

11 April 2024

*To: The independent board committee and the independent shareholders  
of Hengxin Technology Ltd.*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTIONS IN RELATION  
TO EXTENSION OF REPAYMENT DATES OF LOANS  
TO CONNECTED SUBSIDIARY**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Extension, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 11 April 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 28 April 2023, the Lender, an indirect wholly-owned subsidiary of the Company, entered into the First Loan Agreement with Nanjing Zhangyu (as borrower), pursuant to which the Lender agreed to provide the First Loan to Nanjing Zhangyu in the principal amount of RMB40,000,000 for a term of one year commencing from the date of the First Loan Agreement (i.e. from 28 April 2023 to 27 April 2024).

On 31 May 2023, the Lender entered into the Second Loan Agreement with Nanjing Zhangyu, subject to the conditions precedent therein, the Lender provided the Second Loan to Nanjing Zhangyu in the principal amount of RMB210,000,000 in cash, for a term of one year commencing from the date of drawdown of the Second Loan (i.e. from 19 July 2023 to 18 July 2024).

On 7 March 2024, the Lender entered into the First Loan (Extension) Agreement and the Second Loan (Extension) Agreement with Nanjing Zhangyu (as borrower), pursuant to which the Lender conditionally agreed to (i) extend the repayment date of the First Loan from 27 April 2024 to 27 April 2025; and (ii) extend the repayment date of the Second Loan from 18 July 2024 to 18 July 2025, respectively.

With reference to the Board Letter, the Extension constitutes major and connected transactions of the Company under Chapter 14 and Chapter 14A of the Listing Rules and are subject to reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising Mr. Qian Ziyan, Dr. Li Jun, and Mr. Pu Hong (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Extension are on normal commercial terms and are fair and reasonable; (ii) whether the Extension is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Extension at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

## **INDEPENDENCE**

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in relation to continuing connected transaction (details of which are set out in the Company's circular dated 3 February 2023). Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company with executed agreement during the past two years immediately preceding the Latest Practicable Date. Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

## **BASIS OF OUR OPINION**

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

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

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

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

### **(1) Background and reasons for the Extension**

#### *Information on the Group*

With reference to the Board Letter, the Group is principally engaged in the provision of telecommunications products and services, provision of digital technology and digital security products and services and the provision of new energy and services.

Set out below are the Group's audited consolidated financial information for the two years ended 31 December 2023 as extracted from the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report"):

	For the year ended 31 December 2023	For the year ended 31 December 2022	Change
	<i>RMB'000</i>	<i>RMB'000</i>	<i>Approximate %</i>
Revenue	2,255,903	2,039,583	10.61
– Telecommunications	1,976,168	1,945,365	1.58
– Digital technology and digital security	202,671	94,218	115.11
– New energy and services	77,064	–	N/A
Gross profit	434,698	375,525	15.76
Profit for the year attributable to equity shareholders of the Company	69,702	63,602	9.59

As depicted from the above table, the Group's revenue for the year ended 31 December 2023 ("FY2023") increased by approximately 10.61% as compared to that for the year ended 31 December 2022 ("FY2022"), mainly attributable to revenue generated from new energy and services segment (the "New Energy Segment") and increase in revenue from digital technology and digital security segment (the "Digital Segment"). Along with the aforesaid increase in the Group's revenue, the Group's gross profit for FY2023 also increased by approximately 15.76% as compared to that for FY2022.

Profit attributable to equity shareholders of the Company for FY2023 increased by approximately 9.59% as compared to that for FY2022. With reference to the 2023 Annual Report and as confirmed by the Directors, the aforesaid increase in profit attributable to equity shareholders of the Company was mainly attributable to increase gross profit and decrease in other operating expenses, as partially offset by impairment loss on trade receivables for FY2023 and increase in interest expense and income tax.

With reference to the 2023 Annual Report and as confirmed by the Directors:

- (i) The Directors expected that the Digital Segment and the New Energy Segment will be able to gain favorable development opportunities from the PRC national policies.
- (ii) In respect of the Digital Segment, the Group will endeavour to implement intelligent internet-of-things ("IoT") data privacy computing project plan and develop a recommendation system based on differential privacy. Through analyses on user data with privacy protection, the Group is committed to realizing specific information recommendations and thereby achieving models for cooperation in the fields of electricity, energy, medical and industrial IoT.

