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I. Key issues **4**

1. The Applicant plans to raise a total of no more than RMB 2,660,017,700 through this public offering of convertible bonds for the Xiaolan High-performance LED Packaging Product Production Project, the Xiaolan LED Power Supply Production Project, the Yiwu Automated LED Lighting Product Production Project, and the repayment of interest-bearing debts. Among them, the Yiwu Automated LED Lighting Product Production Project is a fund-raising investment project redesigned after the change in the previous fund-raising project, and part of the raised funds from the 2016 non-public offering of shares has not yet been fully used. At the end of September 2018, the Applicant's monetary fund balance was RMB 6.855 billion, and the wealth management product balance was RMB 261 million. The Applicant is requested to: (1) explain the construction details and investment composition of the fund-raising investment project; indicate whether it constitutes capital expenditures; specify whether any investment was made before the meeting of the Board of Directors; and explain the rationale for the investment scale of the fund-raising investment project; (2) explain whether the previous fund-raising investment project has been delayed, the subsequent use plan and schedule for the unused raised funds, and based on the above, explain whether the use of raised funds and project construction schedule for this fund-raising investment project are prudent and reasonable; (3) explain the connections and differences between this fund-raising investment project and the Company's existing business and previous fund-raising investment projects; explain the necessity, rationality, and feasibility of this fund-raising investment project construction; and explain the measures to absorb the new production capacity in conjunction with the existing production capacity utilization rate and sales/output ratio; (4) explain the process and prudence of the benefit forecast for this fund-raising investment project; (5) in conjunction with existing monetary funds, asset-liability structure, business scale and its trends, and future working capital needs, explain the necessity and rationality of repaying interest-bearing debts this time. The sponsor shall conduct verification and issue opinions. 4

2. As of the end of September 2018, the goodwill in the Applicant's consolidated financial statements was RMB 1,698,307,100, which was generated from the Applicant's acquisition of 100% equity of MINGXIN Optoelectronics through share issuance and cash payment in 2018. The Applicant is requested to: (1) explain the current operating conditions and performance of LEDVANCE, the underlying asset acquired in 2018, the discrepancies between its actual performance and the performance forecasted in the restructuring valuation report, and the Applicant's integration progress with LEDVANCE; (2) explain LEDVANCE's accrual and accounting for restructuring charges, whether the actual expenses incurred are consistent with the expectations at the time of restructuring, and explain the impact of restructuring charges on the Applicant's future performance; (3) based on the above, explain the sufficiency of the provision for goodwill impairment; (4) whether the proceeds from this fund raising will directly or indirectly inflate the performance of LEDVANCE, thereby affecting the comparability of the performance forecast in subsequent valuation reports. The sponsor and the accountant shall conduct verification and issue opinions. 47

3. During the reporting period, the Applicant's overall GPM for its main business, after excluding the impact of the consolidation of LEDVANCE, showed a fluctuating decline. From January to September 2018, its non-recurring net profit attributable to parent company decreased by 59.32% year-on-year. The previous fund-raising investment projects, the Ji'an SMD LED Packaging Phase I Construction Project and the Xinyu LED Lighting Supporting Components Project, did not achieve their expected benefits. The Applicant is requested to: (1) explain the reasons why the Ji'an SMD LED Packaging Phase I Construction Project and the Xinyu LED Lighting Supporting Components Project did not achieve their expected benefits; (2) analyze the main factors affecting the decline in the Company's gross profit margin and operating performance; (3) explain whether the Company's operating performance has improved, whether the main factors affecting the decline in operating performance have been eliminated, whether there will be a significant adverse impact on the Company's performance in 2018 and subsequent years, and whether this offering complies with the provision that "the weighted average ROE for the last three accounting years is not less than 6% on average"; (4) whether changes in operating performance or other significant adverse changes will have a material adverse impact on the fund-raising investment project. The sponsor and the accountant shall conduct verification and issue opinions. 70

4. During the reporting period, the amounts of available-for-sale financial assets and long-term equity investments held by the Applicant are relatively large. The Applicant is requested to: (1) explain the composition of available-for-sale financial assets and long-term equity investments at the end of the latest period, and state whether they constitute financial investment; (2) Explain the situation of financial investments and quasi-financial businesses that the Company has implemented or plans to implement from the reporting period to the present, explain whether the Company holds any large-amount, long-term financial investments (including quasi-financial businesses, the same below) as of the end of the latest period in conjunction with the Company's main business, and at the same time explain the necessity of the amount of funds to be raised this time by comparing the current total financial investment with this fund-raising scale and the Company's net assets level; (3) Based on whether the Company has invested in industrial M&A funds, and considering such funds' establishment purpose, investment direction,

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investment decision-making mechanism, method for distributing or bearing profits or losses, and whether the Company has promised principal and rate of return to other parties, explain whether the Company effectively controls such funds and should include them in the scope of consolidated statements, and whether the capital contributions from other parties constitute a situation of nominal equity and actual debt. The sponsor and the accountant shall conduct verification and issue opinions. 84

5. The Applicant is requested to explain, in conjunction with the issued and proposed bonds, whether this issuance complies with the provision that "the aggregate outstanding balance of corporate bonds after this issuance shall not exceed 40% of the net assets as of the end of the latest period." The sponsor shall conduct verification and issue opinions. 97

6. During the reporting period, the amount of the Applicant's accounts receivable was relatively large and continued to grow, while its accounts receivable turnover continued to decline. The Applicant is requested to: (1) based on the Company's actual operating conditions, analyze and explain the reasons for the growth of the Company's accounts receivable and the continuous decline of its accounts receivable turnover rate during the reporting period, and whether the Company's sales credit policy has changed; (2) explain the post-period recovery of accounts receivable from major customers; Actual bad debt losses incurred during the reporting period, whether the policy for making provisions for bad debts is in line with the Company's actual situation, and whether the provisions for bad debts are adequate. The sponsor and the accountant shall conduct verification and issue opinions. 100

7. The Applicant is requested to explain the reasons for the significant increase in the inventory balance and inventory impairment provision at the end of 2018. In conjunction with the outstanding orders and turnover at the end of the period, please explain whether there is any inventory backlog and whether the inventory impairment provision at the end of the latest period is adequate. The sponsor and the accountant shall conduct verification and issue opinions. 112

8. The Applicant's current Articles of Association stipulate that when the conditions for cash dividends are met, the annual cash profit distribution of the Company shall be no less than 20% of the distributable profits realized in the current year. The Applicant is requested to explain whether the actual implementation of the Company's cash dividend policy during the reporting period complied with the provisions of the CSRC's Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies and Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies. The sponsor shall conduct verification and issue opinions. 117

9. During the reporting period, the Applicant was subject to administrative penalties on multiple occasions. The Applicant is requested to provide supplementary disclosure on: (1) main reasons for and details of the aforementioned administrative penalties, and whether the Company has completed rectification; (2) whether the aforementioned administrative penalties constitute a legal obstacle to this issuance. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions. 131

11. The Applicant is requested to provide supplementary disclosure on: (1) penalties or regulatory measures imposed by securities regulatory authorities and exchanges in the past five years and the corresponding rectification measures; (2) the Company has been subject to regulatory measures by the exchange multiple times since its listing; whether the Company's internal control is sound and effectively implemented; whether such measures constitutes a legal obstacle to this issuance. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions. ...139

12. During the reporting period, Ji'an MLS Real Estate Development Co., Ltd., a subsidiary of the Company, was a real estate development enterprise and was transferred to an external party on December 11, 2018. The Applicant is requested to provide supplementary disclosure on: (1) the transfer of the enterprise and the rationality of the transfer price; (2) whether the Applicant have any other real estate business other than the subsidiary. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions. 150

13. The Applicant is requested to provide supplementary disclosure on: (1) the specific details and purposes of the equity pledge by the actual controller; (2) whether the actual controller faces debt repayment risks, and whether there is a risk of change in the Company's actual right of control. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions. 152

14. The Applicant has a relatively high proportion of overseas sales revenue. The Applicant is requested to provide supplementary disclosure in light of the latest developments in international trade frictions on: (1) the basic information of the top five overseas customers, and whether the Company has a significant dependence on them; (2) impact of relevant international trade frictions on the Company's production and operations, and whether there are any material adverse changes in the Company's production and operations. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions. 155

15. In 2018, based on the existing total share capital of 528,327,918 shares, the Company distributed a cash dividend of RMB 2.47 per 10 shares (tax inclusive) to all shareholders, and simultaneously, converted capital reserve into

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share capital at a rate of 10 bonus shares for every 10 shares held. The Applicant is requested to provide supplementary disclosure on: (1) the necessity and rationality of implementing the "high bonus and capitalization transfer"; (2) whether any relevant parties were subject to administrative penalties from the CSRC, public condemnation from the stock exchange, or were placed under investigation by the CSRC or by judicial authorities for illegal activities such as illegal share reduction, insider trading, or market manipulation before or after the "high bonus and capitalization transfer". The sponsor and the Applicant's lawyers shall conduct verification and issue opinions. 159

16. In 2018, the Applicant experienced quality issues with some of its products due to quality reasons from its suppliers and equipment manufacturers, which caused losses to the Applicant. The Applicant is requested to explain the specific circumstances of the aforementioned quality issues and their impact on the Company. The sponsor and the accountant shall issue their verification opinions. 162

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I. Key issues

1. The Applicant plans to raise a total of no more than RMB 2,660,017,700 through this public offering of convertible bonds for the Xiaolan High-performance LED Packaging Product Production Project, the Xiaolan LED Power Supply Production Project, the Yiwu Automated LED Lighting Product Production Project, and the repayment of interest-bearing debts. Among them, the Yiwu Automated LED Lighting Product Production Project is a fund-raising investment project redesigned after the change in the previous fund-raising project, and part of the raised funds from the 2016 non-public offering of shares has not yet been fully used. At the end of September 2018, the Applicant's monetary fund balance was RMB 6.855 billion, and the wealth management product balance was RMB 261 million. The Applicant is requested to: (1) explain the construction details and investment composition of the fund-raising investment project; indicate whether it constitutes capital expenditures; specify whether any investment was made before the meeting of the Board of Directors; and explain the rationale for the investment scale of the fund-raising investment project; (2) explain whether the previous fund-raising investment project has been delayed, the subsequent use plan and schedule for the unused raised funds, and based on the above, explain whether the use of raised funds and project construction schedule for this fund-raising investment project are prudent and reasonable; (3) explain the connections and differences between this fund-raising investment project and the Company's existing business and previous fund-raising investment projects; explain the necessity, rationality, and feasibility of this fund-raising investment project construction; and explain the measures to absorb the new production capacity in conjunction with the existing production capacity utilization rate and sales/output ratio; (4) explain the process and prudence of the benefit forecast for this fund-raising investment project; (5) in conjunction with existing monetary funds, asset-liability structure, business scale and its trends, and future working capital needs, explain the necessity and rationality of repaying interest-bearing debts this time. The sponsor shall conduct verification and issue opinions.

[Reply]:

I. Explain the construction details and investment composition of the fund-raising investment project; indicate whether it constitutes capital expenditures; specify whether any investment was made before the meeting of the Board of Directors; and explain the rationale for the investment scale of the fund-raising investment project

(I) Construction details and investment composition of the fund-raising investment project

The Company plans to raise a total of no more than RMB 2,660,017,700 (inclusive of RMB 2,660,017,700) through this public offering of convertible bonds, and the net proceeds after deducting issuance expenses are intended to be used for the following projects:

Unit: RMB 10,000

S/N	Item name	Total investment amount	Proposed investment with the raised funds
1	Xiaolan High-performance LED Packaging Product Production Project	82,750.27	71,068.74
2	Xiaolan LED Power Supply Production Project	32,255.36	26,771.79
3	Yiwu Automated LED Lighting Product Production Project	134,719.97	90,161.24
4	Repayment of interest-bearing debts	78,000.00	78,000.00
Total		**327,725.60**	**266,001.77**

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The implementing entities for Projects 1, 2, and 3 are the Company's wholly-owned subsidiaries ZHONGSHAN MLS Electronics, ZHONGSHAN Optoelectronics, and MINGXIN Optoelectronics, respectively. The Company plans to invest the raised funds into its wholly-owned subsidiaries through capital increase.

Construction details and investment composition of fund-raising investment projects are provided as follows:

1. Xiaolan High-performance LED Packaging Product Production Project

(1) Construction details

This project plans to build a high-performance LED packaging product production line for the production of high-performance SMD products, flip-chip COB products, and special lighting products (including infrared LED products, wide-angle soft light beads, and new SMD2837 beads). After reaching the full production capacity, it can produce 14.896 billion high-performance LED packaging products annually.

(2) Investment composition of this project, and whether investment components constitute capital expenditures

The total investment for this project is RMB 827,502,700, of which RMB 710,687,400 will be invested with raised funds. All investments from raised funds are capital expenditures, as detailed below:

Unit: RMB 10,000

Item	Total investment	Investment with self-owned funds	Investment with raised funds	Capital expenditure or not
1. Investment in construction projects and equipment	**72,338.21**	**1,269.47**	**71,068.74**	-
1.1 House decoration costs	5,583.21	-	5,583.21	Yes
1.2 Equipment purchase and installation costs	65,485.53	-	65,485.53	Yes
1.3 Rent during the construction period	1,269.47	1,269.47	-	No
2. Contingencies	**2,132.06**	**2,132.06**	-	No
3. Initial working capital	**8,280.00**	**8,280.00**	-	No
Total	**82,750.27**	**11,681.53**	**71,068.74**	-

(3) Basis for estimating the investment amount

1) Investment in construction projects and equipment

① House decoration costs

Item	Quantity (m^2)	Decoration costs (RMB/m^2)	Decoration costs (RMB 10,000)
Plant	49,326.00	850.00	4,192.71
Dormitory	18,750.00	700.00	1,312.50
Auxiliary room	1,200.00	650.00	78.00
Total	**69,276.00**		**5,583.21**

② Equipment purchase and installation costs

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Item	Equipment name	Unit price (RMB)	Quantity (set)	Total price (RMB 10,000)
High-luminous-efficiency SMD, special SMD	Stamping mold	120,000.00	30	360.00
	Injection mold	250,000.00	28	700.00
	Bending mold	80,000.00	20	160.00
	Plating mold	8,000.00	20	16.00
	High-speed press	393,162.00	30	1,179.49
	Injection molding machine	550,470.00	30	1,651.41
	Bending press	81,197.00	20	162.39
	Die bonding jig	330.00	350	11.55
	Wire bonding clamp	495.00	646	31.98
	Die bonding machine	340,000.00	234	7,956.00
	Wire bonder	270,000.00	431	11,628.00
	Phosphor coating machine	80,000.00	70	560.00
	Sorting machine	80,000.00	512	4,096.00
	Taping machine	80,000.00	457	3,653.33
	Oven	7,350.00	217	159.25
	Lead cutting machine	28,889.00	7	19.26
	Magazine	19.00	35,000	66.50
	Aging board	6,239.00	10	6.24
	Moisture-proof cabinet	3,419.00	294	100.52
	LED high-precision rapid spectroradiometer	76,923.00	5	38.46
	High-power microscope UK-2010	119,658.00	5	59.83
	Phosphor sedimentation machine	44,444.00	84	373.33
	Vacuum mixer JY-650	36,207.00	369	1,336.04
	High-precision SEM experimental equipment	8,654,253.00	1	865.43
	Subtotal	-	-	**35,191.00**
Flip-chip COB	Die bonding machine	336,383.00	652.00	21,932.17
	Reflow soldering machine	85,000.00	36.00	306.00
	Dam & fill dispenser	80,000.00	417.00	3,336.00
	Glue dispenser	90,000.00	313.00	2,817.00
	Packing machine	5,983.00	15.00	8.97
	Oven	6,466.00	315.00	203.68
	Horizontal short baking oven	5,703.00	144.00	82.12
	LED high-precision rapid spectroradiometer	153,620.00	9.00	138.26
	Power supply	2,282.00	42.00	9.58
	Zhongpu_Semi-automatic COB powder replenishing and sorting machine	90,000.00	45.00	405.00

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	Die bonding jig	320.00	648.00	20.74
	Magazine	69.00	150,000.00	1,035.00
	Subtotal	**-**	**-**	**30,294.53**
Total		-	-	**65,485.53**

③ Rent during the construction period

Item	Quantity (m^2)	Monthly rent (RMB/m^2)	Rental costs (RMB 10,000)
Plant	49,326.00	15.00	887.87
Dormitory	18,750.00	16.00	360.00
Auxiliary room	1,200.00	15.00	21.60
Total	**69,276.00**	**-**	**1,269.47**

The implementing entity of this project is the Company's wholly-owned subsidiary, Zhongshan MLS Electronics Co., Ltd. The plant, auxiliary rooms, and dormitories used for the project are leased from the parent company, MLS. The construction period for this project is 12 months.

2) Contingencies

The contingencies for this project are calculated at 3% of the sum of house decoration costs, and equipment purchase and installation costs, amounting to RMB 21.3206 million. The contingencies for this project will be invested by the Company with its self-owned funds.

3) The initial working capital is calculated at 30% of the working capital of RMB 276.00 million to be recovered in the last year of the predicted operating period, based on the cash flow forecast for this fund-raising investment project, amounting to RMB 82.80 million. The initial working capital for this project will be invested by the Company with its self-owned funds.

2. Xiaolan LED Power Supply Production Project

(1) Construction details

This project plans to build production lines for LED driver power supply products and supporting facilities. After the production lines are completed and put into use, the products will include LED driver power supply products such as Christmas light power supplies, copper wire light power supplies, diffuse reflection light strip power supplies, panel luminaire power supplies, and lighting power supplies, which are supporting components for LED applications. After reaching the full capacity, it can produce 1,975.84 million LED driver power supplies annually.

(2) Investment composition of this project, and whether investment components constitute capital expenditures

The total investment for this project is RMB 322.5536 million, of which RMB 267.7179 million will be invested with raised funds. All investments from raised funds are capital expenditures, as detailed below:

Unit: RMB 10,000

Item	Total investment	Investment with self-owned funds	Investment with raised funds	Capital expenditure or not
1. Investment in construction projects and equipment	**27,231.93**	**460.14**	**26,771.79**	-
1.1 House decoration costs	1,995.79		1,995.79	Yes
1.2 Equipment purchase and	24,776.00		24,776.00	Yes

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installation costs				
1.3 Rent during the construction period	460.14	460.14	-	No
2. Contingencies	**803.15**	**803.15**	**-**	No
3. Initial working capital	**4,220.28**	**4,220.28**	**-**	No
Total	**32,255.36**	**5,483.57**	**26,771.79**	**-**

(3) Basis for estimating the investment amount

1) Investment in construction projects and equipment

① House decoration costs

Item	Quantity (m^2)	Decoration costs (RMB/m^2)	Decoration costs (RMB 10,000)
Plant	16,442.00	850.00	1,397.57
Dormitory	8,000.00	700.00	560.00
Auxiliary room	588.00	650.00	38.22
Total	**25,030.00**	**-**	**1,995.79**

② Equipment purchase and installation costs

Name and model	Unit price (RMB 10,000)	Quantity (set)	Total price (RMB 10,000)
Automatic AI insertion machine	30.00	30	900.00
Automatic SMT machine	100.00	25	2,500.00
Automatic AOI machine	25.00	36	900.00
Automatic reflow soldering machine	20.00	30	600.00
Automatic odd-form inserter	56.00	35	1,960.00
Automatic wave soldering machine	26.00	20	520.00
Automatic AOI machine (with repair machine)	30.00	20	600.00
Automatic finished product assembly machine	60.00	30	1,800.00
Aging cabinet	7.50	20	150.00
Automatic insertion line	0.80	30	24.00
Fully automated production line	1.00	40	40.00
Automatic board storage machine	7.50	40	300.00
Automatic stacking machine	5.00	20	100.00
Automatic board flipper	5.00	26	130.00
Automatic board separator	8.00	20	160.00
Automatic labeling machine	17.00	10	170.00
Automatic wire bonder	6.00	40	240.00
Automatic lens mounting machine	45.00	20	900.00
Automatic robotic arm	4.00	20	80.00
Automatic withstand voltage tester	12.00	10	120.00

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Automatic dispensing machine	1.50	20	30.00
Automatic tester	2.00	30	60.00
Automatic unloader	2.50	20	50.00
Automatic loader	2.60	20	52.00
Automatic board loader	3.00	20	60.00
Automatic printing machine	16.50	20	330.00
Molds and jigs	60.00	200	12,000.00
Subtotal of main equipment	-	-	12,776.00
Other auxiliary equipment, molds, and jigs	-	-	12,000.00
Total	**-**	**-**	**24,776.00**

③ Rent during the construction period

Item	Quantity (m^2)	Monthly rent (RMB/m^2)	Rental costs (RMB 10,000)
Plant	16,442.00	15.00	295.96
Dormitory	8,000.00	16.00	153.60
Auxiliary room	588.00	15.00	10.58
Total	**25,030.00**	**-**	**460.14**

The implementing entity of this project is the Company's wholly-owned subsidiary, Zhongshan MLS Optoelectronics Co., Ltd. The plant, auxiliary rooms, and dormitories used for the project are leased from the parent company, MLS. The construction period for this project is 12 months.

2) Contingencies

The contingencies for this project are calculated at 3% of the sum of house decoration costs, and equipment purchase and installation costs, amounting to RMB 8,031,500. The contingencies for this project will be invested by the Company with its self-owned funds.

