Memorandum

金杜律师事务所
KING&WOOD
MALLESONS

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Date	August 11, 2025
To	SICC Co., Ltd. China International Capital Corporation Hong Kong Securities Limited CITIC Securities (Hong Kong) Limited CLSA Limited
From	King & Wood Mallesons
Subject	**Project 216 – Memorandum *in re* International Sanctions Analysis**

King & Wood Mallesons ("**KWM**" or "**we**") have acted as the international compliance legal counsel to SICC Co., Ltd. ("**SICC**" or the "**Company**", together with its subsidiaries, the "**Group**") in connection with its proposed initial public offering (the "**Offering**") and listing of shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "**HKEX**") of the Company.

To identify whether the relevant business activities of the Group 1) are subject to the *Export Administration Regulations* (15 CFR chapter VII, subchapter C, the "**EAR**") of the United States (the "**U.S.**"); 2) could be categorized as sanctionable activities (including primary sanctions and secondary sanctions) subject to Chapter 4.4 of the Guide for New Listing Applicant published by HKEX (the "**Sanctions Guidance**"); 3) as well as the Offering trigger the U.S. outbound investment review; and 4) might be subject to certain tariffs imposed by the U.S. government, we have reviewed the documents provided by the Company and interviewed key personnel of the Company, and further summarized and prepared this memorandum based on our review and interviews.

In carrying out the foregoing work, KWM solely relied on the information provided and representations made by the Company as well as interviews of key personnel of the Company. We have not verified such information, documents or statements independently or separately, and we have relied solely on the information we obtained from the Company in rendering any conclusions herein. This memorandum is based on the understanding and assumptions detailed herein. KWM relies on the completeness and accuracy of the information given to it by the Company. If any of the assumptions are incorrect, or any changes occur in or correction to the information provided, the Company is recommended to inform us so that it can confirm the content of our analysis.

Business Overview and Executive Summary

We understand that the Group is a trailblazer and a leading company in the wide bandgap semiconductor material industry, focusing on the research and development, manufacturing and sales of semi-insulating silicon carbide ("**SiC**") substrates and conductive SiC substrates in the People's Republic of China (the "**PRC**"). Products of the Group could be used for the manufacture of end products in the telecommunication industry and power semiconductor devices.

Based on the Company's confirmation, as of the date of this memorandum, we are of the view that:

1. ***From the export control perspective***:

   Given that products sold by the Groups are SiC substrates manufactured in the PRC that do not incorporate controlled U.S.-origin commodities or are not bundled with controlled U.S.-origin software, generally speaking, such substrates manufactured by the Group are not subject to the EAR unless they would be transferred to a final destination or end-user that is subject to restrictions under specific foreign direct product rule of the EAR.

   Upon screening, certain downstream customers of the Company are listed on the Entity List with various footnote designations. Accordingly, as the Company confirmed with KWM that based on its best knowledge and information obtained from its suppliers, none of the equipment used by the Company is subject to the FDP rules (as defined below) and no U.S. origin and/or U.S.-branded equipment has been used for product

detection involving Entity List listed entities with footnote designations; besides, upon independent consultations conducted by us, certain authorized personnel of U.S. origin or U.S.-branded equipment in the PRC have orally expressed that their equipment can be used for product detection regardless of whether such detected products will eventually be sold to Entity List listed entities with footnote designations, provided that the end-user of the equipment remains unchanged. Solely relying on the information we obtained, we conclude that selling products manufactured by the Group which are not subject to the restrictions of applicable FDP rules to entities on the Entity List with footnote designations would not be subject to the EAR.

Given the uncertainty of policy changes in U.S. export control regime, the Company believes that such policy changes would not result in a material negative impact on the ongoing business of the Group due to its low reliance on U.S.-origin or U.S.-branded equipment.

2. ***From the economic sanctions perspective***:

Upon screening, one of the customers in history is listed on the SDN List (as defined below) in December 2023. According to the transaction records provided by the Company, transactions in question commenced in January, 2020 and were completed in September, 2022, before the designation of such customer to the SDN List. No subsequent new transaction occurred with such a customer after the closing of the transaction in September 2022. As such a customer was not a Sanctioned Target at the time the transactions were completed, we are of the view that the designation of such a customer to the SDN List in 2023 will not impact the business of the Group. In addition, despite that two of the customers are listed on certain military-related sanctions lists maintained by the U.S. Department of Treasury and Department of Defense respectively, restrictions associated with the aforesaid sanctions lists are inapplicable to the transactions between the Group and such designated entities.

Apart from the above, given that 1) the Group is not a Sanctioned Trader because it did not engage in business activities with any Sanctioned Country, 2) none of the members of the Group has been designated as a Sanctioned Target, and 3) certain sanctions lists customers involved are inapplicable to the business of the Group, we are of the view that the Group has not engaged in any Sanctioned Activity since 2019 under the instructions of the Sanctions Guidance.

3. ***From the U.S. outbound investment review perspective***:

The U.S. outbound investment review mechanism in force is narrowly targeted at certain types of investments in the country of concern entities and related to sensitive technologies and products critical for military, intelligence, mass-surveillance, or cyber-enabled capabilities. If no covered activity (as described below) is involved in the transaction, then the transaction shall fall outside the jurisdictional scope of the U.S. outbound investment review.

Since the Group is not engaging or has no intent to engage, directly or indirectly, in any covered activities, we are of the view that the Final Rule shall be inapplicable to the Company and the Offering. Furthermore, even if the Group is deemed to be engaging in any covered activities, given no U.S. underwriters or U.S. initial purchasers will be involved during the process of underwriting, the Final Rule shall be inapplicable to the Offering either. Once shares are issued and become publically traded, then subsequent purchasers (including U.S. persons) are exempted under the publicly traded securities exception regardless of whether the Company engages in covered activities.

4. ***From the U.S. tariffs perspective***:

Save for the two exports to the U.S. (which are completed) that occurred in 2022 and 2024 respectively for test purposes, the Group currently has no business related to direct exports to the U.S. for the time being. Therefore, we believe that the U.S. tariffs in force have no material impact on the Group's business for the time being.

However, since the Office of the United States Trade Representative (the "**USTR**") self-initiated a Section 301 investigation concerning the PRC's semiconductor industry in December 2024, if such Section 301 tariffs, together with IEEPA tariffs as well as reciprocal tariffs in force, are subsequently placed on SiC substrates or other semiconductor products of the Group, then even if the Group does not directly export to the U.S., there will still be risks of tariffs being levied on the Group's downstream customers if they export the Group's products to the U.S. Thus we would like to remind the Company of the commercial risk that the purchases of

the relevant customers may be reduced due to the tariffs as well as the current ongoing Section 301 investigations.

Please see the detailed analysis as follows.

Export Control Analysis

I. Overview of the EAR

The EAR is administrated by the Bureau of Industry and Security ("**BIS**") to regulate the export of goods and technologies for national security and foreign policy purposes. "*Subject to the EAR*" is a term used in the EAR to describe those items and activities over which BIS exercises regulatory jurisdiction under the EAR. Conversely, items and activities that are not subject to the EAR are outside the regulatory jurisdiction of the EAR and are not affected by these regulations.[1]

1. Items Subject to the EAR

According to § 734.3 of the EAR, the following items (including commodities, technology, and software) are deemed as items subject to the EAR:

a) All items in the United States, including in a U.S. Foreign Trade Zone or moving in transit through the United States from one non-U.S. country to another;

b) All U.S. origin items wherever located;

c) Non-U.S.-made commodities that incorporate controlled U.S.-origin commodities, non-U.S.-made commodities that are 'bundled' with controlled U.S.-origin software, non-U.S.-made software that is commingled with controlled U.S.-origin software, and non-U.S.-made technology that is commingled with controlled U.S.-origin technology which exceeds a certain threshold ("***De minimis* Rule**"); and

d) Certain non-U.S.-produced "direct products" of specified "technology" and "software"; and certain non-U.S.-produced products of a complete plant or any major component of a plant that is a "direct product" of specified "technology" or "software" ("**Foreign Direct Product Rule, FDP rule**").

However, certain publicly available technology and software (such as technology or software which is published, arises during, or results from, fundamental research, a patent or a published available patent application, or in relation to standards-related activity) is not subject to the EAR.[2]

Based on the above, according to the *De minimis* Rule and FDPR, certain non-U.S. origin items are still subject to the EAR under specific circumstances. We further elaborate the relevant rules as follows:

***De Minimis* Rule:**

According to § 734.4 and Supplement No. 2 to § 734 of the EAR, a non-U.S.-produced item or non-U.S.-produced item is subject to the EAR if:

Foreign-produced Items	Non-U.S.-produced commodity '***incorporates***' controlled U.S.-origin commodities;
	Non-U.S.-produced commodity is '***bundled***' with controlled U.S.-origin software;
	Non-U.S.-produced software '***incorporates***' controlled U.S.-origin software; or
	Non-U.S.-produced technology commingled with or drawn from controlled U.S.-origin technology;

AND the value of the incorporated[3] U.S.-origin controlled content (i.e., content requiring a license to be exported or reexported to the destination of the non-U.S.-made item and not eligible for License Exception GBS[4]):

[1] 15 CFR 734.2

[2] 15 CFR 734.7, 734.8, and 734.10.

[3] According to Note to paragraph (a)(1) of Supplement No. 2 to Part 734—Guidelines for *De Minimis* Rules: U.S.-origin controlled content is considered 'incorporated' for *de minimis* purposes if the U.S.-origin controlled item is: essential to the functioning of the foreign equipment; customarily included in sales of the foreign equipment; and re-exported with the foreign produced item.

[4] License Exception GBS authorizes exports and reexports to Country Group B (as provided under Supplement No. 1 to part 740), except Sudan and Ukraine. *See* EAR § 740.4.

0%	Exceeds 0 % of total value of the non-U.S.-made item (no *de minimis* level): • Certain high performance computers containing ECCN 3A001 semiconductors (other than memory circuits) or ECCN 4A994.j high speed interconnect devices destined for Cuba, Iran, North Korea, and Syria; • ECCN 5E002, encryption technology incorporating U.S. origin encryption technology; • ECCN 3B993.f.1 equipment destined for use in the "development" or "production" of logic integrated circuits using a non-planar transistor architecture or with a "production" 'technology node' of 16/14 nanometers or less; • Hot section technology controlled under ECCN 9E003.a.1 through a.6, a.8, .h, .i, and .l; • Foreign-made military commodities incorporating ECCNs 6A002, 6A003, or 6A993.a items (having a maximum frame rate equal to or less than 9 Hz) destined for Country Group D:5; • .a through .x of 9x515 or "600 series"[5] items destined for Country Group D:5, • 9x515 or .y of "600 series" items destined for China, Belarus, Russia, or Country Group E:1 or E:2.; • For items related to the SME FDP rule (see below), commodity meeting the parameters in ECCNs 3B001.a.4, c, d, f.1, f.5, f.6, k to n, p.2, p.4, r, or 3B002.c contains a U.S.-origin integrated circuit specified under Category 3, 4, or 5 of the CCL, and the commodity is destined for Macau or a destination specified in Country Group D:5; • For items related to the Footnote 5 FDP rule (see below), item meeting the parameters in ECCNs specified in Category 3B (except 3B001.a.4, c, d, f.1, f.5, f.6, k to n, p.2, p.4, r, or 3B002.c) when the commodity contains a U.S.-origin integrated circuit specified under Category 3, 4, or 5 of the CCL, and the commodity is destined for an entity with a Footnote 5 designation in the license requirement column of the Entity List , or to an end-user "facility" located in Macau or a destination specified in Country Group D:5 when there is "knowledge" that the commodities will be used in the "production" of logic or DRAM "advanced-node integrated circuits"; and • Certain encryption, cryptanalytic items or digital forensics items controlled under ECCNs 5A002, 5A004, 5B002, 5D002 that don't meet specified requirements.
10%	Exceeds 10% of the total value of the non-U.S.-made item, when destined for Country Group E:1 or E:2: • Most or all of Commerce Control List ("**CCL**") items; and • EAR99 items to Cuba, North Korea and Syria (*e.g., with some exceptions for food and medicine).*
25%	Exceeds 25% of the total value of the non-U.S.-made item, when NOT going to Country Group E:1 or E:2 (Cuba, Iran, North Korea, and Syria) • Many CCL items; and • EAR99 items to Crimea region of Ukraine (e.g., except food, medicines and certain software).