- (iii) In respect of the New Energy Segment, the Group will continue to ensure continuous and stable operation and development of its solar thermal molten salt energy storage power plant projects and provision of operations and maintenance services using its leading technologies.

*Information on the Lender*

With reference to the Board Letter, the Lender is a company established under the PRC laws with limited liability and its principal activity is investment holding. The Lender is an indirect wholly-owned subsidiary of the Company.

*Information on Nanjing Zhangyu*

With reference to the Board Letter, Nanjing Zhangyu is held as to 51% indirectly by the Company and 49% directly by Xuzhou Jinkan (which is in turn held as to approximately 100% indirectly by Mr. Peng Yinan, an executive Director). Nanjing Zhangyu is a connected subsidiary of the Company under Rule 14A.16 of the Listing Rules. Nanjing Zhangyu is a company established under the PRC laws with limited liability and it is principally engaged in the development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software, as well as technology consultation and technology services.

With reference to the Company's announcements dated 5 May 2022 and 25 July 2022, the Lender acquired 51% equity interest in Nanjing Zhangyu (the "**Nanjing Zhangyu Acquisition**"). Completion took place on 19 July 2022 and Nanjing Zhangyu was owned as to 51% by the Lender since then. Nanjing Zhangyu's financial results were consolidated into the Group's financial statements since FY2022. The Digital Segment was formed during FY2022 after completion of the Nanjing Zhangyu Acquisition. The Digital Segment was profitable for FY2023.

With reference to the Company's announcement dated 1 February 2023, on 12 January 2023, Zhangyu Smart IoT Identity Security Authentication Chip which was researched and developed by Nanjing Zhangyu passed the test conducted by Commercial Cryptography Testing Center of National Cryptography Administration, and has been awarded commercial cryptographic product certification. The awarded commercial cryptographic product certification of the chip would significantly enhance the Group's core competitiveness. By using the chip, customers such as finance, electric power, transportation, and medical care companies are empowered to meet the evaluation requirements such as information security level protection, cryptographic application and security assessment. The Company plans to develop the IoT security ecosystem around the Zhangyu Smart IoT Identity Security Authentication Chip, and work with smart IoT manufacturing partners to jointly build a secure the PRC IoT ecosystem and build a security barrier for the PRC IoT system.

With reference to the Company's announcement dated 31 May 2023 and circular dated 29 June 2023 and as confirmed by the Directors, Nanjing Zhangyu, through the Partnership (Nanjing Zhangyu is interested in 87.67% in the Partnership), acquired 51% equity interest (in aggregate) in Zhongguang New Energy ("**Zhongguang Acquisition**"). Completion of the Zhongguang Acquisition took place on 21 July 2023.

Zhongguang New Energy and its subsidiaries are principally engaged in solar thermal power electricity generation and provision of related technical and consultancy services. The New Energy Segment was formed during FY2023 after completion of the Zhongguang Acquisition. The New Energy Segment was profitable for FY2023.

Set out below are Nanjing Zhangyu Group's audited consolidated financial information for the two years ended 31 December 2023 as provided by the Company:

	For the year ended 31 December 2023	For the year ended 31 December 2022	Change
	<i>Approximate RMB' million</i>	<i>Approximate RMB' million</i>	<i>Approximate %</i>
Revenue	236	133	77.44
Gross profit	127	58	118.97
Profit for the year	61	36	69.44
Net cash generated from operating activities	90	58	55.17

As depicted from the above table, Nanjing Zhangyu Group's revenue, gross profit and profit for FY2023 increased significantly as compared to those for FY2022. As advised by the Directors, such increases were attributable to development of Nanjing Zhangyu Group's digital technology and digital security business (existing businesses prior the Zhongguang Acquisition) and expansion through the Zhongguang Acquisition.

According to the information provided by the Company, Nanjing Zhangyu Group's net assets and cash were approximately RMB866 million and RMB395 million respectively as at 31 December 2023.