3) The initial working capital is calculated at 30% of the working capital of RMB 140,680,000 to be recovered in the last year of the predicted operating period, based on the cash flow forecast for this fund-raising investment project, amounting to RMB 42,202,800. The initial working capital for this project will be invested by the Company with its self-owned funds.

3. Yiwu Automated LED Lighting Product Production Project

(1) Construction details

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(2) Investment composition of this project, and whether investment components constitute capital expenditures

The total investment for this project is RMB 1,347,199,700, of which RMB 901,612,400 will be invested with the raised funds from this convertible bond offering. All investments from the raised funds are capital expenditures, as detailed below:

Unit: RMB 10,000

Item	Total investment	Investment with self-owned funds or proceeds from previous fund raising	Investment with proceeds from this fund raising	Capital expenditure or not
1. Construction project costs	**37,698.85**	**-**	**37,698.85**	**-**
1.1 Production plant	28,762.40	-	28,762.40	Yes
1.2 Office building	1,541.44	-	1,541.44	Yes
1.3 Auxiliary rooms	280.69	-	280.69	Yes
1.4 Dormitory	7,114.32	-	7,114.32	Yes
2. Decoration costs	**24,175.39**	**-**	**24,175.39**	**-**
2.1 Production plant	18,806.19	-	18,806.19	Yes
2.2 Office building	1,067.15	-	1,067.15	Yes
2.3 Auxiliary rooms	152.04	-	152.04	Yes
2.4 Dormitory	4,150.02	-	4,150.02	Yes
3. Equipment purchase and installation costs	**56,023.80**	**27,736.80**	**28,287.00**	Yes
4. Land use right fees	**3,600.00**	**3,600.00**	**-**	Yes
5. Contingencies	**2,405.98**	**2,405.98**	**-**	No
6. Initial working capital	**10,815.96**	**10,815.96**	**-**	No
Total	**134,719.97**	**44,558.74**	**90,161.24**	**-**

(3) Basis for estimating the investment amount

1) Investment in construction project costs

Item	Quantity (m^2)	Construction cost (RMB/m^2)	Construction cost (RMB 10,000)
Plant	221,249.25	1,300.00	28,762.40
Office building	11,857.20	1,300.00	1,541.44
Auxiliary room	2,339.06	1,200.00	280.69
Dormitory	59,286.00	1,200.00	7,114.32
Total	**294,731.51**	-	**37,698.85**

2) Investment in decoration costs

Item	Quantity (m^2)	Decoration costs (RMB/m^2)	Decoration costs (RMB 10,000)
Plant	221,249.25	850.00	18,806.19

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Office building	11,857.20	900.00	1,067.15
Auxiliary room	2,339.06	700.00	4,150.02
Dormitory	59,286.00	650.00	152.04
Total	**294,731.51**	**-**	**24,175.39**

3) Equipment purchase and installation costs

Name	Unit price (RMB 10,000)	Quantity (set)	Total price (RMB 10,000)
Bubble blower	70.00	10	700.00
Injection molding machine	25.00	50	1,250.00
Plastic vacuum forming machine	10.00	12	120.00
Printing equipment	2,000.00	2	4,000.00
Production line	70.00	55	3,850.00
Assembly line	120.00	80	9,600.00
Speaker machine	6.50	160	1,040.00
Power pipeline	150.00	26	3,900.00
Color box packaging assembly line	20.00	160	3,200.00
Blister packaging assembly line	8.50	109	926.50
Power pipeline	100.00	28	2,800.00
Automated production line	600.00	6	3,600.00
Automated production line	750.00	6	4,500.00
Automated production line	1,200.00	6	7,200.00
Subtotal of main equipment	-	-	46,686.50
Other auxiliary equipment, molds, and jigs	0.25	37,349.20	9,337.30
Total	**-**	**-**	**56,023.80**

4) Land use right fees

The land use right for this project was acquired at a market price of RMB 180,000 per mu, with the total amount of RMB 36.00 million.

5) Contingencies

The contingencies for this fund-raising investment project are calculated at 3% of the sum of house decoration costs, and equipment purchase and installation costs, amounting to RMB 24,059,800. The contingencies for this project will be invested by the Company with its self-owned funds.

6) The initial working capital is calculated at 30% of the RMB 360,532,000 working capital to be recovered in the last year of the predicted operating period, based on the cash flow forecast for this fund-raising investment project, amounting to RMB 108,159,600. The initial working capital for this project will be invested by the Company with its self-owned funds.

4. Repayment of interest-bearing debts

As of **June 30, 2019**, the Company's interest-bearing liabilities amounted to RMB **9,415,290,200**, of which the amount of interest-bearing debts due within one year was RMB **7,802,151,900**. The Company plans to raise funds of RMB 780,000,000 to repay the Company's

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interest-bearing debts. Repayment of the Company's interest-bearing debts is classified as a non-capital expenditure.

(II) Whether this fund-raising investment project was invested before the meeting of the Board of Directors

The Xiaolan High-performance LED Packaging Product Production Project, the Xiaolan LED Power Supply Production Project, and the repayment of interest-bearing debts do not involve any investments before the meeting of the Board of Directors. For the Yiwu Automated LED Lighting Product Production Project, other than the purchase of the land use right with self-owned funds, no other investments had been made before the meeting of the Board of directors for this convertible bond issuance was convened. The raised funds from this convertible bond issuance will not be used to replace funds already invested before the date of the Board of directors' resolution for the issuance.

(III)Rationality of the investment scale of this fund-raising investment project

The repayment of interest-bearing debts in the Company's current fund-raising investment project does not generate production capacity. Compared with the Company's current input-output ratio of fixed assets, the rationality analysis of the investment scale and new production capacity of the Xiaolan High-performance LED Packaging Product Production Project, the Xiaolan LED Power Supply Production Project, and the Yiwu Automated LED Lighting Product Production Project is shown in the table below:

Company's projects	Amount	Fund-raising investment projects	Amount for the Xiaolan High-performance LED Packaging Product Production Project	Amount for the Xiaolan LED Power Supply Production Project	Amount for the Yiwu Automated LED Lighting Product Production Project
Carrying value of the Company's fixed assets at the end of 2018 (RMB 10,000) (Note 1)	616,312.05	Fixed asset investment amount of fund-raising investment projects (RMB 10,000)	72,338.21	27,231.93	121,498.04
Operating income in 2018 (RMB 10,000) (Note 1)	818,678.80	Average annual operating income after reaching the full production capacity (RMB 10,000)	129,883.72	65,796.13	171,252.70
Input-output ratio of fixed assets (Note 2)	1.33	Input-output ratio of fixed assets	1.80	2.42	1.41

Note 1: As most of LEDVANCE's products are produced through contract manufacturing, the matching of its fixed assets and operating income is highly flexible. Therefore, LEDVANCE has been excluded from both the carrying value of fixed assets and the operating income of the Company in the table above for 2018.

Note 2: The Company's input-output ratio of fixed assets = Income from main

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business/Carrying value of fixed assets. The input-output ratio of fixed assets for fund-raising investment projects = Average annual operating income during the operation period/Fixed asset investment amount of fund-raising investment projects.

The fixed asset input-output ratio of the fund-raising investment project, the Xiaolan High-performance LED Packaging Product Production Project, is 1.80, which is higher than the Company's fixed asset input-output ratio in 2018. The main reasons are that the equipment included in the fixed asset investment is new, its production efficiency and technical level are generally higher than the Company's current production equipment, resulting in higher production capacity per unit of equipment investment. Furthermore, the products produced under this project are of higher quality and performance compared to traditional products, and their application fields are also different (traditional products are mainly used for home lighting, while the products from the fund-raising investment project are mainly used in commercial lighting and special lighting fields, with a higher gross profit margin).

The fixed asset input-output ratio of the fund-raising investment project, the Xiaolan LED Power Supply Production Project, is 2.42, significantly higher than the Company's fixed asset input-output ratio in 2018. The main reason is that the project's products are driver power supplies, which are supporting products for LED applications. According to the industry's actual situation, the operating income generated by an equivalent investment in fixed assets for an LED driver power supply production line is higher than that for a packaging production line.

The key products of the fund-raising investment project, the Yiwu Automated LED Lighting Product Production Project, are filament lamps, light bulbs, light tubes, and panel luminaires, which are all lighting application products. The forecast for future unit sales prices of such products is relatively cautious, taking price reductions fully into account; consequently, the operating income forecast is conservative. The fixed asset input-output ratio of this project is 1.41, which is slightly higher than the Company's fixed asset input-output ratio in 2018.

In summary, given the alignment between the Company's fixed assets and its operating income, the investment scale of this fund-raising investment project is reasonable.

II. Explain whether the previous fund-raising investment project has been delayed, the subsequent use plan and schedule for the unused raised funds, and based on the above, explain whether the use of raised funds and project construction schedule for this fund-raising investment project are prudent and reasonable

(I) Whether the previous fund-raising investment project has been delayed; the subsequent use plan and schedule for the unused raised funds

1. IPO fund-raising investment projects in 2015

As of **June 30, 2019**, the utilization of raised funds for the Company's IPO fund-raising investment projects is shown in the table below:

Unit: RMB 10,000

S/N	IPO fund-raising investment project	Committed investment amount	Actual investment amount	The difference between the actual investment amount and the committed investment amount	Date the project reaches its intended usable state	Delayed or not	Progress of fund utilization as of June 30, 2019

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				after fund raising			
1	Lamp LED Product Technical Upgrade Project	22,229.67	22,229.67	0	December 2014	No	100%
2	SMD LED Product Technical Upgrade Project	13,249.28	13,249.28	0	December 2014	No	100%
3	Technical Upgrade Project for LED Application (Display Screens, Indoor and Outdoor Lamps and Decorative Lights) Products	4,188.28	4,188.28	0	December 2014	No	100%
4	LED Product R&D Center Technical Upgrade Project	2,959.77	2,959.77	0	December 2014	No	100%
5	Supplementary working capital	45,000.00	45,000.00	0	Not applicable	Not applicable	100%
Total		**87,627.00**	**87,627.00**	**0**	-	-	**100%**

As of **June 30, 2019**, the raised funds for all IPO fund-raising investment projects of the Company have been fully used. Except for the supplementary working capital project, which is not applicable, all other fund-raising investment projects reached their intended usable state in December 2014, and there were no project delays.

2. Investment projects funded by private placement in 2016

As of **June 30, 2019**, the use of raised funds for the Company's investment projects funded by private placement in 2016 is shown in the table below:

Unit: RMB 10,000

S/N	Investment projects funded by private placement	Committed investment amount	Actual investment amount	The difference between the actual investment amount and the committed investment amount after fund raising	Date the project reaches its intended usable state	Delayed or not	Progress of fund utilization as of June 30, 2019
1	Xiaolan SMD LED Packaging Technical Upgrade Project	61,575.50	**60,422.96**	**-1,152.54**	September 2016	No	**98.13%**
2	Ji'an SMD LED packaging Phase	94,317.33	95,652.03	1,334.70	September 2016	No	101.42%

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	I construction project						
3	Xinyu LED Lighting Supporting Components Project (Note)	75,681.11	**54,088.28**	**-21,592.83**	Partial production started in September 2017	Yes	**71.47%**
Total		**231,573.94**	**210,163.27**	**-21,410.67**	-	-	**90.75%**

Note: **1.** In January 2017, the investment project funded by private placement in 2016, the Xinyu LED Application Lighting Phase I Construction Project, was changed to the Xinyu LED Lighting Supporting Components Project. In March 2017, the Company returned the RMB 251.3325 million of raised funds used for the pre-change fund-raising investment project in full with its self-owned funds. The returned funds will be used for the post-change fund-raising investment project;

2. To avoid idle funds, fully leverage the efficiency of raised funds, and reduce the Company's financial expenses, on January 29, 2019, the Board of Directors of the Company reviewed and approved the Company's use of some idle supporting raised funds to temporarily supplement working capital, with a total amount of RMB 200 million. The period of use shall not exceed 12 months from the date of approval by the Board of Directors of the Company and the funds shall be returned to the special account for raised funds in a timely manner upon expiration.

(1) Xiaolan SMD LED Packaging Technical Upgrade Project

The Xiaolan SMD LED Packaging Technical Upgrade Project was put into production on schedule in September 2016 and began to generate benefits, with no delays. As of **June 30, 2019**, the progress of the use of raised funds for this project was **98.13%**, with **RMB 11.5254** million remaining in the account for raised funds. The main reason why the raised funds were not fully used was that the final payments for some projects and equipment had not been made. The remaining raised funds will be used up within 6 months.

(2) Ji'an SMD LED Packaging Phase I Construction Project

The Ji'an SMD LED Packaging Phase I Construction Project was put into production on schedule in September 2016 and began to generate benefits, with no delays. As of **June 30, 2019**, the progress of use of raised funds for this project was 101.42%, and the raised funds had been fully used. The main reason why the actual investment amount exceeded the committed investment amount was that the interest income generated from the raised funds was invested in the fund-raising investment project.

(3) Xinyu LED Lighting Supporting Components Project

The Xinyu LED Lighting Supporting Components Project was changed from the original fund-raising investment project, the Xinyu LED Application Lighting Phase I Construction Project, in January 2017. As of **June 30, 2019**, the progress of use of the raised funds for this project was **71.47%**, with a remaining balance of **RMB 15,928,400** in the account for raised funds **(RMB 200 million of the raised funds for this project was used as temporary supplementary working capital)**. **This** project has been delayed.

1) Main reasons for the project delay

①The products covered by this project are mainly circuit board products, which are newly developed products of the Company as supporting components for LED lighting, and their product technology and cost control are still being continuously optimized, and it will take time to fully

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utilize production capacity and expand the market. To improve the efficiency of the use of raised funds, the Company has moderately slowed down the pace of production capacity deployment. As of **June 30, 2019**, the investment progress of raised funds for this project was **71.47%**, and the achievement rate of the estimated revenue in the 2018 feasibility study report was 62.46%.

② During the construction of this project, in line with the principle of economy and efficiency, the Company reduced the procurement prices of some equipment through centralized purchasing and decreased the investment in some equipment through design optimization and technological upgrades, thereby lowering the overall construction cost of the project.

2) The delay of this project has gone through the necessary decision-making procedures and information disclosure obligations. The Company made a reasonable estimate of the construction period for this fund-raising investment project, made procedural adjustments as appropriate, and fulfilled its information disclosure obligations. The details are as follows:

The Special Report on the Deposit and Actual Use of Raised Funds for the Year 2017, reviewed and approved at the 21st meeting of the third Board of Directors of the Company, disclosed the investment progress and project benefits of the fund-raising investment project. The Xinyu LED Lighting Supporting Components Project includes multiple sub-projects, each with a different date for reaching its intended usable state, and some sub-projects have already reached their intended usable state. In the report, the implementation plan for the Xinyu LED Lighting Supporting Components Project was adjusted, and the remaining raised funds will be gradually invested over the next 2 years (i.e., by the end of 2019).

The independent directors have issued an independent opinion of approval for this report, and the 14th meeting of the third Board of Supervisors and the 2017 Annual Shareholders' Meeting of the Company have reviewed and approved the Special Report on the Deposit and Actual Use of Raised Funds for the Year 2017. The Company has disclosed the aforementioned relevant announcements on CNINFO.

3) Subsequent use plan for the unused raised funds

The remaining raised funds for this project will be substantially used up by the end of 2019, mainly for expenditures on equipment payments. If there are any remaining raised funds at the end of this project, they will be used to supplement the Company's working capital.

In summary, as of **June 30, 2019**, the overall fund utilization progress for the Company's fund-raising investment projects funded by private placement was **90.75%**, and the vast majority of the raised funds had been used up.

3. The fund-raising investment project funded by the 2018 restructuring supporting raised funds has been converted into the fund-raising investment project funded by this convertible bond issuance

In addition to paying for restructuring charges, the Company planned to raise RMB 1.13 billion for the construction of the Yiwu LED Lighting Product Production Project through the restructuring supporting raised funds for the 2018 fund-raising investment project. However, only RMB 321 million was actually raised, and have remained unused as of the date hereof. Considering the significant funding gap for the project construction, to improve the use efficiency of the raised funds, and taking into account the latest developments in the downstream market, the Company has changed the original fund-raising investment project, the Yiwu LED Lighting Application Product Project, to the fund-raising investment project of this convertible bond issuance, the Yiwu Automated LED Lighting Product Production Project.

In addition to the filament lamp products planned for production under the original fund-raising investment project, the Yiwu Automated LED Lighting Product Production Project has

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added lighting products such as LED bulbs, LED tubes, and LED panel luminaires, while also increasing the automation level of the production lines. After the change, the total project investment amount increased from RMB 1,286,862,100 to RMB 1,347,199,700. In addition to the RMB 321 million and related interest raised from the original fund-raising investment project, the Company plans to raise RMB 901,612,400 through the issuance of convertible bonds, with the remainder to be funded by its self-owned funds.

(II) Based on the above condition, explain whether the fund utilization and project construction schedule of this fund-raising investment project are prudent and reasonable

1. Xiaolan High-performance LED Packaging Product Production Project

This project site is located in the existing plant at No. 1 No. 1 Mls Avenue, Xiaolan Town, Zhongshan, with an estimated construction period of 12 months. The main construction scope includes plant renovation, equipment purchase, installation and commissioning, as well as employee recruitment and training. The specific construction schedule is as follows:

Project implementation scope	**Project construction period (12 months)**											
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Plant renovation												
Equipment purchase, installation, and commissioning												
Employee recruitment and training												

Based on the schedule of the construction period, the fund utilization progress for this fund-raising investment project is shown in the table below:

Unit: RMB 10,000

Item	**Fund utilization progress**	
	T~T+6	**T+7~T+12**
1. Investment in construction projects and equipment		
1.1 House decoration costs	5,583.21	-
1.2 Equipment purchase and installation costs	-	65,485.53
1.3 Rent during the construction period	634.74	634.74
2. Contingencies	-	2,132.06
3. Initial working capital	-	8,280.00
Total		**82,750.27**

This project involves renovation and construction of the Company's existing plant, and equipment installation and commissioning. The high-performance SMD, special SMD, and COB products to be manufactured represent product innovation and technological upgrading based on the existing SMD LED products. The Company has mastered the technologies and process flows related to the production of the above-mentioned products, and has conducted small-batch trial production, thus possessing the technical and market foundation. This fund-raising investment project, without the need for plant infrastructure construction, has a 12-month construction period, and fully allows for the market demand and production schedule for related products when the project is put into operation, ensuring that sufficient orders are provided to cover the released

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production capacity during the production process.

This project has been fully discussed and planned by the Company's management, and the schedule for the use of raised funds and project construction is prudent and reasonable.

2. Xiaolan LED Power Supply Production Project

This project site is located in the existing plant at No. 1 No. 1 MLS Avenue, Xiaolan Town, Zhongshan, with an estimated construction period of 12 months. The main construction scope includes plant renovation, equipment purchase, installation and commissioning, as well as employee recruitment and training. The specific construction schedule is as follows:

Project implementation scope	Project construction period (12 months)											
	1	2	3	4	5	6	7	8	9	10	11	12
Plant renovation												
Equipment purchase, installation, and commissioning												
Employee recruitment and training												

Based on the schedule of the construction period, the fund utilization progress for this fund-raising investment project is shown in the table below:

Unit: RMB 10,000

Item	Fund utilization progress	
	T～T+6	T+7～T+12
1. Investment in construction projects and equipment		
1.1 House decoration costs	1,995.79	-
1.2 Equipment purchase and installation costs	-	24,776.00
1.3 Rent during the construction period	230.07	230.07
2. Contingencies	-	803.15
3. Initial working capital	-	4,220.28
Total		**32,255.36**

This project involves renovation and construction of the Company's existing plant, and equipment installation and commissioning. The products to be manufactured include Christmas light power supplies, lighting power supplies, copper wire light power supplies, diffuse reflection light strip power supplies, and panel luminaire power supplies. The Company possesses the technology and process conditions for the production of the aforementioned products and has already manufactured them. This fund-raising investment project, without the need for plant infrastructure construction, has a 12-month construction period, and fully allows for the market demand and production schedule for related products when the project is put into operation, ensuring that sufficient orders are provided to cover the released production capacity during the production process.

This project has been fully discussed and planned by the Company's management, and the schedule for the use of raised funds and project construction is prudent and reasonable.

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(II) Necessity, rationality, and feasibility of the construction of this fund-Raising investment project

1. Background and favorable conditions for the construction of the fund-Raising investment project

(1) The lighting industry is still in the process of transitioning from traditional lighting to LED lighting, and LED light sources are expected to completely replace all traditional light sources in the future.

LED lighting is currently the most important application field for LED products. LED luminaires have advantages such as energy efficiency, environmental friendliness, and long service life, and they are gradually replacing traditional luminaires in applications ranging from outdoor decoration and engineering lighting to household lighting. As people's lighting needs diversify, LEDs offer unparalleled performance advantages in the lighting field for home, commercial, or special lighting due to their stable, continuous, efficient, and uniform operating state, as well as their versatile, flexible, and lightweight product characteristics.

Currently, the lighting industry is still in the process of transitioning from traditional lighting to LED lighting. There is still significant room for improvement in the penetration rate of LED lighting. Benefiting from the ban on the sale/use of incandescent lamps and the continuous price reduction of LED lighting products, the market penetration rate of LED lighting will further increase in the future. The replacement of traditional lighting with LED lighting is divided into three stages: the first stage is light source replacement, the second stage is integrated luminaire replacement, and the third stage is the development towards more high-end, intelligent, and innovative products. As the consumption level of human society increases, the demand for high-end, intelligent, and aesthetically pleasing innovative products is constantly rising. Even if the first two stages of replacement are getting closer to an end, the third stage of replacement still holds considerable potential.

