun Zhigeng	Series C preferred shares	8,297,514	4.12
16	Yicun International Holdings	Series C preferred shares	4,563,632	2.27
Total			**201,214,699**	**100.00**

11) SPV2 transferred shares for the fifth time in December 2021

The board of directors of SPV2 made a resolution on December 20, 2021 to approve the transfer of 14,357,928 ordinary shares of SPV2 held by Huarong International to PLANETARY GEAR for $29,361,962.76. The aforementioned entities signed corresponding share transfer documents.

The equity structure of SPV2 is as follows after the completion of share transfer:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Diamond Hill	Ordinary shares	64,215.686	35.73
		Series A preferred shares	4,091,839	
		Series B preferred shares	3,580,700	
	Subtotal		**71,888,225**	
2	Shanghai Qilan	Ordinary shares	5,263,158	2.76
		Series A preferred shares	292,091	
	Subtotal		**5,555,249**	
3	PLANETARY GEAR	Ordinary shares	14,357,928	7.14
4	TR Capital	Ordinary shares	12,254,902	6.09
5	Asio-IO	Ordinary shares	3,560,372	1.77
6	Dark Pool	Ordinary shares	347,954	0.17

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
7	Shanghai Lucun	Series A preferred shares	24,286,581	12.07
8	Shanghai Xiucheng	Series A preferred shares	12,143,291	6.03
9	FinTrek	Series A preferred shares	8,095,527	4.02
10	PSD	Series A preferred shares	8,095,527	4.02
11	Shengshi Chuangxin	Series A preferred shares	294,834	0.15
12	Shanghai Yucun	Series B preferred shares	14,546,594	7.23
13	Sunny Faith	Series B preferred shares	895,175	0.44
14	Shanghai Anjian	Series C preferred shares	12,031,394	5.98
15	Yicun Zhigeng	Series C preferred shares	8,297,514	4.12
16	Yicun International Holdings	Series C preferred shares	4,563,632	2.27
Total			**201,214,699**	**100.00**

12) SPV2 issued additional shares to shareholders of series A preferred shares in December 2021

SPV2 made a shareholder resolution on December 28, 2021 to agree to issue series A preferred shares to shareholders of series A preferred shares as follows due to the anti -dilution clause in the *Shareholders Agreement* triggered by series C preferred share financing:

SN.	Shareholder of Series A preferred shares	Number of reissued shares (shares)
1	Shanghai Lucun	63,510
2	Shanghai Xiucheng	31,754
3	FinTrek	21,170
4	PSD	21,170
5	Diamond Hill	10,700
6	Shengshi Chuangxin	766
7	Shanghai Qilan	764

The equity structure of SPV2 is as follows after the completion of the issuance of series A preferred shares:

<table>
<tr><th>SN.</th><th>Shareholders</th><th>Type of shares</th><th>Number of shares held (shares)</th><th>Shareholding ratio (%)</th></tr>
<tr><td rowspan="4">1</td><td rowspan="3">Diamond Hill</td><td>Ordinary shares</td><td>64,215,686</td><td rowspan="4">35.71</td></tr>
<tr><td>Series A preferred shares</td><td>4,102,539</td></tr>
<tr><td>Series B preferred shares</td><td>3,580,700</td></tr>
<tr><td colspan="2">Subtotal</td><td>71,898,925</td></tr>
<tr><td rowspan="3">2</td><td rowspan="2">Shanghai Qilan</td><td>Ordinary shares</td><td>5,263,158</td><td rowspan="3">2.76</td></tr>
<tr><td>Series A preferred shares</td><td>292,855</td></tr>
<tr><td colspan="2">Subtotal</td><td>5,556,013</td></tr>
<tr><td>3</td><td>PLANETARY GEAR</td><td>Ordinary shares</td><td>14,357,928</td><td>7.13</td></tr>
<tr><td>4</td><td>TR Capital</td><td>Ordinary shares</td><td>12,254,902</td><td>6.09</td></tr>
<tr><td>5</td><td>Asio-IO</td><td>Ordinary shares</td><td>3,560,372</td><td>1.77</td></tr>
<tr><td>6</td><td>Dark Pool</td><td>Ordinary shares</td><td>347,954</td><td>0.17</td></tr>
</table>

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
7	Shanghai Lucun	Series A preferred shares	24,350,091	12.09
8	Shanghai Xiucheng	Series A preferred shares	12,175,045	6.05
9	FinTrek	Series A preferred shares	8,116,697	4.03
10	PSD	Series A preferred shares	8,116,697	4.03
11	Shengshi Chuangxin	Series A preferred shares	295,600	0.15
12	Shanghai Yucun	Series B preferred shares	14,546,594	7.22
13	Sunny Faith	Series B preferred shares	895,175	0.44
14	Shanghai Anjian	Series C preferred shares	12,031,394	5.97
15	Yicun Zhigeng	Series C preferred shares	8,297,514	4.12
16	Yicun International Holdings	Series C preferred shares	4,563,632	2.27
Total			**201,364,533**	**100.00**

(3) The dismantling of SPV structure and changes in equity of Source Photonics since December 2022

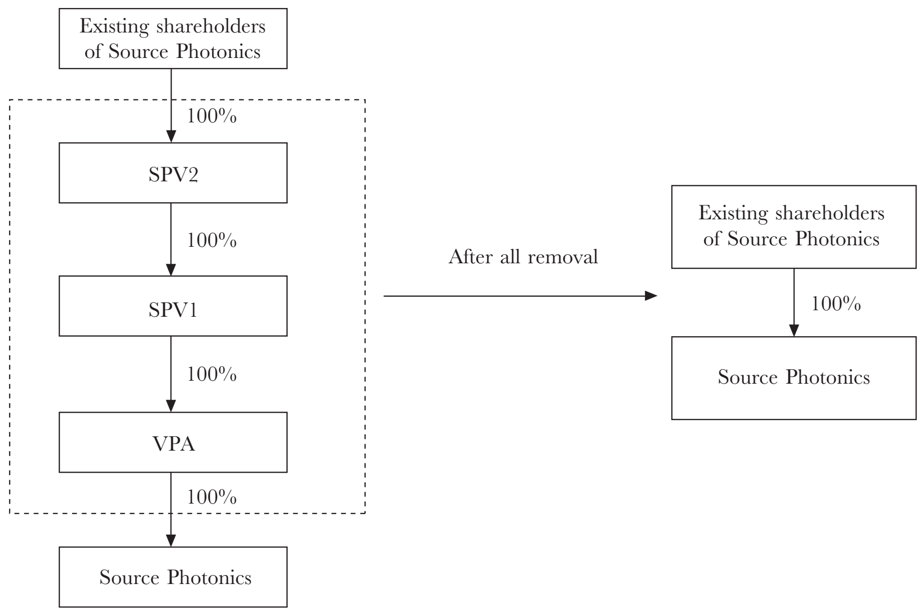
1) Source Photonics and SPV2 completed the adjustment and restructuring of equity structure, as well as the share transfer of Source Photonics for the third time in December 2022

SPV2, all shareholders of SPV2, Source Photonics, and VPA signed a *Share Exchange Agreement* on November 30, 2022, agreeing SPV2 ordinary shareholders to sell and transfer the shares held by SPV2 shareholders to VPA in exchange for an equal number of Source Photonics shares.

The board of directors and shareholders of Source Photonics respectively made resolutions on December 5 and 6, 2022 to agree to: (1) the reclassification of Source Photonics shares; (2) the exchange of shares between VPA and SPV2 shareholders for Source Photonics and SPV2 shares; (3) the adoption of the third revised and restated *Articles of Association* by Source Photonics.

SPV2 shareholders made a resolution on December 6, 2022 to agree to the implementation of the *Share Exchange Agreement*.

The shareholders of Source Photonics directly hold the shares of Source Photonics and the SPV structure is completely dismantled after the completion of this share exchange.



The equity structure of Source Photonics is as follows after the completion of structural adjustment:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Diamond Hill	Ordinary shares	64,215,686	35.71
		Series A preferred shares	4,102,539	
		Series B preferred shares	3,580,700	
	Subtotal		**71,898,925**	
2	Shanghai Qilan	Ordinary shares	5,263,158	2.76
		Series A preferred shares	292,855	
	Subtotal		**5,556,013**	
3	PLANETARY GEAR	Ordinary shares	14,357,928	7.13
4	TR Capital	Ordinary shares	12,254,902	6.09
5	Asio-IO	Ordinary shares	3,560,372	1.77
6	Dark Pool	Ordinary shares	347,954	0.17
7	Shanghai Lucun	Series A preferred shares	24,350,091	12.09
8	Shanghai Xiucheng	Series A preferred shares	12,175,045	6.05
9	FinTrek	Series A preferred shares	8,116,697	4.03
10	PSD	Series A preferred shares	8,116,697	4.03
11	Shengshi Chuangxin	Series A preferred shares	295,600	0.15
12	Shanghai Yucun	Series B preferred shares	14,546,594	7.22
13	Sunny Faith	Series B preferred shares	895,175	0.44
14	Shanghai Anjian	Series C preferred shares	12,031,394	5.97
15	Yicun Zhigeng	Series C preferred shares	8,297,514	4.12
16	Yicun International Holdings	Series C preferred shares	4,563,632	2.27

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
Total			**201,364,533**	**100.00**

2) Source Photonics issued additional shares to shareholders of series A, series B, and series C preferred shares in August 2023

The subscription price of series C preferred shares was adjusted from $2.4102 per share to $2.1211 per share on August 18, 2023 due to the failure of Source Photonics to achieve the relevant agreement goals. Therefore, the shareholders of Source Photonics made a resolution to agree to: (1) issue additional shares to shareholders of series C preferred shares; (2) issue shares to shareholders of series A and series B preferred shares as the decreased price of series C preferred shares was lower than the prices of Series A and B preferred shares, which triggered the anti-dilution clause in the *Shareholders Agreement*. The share issuance is as follows:

SN.	Shareholders	Type of shareholders	Number of reissued shares (shares)
1	Diamond Hill	Shareholder of Series A preferred shares	59,944
2	FinTrek		118,596
3	PSD		118,596
4	Shanghai Xiucheng		177,895
5	Shengshi Chuangxin		4,324
6	Shanghai Lucun		355,788
7	Shanghai Qilan		4,279
8	Diamond Hill	Shareholder of Series B preferred shares	21,885
9	Shanghai Yucun		88,906
10	Sunny Faith		5,471
11	Shanghai Anjian	Shareholder of Series C preferred shares	1,640,757
12	Yicun Zhigeng		1,131,556
13	Yicun International Holdings		622,356

The equity structure of Source Photonics is as follows after the completion of share issuance:

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
1	Diamond Hill	Ordinary shares	64,215,686	31.22
		Series A preferred shares	4,162,483	2.02
		Series B preferred shares	3,602,585	1.75
	Subtotal		**71,980,754**	34.99
2	Shanghai Qilan	Ordinary shares	5,263,158	2.56
		Series A preferred shares	297,134	0.14
	Subtotal		**5,560,292**	2.70
3	PLANETARY GEAR	Ordinary shares	14,357,928	6.98
4	TR Capital	Ordinary shares	12,254,902	5.96
5	Asio-IO	Ordinary shares	3,560,372	1.73
6	Dark Pool	Ordinary shares	347,954	0.17
7	Shanghai Lucun	Series A preferred shares	24,705,879	12.01

SN.	Shareholders	Type of shares	Number of shares held (shares)	Shareholding ratio (%)
8	Shanghai Xiucheng	Series A preferred shares	12,352,940	6.00
9	FinTrek	Series A preferred shares	8,235,293	4.00
10	PSD	Series A preferred shares	8,235,293	4.00
11	Shengshi Chuangxin	Series A preferred shares	299,924	0.15
12	Shanghai Yucun	Series B preferred shares	14,635,500	7.11
13	Sunny Faith	Series B preferred shares	900,646	0.44
14	Shanghai Anjian	Series C preferred shares	13,672,151	6.65
15	Yicun Zhigeng	Series C preferred shares	9,429,070	4.58
16	Yicun International Holdings	Series C preferred shares	5,185,988	2.52
Total			**205,714,886**	**100.00**

(4) Employee share ownership plan of Source Photonics

1) ESOP establishment and changes at the SPV2 level

The shareholders meeting of SPV2 made a resolution on February 7, 2017 to approve the *2017 Employee Share Option Scheme* and reserve 11,535,678 non-voting ordinary share options according to the plan.

The SPV2 shareholders meeting made a resolution on November 26, 2019 to approve the *2017 Employee Share Option Scheme (Revised in 2019)* and reserve 5,039,979 non-voting ordinary share options based on the plan. The total ESOP equity at the SPV2 level corresponds to a total of 16,575,657 non-voting ordinary share options after the reserve of the option.

The SPV2 shareholders meeting made a resolution on October 16, 2020 to approve the *2017 Employee Share Option Scheme (Revised in 2020)* and reserve 14,540,018 non-voting ordinary share options based on the plan. The total ESOP equity at the SPV2 level corresponds to a total of 31,115,675 non-voting ordinary share options after the completion of the reserved options.

2) ESOP translation to Source Photonics level at the SPV2 level

Source Photonics and SPV2 completed the adjustment and restructuring of equity structure in December 2022.

The shareholders meeting of Source Photonics made a resolution on August 18, 2023 to transfer the ESOP at the SPV2 level to Source Photonics level, which meant that Source Photonics would re-develop and implement the relevant employee incentive plan.

3) Changes in ESOP at the Source Photonics level

The shareholders meeting of Source Photonics made a resolution on November 25, 2023 to reserve 11,841,528 non-voting ordinary share options. The total ESOP equity of Source Photonics corresponds to a total of 42,957,203 non-voting ordinary share options after the completion of the reserved options.

The shareholders who directly hold the shares of Source Photonics are as follows as of the appraisal benchmark date:

Name of Shareholders	Number of shares held (shares)	Shareholding ratio (%)
Diamond Hill	71,980,754	34.99
Shanghai Lucun	24,705,879	12.01
Shanghai Yucun	14,635,500	7.11
PLANETARY GEAR	14,357,928	6.98
Shanghai Anjian	13,672,151	6.65
Shanghai Xiucheng	12,352,940	6.00
TR Capital	12,254,902	5.96
Yicun Zhigeng	9,429,070	4.58
FinTrek	8,235,293	4.00
PSD	8,235,293	4.00
Shanghai Qilan	5,560,292	2.70
Yicun International Holdings	5,185,988	2.52
Asia-IO	3,560,372	1.73
Sunny Faith	900,646	0.44
Dark Pool	347,954	0.17
Shengshi Chuangxin	299,924	0.15
Total	**205,714,886**	**100.00**

Note: Dark Pool is currently removed due to failure to submit annual reports and/or failure to pay annual fees in accordance with the regulations of registered location. Currently, Dark Pool is undergoing the restoration process of legal entity qualification.