Further details of Nanjing Zhangyu Group's business and development are set out under the section headed "REASONS FOR AND BENEFITS OF ENTERING INTO THE LOAN (EXTENSION) AGREEMENTS" of the Board Letter. With reference to the Board Letter, significant future investments of Nanjing Zhangyu Group include:

- (i) Nanjing Zhangyu plans to invest RMB10 million, in the area of a post-quantum cryptography secure chips, which enable secure implementation of rudimentary operations for constructing post-quantum cryptography through an application-specific integrated circuit chip, and defending against security threats to current cryptographic protocols due to potentially released quantum computers.
- (ii) Nanjing Zhangyu also plans to invest RMB30 million, in the research and development of a solar-thermal power station management system, together with its subsidiary, Zhongguang New Energy. The system supports flexible data management, data security storage and data privacy preserving computing for solar-thermal power station, and helps to manage multiple solar-thermal power stations (which may be in different geographical locations) through only

one data management center remotely. The managed data is transferred with end-to-end data encryption and integrity protection to guarantee the security, and additional privacy-preserving computation scheme is applied between the data management center and the solar-thermal power station to counter data leakage.

*Reasons for and benefits of the Extension*

With reference to the Board Letter:

- (i) The First Loan was granted to Nanjing Zhangyu for the purpose of development and operation of its business in the development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software and other business development.
- (ii) The Second Loan was granted to Nanjing Zhangyu for the purpose of capital contribution made by Nanjing Zhangyu to the Partnership for the sole purpose of funding the Zhongguang Acquisition.
- (iii) The First Loan and the Second Loan were applied for capital contribution made by Nanjing Zhangyu to the Partnership and the Partnership applied such capital contribution to fund the Zhongguang Acquisition (which was considered to be a development of other business by Nanjing Zhangyu).
- (iv) Having anticipated the business development and expansion of Nanjing Zhangyu Group (through development of existing businesses and the Zhongguang Acquisition), the Company expected that Nanjing Zhangyu Group would have sufficient financial resources to repay the First Loan and the Second Loan on their original due dates.
- (v) As Nanjing Zhangyu is still in its development stage, the Extension will allow Nanjing Zhangyu to reserve its working capital and financial resources for the development and operation of its business in the development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software. The Extension of the Loans will ensure Nanjing Zhangyu will be able to operate smoothly by reserving its working capital and financial resources and supporting the continuous diversification development strategy of the Group which will be beneficial to the Group's development in the long run.

As demonstrated under the section headed "Information on Nanjing Zhangyu", Nanjing Zhangyu Group has been contributing to the Group's business development. In particular, (i) the Digital Segment was formed during FY2022 after completion of the Nanjing Zhangyu Acquisition; (ii) the Digital Segment was profitable for FY2023; (iii) the New Energy Segment was formed during FY2023 after completion of the Zhongguang Acquisition; and (iv) the New Energy Segment was profitable for FY2023.

In addition, Nanjing Zhangyu Group's financial performance was significantly improved from FY2022 to FY2023 by development of its digital technology and digital security business (existing businesses prior the Zhongguang Acquisition) and expansion through the Zhongguang Acquisition. It is in the interest of the Group to, by the Extension, allow Nanjing Zhangyu to reserve its working capital and financial resources for the development and operation of its business.

Having considered the above, we are of the view that although the Extension is not conducted in the ordinary and usual course of business of the Group, the Extension is in the interests of the Company and the Shareholders as a whole.

(2) **Principal terms of the Extension**

The table below summarises the major terms of the Extension, details of which are set out under the sections headed "FIRST LOAN (EXTENSION) AGREEMENT" and "SECOND LOAN (EXTENSION) AGREEMENT" of the Board Letter:

	The First Loan (Extension) Agreement	The Second Loan (Extension) Agreement
Date:	7 March 2024	
Parties:	The Lender (as lender) and Nanjing Zhangyu (as borrower)	
Principal amount:	RMB40,000,000	RMB210,000,000
Interest rate:	Remains at 4.9% per annum	
Original terms:	One year commencing from the date of the First Loan Agreement (i.e. from 28 April 2023 to 27 April 2024)	One year commencing from the date of drawdown of the Second Loan (i.e. from 19 July 2023 to 18 July 2024)
Extension terms:	The extension term shall be one year from 28 April 2024 to 27 April 2025	The extension term shall be one year from 19 July 2024 to 18 July 2025.
Repayment:	The interests to be accrued during the initial term of the First Loan from 28 April 2023 to 27 April 2024 in the amount of RMB1,960,000 shall be repaid on or before 27 April 2024. The outstanding principal amount of the First Loan together with all other accrued interests shall be repaid in one lump sum at the end of the term of the First Loan (Extension) Agreement.	The interests to be accrued during the initial term of the Second Loan from 19 July 2023 to 18 July 2024 in the amount of RMB10,290,000 shall be repaid on or before 18 July 2024. The outstanding principal amount of the Second Loan together with all other accrued interests shall be repaid in one lump sum at the end of the term of the Second Loan (Extension) Agreement.
Security:	Xuzhou Jinkan has agreed to pledge 49% equity interest in Nanjing Zhangyu to guarantee to the Lender (i) Nanjing Zhangyu's due and punctual repayment of the principal amount of First Loan together with all interests accrued as they become due under the First Loan (Extension) Agreement; and (ii) Nanjing Zhangyu's due and punctual repayment of the principal amount of Second Loan together with all interests accrued as they become due under the Second Loan (Extension) Agreement.	



### *Extension terms*

As depicted above, the original due dates of the First Loan and the Second Loan were extended by one year. With reference to the Board Letter, the Company does not expect the need for the further extension upon the extended due dates of the First Loan and Second Loan.

Having considered Nanjing Zhangyu Group's development and expansion, improved financial performance from FY2022 to FY2023 and financial position as at 31 December 2023 as demonstrated under the section headed "Information on Nanjing Zhangyu" above, we consider that extending the original due dates of the First Loan and the Second Loan by one year is reasonable.

### *The interest rate*

Pursuant to the Loan (Extension) Agreements, the interest rate remains at 4.9% per annum (the "Interest Rate"). We noted that the Interest Rate under the Loan (Extension) Agreements is same as the interest rate under the Loan Agreements.

With reference to the 2023 Annual Report, as at 31 December 2023, the Group's (i) secured bank loans carried interest at annual rates of 4.35% to 4.90%; and (ii) unsecured bank loans carried interest at annual rates of 1.26% to 4.00%. The Interest Rate of 4.9% per annum equals to the high-end of the aforesaid interest rate ranges.

As advised by the Directors, as at 31 December 2023, the Group's (i) saving deposit carried interest at annual rates of 0.1% to 2.6%; and (ii) time deposit carried interest at annual rates of 0.01% to 3.2%. The Interest Rate of 4.9% per annum is higher than the aforesaid interest rate ranges.

In addition, we noted that the one-year loan prime rate (LPR) published by the National Interbank Funding Center (全國銀行間同業拆借中心) of the PRC was 3.45% as at the Latest Practicable Date. We also noted that (i) the RMB loan interest rate for short-term loan with term of 6 – 12 months as announced by Industrial and Commercial Bank of China Ltd. was 4.35%; (ii) the RMB loan interest rate for short-term loan with term within one year as announced by Bank of China was 4.35%; and (iii) the RMB loan interest rate for short-term loan with term within one year as announced by China Construction Bank Corporation was 4.35%, as at the Latest Practicable Date. The Interest Rate of 4.9% per annum is higher the aforesaid rates.

Having considered the above, we are of the view that the Interest Rate is fair and reasonable.

### *Security*

As confirmed by the Directors, Mr. Peng Yinan/Xuzhou Jinkan did not provide shareholder's loan to Nanjing Zhangyu corresponding to the First Loan and the Second Loan. Nevertheless, Xuzhou Jinkan has agreed to pledge 49% equity interest in Nanjing Zhangyu to guarantee to the Lender (i) Nanjing Zhangyu's due and punctual repayment of the principal amount of First Loan together with all interests accrued as they become due under the First Loan (Extension) Agreement; and (ii) Nanjing Zhangyu's due and punctual repayment of the principal amount of Second Loan together with all interests accrued as they become due under the Second Loan (Extension) Agreement.

We consider the above security provision could safeguard the Group's interest under the First Loan and the Second Loan.

Having considered the principal terms of the Extension as set out above, we are of the view that the terms of the Extension are on normal commercial terms and are fair and reasonable.

#### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Extension are on normal commercial terms and are fair and reasonable; and (ii) although the Extension is not conducted in the ordinary and usual course of business of the Group, the Extension is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Extension and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**



**Graham Lam**  
*Managing Director*

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