In the future, with the continuous improvement of LED luminous efficacy, the cost reduction of chips and other consumables, and the driving force of economies of scale, the overall cost of LED luminaires will continue to decline. LED lighting products are expected to fully replace all traditional light sources.

(2) Global LED packaging production capacity is concentrating in China, and market concentration continues to rise following a major shakeup

LEDinside statistics show that China's share of LED packaging output value reached 21% in 2015, ranking first in the world for the first time. After more than a decade of development, China has become the world's manufacturing center for LED packaging devices. International giants are gradually concentrating their OEM orders with Chinese manufacturers, leading to the aggregation of global packaging production capacity in China. The market size and output value growth rate of China's LED packaging market are significantly higher than the global market, making it the global center for LED packaging production capacity. The main driving forces for the gradual expansion of China's packaging market come from, on the one hand, the continuous aggregation of global production capacity, and on the other hand, the continuous development and growth of downstream application markets such as general lighting, automotive lighting, commercial lighting, and special lighting.

(3) Support from national industrial policies promotes the rapid development of the LED industry

Since 2009, China has introduced a number of policies to support and encourage the development of the LED industry. For example, in April 2009, the Ministry of Science and Technology issued the Reply on Approving the Launch of the 'Ten Cities, Ten Thousand Lamps'

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Pilot Program for Lighting Applications," and in September of the same year, six ministries and commissions, including the National Development and Reform Commission and the Ministry of Science and Technology, issued the Opinions on the Development of the Semiconductor Lighting Energy-Saving Industry.

In November 2011, the National Development and Reform Commission released the China's Roadmap for Phasing Out Incandescent Lamps, and decided to officially implement the ban on incandescent lamps from October 1, 2012. On May 16, 2012, the State Council even decided to arrange a subsidy of RMB 2.2 billion to support the promotion of LED and energy-saving luminaires.

In February 2013, six ministries and commissions, including the National Development and Reform Commission and the Ministry of Science and Technology, issued the Semiconductor Lighting Energy-Saving Industry Plan, according to which the output value of the LED lighting energy-saving industry is expected to grow at an average annual rate of about 30%, reaching RMB 450 billion in 2015, of which LED lighting application products will amount to RMB 180 billion. The proportion of LED lighting products among all types of lighting products in use nationwide increased from 0.2% in 2010 to 20% in 2015.

In May 2015, the State Council issued Made in China 2025, deploying a comprehensive strategy to promote the implementation of building a strong manufacturing country. Made in China 2025 proposes to accelerate the development of intelligent manufacturing equipment and products, and to coordinate the layout and promotion of R&D and industrialization of smart home appliances and smart lighting electrical appliances.

In December 2016, the National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Industry and Information Technology, and the Ministry of Environment Protection jointly issued the 13th Five-Year Plan for the Development of Energy Conservation and Environmental Protection Industries, which proposed to promote the development of the semiconductor lighting energy-saving industry, accelerate the R&D of key technologies such as large-size epitaxial chip preparation and integrated packaging, expedite the industrialization of silicon-substrate LED technology, promote the industrialization of key materials and equipment such as high-purity metal-organic compounds (MO sources) and production-type metal-organic chemical vapor deposition (MOCVD) equipment, support the development of LED intelligent system technology, significantly improve the energy efficiency of major energy-consuming home appliances such as air conditioners, refrigerators, televisions, and water heaters, and accelerate the promotion and application of general technologies such as intelligent control and low standby power consumption.

In July 2017, the National Development and Reform Commission and 12 other ministries and commissions jointly issued the 13th Five-Year Development Plan for the Semiconductor Lighting Industry, which sets the following goals: by 2020, China will achieve continuous breakthroughs in key semiconductor lighting technologies, constantly improve product quality, continuously optimize the product structure, steadily expand the industrial scale, and gradually increase industrial concentration, forming at least one LED lighting enterprise with a sales amount exceeding RMB 10 billion, and cultivating 1-2 internationally renowned brands, and about 10 domestically renowned brands.

The Minamata Convention on Mercury, which took effect on August 16, 2017, requires China to phase out the production and use of mercury-containing batteries and fluorescent lamps from 2021.

The continuous support from national industrial policies provides the domestic LED industry with favorable market prospects, and the industry is expected to maintain rapid growth in the future.

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2. Necessity of the construction of fund-raising investment projects

(1) Further consolidate the Company's leading position in LED packaging and achieve its strategic planning

The Company has been focusing on the R&D, production, and sales of LED packaging and application products. As a leading domestic supplier of LED packaging and application products, its offerings are widely used in indoor and outdoor lighting, decorative lighting, landscape lighting, consumer electronics, traffic signals, flat panel displays, and lighting projects. Currently, the Company's sales revenue from LED packaging products ranks first among A-share listed companies in China, making it the largest LED packaging and application manufacturer in China.

The Company predicts that the next few years will be a critical period for the development of the LED industry. Some small-scale and less competitive LED enterprises will be gradually eliminated, while large-scale enterprises will seize a larger market share by virtue of their technological and cost advantages. To seize this development opportunity, the Company will, in the future, further leverage its advantages in large-scale production, technical R&D, extensive product series, and stable customer resources. It will firmly grasp industry development opportunities, continuously expand the production capacity and sales scale of its various products, and further solidify its leading position in the LED packaging industry.

(2) Keeping pace with the continuous technological upgrades in the industry and enhancing the Company's competitiveness

In terms of technology and craftsmanship in China's entire LED industry, the core technologies for upstream chips and epitaxial wafers are mainly monopolized by foreign giants, but the gap between the domestic packaging process level and the international level is not significant. The technology of domestic packaging companies in certain fields even surpasses that of foreign enterprises. Currently, the mainstream LED packaging types include Lamp, SMD, power, COB, CSP, etc. COB packaging involves packaging chips directly onto the module. The packaging process must be carried out in a clean room. When the yield rate is under control, it features small size and low cost. As a new packaging technology, its packaging process is much simpler than that of SMD, especially by eliminating the reflow soldering process. Under high-temperature conditions, the different expansion coefficients of SMD lamp bead lead frames and epoxy resin can easily cause cracks, which significantly increases the defect rate. Additionally, the COB processing technology does not require reflow soldering, effectively avoiding the non-illuminating lamp phenomenon; In addition, it protects the light-emitting diodes and enhances their resistance. COB integrated light sources are widely used in the commercial lighting field and favored by many LED packaging manufacturers due to their ease of dimming and color tuning, anti-glare, and high brightness.

The Flip-Chip COB products manufactured by the Company combine high thermal conductivity aluminum substrates, high thermal conductivity solder paste, and industry-leading flip-chip LED chips. Multiple flip-chip LED chips are integrated on the substrate to achieve higher brightness output within a limited space, while ensuring uniform light emission with no spots and pure light color. The wire-free packaging provides higher reliability and stability, the flip-chip design offers excellent heat dissipation, and the integrated design facilitates installation; The products are diverse and customizable, suitable for various lighting products such as downlights, spotlights, floodlights, stage lights, track lights, and high bay lights, covering fields like commercial lighting, office lighting, industrial lighting, and residential lighting. The Xiaolan High-performance LED Packaging Product Production Project is a necessary step to keep up with the continuous technological upgrades in the industry and enhance the Company's competitiveness.

(3) Enrich the Company's product structure and create new profit growth points

LED driver power supplies are directly related to the lifespan and performance stability of

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LED application products, while copper wire lights and diffuse reflection light strips are LED products for smart city applications. Driven by domestic strategies such as "Made in China 2025", emerging fields like the IoT and smart cities are developing rapidly. As the application scope and penetration rate of the LED industry increase, digitalization and intelligence will become the main development direction for the LED industry. The application of integrated and intelligent LED driver power supplies, copper wire lights, and diffuse reflection light strips has also become the core and foundation for the intelligent development of the LED industry and the promotion of LED products in the commercial sector.

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3. Rationality of the construction of the fund-raising investment project

(1) The construction investment expenditures for this fund-raising investment project are reasonable

The plant, auxiliary rooms, and dormitories used for the construction of the Xiaolan High-performance LED Packaging Product Production Project and the Xiaolan LED Power Supply Production Project are leased from the parent company, MLS; Renovation costs are calculated by multiplying the area by renovation costs per m^2, with renovation costs based on market prices; The equipment purchase and installation cost is calculated as the product of the market price and the quantity planned for this fund-raising investment project; Contingencies are calculated at 3% of the sum of house renovation costs and equipment purchase and installation costs; Initial working capital is calculated at 30% of the working capital to be recovered in the last year of the predicated operating period.

The construction costs for the main works of the plant, office building, auxiliary rooms, and dormitories for the Yiwu Automated LED Lighting Product Production Project are calculated by multiplying the area by the construction cost per m^2, with construction costs based on the market price; Land use rights are acquired at the market price; Renovation costs are calculated by multiplying the area by renovation costs per m^2, with renovation costs based on market prices; The equipment purchase and installation cost is calculated as the product of the market price and the quantity planned for this fund-raising investment project; Contingencies are calculated at 3% of the sum of house renovation costs and equipment purchase and installation costs; Initial working capital is calculated at 30% of the working capital to be recovered in the last year of the predicated operating period.

Therefore, the construction investment expenditures for this fund-raising investment project are reasonable.

(2) The investment scale of this fund-raising investment project is reasonable. For the rationality of the investment scale of this fund-raising investment project, please refer to "(III) Rationality of the investment scale of this fund-raising investment project under "I. Explain the construction details and investment composition of the fund-raising investment project; indicate whether it constitutes capital expenditures; specify whether any investment was made before the meeting of the Board of Directors; and explain the rationale for the investment scale of the fund-raising investment project."

In summary, the construction of this fund-raising investment project is reasonable.

4. Feasibility analysis of the construction of the fund-raising investment project

(1) The project conforms to national industrial policies and has broad market prospects

Driven by the global implementation of energy conservation and environmental protection concepts and the support of industry policies in various countries, the global LED market has maintained relatively rapid growth in recent years. With the continuous advancement of LED technology and the gradual expansion of downstream application fields, especially the rapid development of the LED lighting market, the entire global LED industry has continued its growth momentum.

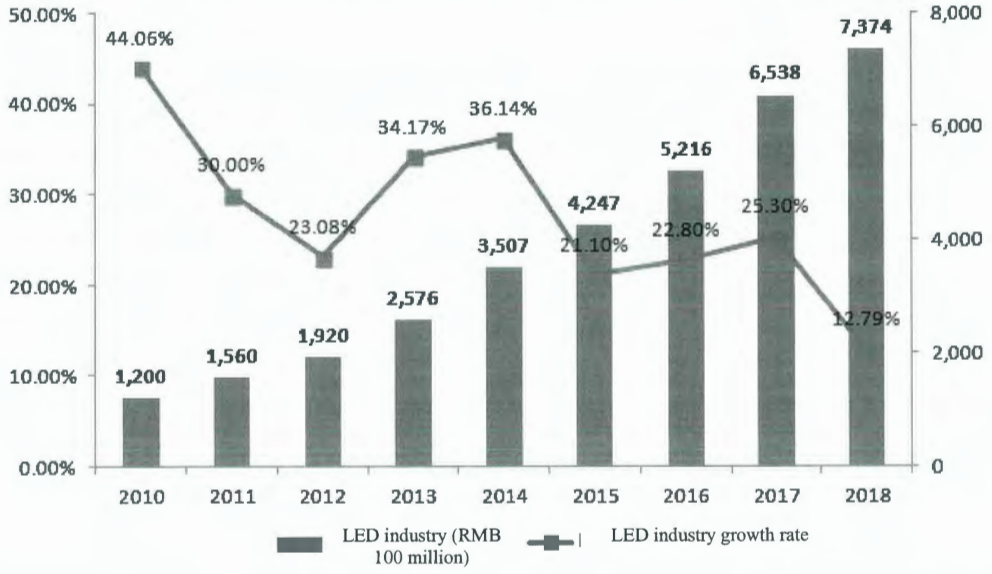
Currently, LEDs have been gradually well-applied and promoted in China in fields such as general lighting, backlight sources, landscape lighting, display screens, traffic signals, automotive lighting, and consumer home electronics. After experiencing a developmental trough in 2015 and a slow recovery in 2016, the global economy continued its recovery trend in 2017, with major economies expanding continuously and global economic and trade activities showing signs of recovery. Driven by factors such as a significant improvement in external demand, the combined

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efforts of new and old growth drivers, and the advancement of supply-side structural reform, China's economy has seen a notable upswing in prosperity. Amid an overall positive external environment, China's semiconductor lighting industry re-entered a fast track of development in 2017, with its industrial scale continuously expanding. In terms of output value, statistics from CSA Research show that, the total output value of China's semiconductor lighting industry, including chips, packaging, and applications, reached RMB 653.8 billion in 2017, a 25.30% growth rate over 2016. The growth rate rebounded significantly from the previous two years, mainly due to factors such as the retreat of international manufacturers, an increase in OEM orders, the alleviation of structural overcapacity, sustained growth in downstream demand, improved supply-demand relationships across the entire industry chain, and stabilization of product prices; **In 2018, the total output value of China's semiconductor lighting industry, including chips, packaging, and applications, reached RMB 737.4 billion, a 12.79% growth rate over 2017.**

Overall scale and growth rate of China's LED industry



Data source: CSA Research

The raised funds will be invested in the fields of SMD LED packaging and LED application lighting, which are in line with the encouraging direction of national industrial policies and have broad market prospects.

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(4) The key economic indicators of the project are good, and the benefits are good. The fund-raising investment project is in line with national industrial policies and the Company's development strategy, and all key economic and technical indicators are good,

with high expected returns.

(III)Explanation of measures to absorb new production capacity, in conjunction with the existing production capacity utilization rate, sales/output ratio, etc.

1. Production capacity utilization rate and sales/output ratio of the Company's key products

During the reporting period, the production capacity utilization rate and sales/output ratio of the key products of MLS Headquarters were as follows:

Item		January-June 2019	2018	2017	2016
SMDLED	Output	**294,156**	608.392	406,739	273,754
(millions of units)	Production capacity	**368,605**	737,211	436,866	294,359
	Sales volume	**234,144**	540,232	395,667	275,849
	Production capacity utilization rate	**80%**	83%	93%	93%
	Sales/output ratio	**80%**	89%	97%	101%
Lamp LED (millions of units)	Output	**20,552**	49,140	42,752	44,436
	Production capacity	**25,100**	50,201	44,426	48,300
	Sales volume	**19,390**	48,698	45,086	44,212
	Production capacity utilization rate	**82%**	98%	96%	92%
	Sales/output ratio	**94%**	99%	105%	99%
LED lighting products (millions of units)	Output	**107**	229	199	127
	Production capacity	**129**	259	235	144
	Sales volume	**77**	218	206	126
	Production capacity utilization rate	**83%**	88%	85%	88%
	Sales/output ratio	**71%**	95%	104%	99%

LEDVANCE's LED application products are mainly produced through ODM by contract factories, and its production capacity and output have great flexibility.

The products of this fund-raising investment project include high-performance SMD LED packaging and LED lighting products. The current production capacity utilization rate of the Company's LED lighting products is saturated, and LEDVANCE's LED application products are mainly produced through OEM. It is necessary to expand the production capacity of LED lighting products through this fund raising. High-performance SMD LED packaging differs from the

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Company's original ordinary SMD LED products in terms of process and technology, and high-performance SMD LED products cannot be produced using the Company's existing production capacity. New production lines are required for production.

2. Measures for absorbing new production capacity

During the reporting period, the Company was in good operating condition. As its business scale continues to expand, the existing production lines and production capacity are basically at a high load, which cannot fully meet the needs of the Company's future business development. Therefore, the Company plans to raise funds to increase investment and expand the production capacity of high-performance LED packaging, LED lighting applications, and supporting power supplies. The measures for absorbing the new production capacity after the completion of the fund-raising investment projects are as follows:

(1) Measures for absorbing the production capacity of the Xiaolan High-performance LED Packaging Product Production Project

1) Status of outstanding orders and letters of intent

As of the signing date of the reply to the feedback, the status of orders being executed and orders of intent for the Company's high-performance LED and related products is as follows:

Unit: RMB 10,000

Measures for absorbing production capacity	Amount of ongoing orders	Amount of letters of intent
External sales (existing ordinary SMD LED products)	**35,000.00**	**88,000.00**
External sales (high-performance LED packaging products)	**16,800.00**	**48,000.00**
Total	**51,800.00**	**136,000.00**

In terms of sales orders, the value of ongoing orders for ordinary SMD LED products is approximately RMB **350** million, and the value of letters of intent is approximately RMB **880** million. The market demand for some ordinary SMD LED products will be converted into demand for high-performance LED packaging products in the future; The current amount of ongoing orders for high-performance LED packaging products is approximately **RMB 168** million, and the amount of letters of intent is approximately **RMB 480** million. According to the Company's cooperation practice with customers, after reaching a cooperation intention, customers will place order plans with the Company from time to time via fax and email in line with their own production schedule. Upon confirmation by both parties, the Company will arrange production based on the order situation, and the order delivery time is generally around 30 days.

This fund-raising investment project is a technical and performance upgrade based on the original LED packaging products, aiming to produce LED packaging products with higher performance and more special uses. The Company is the largest LED packaging enterprise in China and has long-term and stable cooperative relationships with many domestic LED application manufacturers and distributors. The products related to the fund-raising investment project already have some outstanding orders and letters of intent, and the orders are stable and showing a steady increasing trend. In addition, after the fund-raising investment project is completed and put into operation, part of the new production capacity will be used to support the Yiwu Automated LED Lighting Product Production Project. Calculation results show that, the total annual demand for high-performance LED packaging products from the Yiwu Automated LED Lighting Product Production Project will be approximately RMB 300 million when it reaches the full production capacity. In summary, after this fund-raising investment project is completed and reaches the full

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production capacity, there is a good customer base for the consumption of the new production capacity.

2) The Company is continuously increasing marketing efforts. The Company has a large and growing customer base, and the customer cooperation is relatively stable.

Since its establishment, the Company has been operating in the LED packaging and application fields, continuously strengthening the concept of "service-oriented sales", dispatching resident staff to important customers, and actively providing various technical and information services to customers, thus accumulating a large number of high-quality, long-term cooperative customers, and the Company's products have been highly recognized and praised by the above customers; The Company's current customer resources are stable and increasing year by year, and the Company maintains good cooperative relationships with its customers.

The products of this fund-raising investment project represent the Company's efforts to innovate and adapt to the development trend of the industry by building on its existing product portfolio. In the future, the Company will further expand its customer resources based on serving existing customers well, and strengthen the development of new domestic and foreign customers while maintaining and increasing the sales scale of existing customers; The Company will actively invest in application fields such as commercial lighting and special lighting to further increase the sales scale of LED packaging products.

3) The LED market has large potential, and the fund-raising investment project has a market foundation for production capacity consumption

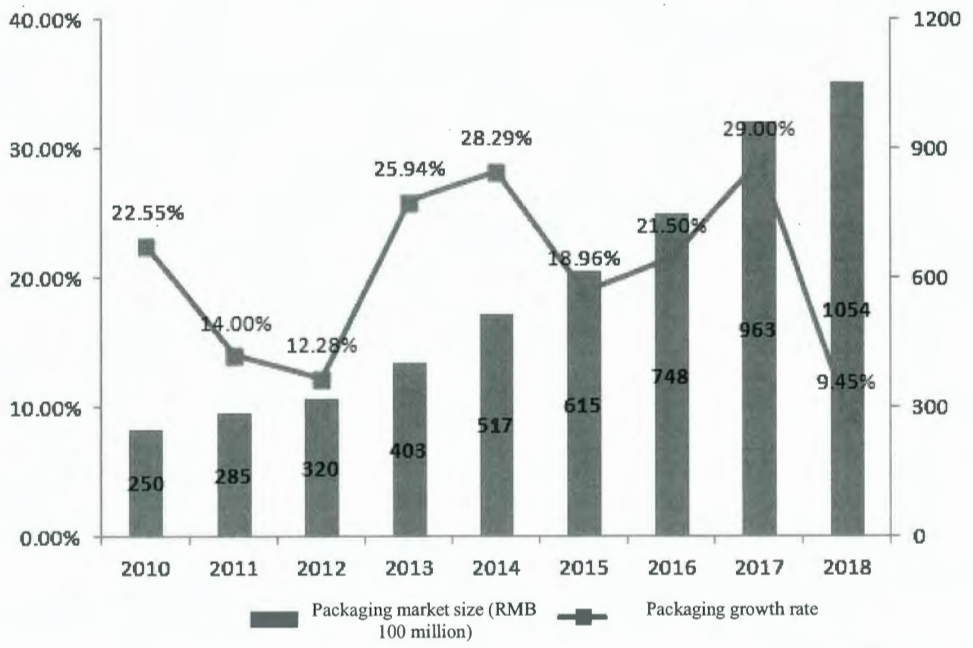
Driven by factors such as the broad downstream application market, the scale of the domestic LED packaging industry has continued to expand. At the same time, international LED companies have gradually shifted to China in recent years. In the process of competing with various foreign-funded packaging enterprises, domestic packaging enterprises have continuously matured their technology, and some mature enterprises have also made major breakthroughs in high-end packaging technology. With the continuous improvement and accumulation of process technology, domestic LED packaging enterprises have gradually increased their market share in the high-end packaging field and their competitive strength has been constantly enhanced.