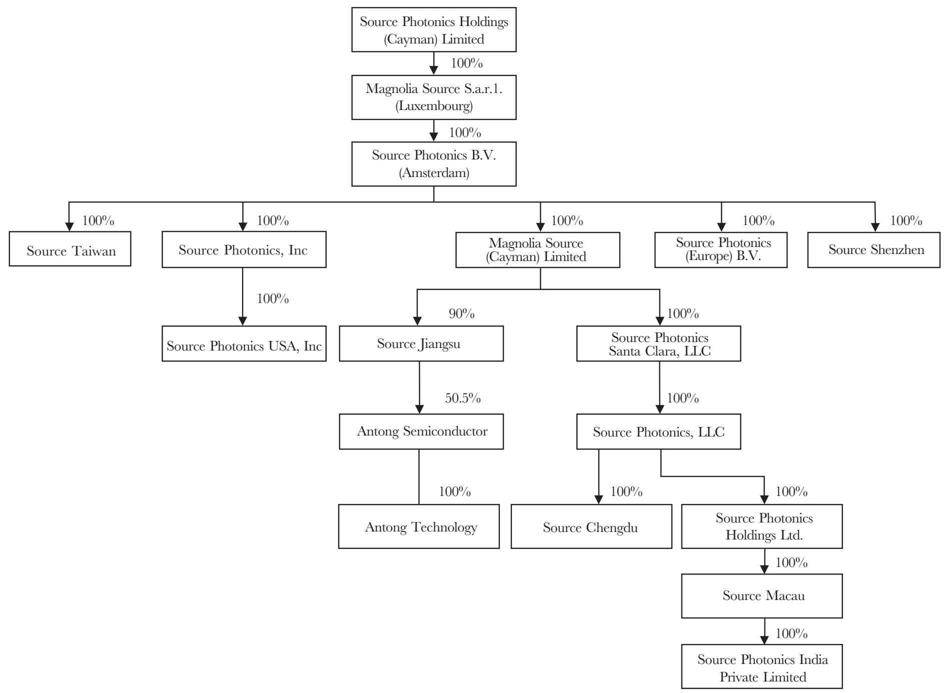
3. *External investment*

Source Photonics Holdings (Cayman) Limited has invested in a total of 17 companies, and the specific information of the companies included in the consolidation scope is shown in the table below:

No.	Name of subsidiary	Registered capital	Date of establishment	Abbreviation	Place of registration	Business nature	Shareholding ratio	Acquisition method
1	Magnolia Source S.a.r.l.	1,144,956.60 USD	April 28, 2010	Source Luxembourg	Luxembourg	Holding company	100%	Established
1.1	Source Photonics B.V.	18,000 euros	October 22, 2010	Source Netherlands	Netherlands	Holding company	100%	Established
1.1.1	Source Photonics Taiwan, Inc	450 million New Taiwan Dollars	November 21, 1996	Source Taiwan	Taiwan, China	Research, production, and sales of optical chips and modules	100%	Acquired
1.1.2	Source Photonics Europe BV	1 euro	January 31, 2017	Source Europe	Netherlands	Holding company	100%	Established
1.1.3	Source Photonics, Inc	10 USD	July 25, 2001	Source US	U.S.A	Holding company	100%	Established
1.1.3.1	Source Photonics USA, Inc.	10 USD	June 7, 1999	Source America	U.S.A	Research and development, sales	100%	Established
1.1.4	Source Photonics (Shenzhen) Co., Ltd.	30 million USD	April 4, 2001	Source Shenzhen	Shenzhen	Domestic sales of optical modules	100%	Established
1.1.5	Magnolia Source (Cayman) Limited	50.000 USD	October 25, 2010	Magnolia Cayman	Cayman	Holding company	100%	Established
1.1.5.1	Source Photonics Santa Clara, LLC	1 USD	January 18, 2007	Source SC	U.S.A	Holding company	100%	Established
1.1.5.1.1	Source Photonics, LLC	20,000 USD	December 29, 2000	Source LLC	U.S.A	Holding company	100%	Established
1.1.5.1.1.1	Source Photonics Holdings Ltd.	50,000 USD	May 18, 2005	Source BVI	Cayman	Holding company	100%	Established
1.1.5.1.1.1.1	Source Photonics (Macau) Commercial Offshore Limited	100,000,000 patacas	May 29, 2006	Source Macau	Macao China	Overseas sales of optical modules	100%	Established
1.1.5.1.1.1.1.1	Source Photonics India Private Limited	100,000 Indian Rupees	June 24, 2016	Source India	India	–	100%	Established
1.1.5.1.1.2	Source Photonics (Chengdu) Co., Ltd.	104.675494 million USD	March 12, 2001	Source Chengdu	Chengdu	Research, production, and sales of optical modules	100%	Acquired
1.1.5.2	Jiangsu Source Communication Technology Co., Ltd	23.661562 million USD	August 25, 2017	Source Jiangsu	Changzhou	Research, production, and sales of optical chips and modules	90%	Established
1.1.5.2.1	Chengdu Antong Semiconductor Co., Ltd.	1.298572 million yuan	February 25, 2022	Antong Semiconductor	Chengdu	Chip design	50.055%	Established
1.1.5.2.1.1	Chengdu Antong Technology Co., Ltd.	1 million yuan	March 21, 2022	Antong Technology	Chengdu	Chip design	100%	Established

Note: Companies such as Source Photonics Co., Ltd., Jiangsu Source Communication Technology Co., Ltd., Chengdu Antong Semiconductor Co., Ltd., and Chengdu Antong Technology Co., Ltd. have not completed the registered capital contributions as of the appraisal benchmark date.

The equity structure diagram is as follows:



4. *Overview of main assets of the company*

The main assets of Source Photonics Holdings (Cayman) Limited are inventory, fixed assets, construction in progress, intangible assets, development expenses, etc. The overview is as follows:

(1) Inventory

Inventory includes in-transit materials, raw materials, in-share turnover materials, finished products, and in-process products. In-transit materials are mainly various materials still in transit, raw materials are mainly main and auxiliary materials for production, finished products are mainly optical modules and chips, and in-process products are mainly optical modules and chips on the production line. In-transit materials, raw materials, finished products and in-process products are respectively stored in the material warehouse, finished product warehouse and production line of subsidiaries of Source Photonics in Chengdu, Jintan, Taiwan, China, etc. The warehouse storage system is sound, items are neatly arranged according to categories, labels are correctly marked, and the number of incoming and outgoing inventory is recorded on the registration card in a timely and accurate manner.

(2) Machinery equipment

The machinery and equipment included in the appraisal scope ais mainly equipment assets owned by subsidiaries of Source Photonics. Its equipment mainly includes SMT machines, high-precision solidification machines, network testers, laser welding coupling equipment, error code testers, network analyzers, high-precision intelligent eutectic mounting equipment, etc. There are no physical items for the two devices owned by Source Taiwan, including manual VCSEL adhesive machines and error code testing systems as of the appraisal benchmark date.

(3) Vehicles

The vehicles included in the appraisal scope are mainly business vehicles owned by subsidiaries of Source Photonics for office use, mainly Honda Odyssey and Buick GL8.

(4) Electronic devices

The electronic devices included in the appraisal scope mainly refer to the hard drives, servers, switches and other equipment owned by subsidiaries of Source Photonics for production and office use.

(5) Construction in progress

The construction in progress included in the appraisal scope mainly refers to equipment purchased by subsidiaries of Source Photonics that has not reached the usable state or projects under renovation.

(6) Development expenses

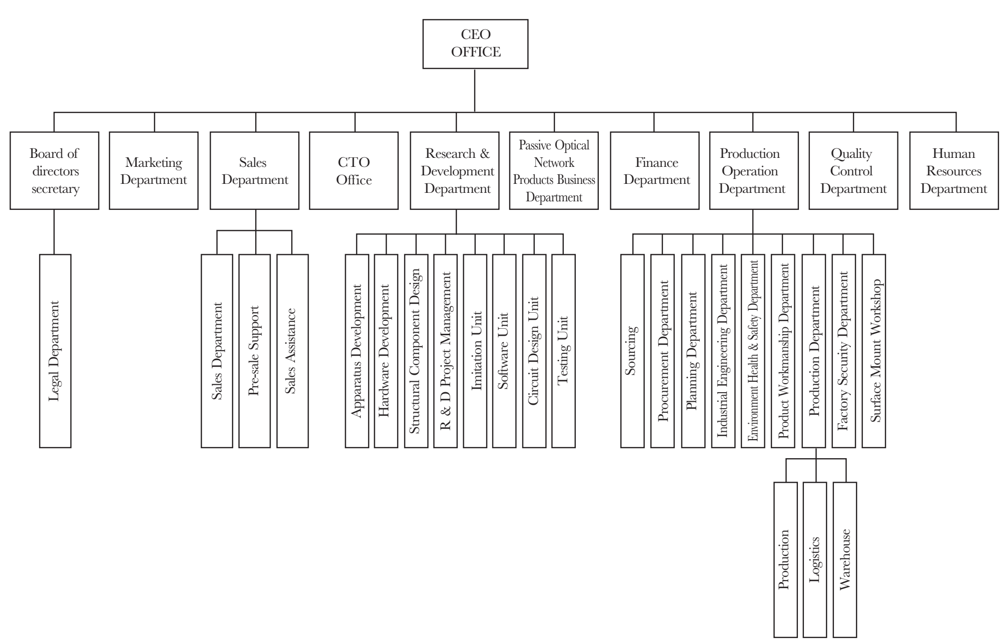
The development expenses mainly refer to the projects being developed by subsidiaries of Source Photonics, with the EVT report as the time point for R&D capitalization, which, specifically, include optical module projects under research such as 10G, 40G/100G, 200G, 400G, and 800G.

(7) Intangible assets

The intangible assets included in the appraisal scope mainly include software and proprietary technology, among which software includes HRM software, SQL2012 software, CETOL software, 3D design software and other production and office software, proprietary technology includes 400G DR4 QSFP-DD CR, EML, 400G QSFP-DD FR4 Gen2, 100G ER4 Lite CR, 100G CWDM4 CR and other related technologies.

5. Organizational structure of the company

The chart organizational structure is as follows:



6. Overview of main business

(1) Main products or services

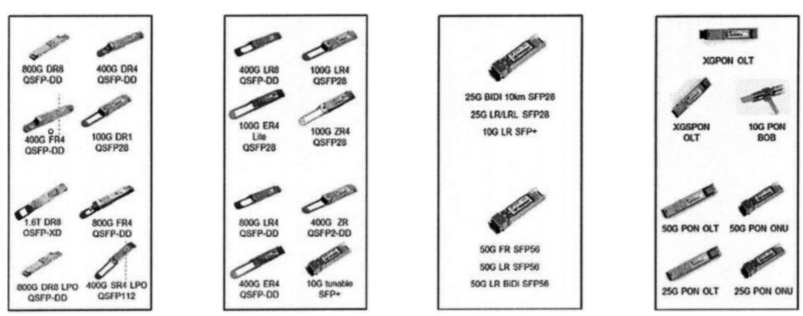
As one of the few optical module companies in the industry that complete the development, design, and bulk delivery of optical module products through self-developed optical chips, Source Photonics has the vertical integration ability to develop, design, and manufacture optical chips, optical devices, and optical module products. Source Photonics is an advanced technology solution provider for optical communication and data interconnection, with solutions and products widely used in data centers, AI computing power, urban area networks, wireless and access networks for communication and data connection. Source Photonics has developed optical module products (from 1G to 800G) and solutions (from 1G to 1.6T) with different packaging and speeds through self-developed optical chips, providing customers with technical and product support suitable for the rapidly growing data centers, AI computing power, cloud infrastructure, wireless communication, routing, and FTTH worldwide. The optical module products of 400G and 800G rate produced with self-developed high-speed EML optical chips have been shipped in bulk to customers in North America and China.

The main products sold by Source Photonics include optical chips, optical devices, and optical modules, with optical module products accounting for the largest proportion of revenue. They can be divided into data centers, optical transmission, wireless communication, and broadband access products according to different downstream application areas. The following figure shows the main products, newly launched products, and products under development of Source Photonics as of the end of 2023:

Data center **Optical transmission** **Wireless communication** **Broadband access**

Main products

Newly launched and products under development



1) Products from data center

The products from data center of Source Photonics mainly include optical module products for internal interconnection of date center, including 100G, 400G, and 800G optical module products. The products from data center correspond to the data communication market, which is the largest single segmented market in the downstream field of optical communication. Downstream data centers, computing power, and AI customers have a particularly strong demand for high-speed products due to the surge demand for computing power from AI. The characteristics of optical modules in data center are fast delivery requirements, high demand, fast iteration, high speed, and higher requirements for cost and power consumption compared to other products. Source Photonics mainly uses self-developed EML chips for single-mode products in data center and AI computing power.

2) Optical transmission products

Optical transmission network refers to the carrier transmission network for application scenarios such as data centers, wireless communication, and fiber optic access networks. Mainly including 100G and 400G optical module products, the optical transmission products of Source Photonics are mainly applied in telecom level transmission scenarios such as core layer, aggregation layer, access layer, 5G wireless access network backhaul, and interconnection between data centers. Optical transmission products are the traditional advantages of Source Photonics. Source Photonics can provide optical transmission products with 100G, 200G, 400G, and 800G full rates and a full range of airtight packaging to support high reliability in telecommunications transmission through self-developed EML chips. The customers of its optical transmission products are usually telecommunications equipment manufacturers such as Nokia, Ericsson, Juniper, Arista, ZTE, and FiberHome Telecommunication, accounting for a relatively high proportion of revenue.

3) Wireless communication products

The wireless communication products of Source Photonics are mainly 5G front-end products, which are used in signal transmission scenarios between active antenna units (AAU) and distribution units (DU) in 5G base stations, mainly including products with speeds of 10G, 25G, 50G, 100G, etc.

4) Broadband access products

The broadband access products are mainly used in optical line terminals (OLT) and optical network units (ONU) devices in PON access networks, and in emerging passive optical network access scenarios such as gigabit fiber. They mainly include products with speeds of 1G, 2.5G, 10G, 25G, and 50G. PON products mainly adopt self-developed optical chips.

(2) Business model

1) Sales model

Source Photonics mainly signs sales orders directly with customers for cooperation. In dual CEO model, Source Photonics is provided with sales teams. The overseas market is mainly managed by the North American sales team, which, with rich experience in connecting with large overseas customers, can grasp the latest development direction of industry technology; the mainland market is managed by the Chinese sales team. The main customers of Source Photonics modules are data center customers, telecommunications operators, communication equipment manufacturers, and communication system integrators, distributed globally, covering China, North America, Asia Pacific, and Europe.

2) Procurement mode

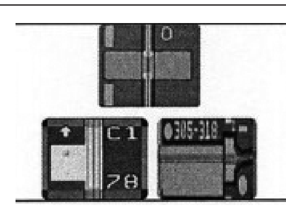
Source Photonics externally purchases electronic components, integrated circuit chips, optical devices, structural components and PCB boards through the centralized procurement department of the headquarters. The procurement department works closely with other departments (including R&D, production, sales, and quality control departments) to determine specific material and component requirements for customer order or R&D project, evaluate the delivery time and cost of raw materials, and negotiate with suppliers on contracts.

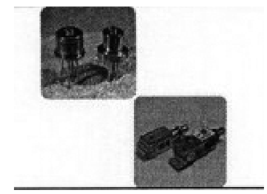
The Operation Department of Source Photonics is responsible for developing suppliers and procurement channels, and entering certified suppliers into the qualified supplier database and regularly maintaining the latest negotiated procurement prices in the system. Suppliers need to become qualified suppliers through the qualification certification process. Qualification certification mainly means the evaluation of the quality, compatibility, production capacity, price, and lifecycle of products from supplier. Source Photonics regularly evaluates and audits qualified suppliers to assess supply quality, on-time delivery, production capacity, production defect rate, and price competitiveness. As a risk management strategy, Source Photonics typically signs agreements on key raw materials with multiple suppliers and ensures supply stability and reduces procurement prices through long-term contracts with major suppliers.