[5] 9x515 ECCNs describe spacecraft-related items once subject to the International Traffic in Arms Regulations (ITAR), whereas "600 series" ECCNs describe military items previously controlled on the U.S. Munitions List or that are covered by the Wassenaar Arrangement Munitions List (WAML).

Foreign Direct Product Rules

According to § 734.9 of the EAR, non-U.S. produced items are subject to the EAR if they are determined to be a "direct product" of specified technology or software—i.e., an immediate product (including processes and devices) produced directly by the use of such technology or software, or are produced by a complete plant or "major component"[6] of a plant that itself is a "direct product" of specified technology or software. Not all transactions involving non-U.S.-produced items that are subject to the EAR require a license. A transaction involving a non-U.S.-produced item incorporating certain U.S. controlled software or technology may require a license if it meets the product scope and end-user or country scope.

Given the nature of the Company's business, we summarize the major applicable FDP rules related to the Company's business as follows:

Entity List FDP rule: *Footnote 1*	
Product Scope	A foreign-produced item (e.g. products manufactured by the Company in the PRC) meets the product scope of this rule if the foreign-produced item is: (a) a "direct product" of "technology" or "software" subject to the EAR and specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D991, 5E001, or 5E991 of the CCL; or (b) produced by any complete plant or "major component" of a plant that is located outside the United States, when the complete plant or "major component" of a plant, whether made in the U.S. or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D991, 5E001, or 5E991 of the CCL.
End-User Scope	A foreign-produced item meets the end-user scope if there is "knowledge" that: (a) the foreign-produced item will be incorporated into, or will be used in the "production" or "development" of any "part," "component," or "equipment" produced, purchased, or ordered by any entity with a footnote 1 designation in the license requirement column of the Entity List in supplement no. 4 to part 744 of the EAR ; or (b) any entity with a footnote 1 designation in the license requirement column of the Entity List in supplement no. 4 to part 744 of the EAR is a party to any transaction involving the foreign-produced item, e.g., as a "purchaser," "intermediate consignee," "ultimate consignee," or "end-user."
Entity List FDP rule: *Footnote 4*	
Product Scope	A foreign-produced item meets the product scope of this rule if the foreign-produced item is: (a) a "direct product" of "technology" or "software" subject to the EAR and specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D002, 5D991, 5E001, 5E002 or 5E991 of the CCL; or (b) produced by any complete plant or 'major component' of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the U.S. or a foreign country, itself is a "direct product"

[6] Major component means equipment that is essential to the production of an item, including testing equipment.

	of U.S.-origin "technology" or "software" that is specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D002, 5D991, 5E001, 5E002 or 5E991 of the CCL.
End-User Scope	A foreign-produced item meets the end-user scope if there is "knowledge" that: (a) the foreign-produced item will be incorporated into, or will be used in the "production" or "development" of any "part," "component," or "equipment" produced, purchased, or ordered by any entity with a footnote 4 designation in the license requirement column of the Entity List in supplement no. 4 to part 744 of the EAR; or (b) any entity with a footnote 4 designation in the license requirement column of the Entity List in supplement no. 4 to part 744 of the EAR is a party to any transaction involving the foreign-produced item, e.g., as a "purchaser," "intermediate consignee," "ultimate consignee," or "end-user."
Entity List FDP rule: *Footnote 5*	
Product Scope	The product scope applies if a foreign-produced commodity is specified in ECCN 3B001 (except 3B001.a.4, c, d, f.1, f.5, f.6, g, h, k to n, p.2, p.4, r), 3B002 (except 3B002.c), 3B903, 3B991 (except 3B991.b.2.a through 3B991.b.2.b), 3B992, 3B993, or 3B994, and meets the conditions of either of the following: (a) a foreign-produced item meets the product scope if the foreign-produced commodity is a "direct product" of "technology" or "software" subject to the EAR and specified in ECCN 3D001 (for 3B commodities), 3D901(for 3B903), 3D991 (for 3B991 and 3B992), 3D993, 3D994, 3E001 (for 3B commodities), 3E901 (for 3B903), 3E991 (for 3B991 and 3B992), 3E993, or 3E994 of the CCL in supplement no. 1 to part 774 of the EAR; or (b) a foreign-produced commodity meets the product scope if the foreign-produced commodity meets at least one of the following conditions: - is produced by any complete plant or 'major component' of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the United States or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in ECCN 3D001 (for 3B commodities), 3D901, 3D991 (for 3B991 and 3B992), 3D992, 3D993, 3D994, 3E001 (for 3B commodities), 3E901 (for 3B903), 3E991 (for 3B991 and 3B992), 3E992, 3E993, or 3E994 of the CCL; or - contains a commodity produced by any complete plant or 'major component' of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the United States or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in ECCN 3D001 (for 3B commodities), 3D901, 3D991 (for 3B991 and 3B992), 3D992, 3D993, 3D994, 3E001 (for 3B commodities), 3E901 (for 3B903), 3E991 (for 3B991 and 3B992)), 3E992, 3E993, or 3E994 of the CCL.
End-User Scope	A foreign-produced item meets the end-user scope if there is "knowledge" that: (a) the foreign-produced commodity will be incorporated into any "part," "component," or "equipment" produced, purchased, or ordered by any entity with a Footnote 5 designation in the license requirement column of the Entity List in supplement no. 4 to part 744 of the EAR or by an entity located at a "facility" in Macau or a destination specified in Country Group D:5 where the "production" of logic or DRAM "advanced-node integrated circuits" occurs; or

	(b) any entity with a Footnote 5 designation in the license requirement column of the Entity List in supplement no. 4 to part 744 of the EAR or an entity located at a "facility" located in Macau or a destination specified in Country Group D:5 of supplement no. 1 to part 740 where the "production" of logic or DRAM "advanced-node integrated circuits" occurs is a party to any transaction involving the foreign-produced commodity (e.g., as a "purchaser," "intermediate consignee," "ultimate consignee," or "end-user").
Russia/Belarus/Temporarily occupied Crimea region of Ukraine FDP rule	
Product Scope	The product scope applies if a foreign-produced item meets the conditions of either of the following: (a) a foreign-produced item meets the product scope if the foreign-produced item meets both of the following conditions: - the foreign-produced item is the "direct product" of U.S.-origin "technology" or "software" subject to the EAR that is specified in any ECCN in product groups D or E of the CCL; and - the foreign-produced item is specified in any ECCN on the CCL or in supplement no. 6 or 7 to part 746 of the EAR; or (b) a foreign-produced item meets the product scope if it meets both of the following conditions: - a foreign-produced item meets the product scope if the foreign-produced item is produced by any complete plant or 'major component' of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the United States or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in any ECCN in product groups D or E of the CCL; and - the foreign-produced item is specified in any ECCN on the CCL or in supplement no. 6 or 7 to part 746 of the EAR.
Destination Scope	A foreign-produced item meets the destination scope if there is "knowledge" that the foreign-produced item is destined to Russia, Belarus, or the temporarily occupied Crimea region of Ukraine or will be incorporated into or used in the "production" or" development" of any "part," "component," or "equipment" specified in any ECCN on the CCL or in supplement no. 6 or 7 to part 746 of the EAR and produced in or destined to Russia, Belarus, or the temporarily occupied Crimea region of Ukraine.
Russia/Belarus-Military End User and Procurement FDP rule	
Product Scope	The product scope applies if a foreign-produced item meets the conditions of either of the following: (a) a foreign-produced item meets the product scope if the foreign-produced item is a "direct product" of "technology" or "software" subject to the EAR and specified in any ECCN in product groups D or E in any categories of the CCL; or (b) a foreign-produced item meets the product scope if the foreign-produced item is produced by any complete plant or 'major component' of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the United States or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in any ECCN in product groups D or E in any categories of the CCL.

End-User Scope	A foreign-produced item meets the end-user scope if there is "knowledge" that: (a) the foreign-produced item will be incorporated into, or used in the "production" or "development" of any "part," "component," or "equipment" produced, purchased, or ordered by any entity with a footnote 3 designation in the license requirement column of the Entity List in supplement no. 4 to part 744 of the EAR; or (b) any entity with a footnote 3 designation in the license requirement column of the Entity List in supplement no. 4 to part 744 of the EAR is a party to any transaction involving the foreign-produced item, e.g., as a "purchaser," "intermediate consignee," "ultimate consignee," or "end-user."
National Security FDP rule	
Product scope	The product scope applies if a foreign-produced item meets the conditions of either of the following: (a) a foreign-produced item meets the product scope if it meets both of the following conditions: - the foreign-produced item is the "direct product" of U.S.-origin "technology" or "software" that requires a written assurance as a supporting document for a license, as defined in paragraph (o)(3)(i) of supplement no. 2 to part 748 of the EAR, or as a precondition for the use of License Exception TSR at § 740.6 of the EAR; and - the foreign-produced item is subject to national security controls as designated in the applicable ECCN of the Commerce Control List in part 774 of the EAR. (b) a foreign-produced item meets the product scope if it meets both of the following conditions: - the foreign-produced item is a "direct product" of a complete plant or 'major component' of a plant that itself is the "direct product" of U.S.-origin "technology" that requires a written assurance as a supporting document for a license or as a precondition for the use of License Exception TSR in § 740.6 of the EAR; and - the foreign-produced item is subject to national security controls as designated on the applicable ECCN of the Commerce Control List at part 774 of the EAR.
Country Scope	A foreign-produced item meets the country scope if its destination is listed in Country Group D:1, E:1, or E:2 (See supplement no.1 to part 740 of the EAR).
Advanced Computing FDP rule	
Product Scope	The product scope applies if a foreign-produced item meets the conditions of either of the following: (a) a foreign-produced item meets the product scope if it meets both of the following conditions: - the foreign-produced item is the "direct product" of "technology" or "software" subject to the EAR and specified in 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D090, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D002, 5D991, 5E001, 5E991, or 5E002 of the CCL; and