With the support of favorable industrial policies and continuous technological innovation, the LED packaging industry has grown rapidly along with the LED industry. CSA Research data statistics show that, in 2017, the output value of the domestic LED packaging industry reached RMB 96.3 billion, a growth rate of 29.00% over 2016; **In 2018, the output value of the domestic LED packaging industry reached RMB 105.4 billion, a growth rate of 9.45% over 2017.**

Domestic LED Packaging Market Size and Growth Rate

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Data source: CSA Research

(2) Measures for the consumption of production capacity of the Xiaolan LED Power Supply Production Project

1) Status of outstanding orders and letters of intent

As of the date of signing the reply to the feedback, the status of ongoing orders and letters of intent for the Company's externally sold LED power supply products is as follows:

Unit: RMB 10,000

Measures for absorbing production capacity	Amount of ongoing orders	Amount of letters of intent
External sales	**3,288.00**	8,000.00

In terms of sales orders, the current amount of ongoing export orders for the Company's LED power supply products is approximately **RMB 32.88** million, and the amount of letters of intent is approximately RMB 80 million. After reaching a cooperation intention with a customer, the Company arranges production based on the order. The delivery period for most of ongoing orders is around 60 days, and the goods for most of the letters of intent are expected to be delivered by the end of December 2019.

The products manufactured from the Xiaolan LED Power Supply Production Project are LED driver power supplies, including Christmas light power supplies and lighting power supplies (such as copper wire light power supplies, diffuse reflection light strip power supplies, and panel luminaire power supplies). LED driver power supplies are indispensable components for producing LED application products. Since its establishment, some of the Company's products have held a high market share in application product fields such as decorative lighting. In the future, the Company will fully leverage its advantages in LED packaging channels to further enhance the sales efforts for its power supply products and expand its sales scale; Meanwhile, the proportion of the Company's lighting application products has been increasing rapidly since 2017, especially after the successful completion and operation of the Yiwu Automated LED Lighting Product Production Project, one of the fund-raising investment projects. The demand for LED driver power supplies as raw materials in production will also continue to grow as the production capacity of LED lighting

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application products expands. In addition to external sales, a portion of the new production capacity of LED driver power supplies will be used to meet the demand for raw materials in the production of LED lighting application products.

The Company's calculation results show that the cost of LED driver power supplies accounts for about 20% of the operating costs of lighting application products. Currently, the LED driver power supplies for the lighting application products of MLS Headquarters are mainly sourced through external procurement, with a low self-production rate. Based on the Company's total costs and cost structure for lighting application products in 2018, the current total demand for LED driver power supplies to support its own business is approximately RMB 220 million. In addition, based on the proportion of operating costs and power supply costs calculated in the feasibility study report, the Yiwu Automated LED Lighting Product Production Project will generate a new demand for LED driver power supplies of approximately RMB 270 million when it reaches the full production capacity.

2) Sales through the Company's existing sales channels

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In summary, some products from this fund-raising investment project will be used to support the Company's own products. Currently, there are also some external sales orders and letters of intent. The Company will leverage its existing sales channels for sales. After the fund-raising investment project is completed and reaches the full production capacity, there is a good customer base for absorbing the new production capacity.

3) Market basis: general Lighting, landscape lighting, and display **are the three major markets in the LED application field**

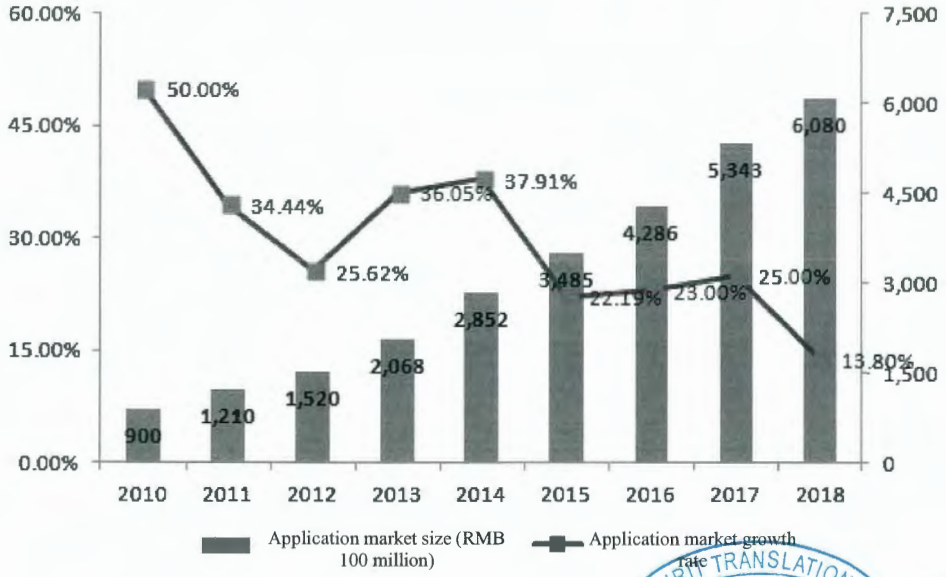
The main applications of LED include general lighting, backlighting, landscape lighting, display screens, signal indication, and other application fields. Statistics from CSA Research show that, **in 2018, general lighting, landscape, and display were still the three major markets in the LED application field, and the overall industry scale of the LED application segment reached RMB 608 billion, a growth rate of 13.80% compared to 2017.**

From the perspective of various segments of LED applications, LED general lighting is still the main driving force for market development. **In 2018, the output value of China's general lighting market reached RMB 267.9 billion, a growth rate of 5.02% over the previous year, accounting for 44.2% of the application market.**

The popularity of landscape lighting is **becoming more rational. In recent years, benefiting from large-scale conferences and cultural events, the popularity of the urban landscape lighting market has continued to rise. In 2018, the popularity of municipal lighting, urban light shows, and cultural and creative tourism gradually became more rational. The annual output value of landscape lighting reached RMB 100.7 billion, second only to general lighting, representing a 26% increase over the previous year and accounting for 16.5% of the application market.**

Display applications continue to gain momentum, with accelerated penetration of LED display screens in the rental market, indoor hotel conferences, retail, transportation, and education. Ultra-fine-pitch display screens are the main market driver. In 2018, the output value of LED display screens was RMB 94.7 billion, an increase of 30.2% over the previous year, accounting for 15.6% of the application market.

Overall Size and Growth Rate of the Domestic LED Application Market



Source: CSA Research

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Benefiting from the rapid increase in the penetration rate of LED general lighting and the continuous increase in application scenarios, China's LED general lighting industry has maintained high-speed growth. **Statistics from CSA Research show that, in 2018, the output value of China's general lighting market reached RMB 267.9 billion, an increase of 5.02% over the previous year, accounting for 44.2% of the application market. Specifically, the growth of alternative light source products has slowed, but value-added products and system services such as featured luminaires and special lighting still show strong performance. By region, sales in first- and second-tier cities and southeastern regions have declined, while markets in third- and fourth-tier cities and eastern and western regions have maintained growth. In terms of different segments, the growth of light source manufacturing is weak, while luminaire companies with strong design capabilities, access to channel resources, and brand advantages have maintained growth against the trend.**

Overall Market Size and Growth Rate of China's General Lighting Market



Data source: CSA Research

In the general lighting market, the main segments are home lighting and commercial lighting (offices, shops, industrial facilities, etc.). According to McKinsey's Global Lighting Market Report 2012, the home market accounts for 39% of the lighting market size, while in commercial lighting, the downstream markets of offices, industrial facilities, and shops account for 19%, 6%, and 10% respectively, with others (outdoor, hospitals, etc.) accounting for 26%. In China's general lighting market, home and commercial lighting are the main drivers of future demand and the primary battleground.

(3) Measures for the absorption of production capacity of the Yiwu Automated LED Lighting Product Production Project

1) Outstanding orders and letters of intent

As of the date of signing the reply to the feedback, the status of ongoing orders and letters of intent for the Company's LED lighting application products is as follows:

Unit: RMB 10,000

Product category	Amount of ongoing orders	Amount of letters of intent
Filament lamps, luminaires	**22,800.00**	80,000.00

In terms of sales orders, the current amount of ongoing orders for LED lighting products of MLS Headquarters (excluding LEDVANCE) is approximately **RMB 228** million, and the amount of letters of intent is approximately RMB 800 million. Most products for the ongoing orders will be

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delivered by the end of **September**, and goods under the letters of intent are expected to be delivered mostly by the end of December 2019. For many years, while consolidating its market position in LED packaging products, the Company has continuously expanded into downstream areas such as lighting applications, and the market scale of its LED lighting application products has been constantly expanding. On the whole, the products related to this fund-raising investment project currently have sufficient outstanding orders and letters of intent, and the orders are stable. After the project is completed and reaches the full production, there will be a good customer base for the consumption of the new production capacity.

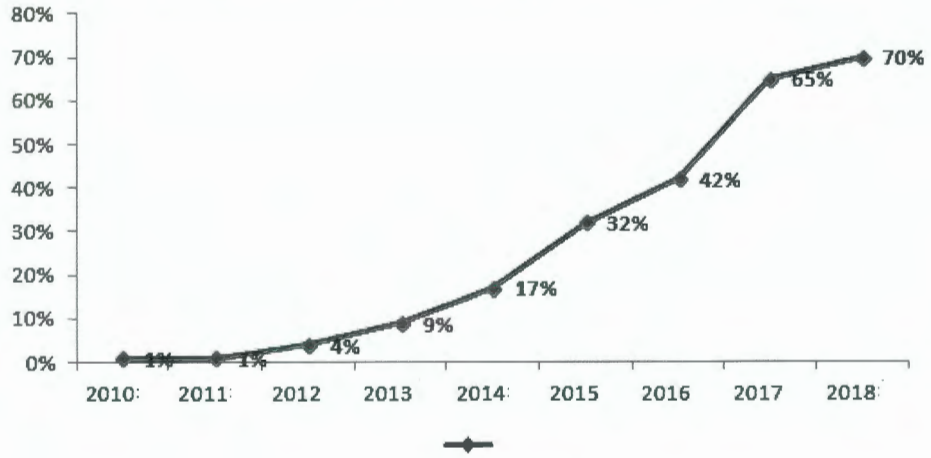
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3) The continuously increasing penetration rate of LED lighting applications provides a good market foundation for the consumption of the production capacity of this project

Benefiting from government restriction policies on traditional lighting and the energy-saving and environmentally friendly features of LED technology, LED lighting is rapidly replacing the traditional lighting market. **Data from the Qianzhan Industry Research Institute show that the global LED lighting market reached USD 62.9 billion in 2018, an increase of 14.2% from the previous year. The global penetration rate of LED lighting increased from 6.6% in 2011 to 42.5% in 2018; Data from CSA Research show that the market size of China's LED lighting market was RMB 255.1 billion and RMB 267.9 billion in 2017 and 2018, representing a year-on-year growth rate of 25.05% and 5.02%, respectively.**

In recent years, with the improvement of LED luminous efficiency, the gradual reduction of overall costs, and the government's vigorous promotion of energy-saving policies, LED general lighting has entered a period of rapid development. The market penetration rate of LED lighting in China has increased rapidly, **rising from 1% in 2011 to 70% in 2018.** It can be seen that although China's LED lighting industry started slightly later than the global market, its development speed in recent years has been much higher than the global average.

Market Penetration Rate of China's LED Lighting Products



Source: CSA Research, TF Securities Research Institute

The filament lamps, light bulbs, light tubes, and panel luminaires produced are general lighting products, primarily used in fields such as home lighting. The Company's products align with industry development trends, offering broad future prospects and a solid market foundation for production capacity consumption.

IV. Explain the process and prudence of the benefit forecast for this fund-raising investment project

(I) Xiaolan High-Performance LED Packaging Product Production Project

1. Expected benefits

The construction period for this project is 12 months, and it will reach the full production capacity in the third year after it is put into operation. During the project's operating calculation period, the average net profit is RMB 114,544,300. The project's estimated financial internal rate of return is 13.91% (after tax), and the investment payback period (including the construction period) is 7.02 years (after tax), indicating good expected economic benefits.

2. Benefit calculation process and prudence analysis

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The benefit forecast for this project after reaching the full production is given in the table below:

Unit: RMB 10,000

Item	Xiaolan High-performance LED Packaging Product Production Project									
	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Operating income	71,875.00	122,962.24	138,000.00	138,000.00	138,000.00	138,000.00	138,000.00	138,000.00	138,000.00	138,000.00
Operating costs	63,482.08	103,067.93	107,847.00	107,847.00	107,847.00	107,847.00	107,847.00	107,847.00	107,847.00	107,847.00
Gross profit	8,392.92	19,894.31	30,153.00	30,153.00	30,153.00	30,153.00	30,153.00	30,153.00	30,153.00	30,153.00
Gross profit margin	11.68%	16.18%	21.85%	21.85%	21.85%	21.85%	21.85%	21.85%	21.85%	21.85%
Business taxes and surcharges	0.00	456.23	1,127.93	1,127.93	1,127.93	1,127.93	1,127.93	1,127.93	1,127.93	1,127.93
Period expenses										
(1) Sales expenses	1,437.50	2,459.24	2,760.00	2,760.00	2,760.00	2,760.00	2,760.00	2,760.00	2,760.00	2,760.00
(2) G&A expenses	6,236.95	10,323.93	11,526.95	11,526.95	11,526.95	11,526.95	11,526.95	11,526.95	11,526.95	11,526.95
Pre-tax total profits	718.47	7,111.14	15,866.05	15,866.05	15,866.05	15,866.05	15,866.05	15,866.05	15,866.05	15,866.05
Income tax	107.77	1,066.67	2,379.91	2,379.91	2,379.91	2,379.91	2,379.91	2,379.91	2,379.91	2,379.91
Net profit	610.7	6,044.47	13,486.15	13,486.15	13,486.15	13,486.15	13,486.15	13,486.15	13,486.15	13,486.15
NPM	0.85%	4.92%	9.77%	9.77%	9.77%	9.77%	9.77%	9.77%	9.77%	9.77%
Average gross profit margin after reaching the full production capacity	21.85%	-	-	-	-	-	-	-	-	-
Average net profit margin after reaching the full production capacity	9.77%	-	-	-	-	-	-	-	-	-

(1) Operating income calculation

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Item	Unit	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
High-performance SMD	**RMB 10,000**	**10,937.50**	**19,368.49**	**21,000.00**	**21,000.00**	**21,000.00**	**21,000.00**	**21,000.00**	**21,000.00**	**21,000.00**	**21,000.00**
Average unit price	RMB/K	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Sales volume	KK	1,093.75	1,936.85	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00
Special SMD	**RMB 10,000**	**35,937.50**	**61,093.75**	**69,000.00**	**69,000.00**	**69,000.00**	**69,000.00**	**69,000.00**	**69,000.00**	**69,000.00**	**69,000.00**
Average unit price	RMB/K	76.67	76.67	76.67	76.67	76.67	76.67	76.67	76.67	76.67	76.67
Sales volume	KK	4,687.50	7,968.75	9,000.00	9,000.00	9,000.00	9,000.00	9,000.00	9,000.00	9,000.00	9,000.00
COB	**RMB 10,000**	**25,000.00**	**42,500.00**	**48,000.00**	**48,000.00**	**48,000.00**	**48,000.00**	**48,000.00**	**48,000.00**	**48,000.00**	**48,000.00**
Average unit price	RMB/K	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00
Sales volume	KK	1,666.67	2,833.33	3,200.00	3,200.00	3,200.00	3,200.00	3,200.00	3,200.00	3,200.00	3,200.00

This project is intended to produce high-performance SMD, special SMD, and COB products. After the project is completed and officially put into production, the sales unit price from year T1 will be reduced by a certain margin with reference to the current market price, taking into account factors such as market competition. Due to the many variables in future market changes and for ease of calculation, the price will remain at the same level during subsequent operating periods after the sales unit price is adjusted downward with reference to the current market price starting from year T1. The sales volume of each product is determined by considering factors such as full production after a gradual ramp-up and the sales/output ratio in years T1-T3. After year T3, full production will be reached, and the sales volume will remain unchanged.

(2) Gross profit margin calculation

1) Calculation data

Products	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Xiaolan high-performance LED packaging products	11.68%	16.18%	21.85%	21.85%	21.85%	21.85%	21.85%	21.85%	21.85%	21.85%

For this project, during the T1–T3 period, considering the gradual improvement in yield and the gradual ramp-up to full production capacity, the gross margin increases year by year. After year T3, it will reach the full production capacity, and the gross profit margin will tend to be stable.

2) Rationality of calculation

Since 2008, the Company has gradually increased its investment and output in SMD LED products, and has achieved economies of scale since 2009. The average gross profit margin of its existing SMD LED products in the last five years is 22.54%. The average gross profit margins of packaging or similar products of listed companies in the same industry, NationStar (002449.SZ), Ledman Optoelectronics (300162.SZ), and Hongli Zhihui (300219.SZ), over the past five years are 24.36%, 28.48%, and 21.35%, respectively. After this fund-raising investment project is completed and reaches the full production capacity, the gross profit margin of the new products will be higher than that of the Company's existing ordinary SMD LED products, without considering other factors.

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Based on the principle of prudence, and with reference to the average gross profit margins of the Company's existing ordinary SMD LED and similar packaging or related products of peer companies in the past five years, as well as the future development trends of the industry, the Company estimates that the gross profit margin of the high-performance LED packaging products from this fund-raising investment project will be 21.85% after reaching the full production capacity.

The gross profit margins of the Company's existing SMD LED packaging products and similar products of listed companies in the same industry in the last 5 years are as follows:

Products	Average	2018	2017	2016	2015	2014
Existing SMD LED products of the Company	22.54%	18.73%	22.51%	24.17%	22.01%	25.30%
NATIONSTAR	24.36%	26.84%	24.98%	22.68%	21.73%	25.59%
Ledman Optoelectronic	28.48%	22.30%	29.03%	30.54%	31.01%	29.54%
HONGLI ZHIHUI	21.35%	22.51%	18.65%	19.66%	22.70%	23.25%

(3) Cost and expense calculation

Unit: RMB 10,000

Item	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Total operating costs	63,482.08	103,067.93	107,847.00	107,847.00	107,847.00	107,847.00	107,847.00	107,847.00	107,847.00	107,847.00
(1) Direct material costs	37,364.49	63,519.64	71,739.82	71,739.82	71,739.82	71,739.82	71,739.82	71,739.82	71,739.82	71,739.82
(2) Direct wages and welfare expenses	7,976.16	13,558.08	15,312.00	15,312.00	15,312.00	15,312.00	15,312.00	15,312.00	15,312.00	15,312.00
(3) Manufacturing costs	18,141.43	25,990.21	20,795.18	20,795.18	20,795.18	20,795.18	20,795.18	20,795.18	20,795.18	20,795.18
Business taxes and surcharges	0.00	456.23	1,127.93	1,127.93	1,127.93	1,127.93	1,127.93	1,127.93	1,127.93	1,127.93
Sales expenses	1,437.50	2,459.24	2,760.00	2,760.00	2,760.00	2,760.00	2,760.00	2,760.00	2,760.00	2,760.00
G&A expenses	6,236.95	10,323.93	11,526.95	11,526.95	11,526.95	11,526.95	11,526.95	11,526.95	11,526.95	11,526.95
Total costs and expenses	**71,156.53**	**116,307.33**	**123,261.88**	**123,261.88**	**123,261.88**	**123,261.88**	**123,261.88**	**123,261.88**	**123,261.88**	**123,261.88**

The operating costs of this fund-raising investment project include direct material costs, direct wages and welfare expenses, and manufacturing expenses; Expenses include: sales expenses and G&A expenses. Among them, direct material costs, including chips, lead frames and kits, and other materials, are calculated based on the Company's historical data and factors such as future market price trends; Direct wages and welfare expenses are calculated based on the project staffing; Manufacturing expenses cover the depreciation of fixed assets and other manufacturing expenses estimated by the Company based on its historical data; Sales expenses and G&A expenses are estimated based on the Company's historical data.

In summary, the Company has estimated the sales price, sales cost, and gross profit margin of each product for the forecast years based on factors such as the sales unit price, sales cost, and gross profit margin of its existing small-batch high-performance SMD, special SMD, and COB products, as well as the estimated selling price, estimated sales cost, and bill of materials for future large-batch shipments. The product sales volume for the forecast years is calculated based on production capacity ramp-up, production capacity utilization rate, and sales/output ratio. The expected benefits

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are calculated based on factors such as market space, production capacity, and sales of existing products. The overall gross profit margin is lower than the historical gross profit level of the Company's LED packaging products, indicating that the calculation is prudent and reasonable.

(II) Xiaolan LED Power Supply Production Project

1. Expected benefits

The construction period for this project is 12 months, and it will reach the full production capacity in the third year after it is put into operation. During the project's operating calculation period, the average net profit is RMB 47.9916 million. The project's estimated financial internal rate of return is 15.15% (after tax), and the investment payback period (including construction period) is 6.59 years (after tax), indicating good expected economic benefits.