The specific procurement process of Source Photonics is started with procurement personnel to select suppliers from the supplier database and sign specific procurement contracts in the comprehensive stocking model of sales based procurement and moderate stocking (usually one quarter). The warehousing department queries inventory for the types and quantities of materials required in the bill of materials and start to produce if the inventory is sufficient and initiate the procurement process first if it is insufficient. The procurement department formulates a procurement plan based on the material requirements calculated through the ASCP system (Advanced Supply Chain Planning Management System) based on customer order requirements and company sales forecast order requirements, further combines rich industry experience and data accumulation with customer demand forecasting, and conducts early risk procurement of core materials with management approval to cope with potential and urgent orders.

3) Production mode

In the full-process vertical integration mode, Source Photonics independently develops and produces optical chips; packages and processes into optical devices; forms terminal optical module products through further research and development, design, production, and testing. The general production process from optical chip, optical device to optical module is as follows:

Steps	**Working procedure**	**Product form**
Production of optical chips	Wafer epitaxial growth – etching – metal coating – photolithography – optical coating – testing – cutting	

Steps	Working procedure	Product form
Production of optical devices	SMT- threading- sealing- leak detection- testing- quality inspection- shipment	
Production of optical modules	Welding of soft boards and components – assembly – product debugging – product packaging- appearance inspection – packaging - shipment	

In terms of functional division, among the subsidiary enterprises of Source Photonics that are mainly responsible for production, Source Chengdu mainly produces optical module products; Source Taiwan mainly develops and produces EML optical chips and devices with speeds of 10G/25G and above and some optical module products; Source Jiangsu mainly produces and develops DFB optical chips and devices with speeds of 25G and below. Source Chengdu and Source Jiangsu have continuously absorbed the production and technical capabilities of Source Taiwan with the continuous promotion of factory integration by Source Photonics. Currently, Source Jiangsu has preliminarily developed the production capacity of high-speed EML optical chips.

7. Financial report and operating results

The financial situation and operating results for the years 2022 and 2023 are shown in the following table according to the accounting reports and audit reports provided by Source Photonics:

Financial Report

Amount unit: RMB10,000

Item name	Consolidated financial statements		Financial statements of parent company	
	2022.12.31	**2023.12.31**	**2022.12.31**	**2023.12.31**
Current assets	109,656.75	142,054.59	5,142.77	5,526.83
Non current assets	88,799.69	90,238.81	72,135.34	74,788.28
Among them: Long term equity investment	–	–	72,135.34	74,788.28
Investment real estate	–	–	–	–
Fixed assets	48,161.05	45,627.92	–	–
Construction in progress	2,248.21	2,930.36	–	–
Intangible assets	6,592.51	5,331.55	–	–
Other	31,797.92	36,348.99	–	–
Total assets	**198,456.44**	**232,293.40**	**77,278.12**	**80,315.11**
Current liabilities	91,993.63	151,150.35	1,997.06	30,156.34
Non current liabilities	46,123.58	20,638.32	25,692.44	0.00

Item name	Consolidated financial statements		Financial statements of parent company	
	2022.12.31	**2023.12.31**	**2022.12.31**	**2023.12.31**
Total liabilities	**138,117.21**	**171,788.67**	**27,689.50**	**30,156.34**
Net assets	**60,339.23**	**60,504.73**	**49,588.62**	**50,158.77**
Total equity attributable to the parent company	**59,332.20**	**59,610.08**		

Operating Results

Unit: 10,000 yuan

Item name	Consolidated financial statements		Financial statements of parent company	
	2022	**2023**	**2022**	**2023**
I. Operating income	150,084.13	129,346.57	–	–
Less: Operating costs	110,625.96	103,183.57	–	–
Taxes and surcharges	128.47	124.50	–	–
Selling expenses	3,967.09	3,254.06	–	–
Management expenses	11,094.34	11,012.36	7.39	133.08
R&D expenses	10,400.47	10,889.90	–	–
Financial expenses	615.36	3,431.31	-48.64	1,386.17
Add: Other income	553.93	1,861.64	–	–
Income from investment	–	–	–	–
Income from changes in fair value	–	-20.37	–	–
Credit impairment loss	39.68	-87.23	–	–
Asset impairment loss	-1,261.93	-809.81	–	–
Asset disposal income	-141.18	-43.17	–	–
II. Operating profit	**12,442.94**	**-1,648.07**	**41.26**	**-1,519.24**
Add: Non operating income	1,425.77	31.80	–	–
Less: Non operating expenses	61.78	6.69	–	–
III. Total profit	**13,806.93**	**-1,622.96**	**41.26**	**-1,519.24**
Less: Income tax expenses	1,350.22	126.92	–	–
IV. Net profit	**12,456.71**	**-1,749.88**	**41.26**	**-1,519.24**
V. Net profit attributable to shareholders	**12,501.35**	**-1,638.07**		

The financial data listed in the above table has been audited by Zhitong Certified Public Accountants (Special General Partnership) and ZTSZ (2024) No. 110A026618 unqualified audit report has been issued.

(3) Other users of appraisal reports as stipulated in the asset appraisal commission contract

There are no other users of this report according to the provisions of the asset appraisal commission contract.

(4) The relationship between the client and the evaluated unit

The client intends to acquire the equity of the evaluated unit in cash, and there is no relationship between them.

2. Appraisal purpose

Vantone Neo Development Group Co., Ltd intends to purchase the equity of Source Photonics Holdings (Cayman) Limited in cash according to the *Resolution Announcement of the 33rd*

Extraordinary Meeting of the 8th Board of Directors of Vantone Neo Development Group Co., Ltd. Therefore, it is necessary to evaluate all the equity of the shareholders involved in Source Photonics Holdings (Cayman) Limited to provide valuable reference for the economic behavior.

3. Appraisal object and scope

(1) Appraisal object

The appraisal object is the total equity of shareholders of Source Photonics Holdings (Cayman) Limited.

(2) Appraisal scope

The appraisal scope covers all assets and liabilities of Source Photonics Holdings (Cayman) Limited as of the appraisal benchmark date, including book value of RMB2322.934 million for the total asset, book value of RMB1717.8867 million for liabilities, and net asset of RMB596.1008 million attributable to the parent company. The book values of various assets and liabilities are shown in the following table:

Summary Table of Asset Appraisal Declaration (Consolidated financial statement)

Unit: 10,000 yuan

Item name	**Book value**
Current assets	142,054.59
Non current assets	90,238.81
Among them: Long- term equity investment	–
Investment real estate	–
Fixed assets	45,627.92
Construction in progress	2,930.36
Intangible assets	5,331.55
Other	36,348.99
Total assets	**232,293.40**
Current liabilities	151,150.35
Non current liabilities	20,638.32
Total liabilities	**171,788.67**
Net assets	**60,504.73**
Net assets attributable to the parent company	**59,610.08**

The client has promised the entrusted appraisal object and scope to be consistent with the appraisal object and scope involved in the economic behavior, conducted an audit by Zhitong Certified

Public Accountants (Special General Partnership), and issued ZTSZ (2024) No.110A026618 unqualified audit report.

The unrecorded intangible assets declared by Source Photonics include patented technology, trademarks and copyrights as of the appraisal benchmark date. The patented technology includes invention patents, utility model patents, and design patents, totaling 337 items; a total of 40 trademarks; two software copyrights, and other off-balance sheet assets or liabilities the enterprise has not declared are specifically as follows:

1. Patented technology

No.	Company	Valid/certified before the benchmark date	
		Domestic	Overseas
1	Source Photonics (Chengdu) Co., Ltd.	214	34
2	Jiangsu Source Communication Technology Co., Ltd	28	0
3	Source Photonics Taiwan, Inc.	10	1
4	Chengdu Antong Semiconductor Co., Ltd.	1	0
5	Source Photonics, Inc.	0	35
6	Magnolia Source (Cayman) Limited	0	14
Total		253	84

Note: Invention – MULTI-LAYER P-N JUNCTION BASED PHASE SHIFTER AND METHODS OF MANUFACTURING AND USING THE SAME (a phase shifter based on multi-layer PN junctions and manufacturing and usage methods) has been patented by Source Photonics, Inc. in China and the United States, respectively.

2. Trademark

No.	Trademark	Category	Place of registration	Application number	Applicant	Application date	Legal status
1	SP SOURCE PHOTONICS	009	Canada	1,895,907	Source Photonics Santa Clara, LLC and Source Photonics, Inc	2018/04/26	Valid
2	SP SOURCE PHOTONICS	009	Canada	1,895,910	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2018/04/26	Valid
3	SOURCE PHOTONICS	009	China	6553480	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2008/02/13	Valid

No.	Trademark	Category	Place of registration	Application number	Applicant	Application date	Legal status
4	source PHOTONICS	009	China	6553481	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2008/02/13	Valid
5	SPSOURCEPHOTONICS	009	China	51317501	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2020/11/17	Valid
6	source PHOTONICS	009, 040, 042	EU, UK	6666929	Source Photonics, Inc.	2008/02/13	Valid
7	SOURCE PHOTONICS	009, 040, 042	EU, UK	6667208	Source Photonics, Inc.	2008/02/13	Valid
8	SP SOURCE PHOTONICS	009	EU, India, Japan, Singapore, Korea, UK	WO1410838	Source Photonics Santa Clara, LLC and Source Photonics, Inc	2018/04/05	Valid
9	SP SOURCE PHOTONICS	009	EU, India, Japan, Singapore, Korea, UK	WO1411401	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2018/04/05	Valid
10	source PHOTONICS	009	India	3550195	Source Photonics Santa Clara, LLC and Source Photonics, Inc	2017/05/16	Valid
11	SOURCE PHOTONICS	009	India	3290516	Source Photonics Santa Clara, LLC and Source Photonics, Inc	2016/06/21	Valid
12	SOURCE PHOTONICS	009	Japan	2008-5475	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2008/01/28	Valid
13	source PHOTONICS	009	Macao	N/033920	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2008/02/06	Valid

No.	Trademark	Category	Place of registration	Application number	Applicant	Application date	Legal status
14	SOURCE PHOTONICS	009	Macao	N/033919	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2008/02/06	Valid
15	SP SOURCE PHOTONICS	009	Macao	N/136370	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2018/04/06	Valid
16	SP SOURCE PHOTONICS	009	Macao	N/136371	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2018/04/06	Valid
17	source PHOTONICS	009	Korea	40-2008-6679	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2008/02/13	Valid
18	SOURCE PHOTONICS	009	Korea	40-2008-6678	Source Photonics Santa Clara. LLC and Source Photonics, Inc.	2008/02/13	Valid
19	source PHOTONICS	009	Taiwan	97006229	Source Photonics, Inc.	2008/02/13	Valid
20	SOURCE PHOTONICS	009	Taiwan	97006228	Source Photonics Inc.	2008/02/13	Valid
21	SP SOURCE PHOTONICS	009	Taiwan	107025815	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2018/04/26	Valid
22	SP SOURCE PHOTONICS	009	Taiwan	107025813	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2018/04/26	Valid
23	source PHOTONICS	009	USA	86268970	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2014/05/01	Valid

No.	Trademark	Category	Place of registration	Application number	Applicant	Application date	Legal status
24	source PHOTONICS	009	USA	77258074	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2007/08/17	Valid
25	SOURCE PHOTONICS	009	USA	86268981	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2014/05/01	Valid
26	SOURCE PHOTONICS	009	USA	77253874	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2007/08/13	Valid
27	SP SOURCE PHOTONICS	009	USA	87711794	Source Photonics Santa Clara, LLC and Source Photonics, Inc.	2017/12/07	Valid
28	SP SOURCE PHOTONICS	009	USA	87711811	Source Photonics Santa Clara, LLC and Source Photonics, Inc	2017/12/07	Valid
29	ATONGTECH	038	China	64324936	Chengdu Antong Semiconductor Co., Ltd.	2022/04/28	Valid
30	ATONTECH 艾通科	009	China	64310661	Chengdu Antong Semiconductor Co., Ltd.	2022/04/28	Valid
31	A SP SOURCE PHOTONICS B SP SOURCE PHOTONICS	009	Hong Kong	306223031	Source Photonics Santa Clara. LLC and Source Photonics, Inc.	2023/04/19	Valid
32	ATONG SEMI	009	China	73755891	Chengdu Antong Semiconductor Co., Ltd.	2023/08/29	Valid
33	ATONG SEMI	038	China	73750070	Chengdu Antong Semiconductor Co., Ltd.	2023/08/29	Valid
34	ATONG SEMI	042	China	73761224	Chengdu Antong Semiconductor Co., Ltd.	2023/08/29	Valid

No.	Trademark	Category	Place of registration	Application number	Applicant	Application date	Legal status
35		009	Taiwan	00893116	Source Photonics Taiwan, Inc.	1999/01/12	Valid
36	Luminent	037	Taiwan	01132661	Source Photonics Taiwan, Inc.	2004/05/06	Valid
37	Luminent	009	Taiwan	01140593	Source Photonics Taiwan, Inc.	2004/05/06	Valid
38	Luminent	042	Taiwan	01132824	Source Photonics Taiwan, Inc.	2004/05/06	Valid
39	Luminent	035	Taiwan	01132605	Source Photonics Taiwan, Inc.	2004/05/06	Valid
40	Luminent	040	Taiwan	01132713	Source Photonics Taiwan, Inc.	2004/05/06	Valid

3. *Copyright*

No.	Copyright owner	Title of work	Category of work	First registration date	Registration No.
1	Source Chengdu	A highly reliable dynamic APC compensation algorithm software	Software copyright	2010/12/30	2010SR074774
2	Source Jiangsu	Production control system for optical transceiver integrated module	Software copyright	2020/6/12	2020SR0617756

4. *Value type*

The type of value for the appraisal is market value. The market value referred to in this report refers to the estimated value of the evaluated object in normal and fair transactions on the appraisal benchmark date when the voluntary buyer and the voluntary seller act rationally without any coercion.

5. *Appraisal benchmark date*

The appraisal benchmark date is December 31, 2023.

Determined by the client, the appraisal benchmark date is consistent with the appraisal benchmark date stipulated in the asset appraisal commission contract.

6. *Appraisal basis*

The economic behavior basis, legal and regulatory basis, appraisal criteria basis, asset ownership basis, and appraisal basis followed in the appraisal:

(1) Economic behavior basis

Announcement of the 33rd Extraordinary Meeting of the 8th Board of Directors of Vantone Neo Development Group Co., Ltd of Vantone Neo Development Group Co., Ltd.