	- the foreign-produced item is specified in ECCN 3A090, 3E001 (for 3A090), 4A090, or 4E001 (for 4A090) of the CCL; or an integrated circuit, computer, "electronic assembly," or "component" specified in ECCN 3A001.z, 4A003.z, 4A004.z, 4A005.z, 5A002.z, 5A004.z, or 5A992.z. (b) a foreign-produced item meets the product scope if it meets both of the following conditions: - the foreign-produced item is produced by any complete plant or 'major component' of a plant that is located outside the United States, when the plant or 'major component' of a plant, whether made in the United States or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D090, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D991, 5E001, 5E991, 5D002, or 5E002 of the CCL; and - the foreign-produced item is specified in ECCN 3A090, 3E001 (for 3A090), 4A090, or 4E001 (for 4A090) of the CCL; or an integrated circuit, computer, "electronic assembly," or "component" specified in ECCN 3A001.z, 4A003.z, 4A004.z, 4A005.z, 5A002.z, 5A004.z, or 5A992.z.
Destination Scope	A foreign-produced item meets the destination scope if there is "knowledge" that the foreign-produced item is: (a) destined to any location worldwide or will be incorporated into any "part," "component," "computer," or "equipment" not designated EAR99 destined to any location worldwide; or (b) "technology" "developed" by an entity headquartered in, or whose ultimate parent company is headquartered in, either Macau or a destination specified in Country Group D:5, for the "production" of a mask or an integrated circuit wafer or die.
"Supercomputer" FDP rule	
Product Scope	The product scope applies if a foreign-produced item meets the conditions of either of the following: (a) the foreign-produced item meets the product scope if the foreign-produced item is a "direct product" of "technology" or "software" subject to the EAR and specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D002, 5D991, 5E001, 5E002, or 5E991 of the CCL; or (b) a foreign-produced item meets the product scope if the foreign-produced item is produced by any complete plant or 'major component' of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the United States or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D994, 4E001, 4E992, 4E993, 5D001, 5D002, 5D991, 5E001, 5E002, or 5E991 of the CCL.
Country and End-use Scope	A foreign-produced item meets the country and end-use scope if there is "knowledge" that the foreign produced item will be: (a) used in the design, "development," "production," operation, installation (including on-site installation), maintenance (checking), repair, overhaul, or

	refurbishing of, a "supercomputer" located in or destined to the PRC or Macau; or (b) incorporated into, or used in the "development," or "production," of any "part," "component," or "equipment" that will be used in a "supercomputer" located in or destined to the PRC or Macau.
Semiconductor Manufacturing Equipment (SME) FDP rule	
Product Scope	The product scope applies to a foreign-produced commodity specified in ECCN 3B001.a.4, c, d, f.1, f.5, f.6, k to n, p.2, p.4, r, or 3B002.c that meets the conditions of either of the following: (a) a foreign-produced commodity meets the product scope if the foreign-produced commodity is the "direct product" of "technology" or "software" subject to the EAR and specified in 3D992 or 3E992 of the CCL; or (b) a foreign-produced commodity meets the product scope if it meets either of the following conditions: - is produced by any complete plant or 'major component' of a plant that is located outside the United States, when the plant or 'major component' of a plant, whether made in the United States or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in ECCN 3D001 (for 3B commodities), 3D901, 3D991 (for 3B991 and 3B992), 3D992, 3D993, 3D994, 3E001 (for 3B commodities), 3E901 (for 3B903), 3E991 (for 3B991 or 3B992), 3E992, 3E993, or 3E994 of the CCL; or - contains a commodity produced by any complete plant or 'major component' of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the U.S. or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in ECCN 3D001 (for 3B commodities), 3D901, 3D991 (for 3B991 and 3B992), 3D992, 3D993, 3D994, 3E001 (for 3B commodities), 3E901 (for 3B903), 3E991 (for 3B991 or 3B992), 3E992, 3E993, or 3E994 of the CCL.
Destination Scope	A foreign-produced item meets the destination scope if there is "knowledge" that the foreign-produced item is destined to Macau or a destination in Country Group D:5 of supplement no. 1 to part 740 of the EAR.
AI Model weights FDP rule	
Product Scope	The product scope applies if a foreign-produced item is specified in ECCN 4E091 and is produced by a complete plant or 'major component' of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the United States or a foreign country, is subject to the EAR and specified in ECCN 3A001.z, 3A090, 4A003.z, 4A004.z, 4A005.z, 4A090, 5A002.z, 5A004.z, or 5A992.z.
Destination Scope	A foreign-produced 4E091 item meets the destination scope if the foreign-produced item is destined to any location worldwide.

2. Activities subject to the EAR

According to §§ 734.13 to 734.16 of the EAR, the following activities are subject to the regulatory scope of the EAR:

1) Export

Under § 734.13 of the EAR, "Export" means:

(1) An actual shipment or transmission out of the U.S., including the sending or taking of an item out of the U.S., in any manner;

(2) Releasing[7] or otherwise transferring technology or source code (but not object code) to a non-U.S. person in the U.S. (a "deemed export");

(3) Transferring by a person in the U.S. of registration, control, or ownership of:

- A spacecraft subject to the EAR that is not eligible for export under License Exception STA (i.e., spacecraft that provide space-based logistics, assembly or servicing of any spacecraft) to a person in or a national of any other country; or

- Any other spacecraft subject to the EAR to a person in or a national of a Country Group D:5 country.

In addition to the above, any release in the U.S. of technology or source code to a non-U.S. person is a deemed export to the non-U.S. person's most recent country of citizenship or permanent residency.

2) Reexport

Under § 734.14 of the EAR, "Reexport" means:

(1) An actual shipment or transmission of an item subject to the EAR from one non-U.S. country to another non-U.S. country, including the sending or taking of an item to or from such countries in any manner;

(2) Releasing or otherwise transferring technology or source code subject to the EAR to a non-U.S. person of a country other than the non-U.S. country where the release or transfer takes place (a deemed reexport);

(3) Transferring by a person outside the U.S. of registration, control, or ownership of:

- A spacecraft subject to the EAR that is not eligible for reexport under License Exception STA to a person in or a national of any other country; or

- Any other spacecraft subject to the EAR to a person in or a national of a Country Group D:5 country.

Similar to the above, any release outside of the U.S. of technology or source code subject to the EAR to a non-U.S. person of another country is a deemed reexport to the non-U.S. person's most recent country of citizenship or permanent residency.

3) Transfer (in-country)

Under § 734.16 of the EAR, "Transfer (in-country)" means a change in end use or end user of an item within the same non-U.S. country.

Summarizing the above, a transaction would be subject to the regulatory jurisdiction under the EAR only when the subject matter items and activities shall be subject to the EAR simultaneously. Further, BIS clarifies that providing services to non-U.S. entities is not subject to EAR jurisdiction unless the services involve the export, reexport, disclosure, or transfer of items controlled under the EAR (including hardware, software, or technology).

3. Entity List and Other Trade Restriction Lists Maintained by the BIS

[7] Pursuant to § 734.13, under § 734.15 of the EAR, technology and software could be released through: 1) Visual or other inspection by a non-U.S. person of items that reveals technology or source code subject to the EAR to a foreign person; or 2) Oral or written exchanges with a foreign person of technology or source code in the U.S. or abroad.

BIS publishes various trade restriction lists which include certain foreign persons, entities, or governments subject to specific license requirements for the export or transfer of specified items. The main trade restrictions lists are as follows:

1) Entity List

BIS publishes the names of certain foreign persons – including businesses, research institutions, government and private organizations, individuals, and other types of legal persons - that are subject to specific license requirements for the export, reexport and/or transfer (in-country) of specified items. These persons comprise the Entity List, which is found at Supplement No. 4 to Part 744 of the EAR.

The persons on the Entity List are subject to individual licensing requirements and policies supplemental to those found elsewhere in the EAR. Each entity on the Entity List is assigned a specific licensing requirement on the basis of the national security and/or foreign policy considerations associated with the entity's designation on the Entity List.

License requirements vary from "all items subject to the EAR," which includes items on the CCL as well as EAR99 items, to all items on the CCL, or to all items on the CCL except for specified items.

2) Unverified List

Parties listed on the Unverified List ("**UVL**") are ineligible to receive items subject to the Export Administration Regulations (EAR) by means of a license exception. In addition, exporters must file an Automated Export System record for all exports to parties listed on the UVL and obtain a statement from such parties prior to exporting, reexporting, or transferring to such parties any item subject to the EAR which is not subject to a license requirement. Restrictions on exports, reexports and transfers (in-country) to persons listed on the UVL are set forth in Section 744.15 of the EAR. The Unverified List is set forth in Supplement No. 6 to Part 744 of the EAR.

3) Military End User List

The Military End User ("**MEU**") List (Supplement No. 7 to Section 744 of the EAR) identifies foreign parties that are prohibited from receiving items described in Supplement No. 2 of Part 744 of the EAR unless the exporter secures a license. These parties have been determined by the U.S. Government to be "military end users", as defined in Section 744.21(g) of the EAR, and represent an unacceptable risk of use in or diversion to a "military end use" or "military end user" in Belarus, Burma, Cambodia, China, Nicaragua, the Russian Federation, or Venezuela.

It is worth noting that the MEU List is not exhaustive, and, pursuant to the license requirements in Section 744.21 of the EAR, exporters, reexporters, or transferors must conduct their own due diligence for entities not identified in Supplement No. 7 to Part 744 of the EAR.

4) Military-Intelligence End User

The Military-Intelligence End User ("**MIEU**"), as defined in Section 744.22(f)(2), identifies foreign parties that are prohibited from receiving items subject to the EAR, as well as certain support services provided by U.S. persons unless the exporter secures a license. Similar to the MEU List, the MIEU List is not exhaustive; however, the geographic limitation scope of the MIEU is various from the MEU. As of the date of this memorandum, restrictions imposed on MIEU apply to end-users and end-use in China, Russia, Venezuela, and the E:1 E:2 countries– currently Cuba, Iran, North Korea, and Syria.

4. Legal Consequences of Non-compliance

Violations of the EAR may be subject to both criminal and administrative penalties. Under the Export Control Reform Act of 2018 (50 U.S.C. §§ 4801-4852) ("**ECRA**"), criminal penalties can include up to 20 years of imprisonment and up to $1 million in fines per violation, or both. Administrative monetary penalties can reach up to $300,000 *per* violation or twice the value of the transaction, whichever is greater. In general, the administrative monetary penalty maximum is adjusted for inflation annually. In 2025, the administrative monetary penalty maximum per violation has been increased from $364,992 to $374,474.

Violators may also be subject to the denial of their export privileges as further described below. A denial of export privileges prohibits a person from participating in any way in any transaction subject to the EAR. Furthermore, it is unlawful for other businesses and individuals to participate in any way in an export transaction subject to the EAR with a denied person.

II. Analysis of Whether Transactions of the Group Are Subject to the EAR

According to the Company's confirmation, products sold by the Group are limited to semi-insulating SiC substrates and conductive SiC substrates manufactured by the Group. Since products manufactured by the Group:

- are not U.S.-origin items;
- are not in the U.S. or moving in transit through the U.S.; or
- are crystalized from domestic Silicon/Carbon raw materials without incorporating controlled U.S.-origin commodities or bundling with controlled U.S.-origin software, in other words, *De Minimis* Rule under the EAR shall be inapplicable to the products manufactured by the Group.

Therefore, generally speaking, such substrates manufactured by the Group are not subject to the EAR unless they would be transferred to a final destination or end-user that is subject to restrictions under specific FDP rule.

Based on the screening of the counterparties of the Group (including customers and suppliers) performed by us, as of the date of this memorandum, we noted that since 2019:

- Three ("**Party H**", "**Party H1**", and "**Party H2**") of the customers of the Company are listed on the Entity List designated with footnote 1;
- One ("**Party CE**") of the customers of the Company is listed on the Entity List designated with footnote 3;
- Two ("**Party UD1**" and "**Party UD2**") of the customers of the Company are listed on the Entity List designated with footnote 4;
- One ("**Party MC**") of the customers of the Company is listed on the Entity List designated with footnote 5, however, no transaction occurred since Party MC is designated with footnote 5 on October 13, 2024;
- Fifteen of the customers of the Company are listed on the Entity List without any footnote designation; and
- One ("**Party S**") of the customers of the Company is listed on the UVL.