2. Benefit calculation process and prudence analysis

The benefit forecast for this project after reaching the full production is given in the table below:

Unit: RMB 10,000

Item	Xiaolan LED Power Supply Production Project									
	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Operating income	36,634.64	58,623.07	70,337.95	70,337.95	70,337.95	70,337.95	70,337.95	70,337.95	70,337.95	70,337.95
Operating costs	32,407.78	49,753.05	57,677.12	57,677.12	57,677.12	57,677.12	57,677.12	57,677.12	57,677.12	57,677.12
Gross profit	4,226.86	8,870.03	12,660.83	12,660.83	12,660.83	12,660.83	12,660.83	12,660.83	12,660.83	12,660.83
Gross profit margin	11.54%	15.13%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Business taxes and surcharges	0.00	268.08	516.75	516.75	516.75	516.75	516.75	516.75	516.75	516.75
Period expenses										
(1) Sales expenses	1,099.04	1,758.69	2,110.14	2,110.14	2,110.14	2,110.14	2,110.14	2,110.14	2,110.14	2,110.14
(2) G&A expenses	2,214.52	3,423.88	4,068.20	4,068.20	4,068.20	4,068.20	4,068.20	4,068.20	4,068.20	4,068.20
Pre-tax total profits	913.30	3,687.45	6,482.49	6,482.49	6,482.49	6,482.49	6,482.49	6,482.49	6,482.49	6,482.49
Income tax	136.99	553.12	972.37	972.37	972.37	972.37	972.37	972.37	972.37	972.37
Net profit	776.30	3,134.33	5,510.12	5,510.12	5,510.12	5,510.12	5,510.12	5,510.12	5,510.12	5,510.12
NPM	2.12%	5.35%	7.83%	7.83%	7.83%	7.83%	7.83%	7.83%	7.83%	7.83%
Average gross profit margin after reaching the full production capacity	18.00%	-	-	-	-	-	-	-	-	-
Average net profit margin after reaching the full	7.83%	-	-	-	-	-	-	-	-	-

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production capacity										

(1) Operating income calculation

Item	Unit	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Christmas light power supply	**RMB 10,000**	**10,376.10**	**16,605.00**	**19,924.45**	**19,924.45**	**19,924.45**	**19,924.45**	**19,924.45**	**19,924.45**	**19,924.45**	**19,924.45**
Average unit price	RMB/Unit	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.30
Sales volume	10,000 units	2,413.20	3,862.00	4,634.00	4,634.00	4,634.00	4,634.00	4,634.00	4,634.00	4,634.00	4,634.00
Lighting source	**RMB 10,000**	**17,056.72**	**27,292.52**	**32,748.78**	**32,748.78**	**32,748.78**	**32,748.78**	**32,748.78**	**32,748.78**	**32,748.78**	**32,748.78**
Average unit price	RMB/Unit	1.22	1.22	1.22	1.22	1.22	1.22	1.22	1.22	1.22	1.22
Sales volume	10,000 units	13,973.50	22,359.00	26,829.00	26,829.00	26,829.00	26,829.00	26,829.00	26,829.00	26,829.00	26,829.00
Copper wire light	**RMB 10,000**	**2,074.90**	**3,319.86**	**3,983.82**	**3,983.82**	**3,983.82**	**3,983.82**	**3,983.82**	**3,983.82**	**3,983.82**	**3,983.82**
Average unit price	RMB/Unit	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Sales volume	10,000 units	80,229.60	128,368.00	154,041.00	154,041.00	154,041.00	154,041.00	154,041.00	154,041.00	154,041.00	154,041.00
Diffuse reflection light strip	**RMB 10,000**	**5,361.44**	**8,577.68**	**10,294.27**	**10,294.27**	**10,294.27**	**10,294.27**	**10,294.27**	**10,294.27**	**10,294.27**	**10,294.27**
Average unit price	RMB/Unit	2.54	2.54	2.54	2.54	2.54	2.54	2.54	2.54	2.54	2.54
Sales volume	10,000 units	2,108.23	3,372.92	4,047.92	4,047.92	4,047.92	4,047.92	4,047.92	4,047.92	4,047.92	4,047.92
Panel luminaire power supply	**RMB 10,000**	**1,765.47**	**2,828.02**	**3,386.64**	**3,386.64**	**3,386.64**	**3,386.64**	**3,386.64**	**3,386.64**	**3,386.64**	**3,386.64**
Average unit price	RMB/Unit	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64
Sales volume	10,000 units	151.70	243.00	291.00	291.00	291.00	291.00	291.00	291.00	291.00	291.00

The Xiaolan LED Power Supply Production Project aims to produce power supplies for Christmas lights, lighting, copper wire lights, diffuse reflection light strips, and panel luminaires. After the project is completed and officially put into production, the sales unit price from year T1 will be reduced by a certain margin with reference to the current market price, taking into account factors such as market competition. Due to the many variables in future market changes and for ease of calculation, the price will remain at the same level during subsequent operating periods after the sales unit price is adjusted downward with reference to the current market price starting from year T1. The sales volume of each product is determined by considering factors such as full production after a gradual ramp-up and the sales/output ratio in years T1-T3. After year T3, full production will be reached, and the sales volume will remain unchanged.

(2) Gross profit margin calculation

1) Calculation data

Products	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10

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Xiaolan LED Power Supply Production Project	11.54%	15.13%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%

For this project, during the T1–T3 period, considering the gradual improvement in yield and the gradual ramp-up to full production capacity, the gross margin increases year by year. After year T3, it will reach the full production capacity, and the gross profit margin will tend to be stable.

2) Rationality of calculation

The Company began small-batch trial production of LED power supply products in 2011 to support its lighting application products. To date, apart from supporting lighting application products of the Company, there have been no large-scale external sales. The main products of listed companies in the same industry, MOSO POWER (002660.SZ) and Inventronics (300582.SZ), are LED power supplies. The gross profit margins for their LED power supplies are shown in the table below. The average gross profit margins for LED driver power supply related products of MOSO POWER and Inventronics over the past five years were 22.42% and 34.58%, respectively. Based on the cost structure and estimated external selling price of its LED power supply products, and with reference to factors such as the current gross profit margins and future gross profit margin changes of comparable listed companies in the same industry, the Company estimates that the gross profit margin of the LED power supply products from the Xiaolan LED Power Supply Production Project will be 18.00% after reaching the full production capacity, which is lower than the gross profit margin of similar products from comparable listed companies in the same industry, indicating a relatively cautious forecast.

The gross profit margins of comparable listed companies in the same industry and the Company's similar products are as follows:

Listed companies	**Average**	**2018**	**2017**	**2016**	**2015**	**2014**
MOSO POWER	22.42%	24.74%	25.63%	24.12%	17.02%	20.59%
Inventronics	34.58%	32.46%	30.73%	35.01%	37.87%	36.83%

(3) Cost and expense calculation

Unit: RMB 10,000

Item	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Total operating costs	32,407.78	49,753.05	57,677.12	57,677.12	57,677.12	57,677.12	57,677.12	57,677.12	57,677.12	57,677.12
(1) Direct material costs	21,959.36	35,134.98	42,161.98	42,161.98	42,161.98	42,161.98	42,161.98	42,161.98	42,161.98	42,161.98
(2) Direct wages and welfare expenses	3,264.24	5,220.00	6,264.00	6,264.00	6,264.00	6,264.00	6,264.00	6,264.00	6,264.00	6,264.00
(3) Manufacturing costs	7,184.18	9,398.07	9,251.15	9,251.15	9,251.15	9,251.15	9,251.15	9,251.15	9,251.15	9,251.15
Business taxes and surcharges	0.00	268.08	516.75	516.75	516.75	516.75	516.75	516.75	516.75	516.75
Sales expenses	1,099.04	1,758.69	2,110.14	2,110.14	2,110.14	2,110.14	2,110.14	2,110.14	2,110.14	2,110.14
G&A	2,214.52	3,423.88	4,068.20	4,068.20	4,068.20	4,068.20	4,068.20	4,068.20	4,068.20	4,068.20

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expenses										
Total costs and expenses	**35,721.34**	**55,203.70**	**64,372.21**	**64,372.21**	**64,372.21**	**64,372.21**	**64,372.21**	**64,372.21**	**64,372.21**	**64,372.21**

The operating costs of this fund-raising investment project include direct material costs, direct wages and welfare expenses, and manufacturing expenses; Expenses include: sales expenses and G&A expenses. Among them, direct material costs, including power supply casings, main control ICs, electronic components, circuit boards, and other consumables, are calculated based on the Company's historical data and factors such as future market price trends; Direct wages and welfare expenses are calculated based on the project staffing; Manufacturing expenses cover the depreciation of fixed assets and other manufacturing expenses estimated by the Company based on its historical data; Sales expenses and G&A expenses are estimated based on the Company's historical data.

In summary, the Company has estimated the sales price, sales cost, and gross profit margin of its LED driver power supply products for the forecast years based on factors such as the sales unit price, sales cost, and gross profit margin of its existing small-batch LED driver power supply products, as well as the estimated selling price, estimated cost, and bill of materials for future large-batch shipments.fa The product sales volume for the forecast years is calculated based on production capacity ramp-up, production capacity utilization rate, and sales/output ratio. The project's expected benefits are calculated based on factors such as market space, production capacity, and sales of existing products. The calculation is relatively prudent and reasonable.

(III) Yiwu Automated LED Lighting Product Production Project

1. Expected benefits

The construction period for this project is 24 months, and it will reach the full production capacity in the third year after it is put into operation. During the project's operating calculation period, the average net profit is RMB 206.0189 million. The project's estimated financial internal rate of return is 11.14% (after tax), and the investment payback period (including the construction period) is 7.41 years (after tax), indicating good expected economic benefits.

2. Benefit calculation process and prudence analysis

Unit: RMB 10,000

Item	Yiwu Automated LED Lighting Product Production Project									
	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Operating income	117,172.90	153,226.10	180,266.00	180,266.00	180,266.00	180,266.00	180,266.00	180,266.00	180,266.00	180,266.00
Operating costs	93,383.81	122,277.01	137,849.41	137,849.41	137,849.41	137,849.41	137,849.41	137,849.41	137,849.41	137,849.41
Gross profit	23,789.09	30,949.09	42,416.59	42,416.59	42,416.59	42,416.59	42,416.59	42,416.59	42,416.59	42,416.59
Gross profit margin	20.30%	20.20%	23.53%	23.53%	23.53%	23.53%	23.53%	23.53%	23.53%	23.53%
Business taxes and surcharges	0.00	686.94	1,603.55	1,603.55	1,603.55	1,603.55	1,603.55	1,603.55	1,603.55	1,603.55
Period expenses										

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(1) Sales expenses	3,194.23	4,284.17	5,040.20	5,040.20	5,040.20	5,040.20	5,040.20	5,040.20	5,040.20	5,040.20
(2) G&A expenses	4,650.98	6,437.89	7,561.28	7,561.28	7,561.28	7,561.28	7,561.28	7,561.28	7,561.28	7,561.28
Pre-tax total profits	15,943.88	20,227.03	29,815.12	29,815.12	29,815.12	29,815.12	29,815.12	29,815.12	29,815.12	29,815.12
Income tax	3,985.97	5,056.76	7,453.78	7,453.78	7,453.78	7,453.78	7,453.78	7,453.78	7,453.78	7,453.78
Net profit	11,957.91	15,170.27	22,361.34	22,361.34	22,361.34	22,361.34	22,361.34	22,361.34	22,361.34	22,361.34
NPM	10.21%	9.90%	12.40%	12.40%	12.40%	12.40%	12.40%	12.40%	12.40%	12.40%
Average gross profit margin after reaching the full production capacity	23.53%	-	-	-	-	-	-	-	-	-
Average net profit margin after reaching the full production capacity	12.40%	-	-	-	-	-	-	-	-	-

(1) Operating income calculation

Item	Unit	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Filament lamp	**RMB 10,000**	**53,968.20**	**70,573.80**	**83,028.00**	**83,028.00**	**83,028.00**	**83,028.00**	**83,028.00**	**83,028.00**	**83,028.00**	**83,028.00**
Average unit price	RMB/Unit	6.29	6.29	6.29	6.29	6.29	6.29	6.29	6.29	6.29	6.29
Sales volume	10,000 units	8,580.00	11,220.00	13,200.00	13,200.00	13,200.00	13,200.00	13,200.00	13,200.00	13,200.00	13,200.00
Bulb	**RMB 10,000**	**11,934.00**	**15,606.00**	**18,360.00**	**18,360.00**	**18,360.00**	**18,360.00**	**18,360.00**	**18,360.00**	**18,360.00**	**18,360.00**
Unit price	RMB/Unit	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Sales volume	10,000 units	4,972.50	6,502.50	7,650.00	7,650.00	7,650.00	7,650.00	7,650.00	7,650.00	7,650.00	7,650.00
Lamp tube	**RMB 10,000**	**13,076.70**	**17,100.30**	**20,118.00**	**20,118.00**	**20,118.00**	**20,118.00**	**20,118.00**	**20,118.00**	**20,118.00**	**20,118.00**
Unit price	RMB/Unit	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20

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Sales volume	10,000 units	3,113.50	4,071.50	4,790.00	4,790.00	4,790.00	4,790.00	4,790.00	4,790.00	4,790.00	4,790.00
Panel luminaire	**RMB 10,000**	**38,194.00**	**49,946.00**	**58,760.00**	**58,760.00**	**58,760.00**	**58,760.00**	**58,760.00**	**58,760.00**	**58,760.00**	**58,760.00**
Unit price	RMB/Unit	52.00	52.00	52.00	52.00	52.00	52.00	52.00	52.00	52.00	52.00
Sales volume	10,000 units	734.50	960.50	1,130.00	1,130.00	1,130.00	1,130.00	1,130.00	1,130.00	1,130.00	1,130.00

This project aims to produce filament lamps, light bulbs, light tubes, and panel luminaire products. After the project is completed and officially put into production, the sales unit price from year T1 will be reduced by a certain margin with reference to the current market price, taking into account factors such as market competition. Due to the many variables in future market changes and for ease of calculation, the price will remain at the same level during subsequent operating periods after the sales unit price is adjusted downward with reference to the current market price starting from year T1. The basis for calculating revenue and cost is consistent with the above. The sales volume of each product is calculated based on factors such as the production ramp-up progress, production capacity utilization rate, and sales/output ratio from year T1 to T3. After year T3, the full production capacity will be reached, and the sales volume will remain unchanged.

(2) Gross profit margin calculation

1) Calculation data

Products	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
LED lighting products from Yiwu	20.30%	20.20%	23.53%	23.53%	23.53%	23.53%	23.53%	23.53%	23.53%	23.53%

For this project, during the T1–T3 period, considering the gradual improvement in yield and the gradual ramp-up to full production capacity, the gross margin increases year by year. After year T3, it will reach the full production capacity, and the gross profit margin will tend to be stable.

2) Rationality of calculation

The key products of the Company's Yiwu Automated LED Lighting Product Production Project include LED filament lamps, LED bulbs, LED tubes, and LED panel luminaires. The average gross profit margin of LED products from the Company's wholly-owned subsidiary, LEDVANCE, over the past four years was 23.99%. Listed companies in the same industry with main products covering LED luminaires and related products are OPPLE Lighting (603515.SH), Foshan Lighting (000541.SZ), SUNSHINE Lighting (600261.SH), PAK (300625.SZ), and TAILONG Lighting (300650.SZ). The average gross profit margins of LED luminaires and related products of the aforesaid companies in the last five years were 38.52%, 21.99%, 25.95%, 33.37%, and 37.58%, respectively. With reference to the gross profit margins of similar products of LEDVANCE and listed companies in the same industry in recent years and future trends in gross profit margins, the Company's projected gross profit margin of the key products of the Yiwu Automated LED Lighting Product Production Project is 23.53% after reaching the full production capacity, which is lower than the gross profit margin of the Company's existing products and similar products of listed companies in the same industry, indicating a relatively cautious forecast.

The gross profit margins of similar products of LEDVANCE and listed companies in the same industry are as follows:

Company	Average	2018	2017	2016	2015	2014

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LED products from LEDVANCE	23.99%	24.55%	24.67%	26.13%	20.61%	-
OPPLE Lighting	38.52%	36.38%	40.61%	40.95%	38.59%	36.07%
Foshan Lighting	21.99%	21.77%	20.56%	22.61%	20.88%	24.15%
SUNSHINE Litghting	25.95%	25.05%	24.87%	27.68%	25.69%	26.46%
PAK	33.37%	31.63%	33.72%	38.85%	33.20%	29.45%
TAILONG Lighting	37.58%	35.72%	39.45%	38.64%	37.90%	36.21%

Note: Currently, LEDVANCE's LED products are mainly produced through OEM, resulting in a slightly lower gross profit margin than that of other listed companies in the same industry. After this fund-raising investment project is put into operation, some of LEDVANCE's LED products will be produced at the Yiwu base.

(3) Cost and expense calculation

Unit: RMB 10,000

Item	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Total operating costs	93,383.81	122,277.01	137,849.41	137,849.41	137,849.41	137,849.41	137,849.41	137,849.41	137,849.41	137,849.41
(1) Direct material costs	59,585.41	77,919.38	88,003.06	88,003.06	88,003.06	88,003.06	88,003.06	88,003.06	88,003.06	88,003.06
(2) Direct wages and welfare expenses	12,000.30	18,462.00	21,720.00	21,720.00	21,720.00	21,720.00	21,720.00	21,720.00	21,720.00	21,720.00
(3) Manufacturing costs	21,798.10	25,895.63	28,126.35	28,126.35	28,126.35	28,126.35	28,126.35	28,126.35	28,126.35	28,126.35
Business taxes and surcharges	0.00	686.94	1,603.55	1,603.55	1,603.55	1,603.55	1,603.55	1,603.55	1,603.55	1,603.55
Sales expenses	3,194.23	4,284.17	5,040.20	5,040.20	5,040.20	5,040.20	5,040.20	5,040.20	5,040.20	5,040.20
G&A expenses	4,650.98	6,437.89	7,561.28	7,561.28	7,561.28	7,561.28	7,561.28	7,561.28	7,561.28	7,561.28
Total costs and expenses	**101,229.02**	**133,686.01**	**152,054.44**	**152,054.44**	**152,054.44**	**152,054.44**	**152,054.44**	**152,054.44**	**152,054.44**	**152,054.44**

The operating costs of this fund-raising investment project include direct material costs, direct wages and welfare expenses, and manufacturing expenses; Expenses include: sales expenses and G&A expenses. Among them, direct material costs are calculated based on the Company's historical data and factors such as future market price trends; Direct wages and welfare expenses are calculated based on the project staffing; Manufacturing expenses cover the depreciation of fixed assets and other manufacturing expenses estimated by the Company based on its historical data; Sales expenses and G&A expenses are estimated based on the Company's historical data.

In summary, the Company has estimated the sales price, sales cost, and gross profit margin of its LED lighting application products for the forecast years based on factors such as the sales unit price, sales cost, and gross profit margin of its shipped LED lighting application products, as well as the estimated selling price, estimated cost, and bill of materials for future scenarios. The product sales volume for the forecast years is calculated based on production capacity ramp-up, production capacity utilization rate, and sales/output ratio. The expected benefits of this project are calculated based on factors such as market space, production capacity, and sales of existing products. The overall gross profit margin is lower than the historical gross profit level of the Company's LED application products, indicating that the calculation is prudent and reasonable.

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V. In conjunction with existing monetary funds, asset-liability structure, business scale and its trends, and future working capital needs, explain the necessity and rationality of repaying interest-bearing debts this time

(I) Existing monetary funds of the Company

As of **June 30, 2019**, the Company's monetary funds amounted to RMB **5,255,813,300**, of which restricted monetary funds were RMB **2,389,175,200**, and the balance of the previous raised funds **account** was RMB **48,996,800**. After deducting the above funds, the Company's total disposable funds were RMB **2,817,641,300**. The Company's restricted monetary funds include bank acceptance bill security deposits of RMB **1,931,564,300** and bill pledge security deposits of RMB **386,506,300**. **At the end of June 2019**, the Company's balance of notes payable was RMB **3,565,919,900**, and the notes payable were issued through security deposits and pledged bank acceptance bills. **Based on the Company's actual security deposit ratio, the amount of bill security deposits basically matches the credit line for issuing banker's acceptance bills.** The above security deposits all accrue interest at the benchmark interest rate for bank deposits or at an appropriate premium. The Company's controlling shareholder is Mr. Sun Qinghuan, and there is no situation where the Company shares a cash account with the controlling shareholder or where its funds are misappropriated by the controlling shareholder.

As of **June 30, 2019**, the Company's interest-bearing liabilities amounted to RMB **9,415,290,200**, of which the amount of interest-bearing liabilities due within one year was RMB **7,802,151,900**. At the **end of June 2019**, the Company's notes payable and accounts payable amounted to RMB **7,355,005,500**. As of **June 30, 2019**, the Company's disposable funds amounted to RMB **2,817,641,300**, which are mainly used for repaying notes and accounts payable due, repaying interest-bearing debts due, and maintaining business liquidity. All available funds have specific purposes. The total investment for this fund-raising investment project is RMB 3,277,256,000. The Company's own disposable funds cannot meet the capital requirements of the fund-raising investment project, which needs to be addressed by raising funds through this convertible bond issuance.