(2) Legal and regulatory basis

1. *Civil Code of the People's Republic of China* (adopted at the Third Session of the 13th National People's Congress on May 28, 2020);

2. *Company Law of the People's Republic of China* (revised for the fourth time in accordance with the *Decision on Amending the Company Law of the People's Republic of China* issued at the 6th meeting of the Standing Committee of the 13th National People's Congress on October 26, 2018);

3. *Securities Law of the People's Republic of China* (revised at the 15th meeting of the Standing Committee of the 13th National People's Congress on December 28, 2019);

4. *Enterprise Income Tax Law of the People's Republic of China* (revised at the 7th meeting of the Standing Committee of the 13th National People's Congress on December 29, 2018);

5. *Asset Appraisal Law of the People's Republic of China* (adopted at the 21st meeting of the Standing Committee of the 12th National People's Congress of the People's Republic of China on July 2, 2016);

6. *Implementation Regulations of the Enterprise Income Tax Law of the People's Republic of China* (revised by State Council Order No. 714 *Decision of the State Council on Amending Some Administrative Regulations* on April 23, 2019);

7. *Provisional Regulations of the People's Republic of China on Value-added Tax* (State Council Order No. 691 in 2017);

8. *Implementation Rules for the Provisional Regulations of the People's Republic of China on Value Added Tax* (Order No. 50 of the Ministry of Finance and the State Taxation Administration in 2008);

9. *Notice on Fully Promoting the Pilot Program of Replacing Business Tax with Value Added Tax* (C.S. 2016 No. 36);

10. *Announcement of the Ministry of Finance, the State Taxation Administration, and the General Customs Administration on Deepening the Reform of Value Added Tax* (Announcement No. 39 of 2019);

11. *Internal Revenue Code* from United States Federation;

12. *Income Tax Law* of Taiwan, China;

13. *Value-added and Non value-added Business Tax Law* of Taiwan, China;

14. Other relevant legal and regulatory documents

(3) Appraisal criteria basis

1. *Basic Principles for Asset Appraisal* (C.Z. (2017) No. 43);

2. *Code of Ethics for Asset Appraisal* (Z.P.X. (2017) No. 30);

3. *Asset Appraisal Procedure of the Practice Standards for Asset Appraisal* (Z.P.X. (2018) No. 36);

4. *Asset Appraisal Report of the Practice Standards for Asset Appraisal* (Z.P.X. (2018) No. 35);

5. *Asset Appraisal Entrustment Contract of the Practice Standards for Asset Appraisal* (Z.P.X. (2017) No. 33);

6. *Asset Appraisal Archives of the Practice Standards for Asset Appraisal* (Z.P.X. (2018) No. 37);

7. *Asset Appraisal Methods of the Practice Standards for Asset Appraisal* (Z.P.X. (2019) No. 35);

8. *Enterprise Value of the Practice Standards for Asset Appraisal* (Z.P.X. (2018) No. 38);

9. *Practice Standards for Asset Appraisal - Utilizing Expert Work and Related Reports* (Z.P.X. (2017) No. 35);

10. *Guidelines for Business Quality Control of Asset Appraisal Agency* (Z.P.X. (2017) No. 46);

11. *Guiding Opinions on Asset Appraisal Value Types* (Z.P.X. (2017) No. 47);

12. *Guiding Opinions on the Legal Ownership of Asset Appraisal Objects* (Z.P.X. (2017) No. 48).

(4) Other criteria basis

1. *Guidelines for Asset Appraisal Experts No. 8 - Verification and Verification in Asset Appraisal* (Z.P.X. (2019) No. 39)

2. *Guidelines for Asset Appraisal Experts No. 12 - Calculation of Discount Rate in income approach Appraisal of Enterprise Value* (Z.P.X. [2020] No. 38);

3. *Measures for the Administration of Asset Appraisal Business Reporting by the China Asset Appraisal Association* Z.P.X. (2021) No. 30

(5) Asset ownership basis

1. Business license and articles of association of company;

2. Vehicle license and registration certificate;

3. Equipment purchase contracts, invoices, as well as relevant agreements and contracts;

4. Patent certificates, trademark registration certificates, etc;

5. Other ownership documents

(6) Appraisal and pricing basis

1. *Notice of the Ministry of Finance and the Ministry of Science and Technology of the State Taxation Administration on Improving the Policy of Pre tax Additional Deduction of Research and Development Expenses* (C.S. (2015) No. 119);

2. *Announcement of the State Taxation Administration on the Policy of Pre- tax Additional*

Deduction of Enterprise Research and Development Expenses (State Taxation Administration Announcement No. 97 in 2015);

3. *Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses* (C.S. (2018) No. 99);
4. *Announcement on Further Improving the Policy of Pre- tax Deduction of R&D Expenses* (Announcement No. 7 of the Ministry of Finance and the State Taxation Administration in 2023);
5. *New Policy Guidelines for Pre-tax Deduction of R&D Expenses*;
6. *Asset Appraisal Declaration Form* and *Income Forecast Form* provided by the evaluated unit;
7. Bank deposit and loan benchmark interest rate and foreign exchange rate on the appraisal benchmark date;
8. Historical annual audit reports, future annual business plans and profit forecasts provided by the evaluated unit;
9. Raw material purchase contracts, product sales contracts, and orders signed between the enterprise and relevant units;
10. On-site survey records by appraisal personnel and other relevant appraisal information collected;
11. Accounting reports, financial accounting and operation provided by the evaluated unit, as well as relevant agreements, contracts, invoices and other financial information;
12. Statistical data, technical standard data, and price information released by relevant national departments, as well as relevant inquiry data and pricing parameter data collected by our company;
13. Other materials related to the asset appraisal.

7. Appraisal methods

(1) Introduction to appraisal methods

The basic methods of enterprise appraisal include asset based method, income approach, and market approach.

The asset based method in the appraisal of enterprise value, also known as the cost method, refers to the appraisal method to evaluate the value of various assets and liabilities on and off the balance sheet that can be identified based on the balance sheet of the evaluated unit on the appraisal benchmark date to determine the value of the evaluated object.

The income approach in the appraisal of enterprise value refers to the appraisal method of capitalizing or discounting expected income to determine the value of the evaluated object. The income approach specifically includes dividend discount method and cash flow discount method. The income approach measures the value of a company from the perspective of profitability based on the expected utility theory of economics.

The market approach in the appraisal of enterprise value refers to the appraisal method to compare the evaluated object with comparable listed companies or comparable transaction cases to determine the value of the evaluated object. The two specific methods ordinarily used in market approach are listed company comparison method and transaction case comparison method.

(2) Selection of appraisal methods

The asset based method is an appraisal method which reasonably evaluates the value of various assets and liabilities on and off the balance sheet of an enterprise based on the balance sheet to determine the value of the appraisal object. Based on the current appraisal, the asset based method is prone to overlook the comprehensive profitability of various assets in the appraisal of enterprise value, especially not suitable for the appraisal of enterprise value of economic entities with a large number of intangible assets. Therefore, the asset based method is not suitable for the appraisal.

The basis of the income approach is the expected utility theory in economics, which means that the value of a company lies in the expected future returns that the company can generate for investors. Although the income approach does not directly explain the current fair market value of the evaluated object with reference materials in the real market, it evaluates assets from the perspective of the expected profitability of the asset, which is the basis for determining the current fair market value of the asset. It can fully reflect the overall value of the enterprise, and appraisal conclusions are reliable and persuasive. From the perspective of the applicable conditions of the income approach, the future profit level of the enterprise can be reasonably predicted, and the risk of future profits can be reasonably quantified based on the historical operating data and internal and external operating environment of the enterprise due to the independent profitability of the enterprise and the fact that the enterprise is provided with future annual profit forecast data by the management of the evaluated unit. Therefore, the income approach is applicable for the appraisal.

At present, a capital market dominated by the Shanghai and Shenzhen securities trading markets has been initially formed in China; there are a sufficient number of similar reference enterprises in the same industry as the appraisal object in the above-mentioned capital market; appraisers are able to collect and obtain market information, financial information, and other relevant materials of reference companies from the publicly available market information in the capital market mentioned above; appraisers believe that the reference enterprise information provided is representative and reasonable, and valid on the appraisal benchmark date. The capital market in China has been developed for more than 20 years and possesses basic market functions. Therefore, the market approach is applicable for the appraisal.

In summary, the income approach and market approach are used for the appraisal, and the results of the market approach are selected as the final appraisal conclusion.

(3) Introduction to specific appraisal methods

(1) income approach

The income approach appraisal adopts the discounted cash flow method, and the selected cash flow is the free cash flow of the enterprise. The total equity value of shareholders is indirectly obtained through the appraisal of the overall value of the enterprise.

This appraisal based on the net free cash flow of the enterprise in the coming years, discounted at an appropriate discount rate and summed up to determine the overall value of the operating assets of the enterprise. The total equity value of shareholders is determined with the value of excess assets, non-operating assets added and interest bearing debt and minority shareholders and:

1. Calculation model

$E = V - D - M$ Formula 1

$V = P + C_1 + C_2 + E'$ Formula 2

In the above equation:

E: Value of equity attributable to shareholders of the parent company;

V: The overall value of the enterprise;

D: Appraisal value of interest bearing debts;

M: Value of equity of minority shareholders;

P: Appraisal value of operational assets;

C_1: Appraisal value of surplus assets;

C_2: Appraisal value of non operating assets (liabilities);

E': Appraisal value of long-term equity investment (not considered in cash flow).

Among them, the appraisal value P of operating assets in Formula 2 is calculated through the following formula:

Formula 3

$$P = \sum_{t=1}^{n} \left[R_t \times (1 + r)^{-t} \right] + \frac{R_{n+1}}{(r - g)} \times (1 + r)^{-n}$$

The first half of the above equation represents the clear forecast period value, while the second half represents the perpetual period value (final value).

In formula 3:

R_t: Clarify the free cash flow of the enterprise in the period of the forecast period;

t: Clarify the number of forecast periods 1, 2, 3,., n;

r: Discount rate;

R_{n+1}: Corporate free cash flow of the perpetual period;

g: The growth rate of the perpetual period, the appraisal g=0;

n: Clarify the year of the forecast period.

2. Determination of key parameters in the model

(1) Determination of expected income

The free cash flow of the enterprise will be used as a quantitative indicator of the expected income of the enterprise.

The free cash flow of the enterprise refers to the total cash flow before cash is paid to the claimants of the company after operating expenses and income tax are paid. The calculation formula:

The free cash flow of the enterprise = net profit after tax + depreciation and amortization + interest expenses x (1-tax rate T) – capital expenditures – changes in working capital.

(2) Revenue forecast

The consolidation method is adopted for appraisal in the income approach. There are a total of 17 subsidiaries of Source Photonics, and the specific information of the companies included in the consolidation scope is shown in the table below:

No.	Name of subsidiary	Place of registration	Business nature	Shareholding ratio	Acquisition method
1	Magnolia Source S.a.r.l	Luxembourg	Holding company	100%	Established
1.1	Source Photonics B.V.	Netherlands	Holding company	100%	Established
1.1.1	Source Photonics Co., Ltd.	Taiwan, China	Research, production, and sales of optical chips and modules	100%	Acquired
1.1.2	Source Photonics Europe BV	Netherlands	Holding company	100%	Established
1.1.3	Source Photonics, Inc.	USA	Holding company	100%	Established
1.1.3.1	Source Photonics USA, Inc.	USA	Research and development, sales	100%	Established
1.1.4	Source Photonics (Shenzhen) Co., Ltd.	Shenzhen	Domestic sales of optical modules	100%	Established
1.1.5	Magnolia Source (Cayman) Limited	Cayman	Holding company	100%	Established
1.1.5.1	Source Photonics Santa Clara, LLC	USA	Holding company	100%	Established
1.1.5.1.1	Source Photonics, LLC	USA	Holding company	100%	Established
1.1.5.1.1.1	Source Photonics Holdings Ltd.	Cayman	Holding company	100%	Established
1.1.5.1.1.1. 1	Source Photonics (Macau) Commercial Offshore Limited	Macao China	Overseas sales of optical modules	100%	Established
1.1.5.1.1.1. 1.1	Source Photonics India Private Limited	India	–	100%	Established
1.1.5.1.1.2	Source Photonics (Chengdu) Co., Ltd.	Chengdu	Research, production, and sales of optical modules	100%	Acquired
1.1.5.2	Jiangsu Source Communication Technology Co., Ltd	Changzhou	Research, production, and sales of optical chips and modules	90%	Established
1.1.5.2.1	Chengdu Antong Semiconductor Co., Ltd.	Chengdu	Chip design	50.055%	Established
1.1.5.2.1.1	Chengdu Antong Technology Co., Ltd.	Chengdu	Chip design	100%	Established

Source Chengdu mainly produces optical module products; Source Taiwan mainly develops and produces EML optical chips and devices with the speed of 10G/25G and above, and produces some optical module products; Source Jiangsu mainly produces and develops DFB optical chips and devices with the speed of 25G and below; Source Photonics (Shenzhen) Co., Ltd. and Source Photonics (Macau) Commercial Offshore Limited are mainly responsible for the sales of optical modules; Source Photonics USA, Inc. is mainly responsible for the research and development of optical modules. The subsidiaries of Source Photonics are in different stages of production and sales with a high degree of internal business transactions between them, such as raw material and sale of semi-finished products, and finished products. The consolidation method is adopted for the appraisal by the income approach taking into account overall collaboration in the industrial chain and internal pricing factors.

(3) Determination of income period

The term of income in the appraisal of enterprise value usually refers to the number of years for a company to receive future income. The income period of the enterprise can be divided into limited and unlimited periods based on the characteristics of production and operation, as well as relevant laws, regulations and contracts to reasonably predict the future income of the enterprise.

The perpetual period is adopted as the income period for the appraisal. Among them, the first stage is from December 31, 2023 to December 31, 2028, during which the income status is changing based on the business and business plan of the evaluated enterprise; the second phase will be sustainable operation from January 1, 2029, during which the evaluated enterprise will maintain a stable level of profitability.

(4) Determination of discount rate

There are multiple methods to determine the discount rate. The appraisal income is based on the free cash flow of the enterprise according to the principle of consistency between the income and discount rate, and the discount rate is determined by the weighted average cost of capital (WACC).

(5) Determination of the appraisal value of interest bearing debts

Interest bearing debts include long-term and short-term borrowings of enterprises, determined based on the market value.

(6) Determination of the appraisal value of surplus assets and non operating assets (liabilities)

Surplus assets refer to excess assets that are not directly related to earnings and exceed the operational needs of the company. They generally refer to excess monetary funds and transactional financial assets; non operating assets refer to assets that are not directly related to predicted earnings or cannot predict earnings. The assets shall be evaluated separately.

(7) Determination of the appraisal value of minority interests

There are minority interests within the appraisal scope and it is verified that the corresponding entity of the minority interests is Chengdu Antong Semiconductor Co., Ltd., Jiangsu Source Communication Technology Co., Ltd., a wholly-owned subsidiary of Source Photonics, holds 50.055%

of the equity of Chengdu Antong Semiconductor Co., Ltd. Established in February 2022 close to the benchmark date, Chengdu Antong Semiconductor Co., Ltd. is mainly engaged in chip design, and has not yet carried out actual business as of the benchmark date. Therefore, the appraisal value of minority interests is temporarily determined based on the book value of minority interests after comprehensive consideration.

(2) market approach

The market approach refers to the appraisal method that compares the evaluated object with comparable listed companies or comparable transaction cases to determine the value of the evaluated object according to the definition in the *Enterprise Value of Asset Appraisal Practice Standards*. market approach, also known as relative appraisal method, is a widely used appraisal method internationally.

The basic principle on which market law is based is the principle of market substitution, which means that a normal investor will not pay a price for an asset higher than the current market price of a substitute with the same purpose in the market. Similar enterprises should have similar value according to the principle. Therefore, the value of the evaluated enterprise with similarity can be linked to that of comparable objects through the same economic indicator, namely:

$$\frac{V_1}{X_1} = \frac{V_2}{X_2}$$

$$V_1 = \frac{V_2}{X_2} \times X_1$$

Among them, v/x is the value ratio,

V_1 is the value of the evaluated enterprise,

V_2 is the value of comparable object.

X is the economic indicator used to calculate the value ratio.

Value cannot be directly observed due to the complexity of expression, and the market transaction price of an enterprise can reflect its value to some extent in an efficient market. Therefore, for comparable objects, appraisers generally calculate the value ratio with the transaction price V_2 as a substitute.