Besides, four of the suppliers of the Group are listed on the Entity List. However, as the EAR does not restrict the Group from purchasing from any entity designated to the Entity List, we will not elaborate on this issue herein.

As mentioned before, selling products not subject to the EAR to entities on the UVL and/or Entity List without footnote designation will not trigger BIS's review under the EAR. Nevertheless, based on the FDP rules in force, authorization from the BIS is required if the product of the Company is to be sold to any entity on the Entity List:

- *with a footnote 1 designation* is a "direct product" of "technology" or "software" subject to the EAR and specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D991, 5E001, or 5E991 of the CCL; or produced by any complete plant or "major component" of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the U.S. or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D991, 5E001, or 5E991 of the CCL;
- *with a footnote 4 designation* is a "direct product" of "technology" or "software" subject to the EAR and specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D002, 5D991, 5E001, 5E002 or 5E991 of the CCL; or produced by any complete plant or 'major component' of a plant that is located outside the United States, when the complete plant or 'major component' of a plant, whether made in the U.S.

or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in ECCN 3D001, 3D901, 3D991, 3D992, 3D993, 3D994, 3E001, 3E002, 3E003, 3E901, 3E991, 3E992, 3E993, 3E994, 4D001, 4D993, 4D994, 4E001, 4E992, 4E993, 5D001, 5D002, 5D991, 5E001, 5E002 or 5E991 of the CCL; or

- *with a footnote 3 designation* is a "direct product" of "technology" or "software" subject to the EAR and specified in any ECCN in product groups D or E in any categories of the CCL; or is produced by any complete plant or 'major component' of a plant that is located outside the U.S., when the complete plant or 'major component' of a plant, whether made in the U.S. or a foreign country, itself is a "direct product" of U.S.-origin "technology" or "software" that is specified in any ECCN in product groups D or E in any categories of the CCL.

After reviewing the list of equipment for use in the entire manufacturing process provided by the Company, we found that most of the equipment devices used in the manufacturing process are developed and produced by the Group itself equipped with the ECCN 5D992.c operating system; meanwhile, we also noted that two U.S. origin and two U.S.-branded detection devices are included in the list of equipment. Upon the Company's confirmation, based on its best knowledge and information obtained from its suppliers, we learn that:

- None of the equipment used by the Company is subject to the FDP rules; and

- No U.S. origin and/or U.S.-branded equipment has been used for product detection involving Entity List listed entities with footnote designations; instead, the Company currently uses Japanese-branded equipment to detect the aforementioned products.

Apart from the Company's confirmation, KWM further independently consulted with these U.S. origin or U.S.-branded equipment suppliers on whether the equipment in question would be subject to restrictions under applicable FDP rules. Certain authorized sales and official after-sales technicians of U.S. origin or U.S.-branded equipment in the PRC have orally expressed to us that their equipment can be used for product detection regardless of whether such detected products will eventually be sold to Entity List listed entities with footnote designations, provided that the end-user of the equipment remains unchanged. Hence, solely relying on the information we obtained, we conclude that selling products manufactured by the Group which are not subject to the restrictions of applicable FDP rules to entities on the Entity List with footnote designations would not be subject to the EAR.

For the avoidance of potential non-compliance, the Group has established an export control and sanctions compliance framework covering the basic key elements of export control and sanctions compliance, such as the identification of counterparties and controlled properties of items, and the corresponding transaction approval policies for each of the above counterparties and items.

Even though to our knowledge, there is no potential export control rule or policy change that could materially affect the Group in the near future, we would like to underline herein that the U.S. export control policies remain under constant review. Therefore, the scope and application of the measures discussed above are subject to change and should be carefully monitored. In respect to the aforesaid, the Company is of the view that such policy changes would not result in a material negative impact on the ongoing business of the Group due to its low reliance on U.S. origin or U.S.-branded equipment; if necessary, all of the U.S. origin or U.S.-branded equipment of the Group can be replaced with domestic, Japanese, European, or equipment manufactured by other countries.

Economic Sanctions Analysis

I. Scenarios Subject to the Sanctions Guidance

Sanctions Guidance outlines a guidance on listing applicants whose activities expose the Relevant Persons (as defined below) to any risk as a result of sanctions under any law or regulation of the Relevant Jurisdiction (as defined below) and how such risk affects their suitability for listing. The following scenarios are subject to the Sanctions Guidance:

- a listing applicant has engaged in Primary Sanctioned Activity (as defined below);
- a listing applicant has engaged in Secondary Sanctionable Activity (as defined below); or
- a listing applicant is a Sanctioned Target, is located, incorporated, organized or resident in a Sanctioned Country, or is a Sanctioned Trader.

Relevant terms are defined in paragraph 4 of the Sanctions Guidance:

Terminology	Definition
Primary Sanctioned Activity	Means any activity in a Sanctioned Country or (i) with; or (ii) directly or indirectly benefiting, or involving the property or interests in property of, a Sanctioned Target by a listing applicant incorporated or located in a Relevant Jurisdiction or which otherwise has a nexus with such jurisdiction with respect to the relevant activity, such that it is subject to the relevant sanctions law or regulation.
Secondary Sanctionable Activity	Means certain activity by a listing applicant that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the listing applicant is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction.
Sanctioned Activity	Means Primary Sanctioned Activity and Secondary Sanctionable Activity.
Sanctioned Country	Means any country or territory subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of the Relevant Jurisdiction.
Sanctioned Target	Means any person or entity (i) designated on any list of targeted persons or entities issued under the sanctions-related law or regulation of a Relevant Jurisdiction; (ii) that is, or is owned or controlled by, a government of a Sanctioned Country; or (iii) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (i) or (ii).
Sanctioned Trader	Means any person or entity that does a material portion (10% or more) of its business with Sanctioned Targets and Sanctioned Country entities or persons.
Relevant Jurisdictions	Means any jurisdiction that is relevant to the listing applicant and has sanctions related law or regulation restricting, among other things, its nationals and/or entities which are incorporated or located in that jurisdiction from directly or indirectly making assets or services available to or otherwise dealing in assets of certain countries, governments, persons or entities targeted by such law or regulation. For the purpose of this memorandum, the Relevant Jurisdictions include the People's Republic of China ("**PRC**"), United States ("**U.S.**"), United Nations ("**U.N.**"), European Union ("**E.U.**"), United Kingdom ("**U.K.**") and Australia.
Relevant Persons	Means a listing applicant, together with its investors and shareholders and persons who might, directly or indirectly, be involved in permitting the listing, trading, clearing and settlement of its shares, including the HKEX and related group companies.

II. Applicable Jurisdictions Analysis

Based on the information available to us, as of the date of this memorandum, we understand that:

- ***The Group itself is not a Sanctioned Target***: None of the members of the Group has been designated as a Sanctioned Target, nor is located, incorporated, organized or resident in a Sanctioned Country;

- ***No Activities in relation to Sanctioned Countries***: The Company has an overseas operating base in *Japan*, and products of the Group have been exported to the following countries and regions since 2019: *United Arab Emirates, Austria, Australia, Belgium, Germany, France, South Korea, Netherlands, Czech Republic, Malaysia, U.S., Japan, Sweden, Switzerland, Taiwan, Turkey, Hong Kong, Singapore, Italy, India,* and *the U.K.* Given that none of the aforementioned countries/regions falls within the meaning of Sanctioned Countries under the Sanctions Guidance, namely *Cuba, Iran, North Korea, Syria, the Crimea region, the so-called Donetsk People's Republic* and *Luhansk People's Republic*, it means that the Group has no business activity in any of the aforementioned Sanctioned Countries.

However, according to the screening of the counterparties of the Group (including customers and suppliers) performed by us, except for those customers mentioned in the above analysis who were listed on the Entity List and the UVL maintained by the BIS:

- One of the customers ("**Party M**") in history is listed on the Specially Designated Nationals and Blocked Persons ("**SDN**") List; and

- Two of the customers (Party H and "**Party CU**" respectively) are listed on the Non-SDN Chinese Military Industrial Complex Companies List ("**NS-CMIC List**") and Chinese Military Companies ("**CMC List**") simultaneously.

All of the above sanctions lists are maintained by the U.S. government, and apart from this, no cases have been identified where the counterparties of the Group have been sanctioned by other countries. We will examine separately the impact on the Group's business of the above clients' addition to the U.S. sanctions lists.

III. Summary and Impacts of U.S. Economic Sanctions

In general, economic sanctions maintained by the U.S. government could be categorized into "primary sanctions" and "secondary sanctions". Definitions of primary sanctions and secondary sanctions under the laws and regulations of the U.S. are basically consistent with the Sanctions Guidance.

Transactions violating primary sanctions shall generally involve a U.S. nexus (such as U.S. persons, U.S.-origin products/software/technology, or if it causes or involves activity within the U.S. territory such as transactions involving the U.S. financial system or U.S. commodity brokers) and a sanctioned person (including individuals and entities) or a sanctioned jurisdiction. Non-U.S. persons may violate U.S. primary sanctions by engaging in U.S.-nexus transactions.

For transactions without U.S. nexus, the U.S. government may still threaten to impose secondary sanctions (such as designation to relevant sanction lists) to deter non-U.S. persons from engaging in specific activities involving sanctioned countries, industries, and/or persons.

In light of the foregoing, whether a transaction triggers primary or secondary sanctions of the U.S. mainly depends on whether there is any U.S. nexus for such a transaction.

1. SDN List

1) Overview of the SDN List

The SDN List is a list maintained by the Office of Foreign Assets Control ("**OFAC**") that publicly identifies persons determined by the U.S. government to be involved in activities that threaten or undermine U.S. foreign policy or national security objectives. Individuals, entities, vessels, governments, and organizations can all appear on the list pursuant to the various sanctions programs that are administered by OFAC. Persons on the SDN List could be those who are owned or controlled by, or acting for, or on behalf of, targeted countries; or those who, such as terrorists and narcotics

traffickers designated under programs that are not country-specific. Assets of those SDN-designated persons are blocked and U.S. persons are generally prohibited from dealing with them.

Under the "50% Rule" of OFAC, a person that is owned, directly or indirectly, 50% or more by one or more SDN-designated persons is blocked as well, regardless of whether the person appears on the SDN List, unless exempt or authorized by OFAC.

2) Impact *in re* SDN List on the Group

Party M is a Singapore-based independent electronics design house that offers its clients electronic manufacturing services. According to publicly available information, Party M sent common high-priority items such as integrated circuits and multilayer ceramic capacitors to Russia. Additionally, Party M sent hundreds of shipments to a Russia-based wholesaler of electronic equipment and parts. On December 23, 2023, Party M was designated pursuant to Executive Order 14024 ("**E.O.14024**") for operating or having operated in the electronics sector of the Russian Federation economy.