(II) The Company's asset-liability structure, business scale, trends of change, and future working capital requirements

During the reporting period, the operating income and asset-liability ratio of listed companies in the same industry are as follows:

Listed companies	June 30, 2019/January-June 2019		December 31, 2018/2018		December 31, 2017/2017		December 31, 2016/2016	
	Operating income (RMB 10,000)	Asset-liability ratio	Operating income (RMB 10,000)	Asset-liability ratio	Operating income (RMB 10,000)	Asset-liability ratio	Operating income (RMB 10,000)	Asset-liability ratio
NATIONSTAR	**162,615.64**	**38.85%**	362,679.99	43.45%	347,260.24	49.40%	241,842.39	48.54%
CHANGFANG GROUP	**81,749.61**	**53.90%**	157,438.77	53.64%	175,040.75	35.11%	160,261.69	37.88%
HONGLI ZHIHUI	**94,270.21**	**38.11%**	400,316.10	38.13%	369,926.12	43.79%	225,810.94	42.94%
Refond Optoelectronics	**30,951.78**	**41.54%**	156,200.82	44.53%	158,369.33	48.92%	117,935.56	45.86%

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Average	**-**	**43.10 %**	**269,158.92**	**44.94 %**	**262,649.11**	**44.31 %**	**186,462.65**	**43.81 %**
MLS	**938,673.27**	**69.36 %**	1,795,185.57	69.98%	816,872.56	68.64%	552,049.59	61.39%

Note: As of the signing date of this the reply to the feedback, the 2019 semi-annual reports of REFOND Optoelectronics and Hongli Zhihui have not yet been disclosed. The operating income and debt-to-asset ratio of REFOND Optoelectronics and Hongli Zhihui for the first half of 2019 in the table above are from their Q1 2019 reports.

At the end of each period during the reporting period, the Company's debt-to-asset ratios were 61.39%, 68.64%, 69.98% **and 69.36%**, respectively, which are higher than the average level of listed companies in the same industry and are at a high level in the industry. This is mainly due to the rapid growth of the business and asset scale of MLS Headquarters, and large annual investments in plant, equipment, etc. During the reporting period, the cash paid by MLS Headquarters for the acquisition and construction of fixed assets, intangible assets, and other long-term assets totaled **RMB 6,140,010,000**. **In** addition, the Company engaged in numerous external investment activities during the reporting period, including the use of self-owned funds of RMB 1.25 billion for the acquisition of **LEDVANCE, a cash investment of RMB 500 million in HUAIAN Aoyang, a cash investment of RMB 480 million in INTEMATIX Lighting, and the acquisition of SUPER TREND for RMB 400 million in cash.** The above cash expenditures totaled RMB **8,770,010,000** and were the main investment expenditures of MLS Headquarters during the reporting period. Except for the **approximately RMB 2.2 billion in funds raised from the previous equity financing that has been used**, MLS Headquarters has primarily met its funding needs for business development through debt financing methods such as bank loans, corporate bonds, and finance leases, which has led to a rapid increase in the Company's interest-bearing debts during the reporting period; In addition, as the Company's procurement scale expands and its bargaining power in procurement increases, accounts payable and notes payable to major suppliers have grown rapidly. **At the end of June 2019, the total accounts payable and notes payable of MLS Headquarters** reached **RMB 5,593,611,400**.

As of **June 30, 2019**, the Company's balance of interest-bearing liabilities was **RMB 9,415,290,200**, and its financial expenses for **the first half of 2019** amounted to **RMB 324,792,200**, accounting for **81.78%** of the Company's net profit. The high amount of financial expenses and their large proportion of net profits have constrained the Company's profitability. In addition, the high financial leverage has increased the Company's financial risks and liquidity risks.

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Sponsor's verification process and opinions:

The sponsor performed the following verification procedures:

1. Reviewed the feasibility study report on the Issuer's fund-raising investment projects and rechecked the construction details, investment composition, and capital expenditures of the Issuer's fund-raising investment projects; reviewed the relevant resolutions of the Board of Directors and Shareholders' Meeting, project filings, and environmental impact assessment approvals; reviewed the construction period and start/end dates of each project; interviewed the issuer's Chief Financial Officer and Finance Manager to verify the capital investment in the fund-raising investment projects before the meeting of the Board of Directors of the Issuer;

2. Reviewed the Issuer's report on the use of previously raised funds; interviewed the Issuer's Chief Financial Officer and Finance Manager to understand the investment and use of previously raised funds; interviewed the Issuer's Chief Financial Officer and reviewed the Issuer's relevant information disclosure documents, and prudently verified the operation, changes, and future fund use plans of the Issuer's previous fund-raising investment projects; interviewed the Secretary of the Board of directors of the Issuer, reviewed the Issuer's feasibility study report on the fund-raising investment projects and prudently verified the use of raised funds and the progress schedule of project construction for this fund-raising investment project;

3. Interviewed the Issuer's technical staff to verify the differences and connections between the products involved in the fund-raising investment project and the Company's existing business and previous fund-raising investment projects; obtained and analyzed the Issuer's production capacity utilization rate and sales/output ratio; interviewed the Issuer's sales staff to understand the market supply and demand for the products involved in the fund-raising investment project; reviewed industry research reports and industrial policies and analyzed development trends; and conducted a prudent verification of the Issuer's outstanding orders and production capacity absorption measures;

4. Review the feasibility study report of the Issuer's fund-raising investment projects, and analyze and recheck the expected benefits, calculation basis, and calculation process of the fund-raising investment projects**, and analyzed the rationality of the calculation indicators by comparison with listed companies in the same industry**;

5. Reviewed the Issuer's periodic reports and public disclosure information of listed companies in the same industry, reviewed the relevant resolutions of the Company's Board of Directors and Shareholders' Meetings, the Company's operating conditions and future forecasts, compared and analyzed the debt-to-asset ratios and operating income levels of the Company and listed companies in the same industry, and interviewed the Company's Chief Financial Officer to understand the specific uses of its existing disposable funds.

Upon verification, the sponsor believes that:

1. The investment scale, construction details, and investment composition of this fund-raising investment project are reasonably designed, and the investment projects corresponding to the raised funds are all capital expenditures; The funds raised this time will not be used to replace funds already invested before the date of the Board of directors' resolution; The investment scale of this fund-raising investment project is reasonable;

2. The Issuer's fund-raising investment project funded by the non-public offering of shares in 2016 has been delayed. The Issuer has fulfilled the necessary decision-making procedures and information disclosure obligations regarding the delay. The subsequent use plan and schedule for the remaining raised funds are reasonable. The use of raised funds and the project construction schedule for this fund-raising investment project are prudent and reasonable;

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3. Among the fund-raising investment projects, the Xiaolan High-Performance LED Packaging Product Production Project is the technology upgrade and performance improvement of the Company's original LED packaging products; The products of the Xiaolan LED Power Supply Production Project are mainly used for supporting the Company's existing LED application products, with a portion sold to third parties to enhance the Company's overall profitability; The Yiwu Automated LED Lighting Product Production Project plans to position Yiwu as the future LED application production base, for joint production and sales in collaboration with LEDVANCE; The construction of this fund-raising investment project is necessary, reasonable, and feasible; The Issuer's existing production lines and production capacity are basically operating at full capacity. The new production capacity brought by the fund-raising investment project is reasonably planned, and the fund-raising investment project boast sound market prospects. The relevant product business of the Issuer maintains sound development, and the newly added production capacity of the fund-raising investment project has solid business foundation and sufficient market space;

4. The benefit calculation for this fund-raising investment project is based on factors such as market space, the production capacity to be put into operation, and the sales performance of existing products. The basis and process of the benefit calculation of the fund-raising investment project meet the requirements of rationality and prudence, indicating good profitability and conforming to the issuer's business and industry development conditions;

5. The issuer's existing monetary funds are insufficient to support the implementation of the fund-raising investment project; The debt-to-asset ratio and operating income scale of the issuer are at relatively high levels within the industry. Future business development requires substantial working capital support, and therefore, the offering project of repaying interest-bearing debts with the raised funds is reasonable and necessary.

2. As of the end of September 2018, the goodwill in the Applicant's consolidated financial statements was RMB 1,698,307,100, which was generated from the Applicant's acquisition of 100% equity of MINGXIN Optoelectronics through share issuance and cash payment in 2018. The Applicant is requested to: (1) explain the current operating conditions and performance of LEDVANCE, the underlying asset acquired in 2018, the discrepancies between its actual performance and the performance forecasted in the restructuring valuation report, and the Applicant's integration progress with LEDVANCE; (2) explain LEDVANCE's accrual and accounting for restructuring charges, whether the actual expenses incurred are consistent with the expectations at the time of restructuring, and explain the impact of restructuring charges on the Applicant's future performance; (3) based on the above, explain the sufficiency of the provision for goodwill impairment; (4) whether the proceeds from this fund raising will directly or indirectly inflate the performance of LEDVANCE, thereby affecting the comparability of the performance forecast in subsequent valuation reports. The sponsor and the accountant shall conduct verification and issue opinions.

[Reply]:

I. Provide an explanation of the current operating status and performance of LEDVANCE , the underlying asset acquired in 2018, as of now; the differences between actual performance and the forecast performance in the restructuring valuation report; and the integration of LEDVANCE completed by the applicant

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(I) Discrepancies between actual performance and forecast performance in the restructuring valuation report

The valuation date for LEDVANCE was June 30, 2017. As of December 31, 2018, the comparison between the actual performance of the acquired underlying asset LEDVANCE, and the forecast performance in the restructuring valuation report is as follows:

Unit: EUR 1,000

Profit forecast period	Profit forecast	Actual operating profit	Profit forecast completion status
July-December 2017	7,807	7,886	Completed
2018	29,792	29,986	Completed

According to the above data, the actual operating performance of the acquired underlying asset, LEDVANCE, for the period from July to December 2017 and for the full year of 2018 has met the performance forecasts in the valuation report.



According to the Accounting Standards for Business Enterprises – Contingencies, an obligation related to a contingency shall be recognized as estimated liabilities if it meets all of the following conditions: (1) The obligation is a present obligation of the enterprise; (2) The settlement of the obligation is likely to result in an outflow of economic benefits from the enterprise; (3) The amount of the obligation can be measured reliably. If the restructuring obligation undertaken by the enterprise meets the provisions of Article 4 of these standards, estimated liabilities shall be recognized. Where both of the following conditions are met, it indicates that the enterprise has incurred a restructuring obligation: (1) There is a detailed and formal restructuring plan, including the business scope involved in the restructuring, key locations, the number and job types of employees to be compensated, estimated restructuring expenditures, planned implementation timetable, etc; (2) The restructuring plan has been publicly announced.

At the LEDVANCE separate financial statements level, in accordance with the requirements ofAccounting Standards for Business Enterprises – Contingencies and International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets, for the restructuring plan approved by the Board of Supervisors, LEDVANCE must comply with the following requirements before implementation: reach an agreement with the trade union under local laws, formally notify relevant employees or issue a public announcement, and finally reach consensus with the trade union and employees on severance pay and other compensation matters. The Company has made provisions in its financial statements for the restructuring charges that have met the recognition criteria for estimated liabilities in the current year; For restructuring plans in subsequent periods, since no agreement has been reached with the trade union and no public announcement has been issued, and no specific implementation plan has been finalized, the related budgeted restructuring charges do not meet the recognition criteria for estimated liabilities, and therefore have not been provided for in the financial statements.

At the consolidated statements level of the listed company, when MINGXIN Optoelectronics is included in the scope of consolidation, the listed company has identified the contingent liabilities as of the combination date and made provisions at fair value in accordance with the Accounting Standards for Business Enterprises, with the provision amount being EUR323,371,000.

2. LEDVANCE's provision for restructuring charges

At the LEDVANCE separate financial statements level, for restructuring matters under LEDVANCE's restructuring plan that have been approved by the Board of Supervisors, agreed with the trade union, and formally notified to relevant employees or publicly announced, the Company has recognized provisions of EUR 28,930,000 for the period July to December 2017 and EUR 192,091,000 for the full year 2018 respectively. This is because the restructuring matters meet the recognition criteria for estimated liabilities set out in the Accounting Standards for Business Enterprises – Contingencies and International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets.

At the consolidated statements level, when MINGXIN Optoelectronics is included in the scope of consolidation, the listed company has already made a one-time provision of EUR 323,371,000 for restructuring charges as a liability, with no subsequent changes.

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Unit: EUR 1,000

Item	H2 2017	2018	2019	2020	After 2020	Total
Original restructuring plan forecast	7,550	150,824	115,706	52,707	35,895	362,683
New restructuring plan forecast	29,300	202,382	68,700	43,200	19,101	362,683
Actual restructuring implementation	28,930	192,091	-	-	-	-
Difference between actual restructuring implementation and the new restructuring plan	-370	-10,291	-	-	-	-

Unit: EUR 1,000

Restructuring plan	Expense composition	H2 2017	2018	2019	2020	After 2020	Total
Original restructuring plan	Termination benefits	6,727	102,494	92,898	31,974	30,969	265,062
	Plant closure losses	0	20,009	17,496	13,521	3,800	54,826
	Others	823	28,321	5,312	7,212	1,126	42,794
	Subtotal	**7,550**	**150,824**	**115,706**	**52,707**	**35,895**	**362,683**
New restructuring plan	Termination benefits	11,553	171,303	12,634	33,670	7,601	236,761
	Plant closure losses	0	0	37,867	7,530	11,500	56,897
	Others	17,747	31,079	18,199	2,000	0	69,025
	Subtotal	**29,300**	**202,382**	**68,700**	**43,200**	**19,101**	**362,683**

Note: "Others" mainly include expenses for intermediaries such as lawyers, auditors, and external consultants related to employee dismissals, litigation, and asset disposals, as well as internal G&A expenses incurred by LEDVANCE to advance the restructuring plan.

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Unit: EUR 1,000

Item	H2 2017			2018		
	New restructuring plan	Actual restructuring charges	Difference	New restructuring plan	Actual restructuring charges	Difference
Termination benefits	11,553	11,351	-202	171,303	163,147	-8,156
Plant closure losses	0.00	0	0	0	-4,609	-4,609
Others	17,747	17,579	-168	31,079	33,553	2,474
Subtotal	**29,300**	**28,930**	**-370**	**202,382**	**192,091**	**-10,291**

(1) Actual restructuring charges are close to the severance benefits under the new restructuring plan, with an insignificant difference.

In the second half of 2017 and the year 2018, the actual number of employees laid off by LEDVANCE was close to that in the new restructuring plan. The difference was mainly due to a slight increase in the actual number of layoffs in Germany compared to the plan, but the average severance cost per person decreased.

(2) Net proceeds from the actual disposal and shutdown of factories

The new restructuring plan estimates that losses from factory shutdown in the second half of 2017 and full year 2018 will be zero, as the disposal proceeds of decommissioned equipment are roughly equivalent to the restoration costs of the closed factory sites. However, since LEDVANCE directly sold the equity of its closed Indian plant in 2018, no plant restoration costs were incurred, resulting in a net gain and causing the plant closure loss for 2018 to be negative.

In summary, the Company accelerated the restructuring of LEDVANCE, and the actual restructuring expenses incurred were consistent with the new restructuring plan and slightly lower than budgeted. There was no situation where actual expenses exceeded the amount budgeted in the restructuring plan.

(III)Impact of restructuring charges on the Applicant's future performance

According to Interpretation of Accounting Standards for Business Enterprises (2010), Chapter 21 Business Combinations, contingent liabilities in business combinations are specified as follows: To fully reflect the potential obligations that the acquirer may assume in business combinations, for contingent liabilities that the acquirer is required to assume on behalf of the acquiree at the time of business combinations: if the probability of an outflow of economic benefits from the enterprise arising from the related contingent event is still low on the acquisition date, but the fair value can be reliably measured, such contingent liabilities shall be recognized as a estimated liabilities among the liabilities acquired in the combination.

When preparing the consolidated financial statements, the listed company has identified restructuring charges of EUR 323,371,000 related to LEDVANCE's future factory closure plan. This liability qualifies as a fair value adjustment for identifiable assets, liabilities and estimated liabilities on the combination date, and is recorded in the balance sheet at the consolidation date. In subsequent periods, when LEDVANCE actually incurs restructuring charges, it recognizes such amounts as expenses and liabilities in its separate financial statements. When preparing the listed company's consolidated financial statements, the restructuring charges and liabilities recognized by LEDVANCE must be reversed. Therefore, the actual incurrence of restructuring charges in subsequent periods will not have a material impact on the operating performance of the listed

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company. At the same time, the amount of restructuring charges accrued on the combination date is its best estimate based on historical experience and comprehensive consideration of the current situation. Its data forecast is highly rational, and the provision for restructuring charges is sufficient to cover future restructuring charges. The occurrence of future restructuring charges will not have a significant impact on the listed company's performance.

III. Explain the sufficiency of the provision for goodwill impairment based on the above circumstances

(I) Goodwill impairment test of MINGXIN Optoelectronics in 2018

In 2018, the Company conducted a goodwill impairment test on the goodwill of MINGXIN Optoelectronics based on the goodwill impairment test valuation report issued by an appraisal agency. According to the Asset Valuation Report on the Present Value of Expected Future Cash Flows of the LEDVANCE GmbH Lighting Business Asset Group (including Goodwill) Involved in the Consolidated Statements Prepared by MLS Co., Ltd.(ZTPBZ (2019) No. 12057), issued by China Tong Cheng Assets Appraisal Co., Ltd. (which holds securities and futures-related qualifications), as of December 31, 2018: the carrying value of the LEDVANCE lighting business asset group (including goodwill) was EUR 242,334,420, and the estimated recoverable amount of the asset group (excluding the restructuring charges) was EUR 485,756,970. Since the estimated recoverable amount of the asset group was higher than the asset group value (including goodwill), the Company did not made impairment provisions for the goodwill acquired from MINGXIN Optoelectronics.

(II) Analysis of the rationality of MINGXIN Optoelectronics Goodwill Impairment Test in 2018

1. Valuation method

The specific methods **and differences** of the restructuring valuation and the 2018 goodwill impairment test valuation are as follows:

Item	Restructuring valuation	2018 goodwill valuation	Reasons for and rationality of the differences
Valuation basis	**Asset Appraisal Practice Standards - Enterprise Value**	**Accounting Standards for Business Enterprises No. 8 - Asset Impairment, Accounting Regulatory Risk Alert No. 8 - Goodwill Impairment**	**Different legal basis**
Appraisal object	**The overall enterprise value of LEDVANCE**	**The asset group of LEDVANCE's lighting business including goodwill**	**The restructuring valuation aims to assess the enterprise value by evaluating the overall value of the enterprise, with the valuation object being all assets and liabilities.**
Scope of valuation	**All assets and liabilities**	**Operating asset group, excluding separate assets and liabilities unrelated to goodwill that should not be included in the asset group, and excluding beginning working capital**	**Goodwill valuation is for the purpose of goodwill impairment testing. In accordance with the Accounting Standards for Business Enterprises, goodwill needs to be reasonably allocated to asset groups for impairment testing. The asset group is the valuation object and should not include**

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			separate assets and liabilities that are unrelated to goodwill and should not be included in the asset group. According to the Accounting Regulatory Risk Alert No. 8 - Goodwill Impairment, the asset group for goodwill valuation does not include beginning working capital
Cash flow	Free cash flow to firm, after-tax	Free cash flow of the asset group, pre-tax	According to the Asset Appraisal Standards for Business Enterprises - Enterprise Value and the common practice of valuation firms, the restructuring valuation is based on post-tax cash flows and a post-tax discount rate. According to the Accounting Regulatory Risk Alert No. 8 - Goodwill Impairment, goodwill valuation should be based on pre-tax cash flows and a pre-tax discount rate
Cash flow calculation method	Free cash flow = net profit after tax + depreciation and amortization + interest expense × (1 - income tax rate) - capital expenditures - additional working capital	Free cash flow = EBIT + depreciation and amortization - capital expenditures - additional working capital, where the free cash flow does not include the impact of beginning working capital	According to the Accounting Regulatory Risk Alert No. 8 - Goodwill Impairment, the cash flow for goodwill valuation does not include beginning working capital
Discount rate	After-tax	Pre-tax	Same as the cash flow explanation
Forecast period	It is divided into two phases. The first phase is from July 1, 2017 to December 31, 2027, and the second phase is from January 1, 2028 to perpetuity. It is assumed that the expected earnings will remain stable in and after 2028.	It is divided into two phases. The first phase is from January 1, 2019 to December 31, 2027, and the second phase is from January 1, 2028 to perpetuity. It is assumed that the expected earnings will remain stable in and after 2028.	Different valuation dates lead to different forecast periods for the first phase, but both predict that the business will reach a stable state starting from 2028.
Calculation approach for the assessed value	Assessed value of LEDVANCE's enterprise value = present value of enterprise cash flow + non-operating assets - non-operating liabilities - interest-bearing debts - present value of restructuring charges	Valuation of the lighting business asset group (including restructuring expenditures) = present value of the asset group's cash flows - present value of restructuring charges	The enterprise cash flow is generated from free cash flow of the enterprise, and the cash flow of the lighting business asset group is generated from operating net assets

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2. Valuation assumptions

The main assumptions for the 2018 goodwill impairment test are not materially different from the assumptions adopted in the restructuring valuation. The specific assumptions are as follows:

(1) There are no material changes to the current national and local laws, regulations and policies governing the operation of the asset group under valuation, nor to the national macroeconomic situation; no material changes to the political, economic and social environment in the region where the asset group is located; and no material adverse effects caused by other unforeseen events or force majeure;

(2) It is assumed that the current and future management of the asset group under valuation will act with due diligence, and that the management is competent to perform its title. The asset group under valuation will maintain its normal operating trend, and its development plan and production and operation plan will be basically achieved as scheduled;

(3) It is assumed that the asset group under valuation will fully comply with all applicable national laws and regulations in its operations, and no material violations that would affect the asset group's development and realization of income will not occur;

(4) It is assumed that the accounting policies to be adopted for the financial statements of the relevant asset group in the future will be substantially consistent in all material respects with the accounting policies adopted in the preparation of this report;

(5) It is assumed that the asset group will remain consistent in future management approach and management capability, business scope, operation mode and planning direction;

(6) It is assumed that, in accordance with relevant laws and regulations, there will be no material changes to existing or confirmed upcoming interest rates, exchange rates, tax bases, tax rates and policy-based fee regulations;

(7) It is assumed that all industry qualifications required for the operation of the asset group can be renewed upon expiration;

(8) No other force majeure or unforeseen factors will have a material adverse impact on the operation of the asset group.