The two specific methods ordinarily used in market approach are listed company comparison method and transaction case comparison method.

The listed company comparison method refers to the specific method of obtaining and analyzing the operational and financial data of comparable listed companies, calculating appropriate value ratios, and determining the value of the evaluated object based on comparative analysis with the evaluated enterprise.

The transaction case comparison method refers to the specific method of obtaining and analyzing transaction, acquisition, and merger case data of comparable objects, calculating appropriate value ratios, and determining the value of the evaluated object based on comparative analysis with the evaluated enterprise.

The listed company comparison method is adopted for the appraisal. First, select listed companies that are in the same industry as the evaluated enterprise and have active share trading as the comparison companies, and then calculate the market value of the comparison companies through trading share prices. Next, select one or several profitability or asset parameters of the comparative company, such as operating income, net profit, or paid-in capital, total assets and net assets as the "analysis parameters". Finally, calculate the proportional relationship between the market value of the comparative company and the selected analysis parameters, which is called the Multiples and apply the above Multiples to the corresponding analysis parameters of the evaluated enterprise to obtain the market value of the evaluated enterprise.

Specific steps:

(1) Select comparative listed companies based on factors such as total assets, net assets, return on equity, and business type.

(2) Select the profitability and asset parameters of the comparative company as the analysis parameters, such as net profit, total assets, net assets and total revenue.

(3) Calculate the ratio relationship between the market value of the comparative company and the selected analysis parameters, which is called Multiples.

(4) The arithmetic mean of the Multiples of the comparative company is multiplied by the corresponding analysis parameters of the evaluated enterprise, with the lack of liquidity discount deducted to obtain the market value of the evaluated enterprise.

The calculation formula:

Equity value = (Total investment value ratio x corresponding parameters of the evaluated unit– interest bearing liabilities + net value of non operating and surplus assets – minority interests) x (1- lack of liquidity discount rate)

or

Equity value = (equity investment value ratio x corresponding parameters of the evaluated unit + net value of non operating and surplus assets – minority interests) x (1- lack of liquidity discount rate)

Corresponding value ratio of appraisal unit = value ratio of comparable company x correction factor

1. Determination of value ratio

The ordinarily used value ratios are as follows:

(1) Profit based value ratio

The profit based value ratio is a value ratio established between asset value and profit indicators, which can be further divided into total investment value ratio and equity investment value ratio.

EV/EBIT = (Equity value + debt value) / earnings before interest and tax

EV/EBITDA = (Equity value + debt value) / earnings before interest, tax, depreciation and amortisation

EV/NOIAT = (Equity value + debt value) / NOIAT

Among them: NOIAT = EBIT x (1-T) + depreciation/amortization

P/E (price-to-earnings ratio) = equity value / net profit

Value ratio of equity cash flow = Equity value / Equity cash flow

(2) Income based value ratio

The income based value ratio is a value ratio established between asset value and sales revenue, including the total investment value ratio and the equity investment value ratio.

Value ratio of sales revenue = (equity value + debt value) / sales revenue

P/S (Price-to-sales ratio) = equity value / sales revenue

(3) Asset based value ratio

The asset based value ratio is a value ratio established between asset value and asset indicators, including the total investment value ratio and the equity investment value ratio. Generally including:

Value ratio of total asset = (Equity value + debt value) / total asset value

Fixed asset value ratio = (equity value + debt value) / fixed asset value

P/B (Price-to-book ratio) = equity value / book net assets

The listed company comparison method is selected for the appraisal, and the market value of the target company is evaluated through EV/operating income and EV/total asset value ratios taking into account the applicability of the above indicators and the characteristics of the industry in which Source Photonics operates, as well as the suitability of appraisal indicators for mature industries.

8. Implementation process of the appraisal program

PAN-CHINA ASSETS APPRAISAL CO., LTD. has verified and reviewed the legal documents, accounting records, and related materials provided by the client according to the regulations of relevant national departments on asset appraisal and the general principles of accounting and the relevant legal provisions and standardized requirements of national departments in accordance with the matters stipulated in the asset appraisal commission contract with the client conducted necessary property rights inspection, on-site inspection, and verification of the relevant assets according to the asset list submitted by the evaluated unit, and necessary market research and comparison of transaction prices. The detailed process of asset appraisal is as follows:

1. Acceptance of commission and preparation stage

(1) PAN-CHINA ASSETS APPRAISAL CO., LTD. accepted the commission from the client in December 2023 to engage in asset appraisal. After accepting the commission, PAN-CHINA ASSETS APPRAISAL CO., LTD. seriously discussed with the client on issues that affect the asset appraisal plan, such as the purpose of appraisal, the appraisal object and scope, the appraisal benchmark date, and the characteristics of the entrusted appraisal assets.

(2) It arranges a targeted asset appraisal declaration form, and designs a survey form for main assets and main business profitability based on the characteristics of the entrusted appraisal assets, trains the personnel of the client who participate in asset appraisal, and fills out asset appraisal checklists and various types of survey forms.

(3) Design of appraisal plan

It develops an appraisal implementation plan, determines appraisers, and forms an asset appraisal on-site working group based on understanding the characteristics of assets.

(4) Preparation of appraisal materials

It collects and organizes market transaction price information of the appraisal object, market price information of main raw materials, and property rights certification documents of the appraisal object.

2. On-site inspection stage

(1) Verification of the authenticity and legality of the appraisal object

The appraisers verify physical assets and monetary claims and debts by different verification methods based on the asset and liability declaration details provided by the client and the evaluated unit to confirm the authenticity and accuracy of the assets and liabilities.

We investigate monetary funds by taking inventory of cash on hand and reviewing bank statements and bank deposit balance reconciliation statements;

Assessors determine the authenticity of assets and liabilities by verifying detailed accounts and randomly checking contract vouchers.

With the focus on investigating important equipment assets for fixed assets, the appraisers review information such as equipment purchase contracts and invoices to determine the authenticity of the assets.

(2) Investigation of the actual status of assets

It investigates equipment operation status in the principle of combining key and general aspects, with a focus on investigating production machinery and equipment, observes the operating status of the equipment on site with the cooperation of the equipment management personnel of the evaluated unit and improves the important equipment survey form based on the investigation.

(3) Investigation on the value composition and business development of physical assets

It investigates the rationality and compliance of asset value composition based on the asset characteristics of the evaluated unit with the focus on verifying the authenticity, accuracy, completeness, and compliance of the book value of fixed assets and reviews relevant accounting vouchers, accounting books, and equipment procurement contracts.

(4) A survey on the production and operation of enterprise income, costs, etc

It collects previous annual profit and loss accounting data from relevant units for calculation and analysis; investigates the actual operation of various units and businesses, as well as the composition of income, costs, expenses, and future development trends through interview in preparation for preparing future cash flow forecasts.

It collects relevant information, analyzes and predicts the market environment, future competition, and development trends of various businesses of Source Photonics.

3. Choose appraisal methods, collect market information, and estimate the process

The appraisers clarify the appraisal parameters and price standards based on the work plan formulated according to the characteristics of the project and the pricing principles and appraisal models determined according to the actual situation, and start the appraisal and estimation with reference to the historical and future business forecast data provided by the enterprise.

4. Appraisal and summary stage

(1) Determination of appraisal results

The income approach and market approach results of the entrusted appraisal assets are determined based on the on-site survey conducted by the appraisers of PAN-CHINA ASSETS APPRAISAL CO., LTD., as well as necessary market research and calculations.

(2) Analysis of appraisal results and writing of appraisal reports

It prepares an appraisal report for relevant assets in accordance with the standardized requirements of PAN-CHINA ASSETS APPRAISAL CO., LTD. The appraisal results and related asset appraisal reports shall be subject to a three-level review in accordance with the procedures stipulated by PAN-CHINA ASSETS APPRAISAL CO., LTD., signed, finally reviewed by the asset appraiser, completed and submitted by the project team.

(3) Filing of working papers

9. Appraisal assumptions

(1) General assumptions:

1. Trading assumption: The appraiser will evaluate assets based on simulated market conditions such as the trading conditions of the assets to be evaluated assuming that all assets to be evaluated are already in the trading process.

2. Open market assumption: The open market assumption is an assumption about the conditions under which assets intend to enter the market and the impact that assets will receive under

such market conditions. The open market refers to fully developed and perfect market condition, which refers to a competitive market with voluntary buyers and sellers. With equal status in the market, buyers and sellers have the opportunity and time to obtain sufficient market information. Buyers and sellers conduct transactions under voluntary, rational, non-mandatory or unrestricted conditions.

3. Continuous use assumption: The continuous use assumption is an assumption about the conditions under which assets intend to enter the market and the asset status under such market conditions. Firstly, the evaluated asset is in use, and secondly, it is assumed that the asset in use will continue to be used. The scope of use of the appraisal results is limited under the assumption of continuous use, without consideration of the conversion of asset use or optimal utilization conditions.

4. Enterprise going-concern assumption: It is an appraisal assumption with the overall assets of the enterprise as the appraisal object. As the operating entity, enterprise continues to operate in accordance with the business objective in the external environment. Business operator is responsible and capable of taking on responsibilities; the enterprise operates legally and is able to obtain appropriate profits to maintain the ability for continuous operation.

(2) Special appraisal assumptions:

1. The countries and regions involved in the production and sales of the appraised entity include China, the United States, Macao, China, Taiwan, China, etc. Assuming that there is no significant change in the macro-economy in the relevant laws, regulations and policies in force in the relevant countries and regions; there are no significant changes in the political, economic, and social environment of the regions where the parties involved in the transaction are located; there are no significant adverse effects caused by other unforeseeable or force majeure factors.

2. It is assumed that the operator of the company is responsible and that the management of the company is capable of fulfilling the duties.

3. It is assumed that the company fully complies with all relevant laws and regulations unless otherwise specified.

4. It is assumed that the accounting policies that the company will adopt in the future are basically consistent with those used in writing this report in important aspects.

5. It is assumed that that the business scope and method of the company remain consistent with the current direction based on management methods and levels.

6. There will be no significant changes in interest rates, exchange rates, tax bases, tax rates, policy on fee collection, etc.

7. There are no other uncontrollable or unforeseeable factors that have had a significant adverse impact on the enterprise.

8. It is assumed that the company predicts that annual cash flows will occur at the end of the period.

9. It is assumed that the market competition of the enterprise products can maintain the current situation after the appraisal benchmark date.

10. It is assumed that the pricing mechanism and business strategy of the revenue and cost of the enterprise continue to operate under the current model.

11. It is assumed that the pricing mechanism for contract execution in the business of the enterprise maintains the model.

12. It is assumed that the industry environment in which the enterprise operates maintains the current development trend.

13. It is assumed that the enterprise's judgment of the future market and related revenue and costs are in line with the trend of market competition.

14. It is assumed that the contracts and agreements provided by the evaluated unit that are currently being fulfilled or have not yet been fulfilled are valid and can be completed within the planned time.

15. It is assumed that the basic and financial information provided by the enterprise is true, accurate, and complete.

16. As introduced by the company, Fiberxon, Inc. (formerly known as Source Photonics LLC) and its affiliated companies signed the *Patent License Agreement*, *Settlement and Cross License Agreement*, and *Supplemental Agreement to Settlement and Cross License Agreement* with Finisar Corporation in 2004, 2010, and 2015, respectively. It is stipulated in the *Patent License Agreement* signed in 2004 that Source Photonics LLC shall pay Finisar Corporation one-time full payment of $100,000.00 and pay royalty fee to Finisar Corporation based on the quantity of products sold/used; it is stipulated in *Settlement and Cross License Agreement* signed in 2010 that Source Photonics, Inc. shall pay Finisar Corporation $14,500,000. Except for the patents licensed by Source Photonics LLC to Finisar Corporation in the *2004 Agreement*, all other patent licenses shall expire on December 31, 2015; it is stipulated in *Supplemental Agreement to Settlement and Cross License Agreement* signed in 2015 that Magnolia Source (Cayman) Limited and Source Photonics, Inc. shall pay an additional $7.6 million patent fee, which shall be paid in 19 installments of 400,000 per quarter. The expiration date shall be modified to December 31, 2023 or the expiration date of the last patent in the Finisar Corporation license. According to the company introduction, the commercial protection period of the above-mentioned patents of FINISAR CORPORATION has expired as of December 31, 2023. Source Photonics Inc., Magnolia Source (Cayman) Limited, and related units can use them publicly for free in the future. The appraisal is calculated based on the assumption that Source Photonics and related units can continue to use the above-mentioned patents in the future, without paying any further license fees.

17. On December 12, 2023, Source Photonics (Chengdu) Co., Ltd. obtained No. GR202351005489 *Hi-tech Enterprise Certificate* issued by the Sichuan Provincial Department of Science and Technology, Sichuan Department of Finance, Sichuan State Taxation Administration, and Sichuan Local Taxation Administration, valid for three years, and subject to corporate income tax rate of 15% from 2023 to 2025. This appraisal assumes that the high-tech enterprise can continue to be certified and continue to enjoy preferential income tax rate policies after the expiration of high-tech enterprise certificate.

18. On December 13, 2023, Jiangsu Source Communication Technology Co., Ltd. obtained GR202332015263 *Hi-tech Enterprise Certificate* jointly issued by the Jiangsu Provincial

Department of Science and Technology, the Jiangsu Department of Finance, and the Jiangsu Taxation Administration of the State Taxation Administration, valid for three years, and subject to corporate income tax rate of 15% from 2023 to 2025. This appraisal assumes that the high-tech enterprise can continue to be certified and continue to enjoy preferential income tax rate policies after the expiration of high-tech enterprise certificate.

19. According to the *Announcement on Further Improving the Pre tax Deduction Policy for R&D Expenses* (Announcement No. 13 of 2021) of the Ministry of Finance and the State Taxation Administration, if the actual R&D expenses incurred by manufacturing enterprises during R&D activities have not been recognized as intangible assets in the current profit and loss, an additional deduction of 100% of the actual amount shall be made before tax from January 1, 2021 on the basis of actual deduction according to regulations; they shall be amortized before tax at 200% of the cost of intangible assets from January 1, 2021 if they have been recognized as intangible assets. It is understood by the enterprise that the evaluated unit enjoys a policy of 100% pre-tax deduction of R&D expenses as a manufacturing enterprise. Therefore, this appraisal assumes that R&D expenses during the forecast period will be deducted 100% before tax and they shall be amortized before tax at 200% of the cost of intangible assets if they have been recognized as intangible assets.

20. This appraisal assumes that the evaluated unit and subsidiaries can continue to obtain the right to use the production and office space through leasing, and the leasing cost is equivalent to the current level without significant changes.

21. This appraisal assumes that the disclosed information of comparable enterprise is true, accurate, and complete, without any false reports, incorrect records, or significant omissions that may affect value judgment.

Based on the requirements of evaluation of the enterprise by the income approach and market approach, the appraisers determine that these assumptions are valid on the appraisal benchmark date, and draw corresponding appraisal conclusions based on the assumptions. The appraisal results will significantly change if there are significant changes in the future economic environment or other assumptions are not established.

The appraisal conclusion of the appraisal report is valid on the benchmark date under the above assumptions. The signing asset appraiser and the appraisal agency will not be responsible for deriving different appraisal conclusions due to the change in assumptions in case of significant change in the above assumptions.