E.O.14024, namely "*Blocking Property With Respect To Specified Harmful Foreign Activities of the Government of the Russian Federation*", issued by President Biden on April 15, 2022, authorizing OFAC to impose blocking and short-of-blocking sanctions with respect to any person determined by the Secretary of the Treasury, in consultation with the Secretary of State, to operate or have operated in the technology sector or the defense and related materiel sector of the Russian Federation economy, or any other sector of the Russian Federation economy as may be determined by the Secretary of the Treasury, in consultation with the Secretary of State. As of the date of this memorandum, persons may be sanctioned pursuant to E.O.14024 for operating or having operated in the following sectors of the Russian Federation economy:

Sector of the Russian Federation Economy	Date of Determination and Effectiveness
Technology	April 15, 2021
Defense and Related Materiel	
Financial Services	February 22, 2022
Aerospace	March 31, 2022
Electronics	
Marine	
Accounting	May 8, 2022
Trust and Corporate Formation Services	
Management Consulting	
Quantum Computing	September 15, 2022
Metals and Mining	February 24, 2023
Architecture	May 19, 2023
Engineering	
Construction	
Manufacturing	
Transportation	
Energy	January 10, 2025

According to the transaction records provided by the Company, transactions between Party M and the Company commenced in January, 2020, and were completed in September, 2022, before its designation to the SDN List. As confirmed by the Company, there is not any subsequent new transaction after the closing of the transaction between the parties in September 2022. Since Party M was not a Sanctioned Target at the time the transaction was completed, we are of the view that the designation of Party M to the SDN List on December 23, 2023 will not impact the business of the Group from the economic sanctions perspective.

2. NS-CMIC List

1) Overview of the NS-CMIC List

The Non-SDN Chinese Military Industrial Complex Companies ("**NS-CMIC**") List, published and maintained by OFAC, identifies entities subject to certain investment prohibitions related to Chinese companies that the U.S. government deems a threat to U.S. national security. Executive Order 13959

("**E.O.13959**") introduced the Non-SDN Communist Chinese Military Companies ("**NS-CCMC**") sanctions regime in November 2020. It was subsequently amended by Executive Orders 13974 and 14032 ("**E.O.14302**") to rename the targets as "Chinese Military Industrial Complex Companies" refine its scope and clarify ambiguities related to the companies to which the prohibitions apply. E.O.13959, as amended by E.O.14032, primarily applies to U.S. persons, meaning:

- any U.S. citizen or legally permitted U.S. resident (e.g., green card holder), wherever located;
- any person, of any nationality, within the U.S.; and
- any entity organized under the laws of the U.S. or any jurisdiction within the U.S. (including foreign branches of U.S. companies).

Upon the sanctions taking effect, U.S. persons are prohibited from engaging in the purchase or sale of any:

- publicly traded securities[8];
- publicly traded securities that are derivative of publicly traded securities; or
- publicly traded securities that are designed to provide investment exposure to publicly traded securities of any entity on the NS-CMIC List ("**Affected Securities**").

Under E.O.14302, all transactions, whether by a U.S. person or non-U.S. person, that evade or avoid, have the purpose of evading or avoiding, cause a violation of, or attempt to violate the prohibitions above are also prohibited, as are conspiracies to violate the prohibitions. Therefore, a non-U.S. investment firm that aids a U.S. person to invest in Affected Securities could be subject to an enforcement action under this provision.

Notably, E.O.14302 does not apply to a subsidiary of a company listed on the NS-CMIC List unless such subsidiary itself is publicly listed on the NS-CMIC List. OFAC's 50 percent rule[9] does not apply to entities listed solely pursuant to EO 13959, as amended.[10]

2) Impact *in re* NS-CMIC List to the Group

The NS-CMIC prohibitions apply to any "security" denominated in any currency that trades on a securities exchange or through "over-the-counter" trading, in any jurisdiction. However, on the one hand, the Group's transactions with Party H and Party CU are the purchase or sale of SiC substrates without involvement of any sale or purchase of any Affected Securities; on the other hand, the Group itself is a company incorporated in the PRC, and is not a U.S. person, nor is it a subsidiary of a U.S. company in the PRC. Hence, we are of the view that dealing with these two designated entities on the NS-CMIC List should not be affected by the NS-CMIC prohibitions.

Apart from Party H and Party CU, at present, Huawei Investment & Holding Co., Ltd. ("**Huawei Investment**"), the sole shareholder of Habo Investment (minority shareholder of the Company), is currently listed on the NS-CMIC, as mentioned above, the NS-CMIC investment prohibitions do not apply to subsidiaries unless those subsidiaries are also on the NS-CMIC List. As of the date of this memorandum, Huawei Investment is listed on the NS-CMIC List pursuant to E.O.14302 and does not appear on the SDN List or any other OFAC List. Besides, neither the Group nor Habo Investment is listed on the NS-CMIC List. Therefore, the Group is not subject to the investment prohibitions of E.O.14302, and U.S. persons are permitted to invest in the Group's publicly traded securities without violation of E.O.14302 and OFAC's related rules. Therefore, we are of the view that such a designation targeting Huawei Investment will not impact our above conclusion.

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[8] Security is defined in section 3(a)(10) of the U.S. Securities Exchange Act of 1934 (Securities Exchange Act), denominated in any currency, that trades on a securities exchange or through "over-the-counter" trading, in any jurisdiction.

[9] OFAC's 50 Percent Rule states that the property and interests in property of entities directly or indirectly owned 50 percent or more in the aggregate by one or more blocked persons are considered blocked. If the 50 Percent Rule were to be adapted to apply to the CMIC prohibitions, it would result in prohibitions on U.S. persons investing in publicly traded securities of subsidiaries of CMICs; it would not result in blocking sanctions, as does inclusion on the SDN List.

[10] *See* OFAC FAQ 857.

In conclusion, the presence of Party H, Party CU, and the sole shareholder of a minority shareholder of the Company on the NS-CMIC List shall have no impact on the proposed listing application of the Company.

3. CMC List

1) Overview of the CMC List

Unlike the above-mentioned sanctions lists maintained by the Treasury, the Chinese military companies ("**CMC**") List, published and maintained by the Department of Defense ("DoD"), identifies those "Chinese military companies" that are "operating directly or indirectly in the United States" in accordance with the statutory requirement of Section 1260H of *the National Defense Authorization Act for Fiscal Year 2021* ("**FY21 NDAA**"), P.L. 116-283.

According to the updated Section 1260H under *the Servicemember Quality of Life Improvement and National Defense Authorization Act for Fiscal Year 2025* ("**FY25 NDAA**") on January 2, 2025, CMC means as an entity (i) directly or indirectly owned by, controlled by, or beneficially owned by, affiliated with, or in an official or unofficial capacity acting as an agent of or on behalf of the People's Liberation Army or any other component of the Central Military Commission of the Chinese Communist Party, etc., or (ii) that is a "military-civil fusion contributor to the Chinese defense industrial base," and, in both cases, is engaged in providing commercial services, manufacturing, producing, or exporting. In addition, under Section 1346 of FY25 NDAA, if an entity itself meets the definition of a CMC, then its parent company or subsidiaries (if owning or being owned by the entity with 50% or more equity control) can also be deemed CMC.

Originally, the main impact of inclusion on the CMC List was limited to reputational harm, however, CMC List listed entities may face the following direct and indirect implications pursuant to the updated FY24/25 NDAAs:

- ***Prohibition on U.S. Defense Contracts***: Under Section 805 of FY 2024 NDAA, effective on June 30, 2026, DoD will be prohibited from directly entering into, renewing, or extending contracts for goods, services, or technology with entities on the CMC List or their affiliates. Contracts with companies controlled by these listed entities are also prohibited. Additional restrictions on indirect procurement by DoD of goods and services will take effect on June 30, 2027.

- ***Prohibition on Lobbying Service***: Under Section 851 of FY25 NDAA, effective on June 30, 2026, DoD will also be prohibited from contracting with any company (including its subsidiaries or parent company) that engages with individuals or entities involved in lobbying activities on behalf of entities on the CMC List.

2) Impact *in re* NS-CMIC List to the Group

Upon the Company's confirmation and based on our due diligence, as i) the Group itself has not been listed on the CMC List, ii) the Group does not provide any lobbying service; and iii) the Group has no nexus with the DoD of the U.S., restrictions associated with the CMC List are inapplicable to the transactions between the Group and such designated entities.

In sum, given that the Group is not a Sanctioned Trader as it did not engage in business activities with any Sanctioned Country or Sanctioned Target at the time of the closing of the transactions, and certain U.S. military-related sanctions lists that customers of the Group involved are inapplicable to the business of the Group. Therefore, as of the date of this memorandum, we are of the view that the Group has not engaged in any Sanctioned Activity since 2019 in accordance with the Sanctions Guidance.

Outbound Investment Review Analysis

I. Overview of the U.S. Outbound Investment Regulations

On October 28, 2024, the U.S. Department of Treasury (the "**Treasury**") issued final regulations (the "**Final Rule**", regulated in 31 CFR 850) implementing Executive Order 14105 ("**E.O.14105**") which addresses U.S. investments in certain national security technologies and products in countries of concern. The Final Rule, which came into effect on January 2, 2025, aims to restrict *U.S. persons* (as defined below) *knowingly* or *knowingly directing* their *controlled foreign entities* (as defined below) from *investing in* ("covered transactions", as defined below) concerning *activities related to the semiconductor, quantum computing, and artificial intelligence* (i.e. covered activities) industries *in the PRC (including Hong Kong SAR and Macau SAR) and other specified countries or regions* ("person of country of concern", as defined below), and to impose different investment restrictions (i.e., "Prohibited Transactions" and "Notifiable Transactions") depending on the nature, purpose and advanced level of the underlying activity. Therefore, key elements of the jurisdictional scope of the Final Rule are as follows:

- ***Requirements on U.S. persons***: The Final Rule places obligations on U.S. persons, including the prohibition of certain transactions and a notification requirement for certain other transactions. In addition, U.S. persons are required to take all reasonable steps to prohibit and prevent a controlled foreign entity from engaging in a prohibited transaction; and are obligated to file a notification with respect to a notifiable transaction undertaken by a controlled foreign entity no later than 30 calendar days after the completion date of the regulated transaction.

- ***Specific categories of covered transactions:*** The Final Rule applies to certain transactions by U.S. persons, including the acquisition of an equity interest or contingent equity interest; certain debt financing that affords certain rights to the lender; the conversion of a contingent equity interest; a greenfield investment or other corporate expansion; entrance into a joint venture; and certain investments as a limited partner or equivalent in a non-U.S. person pooled investment fund. Activities that do not meet the definition of a covered transaction are not subject to the program except where they are undertaken to evade or avoid the Final Rule.

- ***Knowledge standard:*** The obligations of a U.S. person under the Final Rule apply if such person has knowledge of relevant facts or circumstances related to a transaction.

- ***Investment target should be a covered foreign person:*** The Final Rule applies to certain transactions by a U.S. person that involve a covered foreign person—that is, a person of a country of concern that is engaged in a covered activity related to defined sub-sets of technologies and products or a person that has a voting or equity interest, board seat, or certain powers with respect to such a person of a country of concern where more than 50 percent of one of several key financial metrics of the person is attributable to one or more such persons of a country of concern.

- ***Transactions are not excepted:*** The Final Rule excepts certain types of transactions from the rule's coverage, provided that such transactions do not afford a U.S. person certain rights that are not standard minority shareholder protections. If there is no applicable exception, the transaction may still fall into the jurisdictional scope of the Final Rule.

If any of the above elements is not satisfied, then the transaction shall not be subject to review under the Final Rule, and investors do not need to notify the Treasury.

1. Definition

Under 31 CFR Part 850, key concepts of the Final Rule are defined as follows:

U.S. Person
Under 31 CFR Part 850.229, "U.S. person" means any of the following: - United States citizen; - Lawful permanent resident; - Entity organized under the laws of the United States or any jurisdiction within the United States, including any foreign branch of any such entity; or

- Any person in the United States (regardless of nationality).