3. Operating income forecast

(1) Comparison between forecast revenue in the restructuring valuation and actual revenue

Unit: EUR 1,000

Products	H2 2017			2018		
	Revenue forecast in the restructuring valuation	Actual revenue	Forecasted revenue completion rate	Revenue forecast in the restructuring valuation	Actual revenue	Forecasted revenue completion rate
Traditional light sources	458,016.74	452,081.25	98.70%	674,229.23	693,136.65	102.80%
LED light sources	332,185.71	287,354.00	86.50%	691,471.68	541,267.91	78.28%
Smart home and others	93,371.88	87,371.00	93.57%	175,718.81	152,523.11	86.80%
OTC luminaires	125,738.51	130,076.00	103.45%	322,410.79	314,270.09	97.48%

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Total	1,009,312.84	956,882.25	94.81%	1,863,830.51	1,701,197.76	91.27%

The restructuring valuation projected that LEDVANCE's total operating income for the second half of 2017 and full year 2018 would be EUR 1,009,312,840 and EUR 1,863,830,510, respectively. The actual revenue achievement rates came in at 94.81% and 91.27% respectively, which basically met the forecast under the restructuring valuation. The actual operating income was slightly lower than the restructuring valuation mainly because, although the sales volume of LED light sources increased, the market competition was fierce, resulting in a drop in unit prices and causing the LED light source revenue to be slightly lower than expected.

(2) Analysis on reasonability of future operating income forecast for 2018 goodwill impairment test

1) Revenue forecast for traditional light sources

Based on market analysis and the trend of LEDVANCE's traditional light source revenue from 2015 to 2018, the LEDVANCE management's revenue forecast for future traditional light sources is as follows:

Unit: EUR 1,000

Item	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue forecasted in the goodwill valuation	529,982.95	410,152.15	313,412.66	241,221.32	186,441.69	146,017.09	117,538.93	98,026.33	84,278.18
Growth rate	-23.54%	-22.61%	-23.59%	-23.03%	-22.71%	-21.68%	-19.50%	-16.60%	-14.02%

Traditional light sources are gradually being replaced by LED light sources due to issues such as environmental pollution and energy consumption. The overall global market size of traditional light sources is on a downward trend, but the rate of contraction of the traditional light source market varies by region. The European Union began to gradually provide policy guidance and restrictions on traditional light sources starting in 2009, issued a ban on the use of incandescent lamps in 2012, and is expected to ban the use of halogen lamps starting in 2018, resulting in the fastest market contraction. However, due to the need for use in specific scenarios, there has been strong growth in demand for halogen lamps in North America in recent years, and the market is shrinking at a relatively slow pace. In terms of subdivided product markets, the market for incandescent lamps is declining the fastest, while the markets for high-pressure discharge (HPD) lamps and low-pressure discharge (LPD) lamps are declining relatively slowly due to their long-term presence in special application scenarios.

From 2015 to 2018, the actual revenue of LEDVANCE from traditional light sources was EUR 1,583,798,000, EUR 1,314,110,000, EUR 970,717,000, and EUR 693,137,000, respectively, with a compound annual decline rate of 23.92% from 2015 to 2018, and a year-on-year decrease of 28.60% in 2018. Since there are a small number of global suppliers of traditional light source products, and demand for traditional light sources has increased in some countries and specific scenarios, prices of traditional light source products have risen in recent years. In particular, HPD and LPD lamps still maintain a sound sales trend in the Eastern European market. Therefore, LEDVANCE management expects the decline rate of future traditional light source revenue to slow down. In the long run, the revenue from LEDVANCE's traditional light sources will generally continue to decline, but because underdeveloped countries do not yet have environmental protection and energy consumption restrictions on traditional light sources, a certain amount of revenue will still be maintained at the end of the forecast period.

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2) LED lighting revenue forecast

Based on market analysis and the trend of LEDVANCE's LED light source revenue from 2015 to 2018, the LEDVANCE management's forecast for future LED light source revenue is as follows:

Unit: EUR 1,000

Item	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue forecasted in the goodwill valuation	579,699.83	618,780.42	641,801.16	655,672.53	662,008.41	664,598.87	661,106.04	653,399.01	642,203.43
Growth rate	7.10%	6.74%	3.72%	2.16%	0.97%	0.39%	-0.53%	-1.17%	-1.71%

From a regional perspective, the general lighting markets such as Europe and North America have become relatively stable, and the growth of the LED lighting market mainly comes from the replacement of existing stock in the traditional lighting market, with limited incremental growth; The Asia-Pacific region has a large demand for lighting in new construction areas, and its LED lighting market is in a rapid development stage, making it a major region for the future growth of LED lighting products.

From 2015 to 2018, the actual revenue of LEDVANCE's LED light source business was EUR 459,352,000, EUR 511,919,000, EUR 546,078,000, and EUR 541,268,000, respectively, with an average annual growth rate of 5.75% from 2015 to 2018. According to the forecast of LEDVANCE management, with the continuous maturation of LED lighting technology and intensifying market competition, LED light source prices are expected to maintain a downward trend going forward. The unit price will decline by approximately 12%-15% in 2019 and 2020. After 2020, as the market gradually clears out, the magnitude of the decline in LED light source prices is expected to be within 10%. At the same time, the increase in market demand will drive the overall sales volume of LED light sources, which will compensate for the impact of price drops on revenue. Overall, LEDVANCE's future revenue from LED light sources is expected to show an upward trend from 2019 to 2024, but with a gradually narrowing growth margin. Afterward, revenue is projected to decline due to market saturation and increased competition.

3) Revenue forecast for OTC luminaire

Based on market analysis and the change trend of LEDVANCE's OTC luminaire revenue from 2015 to 2018, LEDVANCE management's forecast for future OTC luminaire revenue is presented in the table below:

Unit: EUR 1,000

Item	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue forecasted in the goodwill valuation	414,133.60	514,534.81	611,529.43	677,213.69	738,103.98	791,872.05	838,733.31	875,186.82	904,282.03
Growth rate	31.78%	24.24%	18.85%	10.74%	8.99%	7.28%	5.92%	4.35%	3.32%

OTC luminaires refer to lighting products with specific application scenarios, with typical applications including pendant lamps, wall lamps, recessed lights, spotlights, etc. Based on traditional or LED light sources, luminaire suppliers form OTC luminaire products

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by adding components such as controllers and fixtures. The OTC luminaires market is characterized by high fragmentation and distinct regional features. With the popularization of solid-state lighting technology and the evolution of application scenario demands, the OTC luminaires market has significant growth potential for the future. LEDVANCE plans to launch different product portfolios for the trade and retail channels: In the trade channel, LEDVANCE will focus on promoting a small number of key products to cover core market segments; In the retail channel, LEDVANCE will focus on serving large retailers, with core products including functional luminaires, wall lamps, and pendant lamps. OTC luminaires are the focus of future development for LEDVANCE and the general lighting industry, and this business has been growing rapidly for major companies in the industry.

From 2015 to 2018, LEDVANCE's actual revenue from OTC luminaire was EUR 2,734,000, EUR 58,602,000, EUR 228,346,000, and EUR 314,270,000, respectively, with a compound annual growth rate of 790.25% from 2015 to 2018. OTC luminaire is a key product developed by LEDVANCE. Their revenue was small in 2015 and began to grow substantially from 2016, leading to a high average annual growth rate from 2015 to 2018. The year-over-year growth rate in 2018 also reached 37.63%. LEDVANCE management expects that OTC luminaire revenue will continue to see rapid growth in the future, yet as the market gradually saturates and competition intensifies, the growth rate of revenue will gradually slow.

4) Revenue forecast for smart home and other businesses

LEDVANCE's current smart home business products mainly include smart plugs, switches, sensors, shadow control, gateways, intrusion detection, and air quality monitoring. Other businesses primarily refer to contract manufacturing and cross-selling, which are mainly due to the time required for the carve-out of OSRAM's business, resulting in ongoing business dealings between LEDVANCE and OSRAM.

From 2015 to 2018, the actual revenue of LEDVANCE's smart home and other businesses was EUR 138,972,000, EUR 163,268,000, EUR 184,189,000, and EUR 152,523,000, respectively, with a compound annual growth rate of 4.37% from 2015 to 2018, and a decline in 2018. As revenue contribution from OSRAM's other businesses will continue to decline, and the smart home market requires additional time for further development, LEDVANCE management projects that revenue from the smart home and other segment will see a modest decrease in 2019 and 2020, before resuming gradual growth. The detailed forecast is presented in the table below:

Unit: EUR 1,000

Item	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue forecasted in the goodwill valuation	145,052.28	138,877.79	156,216.11	172,450.61	190,486.85	207,940.13	230,086.22	250,519.31	275,571.24
Growth rate	-4.90%	-4.26%	12.48%	10.39%	10.46%	9.16%	10.65%	8.88%	10.00%

4. Gross profit margin forecast

(1) Comparative analysis of predicted gross profit margin and actual gross profit margin for 2017 and 2018 in the restructuring valuation

Products	2017			2018		
	Forecasted gross profit margin in	Actual gross profit margin	Difference	Forecasted gross profit margin in	Actual gross profit margin	Difference

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	restructuring valuation			restructuring valuation		
Traditional light sources	32.00%	31.49%	-0.51%	31.50%	32.95%	1.45%
LED light sources	26.00%	24.67%	-1.33%	26.78%	24.55%	-2.23%
Smart home and others	16.66%	8.94%	-7.72%	22.84%	10.62%	-12.22%
OTC luminaires	32.00%	33.77%	1.77%	32.64%	32.03%	-0.61%
Total	**28.61%**	**27.71%**	**-0.90%**	**29.13%**	**29.35%**	**0.22%**

Note: The above actual gross profit margin data has not been audited; The restructuring valuation date is June 30, 2017, so the 2017 forecast data includes only the forecast for the second half of 2017.

The restructuring valuation report estimated that LEDVANCE's overall GPM for 2017 and 2018 would be 28.61% and 29.13%, respectively, while the actual gross profit margins were 27.71% and 29.35%, which were basically consistent with the forecast gross profit margin. The actual gross profit margin of the smart home and other businesses was significantly lower than the forecast, mainly because the gross profit margin of the contractual manufacturing and cross-selling businesses between LEDVANCE and OSRAM was around 10%, which was relatively low and accounted for a large proportion; Although the smart home business has a high gross profit margin, its business growth did not meet expectations and its business proportion was relatively small, which lowered the actual gross profit margin of the smart home and other businesses.

(2) Analysis on reasonability of future gross profit margin forecasts for the 2018 goodwill impairment test

Products	2019	2020	2021	2022	2023	2024	2025	2026	2027
Traditional light sources	34.15%	37.34%	39.04%	37.64%	36.72%	35.84%	35.36%	33.67%	32.19%
LED light sources	31.99%	34.04%	34.96%	34.90%	35.92%	36.64%	37.35%	36.91%	36.40%
Smart home and others	15.34%	21.40%	25.36%	27.79%	29.82%	30.83%	31.44%	31.94%	32.04%
OTC luminaires	36.91%	37.71%	37.30%	36.42%	36.81%	37.25%	37.50%	37.15%	36.88%
Total	**32.45%**	**34.92%**	**35.66%**	**35.16%**	**35.72%**	**36.18%**	**36.56%**	**36.19%**	**35.81%**

1) Gross profit margin forecast for traditional light sources

The gross profit margin forecast for traditional light sources is presented in the table below:

Products	2019	2020	2021	2022	2023	2024	2025	2026	2027
Traditional light sources	34.15%	37.34%	39.04%	37.64%	36.72%	35.84%	35.36%	33.67%	32.19%

From 2015 to 2018, the actual gross profit margins of LEDVANCE's traditional light sources were 33.20%, 34.27%, 31.49%, and 32.95%, respectively. The gross profit margin of traditional light sources in 2018 increased compared to 2017, mainly due to the closure of some of factories of LEDVANCE, which resulted in a decline in manufacturing costs. LEDVANCE management expects that the plant closures would continue until 2021, and the gross profit margin of traditional light sources would maintain a modest increase during this period. Subsequently, as the prices of traditional light sources declined, the gross profit margin also decreased accordingly.

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In the first half of 2019, the actual gross profit margin of traditional light sources was 41.53%, which is higher than the gross profit margin of traditional light sources for 2019 estimated in the goodwill valuation. Therefore, the forecast in the goodwill valuation is relatively conservative.

2) Gross profit margin forecast for LED light sources

The gross profit margin forecast for LED light sources is as follows:

Products	2019	2020	2021	2022	2023	2024	2025	2026	2027
LED light sources	31.99%	34.04%	34.96%	34.90%	35.92%	36.64%	37.35%	36.91%	36.40%

From 2015 to 2018, the actual gross profit margins of LEDVANCE's LED light sources were 20.61%, 26.13%, 24.67%, and 24.55%, respectively. Due to market competition, the price of LEDVANCE's LED light source products dropped by about 20% from 2017 to 2018. However, LEDVANCE has replanned its procurement strategy since 2018, leading to a decrease in procurement costs. Additionally, the phasing out of LED products with low gross profit allowed the gross profit margin of LED light sources to remain at a high level in 2018.

In December 2018, LEDVANCE held a supply chain future development adjustment meeting, upgrading from the original regional procurement and regional budgeting to global procurement management. This involves adjusting from the original regional management in North America, Western Europe, Eastern Europe, Latin America, and the Asia-Pacific region and gradually establishing a supply system with China as the global supply center and developing a global supplier portfolio strategy. By solidifying relationships with suppliers and developing long-term strategic partners, it can secure a small number of suppliers with large business volumes. Over time, synergistic effects will gradually emerge, which will help improve management efficiency and save on procurement costs. LEDVANCE management expects that after the implementation of the above business strategies, the gross profit margin of LED light sources would increase significantly starting from 2019, and the cost advantage would be maintained for a relatively long period.

In the first half of 2019, the actual gross profit margin of LED light sources was 32.67%, which is higher than the gross profit margin of LED light sources for 2019 estimated in the goodwill valuation. Therefore, the forecast in the goodwill valuation is relatively conservative.

3) OTC luminaire gross profit margin forecast

From 2015 to 2018, the actual gross profit margins of LEDVANCE's OTC luminaires business were 10.39%, 39.79%, 33.77%, and 32.03%, respectively. From 2015 to 2018, the OTC luminaires business was small in scale but showed a trend of rapid growth. As this product was in the initial stage of market development in 2015, its gross profit margin was relatively low. As LEDVANCE increases its R&D efforts in and expands the scale of its OTC luminaires business, its technological and scale advantages are gradually emerging, and its gross profit margin will also show a gradual upward trend. In addition, as OTC luminaires have a higher technological added value, and LEDVANCE will increase the proportion of consumer OTC luminaires with higher profitability, the gross profit margin will be further improved.

Gross profit margin of OTC luminaires business of comparable foreign listed companies

Company name	Ticker	FY13/14	FY14/15	FY15/16	FY16/17
BrilliantAG Germany	BAGGR Equity	-	36.20%	37.80%	37.79%
ZumtobelAG, Austria	ZAGAV Equity	37.70%	38.80%	38.00%	47.84%
Fagerhult AB	FAGSS Equity	32.60%	32.40%	33.20%	37.22%
Average value	-	35.15%	35.80%	36.33%	40.95%

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As can be seen from the table above, the gross profit margin of OTC luminaire of comparable foreign listed companies has been on an upward trend in recent years, and all are above 35%. The appraisal institution referenced the gross profit margin of LEDVANCE's OTC luminaires in recent years, combined with the gross profit margin data for related businesses of comparable listed companies, and projects that the future annual gross profit margin of OTC luminaires will remain at around 37%, as detailed in the table blow:

Products	2019	2020	2021	2022	2023	2024	2025	2026	2027
OTC luminaires	36.91%	37.71%	37.30%	36.42%	36.81%	37.25%	37.50%	37.15%	36.88%

In the first half of 2019, the actual gross profit margin of OTC luminaire was 40.14%, which is higher than the gross profit margin of OTC luminaire for 2019 estimated in the goodwill valuation. Therefore, the forecast in the goodwill valuation is relatively conservative.

4) Gross profit margin forecast for smart home and other businesses

From 2015 to 2018, the actual gross profit margins of LEDVANCE's smart home and other businesses were -0.48%, 6.51%, 8.94%, and 10.62%, respectively, showing a gradual increase. In 2018, the gross profit margin of the smart home business was approximately 33%. Other businesses were mainly contract manufacturing and cross-selling businesses between LEDVANCE and OSRAM. Both parties determined a gross profit margin of around 10% based on independent accounting of manufacturing costs. As the scale of the smart home business expands and the contract manufacturing and cross-selling businesses are gradually phased out, LEDVANCE management expects that the gross profit margin of the smart home and other segment will maintain a steady upward trend in the future, as detailed in the table below:

Products	2019	2020	2021	2022	2023	2024	2025	2026	2027
Smart home and others	15.34%	21.40%	25.36%	27.79%	29.82%	30.83%	31.44%	31.94%	32.04%

In the first half of 2019, the gross profit margin of smart home and other businesses was 18.58%, which was higher than that in 2018 and also higher than the estimated gross profit margin in the goodwill valuation. Therefore, the forecast in the goodwill valuation is relatively conservative.

5、Period expense forecast

(1) Sales expense ratio

Item	H2 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Forecast in the restructuring valuation report	20.10 %	20.35 %	20.35 %	19.75 %	19.14 %	19.14 %	19.04 %	19.04 %	18.94 %	18.94 %	18.74 %
Goodwill impairment valuation forecast			23.15 %	23.06 %	22.82 %	22.80 %	22.67 %	22.64 %	22.50 %	22.48 %	22.25 %
Actual sales expenses ratio	20.09 %	23.61 %									

The forecasted sales expenses ratio for the second half of 2017 in the restructuring valuation

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was close to the actual data, while the actual sales expenses ratio in 2018 increased year-on-year. For the 2018 goodwill impairment test, future sales expenses were projected based on actual 2018 sales expenses, with adjustments made to the detailed items of sales expenses in accordance with anticipated changes. The primary adjustment includes an increase in advertising expenses over the next two years; The OSRAM brand royalty fee as a percentage of revenue will gradually decrease from 0.5% and will no longer be incurred after September 30, 2026.

(2) G&A expense ratio

Item	H2 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Forecast in the restructuring valuation report	6.08%	6.36%	6.02%	5.98%	5.74%	5.60%	5.56%	5.43%	5.42%	5.40%	5.39%
Goodwill impairment valuation forecast			4.96%	4.96%	4.94%	4.93%	4.91%	4.90%	4.88%	4.86%	4.85%
Actual G&A expense ratio	6.12%	5.19%									

The forecasted G&A expense ratio for the second half of 2017 in the restructuring valuation is close to the actual data, and the actual administrative expense ratio in 2018 decreased year-on-year. For the 2018 goodwill impairment test, future G&A expenses were projected based on actual 2018 G&A expenses, with adjustments made to detailed items of G&A expenses in accordance with anticipated changes. The main adjustment is that R&D expenses will increase by a certain margin in line with revenue growth; and a significant decrease in restructuring consulting fees, etc.

(3) Financial expenses

The restructuring valuation is calculated based on the enterprise's free cash flow, and its scope covers all assets and liabilities. The valuation institution will arrange financing according to the financing plan and calculate the corresponding interest expenses. No forecast is made for exchange gains and losses or other financial expenses.

The 2018 goodwill impairment test valuation was calculated based on the asset group's earnings before interest and taxes (EBIT). The scope of the valuation covered relevant fixed assets, intangible assets, and construction in progress, as well as related liabilities and goodwill bound to the asset group. Therefore, interest expense and interest income were not considered in the calculation; No forecast is made for exchange gains and losses or other financial expenses. For sales cash discounts, since the net method is used in the revenue forecast and cash discounts are not considered, they are also not considered here. For exchange losses, since the future trend of the euro exchange rate cannot be accurately predicted, no forecast is made here. For other financial expenses, since the amount is relatively small, no forecast is made this time.

6. Net profit forecast

Unit: EUR 1,000

Item	H2 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Net profit of the	7,807	29,792	42,684	64,980	98,298	102,729	114,692	126,461	137,837	128,611	135,397

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enterprise forecasted in the restructuring valuation											
			44,542	75,128	89,083	84,460	94,682	102,858	111,937	109,381	109,146
Projected net profit of the asset group in goodwill valuation											
Actual net profit	7,886	29,986									

Note: The goodwill valuation projection is based on EBIT and does not separately calculate net profit and financial expenses. For ease of comparison with the projected net profit in the restructuring valuation, financial expenses are not considered here. The projected EBIT from the goodwill valuation is adjusted to net profit by simply multiplying it by the average tax rate (30%) of the countries involved in the restructuring.

LEDVANCE's actual net profit for the second half of 2017 and for 2018 both reached the projected net profit in the restructuring valuation. **In the first half of 2019, LEDVANCE achieved a net profit of EUR 22,000,000 and a net profit after deducting non-recurring profits and losses of EUR 7,234,000.** In the **first half of 2019**, LEDVANCE had a large amount of non-recurring profits and losses, mainly due to the disposal of a warehouse.