10. Appraisal conclusions

(1) Appraisal conclusion of income approach

It is evaluated by the income approach that the total equity value of shareholders of Source Photonics is RMB4193 million under the assumption of continuous operation on the appraisal benchmark date, the equity attributable to the parent company is RMB596.1008 million and the evaluated appreciation is RMB3596.8992 million, with an appreciation rate of 603.40%.

(2) Appraisal conclusion of market approach

It is evaluated by the income approach that the total equity value of shareholders of Source Photonics is RMB4,125 million under the assumption of continuous operation on the appraisal benchmark date, the equity attributable to the parent company is RMB596.1008 million and the evaluated appreciation is RMB3528.8992 million, with an appreciation rate of 592.00%.

(3) Final determination of appraisal results

The market value of the total equity value of shareholders of Source Photonics on the appraisal benchmark date is evaluated as RMB4193 million by the income approach and RMB4125 million by the market approach. The difference between appraisal results by two appraisal methods was RMB68 million, with a difference rate of 1.65%.

The main reason for the difference in appraisal results by two methods is different perspectives. Considering the future profitability of the enterprise, the income approach reflects the comprehensive profitability of various assets of the enterprise. As the principle of market substitution, the market approach analyzes the various indicators of comparable companies and infers ratio multiple that the evaluated unit should have through the ratio of the equity or overall value of the comparable company to a certain asset class or profitability indicator to obtain the equity value of the evaluated unit.

The income approach is to evaluate the value of a company by the method of discounting expected returns, with results greatly influenced by the future profitability, asset quality, operating ability, and operational risk of the company. However, the data and communication industry in which the target company operates has been in a period of rapid growth in recent years and there is uncertainty in the development of the industry in the future, which leads to uncertainty in the future profitability of the target company.

The market approach is to evaluate the current fair market value of an evaluated object based on a reference in the real market. There have been recently more capital market investors interested in comparable listed companies in the same industry, the information disclosure is relatively complete, and the market approach has the characteristics of direct appraisal perspectives and methods, intuitive appraisal processes, direct data collection from the market, and strong persuasive appraisal results. Moreover, the basic market functions of the capital market have been established after more than 20 years of development in the Chinese share market, and various investors and investment banks often use the market approach for pricing or verification in domestic and foreign property rights trading markets. Therefore, the appraisal results of the market approach are chosen as the final appraisal conclusion for the appraisal.

It is evaluated by the market approach that the total equity value of shareholders of Source Photonics is RMB4125 million (equivalent to 582.405 million US dollars based on the USD-RMB central parity rate of 7.0827 authorized by the China Foreign Exchange Trading Center on the benchmark date) under the assumption of continuous operation on the appraisal benchmark date, the equity attributable to the parent company is RMB596.1008 million and the evaluated appreciation is RMB3528.8992 million, with an appreciation rate of 592.00%.

11. Special notice

The following matters cannot be evaluated or estimated by the professional level and ability of our evaluators, but they may indeed affect the appraisal conclusion. We remind the users of this appraisal report to pay attention to it:

(1) The "appraisal value" referred to in this report refers to the fair appraisal opinion we provide for the purposes stated in this report based on the premise that the evaluated asset remains unchanged in its current use and continues to operate, as well as under the conditions and external economic environment on the appraisal benchmark date, and we are not responsible for any other purposes.

(2) The appraisal conclusion in the report reflects the fair value of the evaluated object determined based on the principle of open market for the purpose of this appraisal. The relevant expenses and taxes that should be borne during the property registration or ownership change of such assets are not taken into account, nor is any tax adjusted for the value-added amount of asset appraisal. The appraisal conclusion should not be considered as a guarantee of the achievable price of the evaluated object.

(3) The impact of liquidity on the evaluated object rather than the premiums or discounts generated by controlling and minority interests is considered for the appraisal.

(4) It is necessary to adjust appropriately instead of directly using the appraisal conclusion if there are changes in the number of assets and appraisal standards during the validity period of the asset appraisal results.

(5) Main information such as ownership is incomplete or has defects

1. As of the appraisal benchmark date, there are three patent technologies held by Jiangsu Source Communication Technology Co., Ltd. without patent certificates in the off-balance sheet patents included within the appraisal scope. Specifically, they are manual photoresist loading vehicles (appearance design, patent No.: 201930642826.1), wax removal solution chip-taking equipment (utility model, patent No.: 201922022247.4), and a pin opening device for optical devices (utility model, patent No.: 202022341814.5). The evaluated unit introduces that the above-mentioned patents are applications that were not implemented by the former financial manager of Jiangsu Source Communication Co., Ltd. through the procedures, and no relevant certificate archives have been found. Jiangsu Source Communication Co., Ltd. has issued a relevant explanation, promising that the ownership of the above-mentioned patents belongs to it without any property disputes, and the above-mentioned assets are currently being implemented and used normally by the enterprise. This appraisal does not consider the impact of asset ownership defects on the appraisal conclusion. Please report it to the user.

2. Source Photonics, Inc., as the trademark registrant, has applied for two trademarks in the UK as of the appraisal benchmark date, with registration No. UK0096666929 and UK009667208 respectively. As the trademark registrants, Source Photonics, Inc. and

Source Photonics Santa Clara have jointly applied for two trademarks in the UK, with registration No. UK00801410838 and UK00801411401 respectively. The trademark registration certificates for these four trademarks cannot be provided because they were approved during the Brexit period in the UK and no certificates were issued during that period. Source Photonics, Inc. and Source Photonics Santa Clara have issued relevant statements, promising that the above-mentioned trademarks belong to them without property disputes, and the above-mentioned assets are currently being implemented and used normally by the enterprise. This appraisal does not consider the impact of asset ownership defects on the appraisal conclusion. Please report it to the user.

3. As of the appraisal benchmark date, Jiangsu Source Communication Technology Co., Ltd. is unable to provide certificate related with software copyright for software copyright held by the company. The work is called Optical Transceiver Integrated Module Production Control System, with registration No. 2020SR0617756. The certificate has been lost due to improper storage. Jiangsu Source Communication Technology Co., Ltd. has issued relevant statements, promising that the above-mentioned trademarks belong to them without property disputes, and the above-mentioned assets are currently being implemented and used normally by the enterprise. This appraisal does not consider the impact of asset ownership defects on the appraisal conclusion. Please report it to the user.

4. As of the appraisal benchmark date, there are no physical items for the two devices owned by Source Taiwan, including manual VCSEL adhesive machines and error code testing systems. The non- physical assets are considered as non operating assets for the appraisal, and the appraisal value is determined at zero.

(6) Financial leasing

On May 19, 2023, Source Taiwan signed an after-sales and leaseback agreement with Zhongtai Leasing Co., Ltd. to obtain financing of NT $150,000,000 (equivalent to RMB34,757,428.57). The agreement stipulates the financing period of 24 months, with principal and interest to be paid at the beginning of each month, and an effective annual interest rate of 4.84%. The equipment includes 1 electrically coupled dry etching machine, 1 grain testing machine, 2 organic metal vapor phase chemical deposition machines, 1 ion beam sputtering machine, and 3 high-precision surface mount machines NOVA.

On July 28, 2023, Source Taiwan signed an after-sales and leaseback agreement with Zhongzhu Dihe Co., Ltd. to obtain financing of NT $60,000,000 (equivalent to RMB13,902,971.43). The agreement stipulates the financing period of 24 months, with monthly principal and interest to be paid at the end of each month, and an effective annual interest rate of 5.84%. The equipment includes 2 grain testing machines, 1 organic metal vapor chemical deposition machine, 2 ADST laser welding machines, 1 multifunctional sorting machine, 1 OC705 photoelectric chip four-sided detection and sorting machine, 1 stepper exposure machine, and 1 second-generation optical packaging machine.

We remind the user to pay attention to after-sales and leaseback of the above equipment.

(7) Pledge and guarantee

As of the appraisal benchmark date, the evaluated unit has the following pledge and guarantee:

1. Monetary funds not received and pledged

As of the appraisal benchmark date, the evaluated unit has monetary funds that have not been received and pledged, as follows:

Items	December 31, 2023			
	Book balance	Book value	Restricted type	Restriction
Monetary funds	1,364,864.20	1,364,864.20	Not received	Interest receivable
Monetary funds	48,931,799.37	48,931,799.37	Pledged	Loan deposit, bill deposit, and fixed deposit certificate pledge

We remind the user to pay attention to the above monetary funds that have not been received and pledged. The impact on the appraisal conclusion is not considered for the appraisal to pay attention to it.

2. Pledge of intangible asset

No.	Patent type	Patent name	Patent No.	Patent owner	Issuing agency	Issuing time	Validity period of patent	Legal status
1	Authorized invention	Multi-channel optical emitter and component alignment method	US15/616547	SOURCE PHOTONICS, INC.	USA	2017-11-28	2033-07-29	Valid
2	Authorized invention	Monitor, store, and report the status of optical transceivers by tracking changes in operating parameters	US14/342361	SOURCE PHOTONICS, INC	USA	2016-02-02	2034-04-04	Valid
3	Authorized invention	System and method for transmitting optical signals in photonic devices, as well as method for manufacturing the system	US16/338096	SOURCE PHOTONICS, INC.	USA	2022-07-19	2040-09-30	Valid
4	Authorized invention	Optical modulator and manufacturing and usage methods	US16/076645	SOURCE PHOTONICS, INC.	USA	2021-06-22	2040-02-26	Valid
5	Authorized invention	Phase shifter based on multi-layer p-n junction and manufacturing and usage methods	US16/343991	SOURCE PHOTONICS, INC.	USA	2022-03-08	2040-08-28	Valid
6	Authorized invention	Light emitters including gradient or tilted passband filters, and manufacturing and usage methods	US16/069493	SOURCE PHOTONICS, INC.	USA	2022-04-12	2040-12-06	Valid
7	Authorized invention	Multi-channel optical emitter and component alignment method	US14/000160	SOURCE PHOTONICS, INC	USA	2017-08-01	2033-07-29	Valid
8	Authorized invention	WDM multiplexing/demultiplexing system and manufacturing method	US15/698580	SOURCE PHOTONICS, INC	USA	2020-06-02	2033-02-27	Valid
9	Authorized invention	Operation status indicator in optical transceiver using dynamic threshold	US13/371313	SOURCE PHOTONICS, INC	USA	2015-01-13	2032-12-05	Valid
10	Authorized invention	Operation status indicator in optical transceiver using dynamic threshold	US13/684047	SOURCE PHOTONICS, INC.	USA	2016-07-12	2032-03-13	Valid
11	Authorized invention	Tunable dense wavelength division multiplexing transceivers, circuits, and devices, as well as methods for manufacturing and using such transceivers, circuits, and devices	US13/050787	SOURCE PHOTONICS, INC.	USA	2015-01-06	2032-03-23	Valid
12	Authorized invention	Equipment and manufacturing and usage methods for reducing the sensitivity of optical signals to polarization	US13/193518	SOURCE PHOTONICS, INC.	USA	2015-10-20	2033-03-02	Valid
13	Authorized invention	Lockable module housing and manufacturing and usage methods	US13/563682	SOURCE PHOTONICS, INC	USA	2015-05-12	2033-06-08	Valid
14	Authorized invention	Data signal detection in optical and/or optoelectronic receivers and/or transceivers	US13/282372	SOURCE PHOTONICS, INC.	USA	2014-11-18	2033-01-16	Valid
15	Authorized invention	Circuit and method for monitoring power parameters in optical transceivers	US13/455937	SOURCE PHOTONICS, INC	USA	2014-11-04	2032-09-14	Valid

No.	Patent type	Patent name	Patent No.	Patent owner	Issuing agency	Issuing time	Validity period of patent	Legal status
16	Authorized invention	Circuits, architectures, devices, methods, and algorithms used to determine DC bias in AC or AC coupled signals	US13/206285	SOURCE PHOTONICS, INC.	USA	2015-12-01	2034-05-26	Valid
17	Authorized invention	WDM multiplexing/demultiplexing system and fabrication method	US13/735735	SOURCE PHOTONICS, INC.	USA	2016-01-05	2033-02-27	Valid
18	Authorized invention	Method, device, and system for monitoring signal strength in optical networks	US13/316238	SOURCE PHOTONICS, INC	USA	2016-02-02	2033-01-15	Valid
19	Authorized invention	Threshold detection and/or recovery of data signals in optical and/or optoelectronic receivers and/or transceivers	US13/282191	SOURCE PHOTONICS, INC.	USA	2015-02-03	2032-12-04	Valid
20	Authorized invention	Monitoring, storage, and reporting of status of enhanced optical transceiver	US13/427691	SOURCE PHOTONICS, INC	USA	2014-11-11	2033-01-22	Valid
21	Authorized invention	Tripods and/or optical line terminals and enclosures compatible with 10G Ethernet passive optical networks	US13/341306	SOURCE PHOTONICS, INC.	USA	2015-01-13	2032-11-07	Valid
22	Authorized invention	Bidirectional fiber optic transceiver, casing, manufacturing and usage methods	US13/341260	SOURCE PHOTONICS, INC.	USA	2015-11-24	2033-10-17	Valid
23	Authorized invention	Optical isolators capable of creating large buffer zones for light beams and manufacturing and usage methods	US13/746271	SOURCE PHOTONICS, INC.	USA	2015-04-28	2033-09-03	Valid
24	Authorized invention	Generation of operational status information in optical transceivers	US13/348599	SOURCE PHOTONICS, INC	USA	2015-03-24	2032-07-06	Valid
25	Authorized invention	Isolation modulator electrode for low power consumption	US13/740140	SOURCE PHOTONICS, INC	USA	2015-02-03	2033-01-19	Valid
26	Authorized invention	A light receiver with reduced cavity size and manufacturing and usage methods	US13/212137	SOURCE PHOTONICS, INC.	USA	2015-12-15	2033-05-30	Valid
27	Authorized invention	Optical receiver with reduced cavity size and manufacturing and usage methods	US14/939747	SOURCE PHOTONICS, INC.	USA	2017-02-14	2031-08-17	Valid
28	Authorized invention	Enhanced received signal power indicator for optical receivers and transceivers, and manufacturing and usage methods	US13/527462	SOURCE PHOTONICS, INC.	USA	2014-12-02	2032-10-03	Valid
29	Authorized invention	Low -power, long-distance, pluggable transceivers, circuits and devices, and usage methods	US13/114431	SOURCE PHOTONICS, INC.	USA	2014-12-02	2032-10-19	Valid
30	Authorized invention	Optical transceiver for integrated optical time domain reflectometer monitoring	US13/309983	SOURCE PHOTONICS, INC.	USA	2015-01-27	2033-08-06	Valid
31	Authorized invention	Small pluggable optical transceiver	US13/752747	SOURCE PHOTONICS, INC.	USA	2015-01-27	2033-01-29	Valid
32	Authorized invention	A method and algorithm for stabilizing the output state of an optical module	US13/728788	SOURCE PHOTONICS, INC	USA	2015-06-16	2033-09-27	Valid
33	Authorized invention	Differential drivers, including circuits and devices, and manufacturing methods	US13/323698	SOURCE PHOTONICS, INC.	USA	2015-01-06	2033-04-20	Valid
34	Authorized invention	Power-saving driving circuit that provides bias current or driving current to drive loads	US13/649969	SOURCE PHOTONICS, INC.	USA	2015-03-24	2033-01-24	Valid
35	Authorized invention	Optical transceiver of multi data rate	US12/961270	SOURCE PHOTONICS, INC	USA	2013-03-26	2026-02-05	Valid
36	Authorized invention	Optical transceiver of multi data rate	US11/336724	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2010-01-19	2026-02-05	Valid