Controlled Foreign Entities

Under 31 CFR Part 850.206, "Controlled foreign entities" means any entity incorporated in, or otherwise organized under the laws of, a country other than the United States of which a U.S. person is a parent[11].

For purposes of this term, the following rules shall apply in determining whether an entity is a parent of another entity in a tiered ownership structure:

- Where the relationship between an entity and another entity is that of parent and subsidiary, the holdings of voting interest or voting power of the board, as applicable, of a subsidiary shall be fully attributed to the parent;

- Where the relationship between an entity and another entity is not that of parent and subsidiary (i.e., because the holdings of voting interest or voting power of the board, as applicable, of the first entity in the second entity is 50 percent or less), then the indirect downstream holdings of voting interest or voting power of the board, as applicable, attributed to the first entity shall be determined proportionately;

- Where the circumstances in the above 2 paragraphs apply (i.e., because a U.S. person holds both direct and indirect downstream holdings in the same entity), any holdings of voting interest shall be aggregated for the purposes of applying this definition, and any holdings of voting power of the board shall be aggregated for the purposes of applying this definition. Voting interest shall not be aggregated with voting power of the board for the purposes of applying this definition.

Covered Foreign Person

Under 31 CFR Part 850.209, "Covered foreign person" means:

- A person of a country of concern that engages in a covered activity;

- A person that directly or indirectly holds a board seat on, a voting or equity interest (other than through securities or interests that would satisfy the conditions in § 850.501(a) if held by a U.S. person) in, or any contractual power to direct or cause the direction of the management or policies of any person or persons described in the above paragraph from or through which it.

    - Derives more than 50 percent of its revenue individually, or as aggregated across such persons from each of which it derives at least $50,000 (or equivalent) of its revenue, on an annual basis;

    - Derives more than 50 percent of its net income individually, or as aggregated across such persons from each of which it derives at least $50,000 (or equivalent) of its net income, on an annual basis;

    - Incurs more than 50 percent of its capital expenditure individually, or as aggregated across such persons from each of which it incurs at least $50,000 (or equivalent) of its capital expenditure, on an annual basis; or

    - Incurs more than 50 percent of its operating expenses individually, or as aggregated across such persons from each of which it incurs at least $50,000 (or equivalent) of its operating expenses, on an annual basis.

[11] According to 31 CFR 850.219, The term parent means, with respect to an entity:
(a) A person who or which directly or indirectly holds more than 50 percent of:
(1) The outstanding voting interest in the entity; or
(2) The voting power of the board of the entity;
(b) The general partner, managing member, or equivalent of the entity; or
(c) The investment adviser to any entity that is a pooled investment fund, with "investment adviser" as defined in the Investment Advisers Act of 1940 (15 U.S.C. 80b-2(a)(11)).

Person of Country of Concern

Under 31 CFR Part 850.221, "Person of country of concern" means:

a) Any individual that is:

- a citizen or permanent resident of a country of concern;
- not a U.S. citizen; and
- not a permanent resident of the United States;

b) An entity with a principal place of business in, headquartered in, or incorporated in or otherwise organized under the laws of, a country of concern;

c) The government of a country of concern, including any political subdivision, political party, agency, or instrumentality thereof; any person acting for or on behalf of the government of a country of concern; or any entity with respect to which the government of a country of concern holds individually or in the aggregate, directly or indirectly, 50 percent or more of the entity's outstanding voting interest, voting power of the board, or equity interest, or otherwise possesses the power to direct or cause the direction of the management and policies of such entity (whether through the ownership of voting securities, by contract, or otherwise);

d) Any entity in which one or more persons identified in paragraph (a), (b), or (c) of this section, individually or in the aggregate, directly or indirectly, holds at least 50 percent of any of the following interests of such entity: outstanding voting interest, voting power of the board, or equity interest; or

e) Any entity in which one or more persons identified in paragraph (d) of this section, individually or in the aggregate, directly or indirectly, holds at least 50 percent of any of the following interests of such entity: outstanding voting interest, voting power of the board, or equity interest.

At present, the country of concern includes the PRC (including Hong Kong SAR and Macau SAR).

Covered Transaction

Under 31 CFR Part 850.210, "Covered transaction" means a U.S. person's direct or indirect:

- ***Equity and contingent equity:*** Acquisition of an equity interest or contingent equity interest in a person that the U.S. person knows at the time of the acquisition is a covered foreign person;
- ***Debt financing:*** Provision of a loan or a similar debt financing arrangement to a person that the U.S. person knows at the time of the provision is a covered foreign person, where such debt financing affords or will afford the U.S. person an interest in profits of the covered foreign person, the right to appoint members of the board of directors (or equivalent) of the covered foreign person, or other comparable financial or governance rights characteristic of an equity investment but not typical of a loan;
- ***Conversion of contingent equity interests:*** Conversion of a contingent equity interest into an equity interest in a person that the U.S. person knows at the time of the conversion is a covered foreign person, where the contingent equity interest was acquired by the U.S. person on or after January 2, 2025;
- ***Greenfield and brownfield investments:*** Acquisition, leasing, or other development of operations, land, property, or other assets in a country of concern that the U.S. person knows at the time of such acquisition, leasing, or other development will result in, or that the U.S. person plans to result in:
  - the establishment of a covered foreign person; or
  - the engagement of a person of a country of concern in a covered activity;

- ***Joint ventures:*** Entrance into a joint venture, wherever located, that is formed with a person of a country of concern, and that the subject U.S. person knows at the time of entrance into the joint venture that the joint venture will engage, or plans to engage, in a covered activity; or

- ***Investments made as a limited partner:*** Acquisition of a limited partner or equivalent interest in a venture capital fund, private equity fund, fund of funds, or other pooled investment fund (in each case where the fund is not a U.S. person) that a U.S. person knows at the time of the acquisition likely will invest in a person of a country of concern that is in the semiconductors and microelectronics, quantum information technologies, or artificial intelligence sectors, and such fund undertakes a transaction that would be a covered transaction if undertaken by a U.S. person.

2. Restrictive Measures Imposing on Certain Activities

The Final Rule defines prohibited and notifiable transactions with reference to whether a Covered Foreign Person engages in a covered activity; in addition, a notifiable transaction would be escalated to prohibit in the event that the Covered Foreign Person is included on one of several U.S. government lists maintained by several governmental departments.

1) Scope of Covered Activities

At present, covered activities under the Final Rule cover three sectors:

(1) Semiconductors and Microelectronics,

(2) Quantum Information Technologies, and

(3) Artificial Intelligence ("AI").

Each of these is divided into two categories: "Prohibited Transaction" and "Notifiable Transaction". Specifications of the covered activities are set out as follows:

Semiconductors and Microelectronics	
Prohibited Transaction	Develop or produce any electronic design automated software for the design of integrated circuits ("ICs") or advanced packaging; Develop or produce (1) front-end semiconductor fabrication equipment designed for performing volume fabrication of ICs; (2) equipment for performing volume advanced packaging; or (3) commodity, material, software or technology designed exclusively for use in or with extreme ultraviolet lithography fabrication equipment; Design IC that meets or exceeds the performance parameters in Export Control Classification Number 3A090.a in supplement No. 1 to 15 CFR part 774, or integrated circuits designed for operation at or below 4.5 Kelvin; Fabricate any of the following: - Logic integrated circuits using a non-planar transistor architecture or with a production technology node of 16/14 nanometers or less, including fully depleted silicon-on-insulator (FDSOI) integrated circuits; - NOT-AND (NAND) memory integrated circuits with 128 layers or more; - Dynamic random-access memory (DRAM) integrated circuits using a technology node of 18 nanometer half-pitch or less; - Integrated circuits manufactured from a gallium-based compound semiconductor; - Integrated circuits using graphene transistors or carbon nanotubes; or

	- Integrated circuits designed for operation at or below 4.5 Kelvin Package any integrated circuit using advanced packaging techniques. Develop, install, sell, or produce any supercomputer enabled by advanced integrated circuits that can provide a theoretical compute capacity of 100 or more double-precision (64-bit) petaflops or 200 or more single-precision (32-bit) petaflops of processing power within a 41,600 cubic foot or smaller envelope.
Notifiable Transaction	Design, fabricate or package any IC that does not meet the prohibited transaction parameters.
Quantum Information Technologies	
Prohibited Transaction	Develop quantum computers or the critical components required to produce quantum computers, such as dilution refrigerators or two-stage pulse tube cryocoolers; Develop or produce quantum sensing platforms designed for, or intended to be used for, military, government intelligence, or mass-surveillance end uses; or Develop or produce quantum networks or communication systems designed for, or intended to be used for, networking to scale up capabilities of quantum computers, secure communications, or any other application that has any military, government intelligence, or mass-surveillance end use.
Notifiable Transaction	None
Artificial Intelligence ("AI")	
Prohibited Transaction	Develop any AI system that is designed to be exclusively used for, or which the relevant covered foreign person intends to be used for, any: - Military end use (e.g., for weapons targeting, target identification, combat simulation, military vehicle or weapon control, military decision-making, weapons design (including chemical, biological, radiological, or nuclear weapons), or combat system logistics and maintenance); or - Government intelligence or mass-surveillance end use (e.g., through incorporation of features such as mining text, audio, or video; image recognition; location tracking; or surreptitious listening devices). Develop any AI system that is trained using a quantity of computing power greater than: - 10^25 computational operations (e.g., integer or floating-point operations); or - 10^24 computational operations (e.g., integer or floating-point operations) using primarily biological sequence data.
Notifiable Transaction	Develop any AI system that is not described in prohibited transactions and that is: - designed for military, government intelligence, or mass surveillance end uses (but not exclusively); - intended to be used for cybersecurity applications, digital forensics tools, penetration testing tools, or the control of robotics systems; or - trained using a specified quantity of computing power greater than 10^23 computational operations (i.e., at a threshold lower than that for prohibited transactions).

2) Scope of Prohibited End-Users

In addition to the above, if a covered foreign person is included on one of the following lists maintained by the U.S. government, a notifiable transaction would be escalated to prohibited transaction:

(1) included on the BIS's Entity List (15 CFR part 744, supplement No. 4);

(2) included on BIS's MEU List (15 CFR part 744, supplement no. 7);

(3) meets the definition of MIEU by BIS in 15 CFR 744.22(f)(2);

(4) included on the Treasury's SDN List, or is an entity in which one or more individuals or entities included on the SDN List, individually or in the aggregate, directly or indirectly, own a 50 percent or greater interest;

(5) included on the NS–CMIC List; or

(6) designated as a foreign terrorist organization by the Secretary of State under 8 U.S.C. 1189.

If a transaction does not satisfy any of the above criteria, then the transaction shall not be subject to the jurisdiction of the Final Rule.

3. Standard of knowledge

In determining whether a U.S. person violated the Final Rule, the Treasury will assess whether the U.S. person has or had knowledge of the relevant facts and circumstances with respect to a covered transaction. Under 31 CFR 850.216, "knowledge" means:

- Actual knowledge that a fact or circumstance exists or is substantially certain to occur;
- An awareness of a high probability of a fact or circumstance's existence or future occurrence; or
- Reason to know of a fact or circumstance's existence.

In other words, under the Final Rule, a U.S. person shall be deemed to have knowledge if the U.S. person possesses actual knowledge that a fact or circumstance exists or is substantially certain to occur, if the U.S. person possesses an awareness of a high probability of a fact or circumstance's existence or future occurrence, or if the U.S. person could have possessed such information through a reasonable and diligent inquiry.

Under 31 CFR 850.104, the Treasury will consider the totality of the relevant facts and circumstances in assessing whether a US person undertook a reasonable and diligent inquiry, including the following:

(1) The inquiry a U.S. person has made regarding an investment target or other relevant transaction counterparty (such as a joint venture partner), including questions asked of the investment target or relevant counterparty, as of the time of the transaction;

(2) The contractual representations or warranties the U.S. person has obtained or attempted to obtain from the investment target or other relevant transaction counterparty (such as a joint venture partner) with respect to the determination of a transaction's status as a covered transaction and status of an investment target or other relevant transaction counterparty (such as a joint venture partner) as a covered foreign person;

(3) The efforts by the U.S. person as of the time of the transaction to obtain and consider available non-public information relevant to the determination of a transaction's status as a covered transaction and the status of an investment target or other relevant transaction counterparty (such as a joint venture partner) as a covered foreign person;

(4) Available public information, the efforts undertaken by the U.S. person to obtain and consider such information, and the degree to which other information available to the U.S. person as of the time of the transaction is consistent or inconsistent with such publicly available information;

(5) Whether the U.S. person purposefully avoided learning or seeking relevant information;

(6) The presence or absence of warning signs, which may include evasive responses or non-responses from an investment target or other relevant transaction counterparty (such as a joint venture partner) to questions or a refusal to provide information, contractual representations, or warranties; and

(7) The use of available public and commercial databases to identify and verify relevant information of an investment target or other relevant transaction counterparty (such as a joint venture partner).

Besides, the Final Rule also prohibits U.S. persons from knowingly directing a non-U.S. person to engage in a prohibited transaction. Under 31 CFR 850.303, a U.S. person "knowingly directs" a transaction when such person:

(1) has the authority, individually or as part of a group, to make or substantially participate in the decisions of a non-US person, and

(2) exercises that authority to direct, order, decide upon, or approve a transaction. An officer, director, and a person who otherwise possesses executive responsibilities is deemed to have such authority.

However, a U.S. person who has the authority described above and recuses themselves from each of the following activities will not be considered to have exercised their authority to direct, order, decide upon, or approve a transaction:

(1) Participating in formal approval and decision-making processes related to the transaction, including making a recommendation;

(2) Reviewing, editing, commenting on, approving, and signing relevant transaction documents; and

(3) Engaging in negotiations with the investment target (or, as applicable, the relevant transaction counterparty, such as a joint venture partner).

4. Excepted Transactions

Certain types of transactions are excepted from the rule's coverage, and therefore not covered transactions under the Final Rule, reasoning that such excepted transactions do not afford a U.S. person certain rights that are not standard minority shareholder protections. Under 31 CFR 850.501, excepted transactions include the following:

(1) ***Publicly traded securities:*** An investment by a U.S. person in a publicly traded security[12] denominated in any currency, and that trades on a securities exchange or through the method of trading that is commonly referred to as "over-the-counter," in any jurisdiction; or a security issued by a registered investment company, such as an index fund, mutual fund, or exchange traded fund, or issued by any company that has elected to be a business development company.

(2) ***Certain limited partner investments:*** A U.S. person's investment made as a limited partner or

[12] The term "***security***" is defined in section 3(a)(10) of the Securities Exchange Act of 1934, as amended, at 15 U.S.C. 78c(a)(10), means any note, stock, treasury stock, security future, security-based swap, **bond**, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or in general, any instrument commonly known as a "security"; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker's acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.

equivalent in a venture capital fund, private equity fund, fund of funds, or other pooled investment fund where:

- The limited partner or equivalent's committed capital is not more than $2,000,000, aggregated across any investment and co-investment vehicles of the fund; or

- The limited partner or equivalent has secured a binding contractual assurance that its capital in the fund will not be used to engage in a transaction that would be a prohibited transaction or notifiable transaction, as applicable, if engaged in by a U.S. person.

(3) ***Derivatives:*** A U.S. person's investment in certain derivative securities, so long as such derivative does not confer the right to acquire equity, any rights associated with equity, or any assets in or of a covered foreign person.

(4) ***Buyouts of country of concern ownership:*** A U.S. person's full buyout of all interests of any person of a country of concern in an entity, such that the entity does not constitute a covered foreign person following the transaction.

(5) ***Intracompany transactions:*** An intracompany transaction between a U.S. person and its controlled foreign entity to support operations that are not covered activities or to maintain ongoing operations with respect to covered activities that the controlled foreign entity was engaged in prior to January 2, 2025.

(6) ***Certain pre-Final Rule binding commitments:*** Fulfillment of a U.S. person's binding, uncalled capital commitment entered into prior to January 2, 2025.

(7) ***Certain syndicated debt financings:*** The acquisition of a voting interest in a covered foreign person upon default or other condition involving a loan, where the loan was made by a lending syndicate and a U.S. person participates passively in the syndicate.

(8) ***Equity-based compensation:*** A U.S. person's receipt of employment compensation in the form of an award or grant of equity or an option to purchase equity in covered foreign person, or the exercise of such option.

(9) ***Third-country measures:*** Certain transactions involving a person of a country or territory outside of the United States may be excepted transactions where the Secretary of the Treasury determines that the country or territory is addressing national security concerns related to outbound investment and the transaction is of a type for which associated national security concerns are likely to be adequately addressed by the actions of that country or territory.

In addition to the above, the Final Rule allows a U.S. person to seek an exemption from the application of the prohibition or notification requirement if a transaction is in the national interest of the U.S.

5. Legal Consequences of Non-compliance

A violation of the above outbound investment regulations would have been subject to civil and criminal penalties as set forth in *the International Emergency Economic Powers Act of 1977* (**"IEEPA"**):

- ***Civil penalties:*** a civil penalty that does not exceed the greater of $377,700 or twice the amount of the transaction may be imposed on any person who violates, attempts to violate, conspires to violate, or causes a violation of the above outbound investment;

- ***Criminal penalties:*** a person who willfully commits, willfully attempts to commit, willfully conspires to commit, or aids or abets in the commission of a violation, attempt to violate, conspiracy to violate, or causing of a violation of the above outbound investment regulations shall, upon conviction, be fined not more than $1,000,000, or if a natural person, be imprisoned for not more than 20 years, or both.

Other than the above, the Secretary of the Treasury can take any action authorized under IEEPA to nullify, void, or otherwise require divestment of any prohibited transaction.

However, despite U.S. persons are prohibited from undertaking certain transactions and are required to notify the Treasury of certain other transactions, there will not be a case-by-case review of transactions. The relevant U.S. person undertaking a transaction has an obligation to determine whether the given transaction is prohibited, permissible but subject to notification, or not covered by the Final Rule because either it is an excepted transaction or it is not within the jurisdiction set forth under the Final Rule.

6. Notification Requirements

A U.S. person subject to the notification requirement is required to file a notification form with the Treasury that includes information related to the transaction, such as details about the U.S. person, the covered foreign person, the covered transaction, and the relevant national security technologies and products. The Final Rule requires that a notification be filed no later than 30 days after the relevant covered transaction is completed or, where a U.S. person acquires actual knowledge after the completion date of a transaction that the transaction would have been a covered transaction if such knowledge had been possessed at the time of the transaction, no later than 30 days after the U.S. person's acquisition of such knowledge. Notifications are required to be submitted via electronic filing.

II. Analysis of the Applicability of the Final Rule to the Group

As the Final Rule does not prohibit all investment activity in countries of concern. Instead, the Final Rule is narrowly targeted at certain types of investments in country of concern entities and related to sensitive technologies and products critical for military, intelligence, mass-surveillance, or cyber-enabled capabilities.[13] If no covered activity is involved in the transaction, then the transaction shall fall outside the jurisdictional scope of the Final Rule. In addition, an investment by a U.S. person in publicly traded securities is excepted by the Final Rule, regardless of whether the Group is a person of a country of concern, or whether the underlying activities undertaken by the Group are covered activities. In other words, once the stocks issued by the Company become publicly traded, restrictions set out by the Final Rule are inapplicable to investments in relation to such publicly traded securities.

Upon the Company's confirmation, as of the date of this memorandum, we understand that neither the Company nor its subsidiaries is engaging or intends to engage, directly or indirectly, in any covered activities. It is worth noting that although SICC's products can be used for the production of SiC-based GaN epitaxial wafers by growing a GaN epitaxial layer on the semi-insulating SiC substrate, such SiC-based GaN epitaxial wafers are manufactured by the downstream customers instead of by the Group itself. As a material supplier, SICC currently does not engage in the development, production, design, fabrication or packaging of any IC products. Therefore, prohibited transactions under the Final Rule in relation to the fabrication of IC manufactured from a gallium-based compound semiconductor should be inapplicable to the business of the Group at present.

Notably, with respect to the listing application of the Company, the Treasury emphasizes that a U.S. person's acquisition of equity that is not yet publicly traded for purposes of facilitating an IPO, including as part of an underwriting arrangement, would not fall under the publicly traded securities exception under 31 CFR 850.501 and could be a covered transaction. Given that sponsors/underwriters in this Offering are not U.S. persons under Section 850.229 of the Final Rule, if no U.S. initial purchasers will be involved during the process of underwriting, restrictions set out in the Final Rule shall be inapplicable regardless whether the Group engages in any covered activities. Once shares are issued and become publically traded, then subsequent purchasers (including U.S. persons) are exempted under the publicly traded securities exception regardless of whether the Company engages in covered activities.

Besides, despite that Huawei Investment, the shareholder of Habo Investment, is included on the NS-CMIC List, given that 1) restrictions imposed on an NS-CMIC designated entity will not apply to its subsidiary automatically; 2) the Group itself has not been designated to any trade restriction lists maintained by the U.S. government, and 3) the Group has not engaged in any covered activities as set forth in Section 850.217 or 850.224 of the Final Rule, no notifiable transaction will be escalated to a prohibited transaction under 850.224 of the Final Rule.

As such, as of the date of this memorandum, the aforesaid activities (i.e. research, development and production of SiC substrates) in which the Group is engaged shall not constitute any covered activities under Sections 850.217 or 850.224 of the Final Rule. Although the Company and its subsidiaries shall be categorized as persons of country of concern, we are of the view that the Final Rule shall be inapplicable to the Company and the Offering.

[13] See Office of Investment Security's "*Additional Information on Final Regulations Implementing Outbound Investment Executive Order (E.O. 14105)*", https://home.treasury.gov/system/files/206/TreasuryOutboundFinalRuleAdditionalInformation_0.pdf

U.S. Tariffs Analysis

I. Overview of Section 301 Tariffs

Section 301 of the Trade Act of 1974 ((Pub. L. 93–618, 19 U.S.C. § 2411) authorizes the USTR to take all appropriate action (including tariff-based and non-tariff-based retaliation) to obtain the removal of any act, policy, or practice of a foreign government that 1) violates an international trade agreement or 2) is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce (including goods, services, and foreign direct investment by U.S. persons with implications for trade in goods or services).

1. Initiation of Section 301 Investigations

The following types of foreign government conduct may be subject to Section 301 investigations, including:

(1) a violation that denies U.S. rights under a trade agreement;

(2) an "unjustifiable" action that "burdens or restricts" U.S. commerce, or

(3) an "unreasonable" or "discriminatory" action that "burdens or restricts" U.S. commerce.