No.	Patent type	Patent name	Patent No.	Patent owner	Issuing agency	Issuing time	Validity period of patent	Legal status
37	Authorized invention	Method, circuit, and device for outputting stable optical signals in dense wavelength division multiplexing equipment during rapid changes in operating conditions	US11/082357	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2013-12-10	2031-09-14	Valid
38	Authorized invention	Optical transceiver receiver monitoring circuit and burst mode optical power monitoring method	US10/815326	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2014-07-29	2032-10-20	Valid
39	Authorized invention	Circuit and method for limiting current to prevent laser diode flipping	US11/563212	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2014-03-11	2032-06-19	Valid
40	Authorized invention	Equipment and methods for controlling laser output and improving laser safety using proximity sensors	US11/696065	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2014-09-30	2032-09-07	Valid
41	Authorized invention	Circuits, architectures, devices, systems, and methods for merging management and data signals, as well as for restoring management signals	US13/246522	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2014-03-04	2032-03-21	Valid
42	Authorized invention	Device for measuring the temperature dependence of photodiodes	US13/020740	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2007-02-27	2025-04-17	Valid
43	Authorized invention	Diagonal and variable power UV adhesive curing process to improve alignment	US13/210203	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2013-07-16	2031-12-01	Valid
44	Authorized invention	Optical transceiver with improved printed circuit board	US13/341675	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2006-12-26	2026-01-19	Valid
45	Authorized invention	Optical transceiver with improved unlocking mechanism	US13/478813	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2009-03-24	2027-01-05	Valid
46	Authorized invention	Generation of operation status flags in optical transceivers	US13/070358	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2014-09-23	2031-08-05	Valid
47	Authorized invention	Small pluggable optical transceiver with automatic recovery unlocking mechanism and mechanism for locating optical transceiver components	US13/075092	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2007-08-14	2026-02-08	Valid
48	Authorized invention	Dynamic memory allocation in optical transceivers	US13/408303	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2014-08-05	2032-04-17	Valid
49	Authorized invention	Dynamic memory allocation in optical transceivers	US14/310433	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2016-11-01	2031-07-26	Valid
50	Appearance design	Removable key for unlocking the optical transceiver module	D594455, D/250,639	Magnolia Source (Cayman) Limited	USA	2009-06-16	2023-06-16	Invalid
51	Authorized invention	Optical add/drop module	6,931,174; 10/230,961	Magnolia Source (Cayman) Limited	USA	2005-08-16	2023-05-02	Invalid
52	Authorized invention	Optical transceiver of multi data rate	US11/257627	MAGNOLIA SOURCE (CAYMAN) LIMITED	USA	2007-04-03	2023-12-19	Invalid
53	Authorized invention	Alignment system and operation method	13/009,513; 8,860,799	Source Photonics, Inc.	USA	2014-10-14	2032-04-07	Invalid

Note: The patented technology "Alignment system and operation method" (patent No.: 13/009513; 8860799) has expired as the annual fees were not paid in 2018.

The above-mentioned pledged patent is used for the syndicated loan to Huamei Bank by the company, and we remind the user of the report to pay attention to it. The impact on the appraisal conclusion is not considered for the appraisal.

3. Guarantee

No.	Guarantor	Debtor	Creditor	Contract name and number	Guarantee amount (RMB10,000)	Guarantee method	Guarantee period
1	Source Chengdu	Source Shenzhen	Bank of China Limited Shenzhen Nantou Branch	*Maximum Guarantee Contract* (2023ZZYNPBZI No. 000131B)	The principal amount of RMB10 million, including interest, liquidated damages, compensation for damages, expenses for realizing the creditor's rights, losses caused to the creditor due to the debtor's breach, and all other payable expenses.	Joint and several liability guarantee	The guarantee period is three years from the expiration date of the debt performance period.
2		Source Chengdu	Huaxia Bank Co., Ltd. Chengdu Branch	*Pledge Contract* (CD4710120230011-31)	3,000	Deposit certificate pledge	Not agreed upon, and it shall be from March 23, 2024 to September 22, 2024 according to the Civil Code
3		Source Jiangsu	Bohai Bank Co., Ltd. Changzhou Branch	*Maximum Guarantee Contract* (BCFZGB(2020) No.40)	Not exceeding 3000	Joint and several liability guarantee	2 years from the expiration date of the debtor's debt performance period under the main contract. The guarantor's guarantee period shall be calculated based on the different maturity dates in case of different maturity dates for the debt under the main contract.
4		Source Jiangsu	CZBank Co., Ltd. Changzhou Branch	*Maximum Guarantee Contract* (305008)ZSYGBZI (2023)No.00621	Not exceeding 10,000	Joint and several liability guarantee	Three years from the expiration date of the debtor's performance period as stipulated in the main contract.
5		Source Jiangsu	Bank of China Limited Jintan Branch	*Maximum Guarantee Contract* (2023TZYZGBZI No. 072001)	The principal amount of RMB120 million, including interest, liquidated damages, compensation for damages, expenses for realizing the creditor's rights, losses caused to the creditor due to the debtor's breach, and all other payable expenses.	Joint and several liability guarantee	The guarantee period is three years from the expiration date of the debt performance period.
6	Source Jiangsu	Source Chengdu	Bank of China Limited Chengdu Qingyang Branch	*Maximum Guarantee Contract* (2022 ZQ (Source) BZZNo.001)	The principal amount of RMB70 million, including interest, liquidated damages, compensation for damages, expenses for realizing the creditor's rights, losses caused to the creditor due to the debtor's breach, and all other payable expenses.	Joint and several liability guarantee	The guarantee period is three years from the expiration date of the debt performance period.
7		Source Shenzhen	Bank of China Limited Shenzhen Nantou Branch	*Maximum Guarantee Contract* (2023ZZYNPBZI No. 000131A)	The principal amount of RMB10 million, including interest, liquidated damages, compensation for damages, expenses for realizing the creditor's rights, losses caused to the creditor due to the debtor's breach, and all other payable expenses.	Joint and several liability guarantee	The guarantee period is three years from the expiration date of the debt performance period.
8		Source Chengdu	Huaxia Bank Co., Ltd. Chengdu Branch	*Maximum Guarantee Contract* (CD47 (GB) 20210043)	Not exceeding 5000	Joint and several liability guarantee	Three years from the date of determination of the secured debt or the expiration date of the performance period of the debt.

No.	Guarantor	Debtor	Creditor	Contract name and number	Guarantee amount (RMB10,000)	Guarantee method	Guarantee period
9		Source Chengdu	China Merchants Bank Co., Ltd. Chengdu Branch	*Maximum Irrevocable Guarantee Letter* (128XY20220211560 1)	Not exceeding 10,000	Joint and several liability guarantee	From the effective date of this guarantee letter to the maturity date of each loan or other financing under the Credit Agreement or the accounts receivable debt acquired by your bank, or the advance payment date for advance payment, with three years added. The guarantee period shall be extended until an additional three years after the expiration of the extension period if any specific credit extension is granted.
10		Source Jiangsu	CZBank Co., Ltd. Changzhou Branch	*Asset Pool Pledge Guarantee Contract* ((3310000)ZSZCCZZ I (2023) No. 10609	600	Pledge of acceptance bill	June 15, 2023 to May 23, 2024
11		Source Chengdu	Industrial Bank Co., Ltd. Chengdu Branch	*Maximum Guarantee Contract* (XYR (EB) 2305 No. 27141)	Not exceeding 8000	Joint and several liability guarantee	Calculated according to the financing provided by the creditor for the debtor under the main contract, and the guarantee period is three years from the expiration date of the debt performance period under the financing.
12		Source Chengdu	China Merchants Bank Co., Ltd. Chengdu Branch	Maximum Irrevocable Guarantee Letter (128XY20230349620 1)	12,000	Joint and several liability guarantee	From the effective date of this guarantee letter to the due date of the accounts receivable debt of each loan or other financing under the Credit Agreement, with three years added. The guarantee period shall be extended until an additional three years after the expiration of the extension period if any specific credit extension is granted.

No.	Guarantor	Debtor	Creditor	Contract name and number	Guarantee amount (RMB10,000)	Guarantee method	Guarantee period
13		Source Chengdu	Shanghai Bank Co., Ltd. Chengdu Branch	*Maximum Guarantee Contract* (DB202010036)	Not exceeding 5000	Joint and several liability guarantee	Three years from the expiration date of the performance period of debt under the main contract. The guarantee period is three years from the expiration date of the performance period of the last main debt if the debt under the main contract is divided into several parts (such as installment payments), and the performance period of each part of the debt is not the same. The guarantor shall bear the guarantee responsibility in advance if the debtor breaches the contract and the creditor recovers the debt in advance.

Please report the above guarantee to the user to pay attention to it. The impact of guarantee on the appraisal conclusion is not considered for the appraisal.

(8) Uncertain factors such as Pending matters and legal disputes

Chengdu Source has pending litigation as of the appraisal benchmark date, as follows:

Plaintiff	Defendant	Cause of action	Target amount	Case progress
Chengdu Guangxin Technology Co., Ltd	Source Chengdu	Disputes over sales contracts	RMB477.738.7 and litigation costs	The People's Court of Chengdu Hi-tech Industrial Development Zone in Sichuan Province issued a Civil Ruling (Case No.: (2023) C 0191 MC No. 18937) on October 12, 2023, stating that the dispute resolution method chosen by both parties was to submit it to an arbitration agency for arbitration according to the contractual agreement between the parties, and this case should not be under the jurisdiction of the People's Court. Therefore, the plaintiff's lawsuit was rejected. Source Chengdu received a subpoena from the Chengdu Intermediate People's Court, Sichuan Province on January 12, 2024, and the plaintiff filed an appeal on jurisdiction and the Chengdu Intermediate People's Court, Sichuan Province conducted a trial on it on March 13, 2024.

We remind the user of the report to pay attention to the above pending litigation to and the impact on the appraisal conclusion is not considered for the appraisal.

(9) As introduced by the company, Fiberxon, Inc. (formerly known as Source Photonics LLC) and Finisar Corporation signed the *Patent License Agreement* on August 24, 2004, which stipulated that Finisar Corporation would license a series of patents related to optoelectronic transceiver modules to Source Photonics LLC for use. The license was non exclusive and the

scope of the license was to use, manufacture, and entrust to manufacture, sell, and provide sales and distribution of products related to such patents worldwide. To this end, Source Photonics LLC shall pay $100,000.00 to Finisar Corporation at one time in full and pay Finisar Corporation royalty fee based on the quantity of products sold/used. Meanwhile, Source Photonics LLC and its affiliates shall license Finisar Corporation to use patents and patent families that have been authorized or are currently being applied for as of May 1, 2003, as well as 10 patent families obtained or owned by Source Photonics LLC and its affiliates during the validity period of this agreement. The license was non exclusive and the scope of the license was to use, manufacture, and entrust to manufacture, sell, and provide sales and distribution of products related to such patents worldwide.

Source Photonics, Inc., MRV Communications, Inc., and Finisar Corporation re-signed the *Settlement and Cross License Agreement* on September 10, 2010 to re-negotiate the relevant provisions of the *2004 Agreement*. According to the provisions of the *2010 Agreement*, Finisar Corporation shall license Source Photonics, Inc. and its affiliates to use patents it claims in civil litigation case No. CV10-00032WHA and arbitration No. 744940042010, the patents and the patent family licensed for use by Source Photonics LLC in the *2004 Agreement*. The licensing method is non exclusive, and the scope of the license is to use, manufacture, sell, provide for sale, import, and distribute products related to such patents on a global scale. For this, Source Photonics, Inc. paid Finisar Corporation $14,500,000. Meanwhile, Source Photonics, Inc. licenses Finisar Corporation to use its patents 7200336 and 7650077, as well as the patents already licensed for use by Finisar Corporation under the *2004 Agreement*. The licensing method is non exclusive, and the scope of the license is to use, manufacture, sell, provide for sale, import, and distribute products related to such patents on a global scale. All other patent licenses expired on December 31, 2015 except for the patents licensed by Source Photonics LLC to Finisar Corporation in the *2004 Agreement*.

Source Photonics Inc., Magnolia Source (Cayman) Limited, and Finisar Corporation signed a supplementary agreement regarding the *Settlement and Cross License Agreement* on December 30, 2015, stipulating that Magnolia Source (Cayman) Limited and Source Photonics Inc. would pay an additional $7.6 million in patent fees in 19 installments of 400,000 per quarter, with the expiration date modified to December 31, 2023 or the expiration date of the last patent in licensed patents of Finisar Corporation.

As introduced by the company, the commercial protection period of the above-mentioned patents of FINISAR CORPORATION has expired as of December 31, 2023, and they can be used publicly for free by Source Photonics Inc. and Magnolia Source (Cayman) Limited in the future. Therefore, the licensing fees for the above-mentioned patents are not considered for the future prediction period of the appraisal.

(10) The subsidiaries of Source Photonics have not yet completed their paid-in capital contributions as of the appraisal benchmark date, as shown in the table below:

No.	Company name	Abbreviation	Shareholding ratio	Registered capital	Paid-up capital
1	Source Photonics Taiwan, Inc.	Photonics Taiwan	100.00%	TWD 450,000,000	TWD 400,000.000
2	Jiangsu Source Communication Technology Co., Ltd.	Source Jiangsu	90.00%	US$23,661,562	US$21,883,784
3	Chengdu Antong Semiconductor Co., Ltd.	Antong Semiconductor	50.055%	¥1,298,572.00	¥1,255,572.00
4	Chengdu Antong Technology Co., Ltd.	Antong Technology	100.00%	¥1,000,000.00	¥500,000.00

The above-mentioned company has not completed the paid in capital matters and we remind the user of the report to pay attention to it.

(11) Magnolia Source (Cayman) Limited holds 90% equity of Jiangsu Source Communication Technology Co., Ltd., and Jiangsu Source Communication Technology Co., Ltd. holds 50.055% equity of Chengdu Antong Semiconductor Co., Ltd. as of the appraisal benchmark date. As described in the audit report "The minority shareholders of Source Jiangsu have not actually contributed during the reporting period, and the equity ratio of the company in Source Jiangsu is calculated at 100%.", the minority interest entity recognized on the book is Chengdu Antong Semiconductor Co., Ltd. The appraisal value of minority interest is recognized at book value due to the fact that Chengdu Antong Semiconductor Co., Ltd. has not yet conducted actual business operation and its contribution to the group's income has not been reflected on the benchmark date.

(12) This appraisal is based on the ESOP reserved by Venus Pearl Acquisition Co Limited, the former shareholder of Source Photonics, in 2017, 2019, and 2020, respectively. Source Photonics held the third shareholders meeting in 2023 on August 18, 2023 and approved the proposal *Regarding the Transfer of Employee Options from Venus Pearl SPV2 Co Limited to Source Photonics Holdings (Cayman) Limited*. All shareholders have agreed to transfer multiple ESOP plans at the VPA level to Source Photonics based on the completion of the restructuring, which means Source Photonics will re-formulate and implement relevant employee incentive plans. This plan is essentially the same as the ESOP plan at the VPA level. Shareholders of Source Photonics made a resolution on November 25, 2023 to reserve 11,841,528 non-voting ordinary share options.

The total ESOP equity of Source Photonics corresponds to a total of 42,957,203 non-voting ordinary share options as of the appraisal benchmark date, and the option incentives have not yet been converted into shares at the exercise price. The appraisal results do not include the paid-in capital value of ESOP that should be paid but not paid in. We remind the user of the report to pay attention to it.

(13) The total ESOP equity of Source Photonics corresponds to a total of 42,957,203 non-voting ordinary share options as of the appraisal benchmark date. Only one Chinese employee intends to exercise 22,893 options after resigning in 2021 and has paid the exercise price to the company. He has not gone through equity change registration so far due to the nationality, with the remaining exercise price of 26,929.07 US dollars included in other payables. Other personnel have not actually exercised the rights. This appraisal follows the method consistent with the audit, which is to recognize the appraisal value of other payables at book value– paid by employees to exercise the rights.

(14) The book value of the financial data of the evaluated unit on which the appraisal is based has been audited by Zhitong Certified Public Accountants (Special General Partnership) with an unqualified audit report issued. The audit report No. ZTSZ (2024) No. 110A026618 was issued on June 23, 2024.

(15) Limitations in asset appraisal procedures, handling methods, and the impact on appraisal conclusions:

1. The asset appraiser did not conduct technical tests on the technical parameters and performance of various kinds of equipment on the appraisal benchmark date in the appraisal and judged through on-site investigation assuming that the relevant technical information and operation records provided by the evaluated unit are true and effective. We remind the user of the report to pay attention to it.

2. The asset appraiser has not conducted on-site inspection in places such as Cayman, Luxembourg, the Netherlands, India, the United States, Shenzhen, and Macau, China. It is verified with the company that companies in Cayman, Luxembourg, the Netherlands and India are mainly platform companies without actual business operation; companies in Shenzhen and Macau, China are mainly sales companies, with products directly transported from production enterprises to customers without the need for sales companies to transfer or store them; the US company is mainly responsible for research and development without other business operation except for one client who requires invoicing from a local US company. Therefore, the above-mentioned companies are verified through alternative procedures such as interviews and inquiries with company personnel. The companies promise that the assets within the scope of declaration truly exist without property disputes. The appraisal conclusion is based on the appraisal scope declared by the company and the audited balance sheet. The appraisal result should be adjusted accordingly if the asset in the later stage does not match the declared scope. We remind the user of the report to pay attention to it.

(16) As for other defects that may affect the appraisal conclusion between the client and the evaluated unit, the asset appraisal agency and asset appraisal professionals shall not be held responsible if asset appraisal professionals are unable to obtain information even after they have completed the appraisal procedures without special explanation from the client and the evaluated unit.

(17) The potential mortgage and guarantee matters that may be undertaken in the future, as well as the impact of additional or reduced prices that may be paid by special trading parties on the appraisal conclusion, nor the impact of changes in national macroeconomic policies, natural forces and other force majeure on the value of the appraisal object are not taken into account for the appraisal conclusion; the appraisal conclusion will generally become invalid and the report user cannot use the appraisal report if the aforementioned conditions and other assumptions and prerequisites such as the principle of continuous operation followed in the appraisal change. Otherwise, all consequences caused shall be borne by the report user.

(18) The asset amount should be adjusted accordingly if there is a significant change in the number of assets from the appraisal report date to the validity period of the appraisal report. It should be re-evaluated and the appraisal conclusion cannot be directly used if there is a change in the asset price standard and it has a significant impact on the appraisal conclusion.

(19) The future profit forecast used in the appraisal is based on the comprehensive judgment of the management of the evaluated unit based on the future development trend of the industry, market size, and its own development. The appraisal results of the income approach will become invalid if there is a deviation between the actual operating status of the enterprise in the future and business plan, and the management of the evaluated unit fails to take corresponding effective measures to compensate for the deviation in a timely manner. We remind the user of the report to pay attention to it.

(20) Subsequent events that may affect the appraisal conclusion between the appraisal benchmark date and the appraisal report date:

1. Guangdong Haomei New Materials Co., Ltd. signed a supplementary agreement with Source Photonics and Source Chengdu on convertible bond in April 2024. The two parties were unable to reach a consensus on the core terms of investment rights protection such as performance commitments, board seats, qualified exit, redemption rights, and shareholder decision-making voting mechanism in the D-round shareholder agreement and the articles of association of the company due to the fact that the prerequisite conditions for the second loan disbursement have not been met or exempted. Guangdong Haomei New Materials Co., Ltd. chose not to subscribe to Source Photonics D-round preferred shares or pay the second installment after mutual consultation. Source Photonics would pay Haomei New Materials at one time the loan principal of RMB142.246 million (the first RMB loan equivalent to USD 20 million) and interest calculated at an annual interest rate of 4% within seven working days from the maturity date of the aforementioned loan (i.e. September 7, 2024). Source Photonics has repaid $10 million of the aforementioned loan as of April 22, 2024. We remind the user of the report to pay attention to it.

2. Source Taiwan sold 2 automatic wire drawing machines, 1 automatic laser grain bonding machine, 1 stepper exposure machine, as well as important accessories such as chucks and 2 pieces of precision wafer process reaction equipment in March 2024. The proceeds from the sale of the equipment, excluding taxes, amounted to TWD 606,340.00, equivalent to RMB139,796.65. The sold assets would be considered as non operating assets for the appraisal, with the assessed value determined based on the disposal income excluding tax.

3. Source Taiwan scrapped some machinery and electronic equipment in March and April 2024, including a total of 66 pieces of machinery and 30 pieces of electronic equipment. The recovery fee for the asset scrapping and disposal, excluding tax, was TWD 97,143.00, equivalent to RMB22,397.11. The scrapped assets would be considered as non operating assets for the appraisal, with the assessed value determined based on the recovery fee excluding tax.

4. The RMB central parity authorized by the China Foreign Exchange Trading Center –

USD to RMB exchange rate changes between the appraisal benchmark date and the appraisal report date. The appraisal conclusion of this report did not consider the impact of this matter.

We remind the user of the asset appraisal report to pay attention to the impact of handling methods of the above-mentioned special matters and the possible impact of the special matters on the appraisal conclusion on economic behavior.

12. *Limitations on the use of asset appraisal reports*

1. This appraisal report can only be used for the appraisal purposes and purposes stated in the appraisal report;

2. The asset appraisal agency and asset appraisers shall not be held responsible if the client or other users of the asset appraisal report fail to use the asset appraisal report in accordance with laws, administrative regulations and the scope of use specified in the asset appraisal report;

3. No other organization or individual may become users of the asset appraisal report except for the client, other users of the asset appraisal report as stipulated in the asset appraisal commission contract, and users of the asset appraisal report as stipulated by laws and administrative regulations;

4. The user of the asset appraisal report should correctly understand the appraisal conclusion. The appraisal conclusion is not equivalent to the achievable price of the evaluated object, and should not be considered as guarantee of the achievable price of the evaluated object;

5. The appraisal agency shall review the relevant content if all or part of the content of this appraisal report is excerpted, quoted, or disclosed to public media, except as otherwise agreed by laws, regulations, and relevant parties;

6. The appraisal conclusions disclosed in this appraisal report are only valid for the corresponding economic behavior of this project. The validity period of the asset appraisal results is one year from the appraisal benchmark date, which is from December 31, 2023 to December 30, 2024. The appraisal conclusion should be used as the reference basis for value (combined with adjustment of the events after the appraisal benchmark date) when the appraisal purpose is achieved within the validity period. The asset appraisal is required if it exceeds one year.

13. *Date of asset appraisal report*

The date of the asset appraisal report is June 23, 2024.

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Asset appraisal agency: PAN-CHINA ASSETS APPRAISAL CO., LTD
PAN-CHINA ASSETS APPRAISAL CO., LTD. (sealed)

Legal representative: (signed)

Asset appraiser: (signed and sealed)

Asset appraiser: (signed and sealed)

June 23, 2024

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

Interests in the shares and underlying shares of the Company

Name of Director	Nature of interests	Number of Shares or underlying shares held (1)	Approximate % of shareholding
Ms. Yu Rumin (2)	Founder of a discretionary trust (2)	840,000,000 (L)	51.65
	Interest of spouse (4)	56,184,000 (L)	3.46
	Beneficial owner	14,784,000 (L)	0.91
Mr. Yu Jinlai (3)	Beneficiary of a discretionary trust (3)	840,000,000 (L)	51.65
Ms. Yu Ruping (3)	Beneficiary of a discretionary trust (3)	840,000,000 (L)	51.65
	Beneficial owner	14,784,000 (L)	0.91

Name of Director	Nature of interests	Number of Shares or underlying shares held (1)	Approximate % of shareholding
Mr. Shi Ming	Interest of spouse (4)	854,784,000 (L)	52.56
	Beneficial owner	56,184,000 (L)	3.46

Notes:

(1) The letter "L" denotes the person's "long position" (as defined under Part XV of the SFO) in the relevant shares.

(2) Pacific Mind Development Limited ("**Pacific Mind**") owned 840,000,000 Shares, representing 51.65% of the total number of the Shares. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee, holding the entire issued share capital of Pacific Mind for UBS TC (Jersey) Limited ("**Trustee**"). The Trustee is a trustee of a discretionary trust ("**Family Trust**") set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries. Ms. Yu Rumin as founder of the Family Trust is taken to be interested in the 840,000,000 Shares held by Pacific Mind by virtue of Part XV of the SFO.

(3) The Shares were held by Pacific Mind in the capacity of a legal beneficial owner. Since each of Mr. Yu Jinlai and Ms. Yu Ruping is a beneficiary of the family trust, each of Mr. Yu Jinlai and Ms. Yu Ruping was deemed to be interested in the shares held by Pacific Mind under the SFO.

(4) Mr. Shi Ming and Ms. Yu Rumin are spouse of each other. Therefore, they are deemed under the SFO to be interested in the Shares held by each other.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive of the Company nor their associates, had any other interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company or the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies contained in the Listing Rules.

(b) Substantial Shareholders and persons having 5% or more shareholding

As at the Latest Practicable Date, the register of substantial shareholders maintained under Section 336 of the SFO shown that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and the chief executive of the Company.

Interests in the shares and underlying shares of the Company

Name	Nature of interests	Number of Shares or underlying shares held (1)	Approximate % of shareholding
Pacific Mind Development Limited (2)	Beneficial owner	840,000,000 (L)	51.65
UBS TC (Jersey) Limited (2)	Trustee	840,000,000 (L)	51.65
UBS Nominee Limited (2)	Interest in controlled corporation	840,000,000 (L)	51.65
Mr. Yu Jianguang (3)	Interest of spouse	854,784,000 (L)	52.56

Notes:

(1) The letter "L" denotes the person's "long position" (as defined under Part XV of the SFO) in the relevant shares.

(2) Pacific Mind owned 840,000,000 Shares, representing 51.65% of the total number of the Shares. The issued share capital of Pacific Mind is directly owned by UBS Nominee Limited, a company incorporated in the Island of Jersey, being the nominee holding the entire issued share capital of Pacific Mind for the Trustee in respect of the Family Trust. The Trustee is a trustee of the Family Trust set up by Ms. Yu Rumin for which it acts as the trustee and Ms. Yu Rumin, her family members and any persons being approved are the beneficiaries.

(3) Mr. Yu Jianguang is the spouse of Ms. Yu Ruping and is therefore deemed under the SFO to be interested in the Shares held by Ms. Yu Ruping.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing service contract or proposed service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date:

(a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting which was significant in relation to the business of the Group; and

(b) none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

6. EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
BDO Limited	Certified Public Accountants
Pan-China Assets Appraisal Co., Ltd.	Valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have, directly or indirectly, any interest in any assets which had since 31 December 2023 (being the date to which the latest published consolidated audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

7. DOCUMENTS ON DISPLAY

Electronic copies of the following documents are available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jsnfgroup.com) for a period of 14 days from the date of this circular:

(a) the material contracts referred to in the paragraph headed "9. Material Contracts" below in this appendix;

(b) the written consents from the experts referred to in the paragraph headed "6. Expert" above in this appendix;

(c) this circular; and

(d) the Chinese version of the Valuation Report.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) the Formal Sale and Purchase Agreement;

(b) the framework agreement dated 26 November 2023 entered into between the Purchaser, the Other Vendors, the participants of ESOP and the Target Company in relation to the Disposal.

10. MISCELLANEOUS

Ms. Lo Moon Fong, who is a member of the Hong Kong Institute of Certified Public Accountants and a Certified Financial Planner, is the company secretary of the Company.

The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal share registrar and transfer office of the Company in the Cayman Islands is Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at 17/F., Far East Finance Centre, 16 Harbour Road, Hong Kong. The principal place of business of the Company in Hong Kong is at Unit 902, 9/F., Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong. The principal place of business of the Company in the PRC is at 1 Cencun Road, Luoyang Town, Wujin District, Changzhou City, Jiangsu Province, the PRC.

Nanfang Communication Holdings Limited
南方通信控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of Nanfang Communication Holdings Limited (the "**Company**") will be held at 3:00 p.m. on 9 September 2024 (Monday) at Unit 902, 9/F, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution:

Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 23 August 2024.

ORDINARY RESOLUTION

"To (i) approve, confirm and ratify the Formal Sale and Purchase Agreement dated 23 June 2024 entered into between Pacific Smart, an indirect wholly-owned subsidiary of the Company, as vendor and Vantone Neo Development Group Co., Ltd. (北京萬通新發展集團股份有限公司) as purchaser in respect of the disposal of the Sale Shares (a copy of which has been produced at the meeting marked "A" for identification purpose) and the transactions contemplated thereunder; and (ii) approve, ratify and confirm the authorisation to any one director of the Company on behalf of the Company, among other things, to sign, seal, execute and deliver all such documents as he/she may consider necessary, desirable or expedient for the purpose of or in connection with or to give effect to the Formal Sale and Purchase Agreement and the transactions contemplated thereby, and to waive compliance from or agree and make such amendments of non-material nature to the terms of any of the Formal Sale and Purchase Agreement that he/she may in his/her discretion consider to be desirable and in the interests of the Company and its shareholders as a whole."

By Order of the Board
Nanfang Communication Holdings Limited
Yu Jinlai
Chairman

Hong Kong, 23 August 2024

Notes:

1. A shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxy(ies) (if he/she/it is the holder of two or more shares) to attend and on a poll, vote instead of him/her at the Meeting that the appointment shall specify the number and class of shares in respect of which such proxy is so appointed. A proxy need not be a member of the Company.

2. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of authority, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours (i.e. 3:00 p.m. on 7 September 2024 (Saturday)) before the time appointed for holding the Meeting or any adjournment thereof.

3. Completion and return of the form of proxy will not preclude members from attending and voting in person at the Meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

4. Where there are joint registered holders of any shares, any one of such joint holders may vote, either in person or by proxy in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the Meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

5. If tropical cyclone warning signal no. 8 or above or "extreme conditions" caused by super typhoons or a "black" rainstorm warning signal is in force at 11:00 a.m. on 9 September 2024 (Monday), the Meeting will be postponed and further announcement for details of alternative meeting arrangements will be made. The Meeting will be held as scheduled even when tropical cyclone warning signal no. 3 or below is hoisted, or an amber or red rainstorm warning signal is in force. You should make your own decision as to whether you would attend the Meeting under bad weather conditions and if you should choose to do so, you are advised to exercise care and caution.

6. For determining the entitlement of the shareholders of the Company to attend and vote at the Meeting, the register of members of the Company will be closed from 3 September 2024 (Tuesday) to 9 September 2024 (Monday) (both days inclusive), during which period no transfer of shares of the Company will be effected. To qualify for attending and voting at the Meeting, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than 4:30 p.m. on 2 September 2024 (Monday).

* *For identification purpose only.*