Section 301 investigations can be self-initiated by the USTR or as the result of a petition filed by an "interested party".[14] Upon initiating an investigation, the USTR must request consultations with the targeted foreign government regarding the issues raised, and will generally also solicit public comments and hold a hearing as part of its investigation.[15]

For cases involving trade agreements, the USTR is required to request formal dispute proceedings as provided by the trade agreements:

(1) that the rights of the United States under any trade agreement are being denied;

(2) that an act, policy, or practice of a foreign country violates, is inconsistent with, or otherwise denies the United States the benefits of any trade agreement; or

(3) that an act, policy, or practice of a foreign country is unjustifiable and burdens or restricts U.S. commerce.

If no mutually acceptable resolution is reached under the investigation involving a trade agreement, the USTR must request formal dispute settlement proceedings under the governing trade agreement. However, the Trade Act of 1974 does not require that the U.S. government should wait until it receives authorization from the World Trade Organization ("**WTO**").

2. Implementation and Retaliatory Action

Once the USTR determines that the alleged conduct is unfair or violates U.S. rights under trade agreements, then it may decide what action to take. Actions to be taken by the USTR can be divided into mandatory and discretionary categories. Mandatory action is required if the USTR concludes that there is a trade agreement violation or that an act, policy, or practice of a foreign government is "unjustifiable" and "burdens or restricts" U.S. commerce. Section 301 authorizes the USTR to:

(1) withdraw or suspend trade agreement concessions;

(2) impose duties or other import restrictions; or

(3) enter into a binding agreement with the foreign government to either eliminate the conduct in question (or the burden to U.S. commerce) or compensate the U.S. with satisfactory trade benefits.

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[14] 19 U.S.C. 2412.
[15] 19 U.S.C. 2413.

The USTR must give preference to tariffs if action is taken in the form of import restrictions. The level of mandatory action under Section 301 should "affect goods or services of the foreign country in an amount equivalent in value to the burden or restriction being imposed by that country on" U.S. commerce. Once imposed, Section 301 tariffs must be terminated after four years unless an extension is requested.

II. Overview of Section 232 Tariffs

Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. §1862) authorizes the Secretary of Commerce to conduct comprehensive investigations to determine the effects of imports of any article on the national security of the U.S. Investigations may be initiated based on an application from an interested party, a request from the head of any department or agency, or may be self-initiated by the Secretary of Commerce.

The Secretary's report to the President, prepared within 270 days of initiation, focuses on whether the importation of the article in question is in such quantities or under such circumstances as to threaten to impair the national security. The President can concur or not with the Secretary's recommendations, and, if necessary, take action to "adjust the imports of an article and its derivatives" or other non-trade related actions as deemed necessary. In addition, the Secretary can recommend, and the President can take, other lawful non-trade related actions necessary to address the threat.[16]

III. IEEPA Tariffs of the U.S.

1. Tariffs Related to Fentanyl

On February 1, 2025, President Trump placed 25 percent tariffs on products from Mexico and Canada (10 percent on Canadian "energy resources") and 10 percent on all products from China through the IEEPA "because of the major threat of illegal aliens and deadly drugs killing our Citizens, including fentanyl." On March 3, President Trump further increased the IEEPA tariffs from 10 percent to 20 percent on all products from China (including Hong Kong), which became effective on March 4, 2025.

IEEPA grants the president broad authority to regulate various financial transactions upon declaring a national emergency. Since its enactment, IEEPA has become an important tool to impose economic sanctions, justify export controls, and restrict certain transactions and outbound investments. Under the IEEPA, the president can take a wide variety of economic actions "to deal with any unusual and extraordinary threat, which has its source in whole or substantial part outside the United States, to the national security, foreign policy or economy" of the country.

Previously, no president of the U.S. has used IEEPA to place tariffs on imported products from a specific country or on products imported to the U.S. in general.[17] During his first term, President Trump has placed tariffs on designated (not all) products from China via Section 301 and Section 232 investigations. On May 30, 2019, President Trump announced his intention to use IEEPA to impose and gradually increase a five percent tariff on all goods imported from Mexico until "the illegal migration crisis is alleviated through effective actions taken by Mexico."[18] The tariffs were scheduled to be implemented on June 10, 2019, with five percent increases to take effect at the beginning of each subsequent month. On June 7, 2019, President Trump announced that the tariffs scheduled to be implemented by the U.S. on June 10, against Mexico, were indefinitely suspended.[19]

However, unlike Section 301 or Section 232 tariffs, as no investigation is required, IEEPA authorities can be invoked at any time in response to a national emergency based on an "unusual and extraordinary threat, which has its source in whole or substantial part outside the United States."[20]

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[16] https://www.bis.doc.gov/232

[17] https://crsreports.congress.gov/product/pdf/R/R45618/8

[18] Statement from the President Regarding Emergency Measures to Address the Border Crisis, May 30, 2019, available at https://www.whitehouse.gov/briefings-statements/statement-president-regarding-emergency-measuresaddress-border-crisis/.

[19] President Donald J. Trump, Twitter Post, June 7, 2018, 5:31 p.m., https://twitter.com/realdonaldtrump/status/1137155056044826626. The suspension preceded the release of a U.S. Mexico Joint Declaration on migration. Department of State, Office of the Spokesperson, U.S.-Mexico Joint Declaration, June 7, 2019, available at https://www.state.gov/u-s-mexico-joint-declaration/.

[20] See *The International Emergency Economic Powers Act: Origins, Evolution, and Use*, Congressional Research Service, R45618, updated on January 30, 2024.

2. Retaliatory Tariffs of the U.S.

On April 2, 2025, President Trump announced his "reciprocal tariff" strategy and unveiled a two-tier tariff structure under IEEPA: a baseline 10% tariff applied universally to imports from all countries with the exception of Canada and Mexico, and additional country-specific "reciprocal" tariffs based on what the administration deemed unfair trade practices by approximately 60 individual nations. The 10% baseline tariff would begin at 12:01 a.m. EDT on April 5, 2025 (04:01 UTC), while the higher country-specific rates would commence at 12:01 a.m. EDT on April 9, 2025. During the event, President Trump also signed Executive Order 14257 "*Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits*" ("E.O.14257"), which outlined extensive global tariff policies which he described as the "declaration of economic independence" of the U.S. Over the next few days, President Trump kept raising tariffs on Chinese goods. After several rounds of adjustments, currently according to the Executive Order "*Modifying Reciprocal Tariff Rates to Reflect Discussions with the People's Republic of China*", the reciprocal tariff rate of U.S. duty on goods from China has been retained as 10%, and additional 24 percentage points of that rate has been suspended for an initial period of 90 days starting at 12:01 a.m. EDT on May 14, 2025. However, after the 90 days period, the additional 24 percentage points of that rate might be resumed. We summarize the calculation formula for the U.S. tariff rate as follows:-

Level 1	**Import Tariff Rate for the Product**	Depends on the HTSUS of the products
	+	
Level 2	**Section 301 Tariffs (if applicable)**	Varies from 7.5% to 100%
	+	
Level 3	**Anti-dumping Duties and Countervailing Duties (if applicable)**	Different tax rates for different products
	+	
Level 4	**IEEPA Tariffs - Tariffs related to Fentanyl**	20% (certain products under Chapter 98 of HTSUS are exempted)
	+	
Level 5	**IEEPA Tariffs - Reciprocal Tariffs**	10% (unless exempted, additional 24% has been suspended for an initial period of 90 days starting at 12:01 a.m. EDT on May 14, 2025)

However, the volatility and uncertainty of the Trump administration's policies makes it difficult to assess the direction of the U.S. tariff policy. On May 28, 2025, the United States Court of International Trade issued the ruling[21] (Court No. 25-00066 and Court No. 25-00077) and held that IEEPA does not authorize any of the Worldwide, Retaliatory, or Trafficking Tariff Orders. Thus, the challenged Tariff Orders will be vacated and their operation permanently enjoined. However, the Trump administration lodged an appeal within minutes of the ruling. On May 29, 2025, the U.S. Court of Appeals for the Federal Circuit ("CAFC") said in a brief order[22] that it would grant the Trump administration's request for an immediate administrative stay "to the extent that the judgments and the permanent injunctions entered by the Court of International Trade in these cases are temporarily stayed" for now. On June 10, 2025, the CAFC issued an order to grant the motions for a stay pending appeal and to hold oral argument on July 31, 2025. Therefore, as of the date of this memorandum, the IEEPA tariffs will remain in effect until the relevant court issues a further order or ruling.

IV. Impact of U.S. Tariffs on the Business of the Group

Based on our interviews with the Company, we understand that in the past five years, the Company has had two exports to the U.S. as follows:

1) In 2022, the Company exported 6-inch N-type SiC substrates to SemiQ Incorporated for the test purpose; and

2) In 2024, the Company exported 6-inch and 8-inch N-type SiC substrates to Applied Materials for the test purpose.

[21] See: https://www.govinfo.gov/content/pkg/USCOURTS-cit-1_25-cv-00066/pdf/USCOURTS-cit-1_25-cv-00066-0.pdf
[22] See: https://www.cafc.uscourts.gov/opinions-orders/25-1812.ORDER.5-29-2025_2522636.pdf

Save for the above two exports (which are completed), as of the date of this memorandum, the Company currently has no business related to direct exports to the U.S. for the time being. Referring to the above introduction, the risk of U.S. tariffs exists only when the products are exported to the U.S. Therefore, we believe that the aforementioned U.S. tariffs have no material impact on the Company's business for the time being.

In addition, as the Company's products are currently not covered by Section 301 and 232 tariffs[23], we are of the view that apart from the IEEPA tariffs, the Section 301 tariffs and Section 232 tariffs will not have material impact on the Company's business in the event that the Company will engage in exporting to the U.S. in the future.

However, in December 2024, the USTR self-initiated a Section 301 investigation concerning the PRC's semiconductor industry. [24] USTR's initiation notice characterizes this investigation as assessing "*PRC manufacturing of foundational semiconductors (also known as legacy or mature node semiconductors), including to the extent that they are incorporated as components into downstream products for critical industries like defense, automotive, medical devices, aerospace, telecommunications, and power generation and the electrical grid.*" Other areas of focus include the PRC's "*production of silicon carbide substrates (or other wafers used as inputs into semiconductor fabrication)*" and the relationship between the PRC's "*existing or threatened non-market excess capacity or overconcentration of semiconductor production in the PRC, and resulting dependencies and vulnerabilities that create risks for certain critical downstream industries, as well as harm to U.S. semiconductor producers and foundries.*"

Therefore, together with the above mentioned IEEPA tariffs as well as reciprocal tariffs being placed on all products from China and Hong Kong in force; if such Section 301 tariffs are subsequently placed on SiC substrates or other semiconductor products of the Company, then even if the Company does not directly export to the U.S., there will still be risks of tariffs being levied on the Company's downstream customers if they export the Company's products to the U.S. Thus we would like to remind the Company of the commercial risk that the purchases of the relevant customers may be reduced due to the tariffs as well as the current ongoing Section 301 investigations.

[23] Please see the list of products for Section 301 tariffs at: https://ustr.gov/issue-areas/enforcement/section-301-investigations/tariff-actions;
Please see the list of products for Section 232 tariffs at: https://www.commerce.gov/issues/trade-enforcement/section-232-steel

[24] https://www.federalregister.gov/documents/2024/12/30/2024-31306/initiation-of-section-301-investigation-hearing-and-request-for-public-comments-chinas-acts-policies

************End************

If you have any questions or comments regarding this memorandum, or would otherwise like to discuss our analysis herein, please contact feel free to contact us.

Yours sincerely,

King & Wood Mallesons

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