The non-recurring profits and losses and cash inflows generated from LEDVANCE 's disposal of a warehouse in the first half of 2019 were not included in the projected cash flows for the acquisition valuation and the 2018 goodwill valuation, and do not affect the valuation results of the acquisition valuation and the 2018 goodwill valuation.

7. Capital expenditures

Unit: EUR 1,000

Item	2017.7-12E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Terminal year
Restructuring valuation - capital expenditures	34,506	42,567	43,367	40,860	34,230	34,456	32,689	32,899	33,116	31,813	27,796	23,543
Goodwill val	-	-	11,736	11,285	10,635	11,128	11,298	11,524	11,753	11,968	16,809	16,809

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uation - capital expenditures												

The estimated capital expenditures in the goodwill valuation are significantly lower than that in the restructuring valuation, mainly because after being acquired, LEDVANCE accelerated factory closures, reduced the scale of self-production, and expanded the proportion of outsourced production, further reducing capital investment in related plants, production equipment, and intangible assets. In December 2018, LEDVANCE held a supply chain future development adjustment meeting (GPC meeting), upgrading from the original regional procurement and regional budgeting to global procurement management, which means adjusting from the original regional management in North America, Western Europe, Eastern Europe, Latin America, and the Asia-Pacific region and gradually establishing a supply system with China as the global supply center and developing a global supplier portfolio strategy.

In 2018 and the first six months of 2019, LEDVANCE's actual capital expenditures were approximately EUR 12,300,000 and approximately EUR 5,700,000, respectively, which were 71.10% and 73.71% lower than the estimated expenditure in the restructuring valuation, respectively. Therefore, the goodwill valuation predicts future capital expenditures based on the actual capital expenditures in 2018 and the first six months of 2019, which is in line with the actual situation of LEDVANCE.

8. Additional working capital

Additional working capital is equal to the increase or decrease in the total working capital for the current period (operating cash + inventories + operating receivables - operating payables) compared to the total working capital of the previous period. The additional working capital for the restructuring valuation and goodwill valuation is shown in the table below:

Unit: EUR 1,000

Item	2017.7-12E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Terminal year
Restructuring valuation - additional working capital	49,335	-24,830	10,010	23,712	17,074	19,677	19,891	18,670	20,898	19,871	19,583	0
Goodwill valuation - additional working capital	-	-	352,382	202	7,853	4,742	5,669	6,293	6,905	5,638	5,095	0

Main differences:

① The goodwill valuation did not consider the beginning working capital, resulting in a large amount of additional working capital in the first period

According to the Accounting Regulatory Risk Alert No. 8 - Goodwill Impairment, the cash flow for goodwill valuation does not include beginning working capital, which resulted in

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a larger initial additional working capital in 2019.

LEDVANCE's additional working capital at the end of 2019 is estimated to be EUR 352,382,000, and its calculation process and basis are as follows:

Unit: EUR 1,000

Item	Actual amount at the end of 2018	Estimated amount at the end of 2019	Basis for data estimation at the end of 2019
Accounts receivable	293,226.04	284,348.28	Determine the amount of accounts receivable for future years based on the forecast operating income for 2019, with reference to the ratio of accounts receivable to operating income in the most recent year
Inventories	390,813.52	378,513.96	Determine the amount of inventories for future years based on the forecast operating costs for 2019, with reference to the ratio of inventories to operating costs in the most recent year
Other operating accounts receivable	110,920.38	105,500.93	Mainly include notes receivable, other current and non-current assets, and cash holdings, among which notes receivable, other current and non-current assets are based on the forecast operating income for 2019, with reference to the ratio of relevant accounts receivable to operating income in the most recent year. The amount of cash to be held is based on on-site communication between the valuation institution and the head of finance of LEDVANCE. The daily cash required by the enterprise is approximately half a month's cash costs
Total (A)	794,959.93	768,363.18	
Accounts payable	275,423.04	233,904.39	Determine the amount of accounts payable for future years based on the projected operating costs and by referencing its proportion to the cost of sales in historical years
Employee compensation payable and long-term employee compensation payable	137,226.38	116,540.19	The carrying value related to the restructuring is calculated by an actuary hired by LEDVANCE in accordance with the relevant regulations of each country, so it is assumed that the existing scale will continue to roll over in future years. The remaining portion is correlated with operating income, and the employee compensation payable for future years is determined based on the forecasted operating income and by referencing the ratio of this portion to operating income in 2018

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Other operating payables	**113,238.96**	**98,414.15**	**This mainly includes notes payable, other current and non-current liabilities, other payables, and taxes payable. Among them, for notes payable and other current and non-current liabilities, the amount of accounts payable for future years is determined based on the forecasted operating costs and by referencing the historical ratio of these items to the operating costs. For taxes payable, the amount for future years is determined based on the forecasted operating income and by referencing the ratio of taxes payable to operating income in 2018**
Total (B)	**525,888.38**	**448,858.72**	
Working capital (A-B)	**269,071.55**	**319,504.46**	
Additional working capital in 2019 (C)	**-**	**50,432.91**	**Additional working capital in 2019 = working capital at the end of 2019 - working capital at the end of 2018**
Impact of actual working capital at the beginning of 2019 (D)	**-**	**301,949.45**	**Working capital at the end of 2018 * (1 + discount rate)**
Additional working capital in 2019 (excluding the impact of actual working capital at the beginning of 2019) (E=C+D)	**-**	**352,382.35**	**The scope of this valuation does not include the beginning working capital, so the beginning working capital, considering the discount rate, needs to be added back**

② The additional working capital for the goodwill valuation for 2020-2027 is lower than that for the restructuring valuation

The items that have a significant impact on the additional working capital mainly include the periodic increases in accounts receivable and inventory, where the increase in accounts receivable = the increase in operating income * the number of days of accounts receivable turnover, and the increase in inventory = the increase in operating costs * the number of inventory turnover days. The number of days of accounts receivable turnover and inventory turnover days remained basically unchanged in the two valuations, but the growth rates of future operating income and operating costs decreased in the goodwill valuation.

9. Calculation of discount rate

The calculation process of the discount rate in two valuations is shown in the following table:

Item	Basis for selection of calculation parameters	Restructuring valuation report	2018 Goodwill impairment valuation
Capital structure (D/E)	Restructuring valuation: the ratio of the interest-bearing liabilities (D) of the valuated enterprise on the valuation date to the enterprise equity value of LEDVANCE (E). Goodwill impairment valuation: The average ratio of the interest-bearing debt (D) of comparable companies on the valuation date to their enterprise equity value (E)	0.1364	0.3454
Risk-free interest rate	Average of long-term government bond yields in the countries where the valuated entity's main business	2.11%	2.08%

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	revenue is located (Germany, the U.S., China)		
Cost of equity (Ke)	Calculated and determined using the capital asset pricing model (CAPM)	10.55%	10.81%
Cost of debt (after tax) (Kd)	Weighted loan interest rate after tax	2.80%	2.02%
Proportion of equity (We)	We=1/(1+D/E)	87.99%	74.33%
Proportion of debt (Wd)	Wd=1-We	12.01%	25.67%
Discount rate (WACC) (after tax)	WACC=Ke×E/(E+D)+Kd×D/(E+D)	9.62%	8.55%
Applicable income tax rate	Consolidated comprehensive tax rate of the assessed entity	-	30.00%
Discount rate (WACC) (pre-tax)	WACC/(1-income tax rate)	-	12.22%

The after-tax discount rate for the goodwill valuation is lower than that in the restructuring valuation report, mainly due to the different calculation methods and results for the capital structure (D/E). In the goodwill valuation, the asset group is the valuation object. Since the E in the capital structure (D/E) represents the enterprise equity value, which cannot be directly obtained and calculated, the valuation firm, following common practice, calculates the capital structure (D/E) using the average ratio of interest-bearing debt (D) to equity value (E) of comparable overseas listed companies (Philips Lighting, OSRAM Licht, CREE Lighting, ZUMTOBEL Group). In the restructuring valuation, the entire enterprise value is the valuation object, and the capital structure is the ratio of LEDVANCE's interest-bearing liabilities (D) to LEDVANCE's enterprise equity value (E), which can be directly obtained and calculated.

To analyze the impact of different capital structures on the discount rate and assessed value, we assume that the goodwill valuation calculates the discount rate based on the capital structure of the restructuring valuation, and also by calculating the capital structure with D as interest-bearing liabilities and E as the present value of projected future cash flows. The specific calculation process and results are shown in the table below:

Item	Basis for selection of calculation parameters	Goodwill impairment valuation (simulating discount rate calculation based on the 0.1364 capital structure from the restructuring valuation)	Goodwill impairment valuation (simulating discount rate calculation with capital structure computed with D as interest-bearing liabilities and E as the present value of projected future cash flows)
Capital structure (D/E)	Goodwill impairment valuation: ratio of interest-bearing debt (D) to enterprise equity value (E) at the valuation date	0.1364	0.1825

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Risk-free interest rate	Average of long-term government bond yields in the countries where the valuated entity's main business revenue is located (Germany, the U.S., China)	2.08%	2.08%
Cost of equity (Ke)	Calculated and determined using the capital asset pricing model (CAPM)	10.02%	10.19%
Cost of debt (after-tax (Kd))	Weighted interest rate for after-tax loans	2.02%	2.02%
Proportion of equity (We)	We=1/(1+D/E)	88.00%	84.57%
Proportion of debt (Wd)	Wd=1-We	12.00%	15.43%
Discount rate (WACC) (after tax)	WACC=Ke×E/(E+D)+Kd×D/(E+D)	9.06%	8.93%

Assuming the goodwill valuation is calculated using the discount rate based on the capital structure from the restructuring valuation (9.06% after tax), the estimated recoverable amount of the LEDVANCE lighting business asset group (excluding restructuring charges) is EUR 418,220,670. Assuming the goodwill valuation expands the definition of D/E from the narrow sense of "D as interest-bearing liabilities and E as enterprise equity value" to the broad sense of "D as interest-bearing liabilities and E as the present value of projected future cash flows," meaning the capital structure uses the same calculation method as the restructuring valuation, then the calculated discount rate (after tax) would be 8.93%, and the estimated recoverable amount of the LEDVANCE lighting business asset group (excluding restructuring charges) would be EUR 434,433,400. The estimated recoverable amounts calculated under both assumptions (excluding restructuring charges) are higher than the carrying value of the asset group (including goodwill), so there is no goodwill impairment.

10. According to the 2018 goodwill impairment test, there was no impairment of goodwill

At the end of 2018, the assessed value of the lighting business asset group was EUR 485,756,970, which was higher than the carrying value of the lighting business asset group (including goodwill) of EUR 242,334,420. Therefore, there was no goodwill impairment in 2018.

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The restructuring valuation predicted that LEDVANCE's capital expenditures for 2018 and 2019 would be EUR 42,567,000 and EUR 43,367,000, respectively. In 2018 and the first six months of 2019, LEDVANCE's actual capital expenditures were approximately EUR 12,300,000 and approximately EUR 5,700,000, respectively, which were significantly lower than the estimated expenditures in the restructuring valuation. Therefore, the goodwill valuation predicts future capital expenditures based on the actual capital expenditures in 2018 and the first six months of 2019, which is in line with the actual situation of LEDVANCE.

(2) The discount rate for the goodwill valuation is lower than that in the restructuring valuation report

The pre-tax discount rate (12.22%) in the 2018 goodwill valuation was 1.52 percentage points lower than the pre-tax discount rate (13.74%) in the restructuring valuation report, primarily due to differences in the calculation method and result of the capital structure (D/E). In the goodwill valuation, the asset group is the valuation object. Since the E in the capital structure (D/E) represents the enterprise equity value, which cannot be directly obtained and calculated, the valuation firm, following common practice, calculates the capital structure (D/E) using the average ratio of interest-bearing debt (D) to equity value (E) of comparable overseas listed companies (Philips Lighting, OSRAM Licht, CREE Lighting, ZUMTOBEL Group). In the restructuring valuation, the entire enterprise value is the valuation object, and the capital structure is the ratio of LEDVANCE's interest-bearing liabilities (D) to LEDVANCE's enterprise equity value (E), which can be directly obtained and calculated.

If the goodwill valuation had applied the same discount rate as the restructuring valuation, the assessed value of the lighting business asset group would be EUR 351,469,020, which is still higher than the carrying value of the lighting business asset group (including goodwill) of EUR 242,334,420.

In summary, LEDVANCE's operating performance has grown steadily, and there have been no major adverse changes in the general lighting industry and policy environment in which it operates. Its overall performance is in line with the assessment's projections. The parameter selection and calculation basis involved in the 2018 goodwill impairment test were prudent and reasonable.

IV. Whether the raised funds will directly or indirectly boost the performance of LEDVANCE, thereby affecting the comparability of the performance forecast in subsequent valuation reports

The Company has formulated measures for the administration of raised funds, which sets out detailed provisions on the use of raised funds and performance accounting of fund-raising investment projects, and ensure their strict compliance. The Company will separately prepare dedicated working papers for the fund-raising investment project, and establish sound special accounting records and ledgers for activities involving the use of raised funds. The use of the raised funds is subject to daily supervision by the Company's internal audit department. The Board of Directors will comprehensively review the progress of the fund-raising investment project every six months and issue the Special Report on the Deposit and Actual Use of the Company's Raised Funds for the deposit and use of the raised funds. Therefore, the Company has formulated measures to ensure the independent accounting of the future operating performance of the fund-raising investment project.

The fund-raising investment projects under the convertible bond offering, the Xiaolan high-performance LED packaging product production project and the Xiaolan LED power supply production project, will be implemented in Xiaolan, Zhongshan City. The Yiwu Automated LED Lighting Product Production Project will be directly implemented at MINGXIN Optoelectronics, and the profits and losses it generates will not be included in the future performance calculation of

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LEDVANCE, which is controlled by MINGXIN Optoelectronics. Transactions between MINGXIN Optoelectronics and LEDVANCE will be priced at market rates, and the raised funds will not affect the comparability of the performance forecast in subsequent valuation reports.

Sponsor's verification process and opinions:

The sponsor reviewed the auditor's report, financial report, valuation report, and equity transfer agreement of the previous restructuring, the goodwill impairment report issued by China Tong Cheng Assets Appraisal Co., Ltd., the Issuer's 2018 Auditor's Report **and 2019 semi-annual report**, the management system for the use of raised funds, and relevant industry research reports; interviewed the Company's management to understand the integration effect of the acquired target LEDVANCE to date, the operating conditions and financial position of the underlying assets, the performance forecast, commitment performance and its fulfillment in the restructuring valuation report, the adequacy of goodwill impairment provisions, and the future impact of related asset impairment on the Company's operating performance, and obtained and analyzed the detailed schedule of restructuring charges, LEDVANCE's separate financial statements, etc.

Upon verification, the sponsor believes that:

1. Since the Issuer completed the acquisition of LEDVANCE, LEDVANCE has operated steadily and delivered sound performance, and its actual operating results for July-December 2017 and the full year of 2018 both met the performance forecast in the appraisal report. The Issuer has achieved good integration effects by further accelerating the business integration of LEDVANCE and leveraging the marketing channels and brand effects of LEDVANCE.

2. LEDVANCE's accrual and accounting for restructuring charges are reasonable; The Company has adjusted its restructuring plan based on actual circumstances to accelerate the restructuring process, and will generally reduce the actual expenditure of restructuring charges; There is no material difference between the Company's actual restructuring expenditures and the estimated restructuring expenditures under the adjusted restructuring plan, and the restructuring charges accrued by the Company are sufficient to cover the actual restructuring expenditures; LEDVANCE's restructuring charges will not have a material impact on the future operating performance of the listed company.

3.The industry environment in which LEDVANCE operates has not undergone significant adverse changes, its business performance has continued to grow and met the corresponding profit forecasts, and no impairment was identified in the goodwill impairment test, so the Issuer does not need to make provisions for goodwill impairment.

4. The raised funds will not be used in LEDVANCE. The Issuer has formulated and strictly implemented management measures for the use of raised funds. This fund-raising will not affect the comparability of the performance forecasts in subsequent valuation reports.

Accountants' verification opinion:

Upon verification, the accountants believe that:

1. The actual operating performance of LEDVANCE for July-December 2017 and for the full year of 2018 have met the performance forecasts in the valuation report.

2. The provision for and accounting treatment of restructuring charges by LEDVANCE are reasonable, and there is no significant difference between the actual restructuring expenditures incurred by the Company and the estimated expenditures under the adjusted restructuring plan. In subsequent periods, when LEDVANCE actually incurs restructuring charges, it will recognize them as expenses and liabilities in its financial statements. When preparing MLS's consolidated financial statements, the restructuring charges and liabilities recognized by LEDVANCE will need to be reversed, which will have no material impact on MLS's future operating performance.

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3. When LEDVANCE conducted its impairment test in 2018, the industry policy environment in which it operated had not undergone significant adverse changes, and it had met the corresponding profit forecasts. According to the goodwill impairment valuation report issued by the independent appraiser, the LEDVANCE lighting business asset group (including goodwill) does not need to make a provision for goodwill impairment.

3. During the reporting period, the Applicant's overall GPM for its main business, after excluding the impact of the consolidation of LEDVANCE, showed a fluctuating decline. From January to September 2018, its non-recurring net profit attributable to parent company decreased by 59.32% year-on-year. The previous fund-raising investment projects, the Ji'an SMD LED Packaging Phase I Construction Project and the Xinyu LED Lighting Supporting Components Project, did not achieve their expected benefits. The Applicant is requested to: (1) explain the reasons why the Ji'an SMD LED Packaging Phase I Construction Project and the Xinyu LED Lighting Supporting Components Project did not achieve their expected benefits; (2) analyze the main factors affecting the decline in the Company's gross profit margin and operating performance; (3) explain whether the Company's operating performance has improved, whether the main factors affecting the decline in operating performance have been eliminated, whether there will be a significant adverse impact on the Company's performance in 2018 and subsequent years, and whether this offering complies with the provision that "the weighted average ROE for the last three accounting years is not less than 6% on average"; (4) whether changes in operating performance or other significant adverse changes will have a material adverse impact on the fund-raising investment project. The sponsor and the accountant shall conduct verification and issue opinions.

[Reply]:

I. Explain the reasons why the Ji'an SMD LED Packaging Phase I Construction Project and the Xinyu LED Lighting Supporting Components Project did not achieve their expected benefits

The realization of benefits for the Ji'an SMD LED Packaging Phase I Construction Project and the Xinyu LED Lighting Supporting Components Project is as follows:

Unit: RMB 10,000

Fund-raising investment projects	Accumulated projected benefits from the commissioning date to June 30, 2019	Accumulated actual benefits from the commissioning date to June 30, 2019
Ji'an SMD LED packaging Phase I construction project	**51,471.84**	**8,201.41**
Xinyu LED Lighting Supporting Components Project	**13,669.41**	**-5,219.94**

(I) Main reasons why the Ji'an SMD LED Packaging Phase I Construction Project failed to achieve the expected benefits

1. This project was put into production in September 2016 and reached full production in the third year (T+3) after being put into production. The actual production and sales volume of this project in 2018 basically reached the volume estimated in the feasibility study report. However, since 2017, market competition for display screen packaging products has intensified, new competitors have cut prices to seize market share, and the Company has proactively lowered the selling prices of some products. In addition, due to factors attributable to chips and equipment suppliers, the display packaging products of this project experienced quality issues in 2018, and the Company compensated customers by reducing product prices. The above factors led to the actual average price of the company's products being 20.53% lower than the average price estimated in the feasibility study report. In 2018, the actual gross profit margin of this project was only 8.78%,

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resulting in lower achievement of projected benefits.

2. The actual period expense ratio of this project in 2018 was 6.54%, 1.02 percentage points higher than the rate estimated in the feasibility study report. This was mainly due to an increase in the project's actual financial costs, and the actual G&A expenses incurred were also higher than estimated.

3.When the Company applied for the environmental acceptance of this project, a major environmental inspection of enterprises in the Jiangxi Province was underway, which caused the environmental acceptance time for some sub-projects to be about 6 months later than originally planned, resulting in the project's commissioning progress being lower than expected; This project is a new off-site construction project. It was originally planned to transfer 50% of the personnel from Zhongshan MLS. However, due to factors including Zhongshan employees' low willingness to work in other locations and the relatively low local labor cost in Ji'an, the Company only transferred some key business backbones to the project. Most personnel were newly recruited and trained locally, resulting in the overall arrival time of the project's personnel being later than expected.

(II) Main reasons why the Xinyu LED Lighting Supporting Components Project failed to achieve its expected benefits

During the implementation of the Xinyu LED Lighting Supporting Components Project, the Company was planning the acquisition of LEDVANCE, and therefore adjusted its strategic planning. In the future, the business of MLS parent company and its existing subsidiaries will focus on LED packaging and LED application lighting components, while the LED application lighting business will be consolidated under LEDVANCE or outsourced for production. Therefore, in January 2017, the Company changed the fund-raising investment project of the 2016 non-public offering of shares, the Xinyu LED Application Lighting Phase I Construction Project to the Xinyu LED Lighting Supporting Components Project. In March 2017, the Company fully repaid the RMB 251,332,500 of raised funds that had been used for the original fund-raising investment project with its self-owned funds, and the repaid funds will be used for the new fund-raising investment project after the change.

The Xinyu LED Lighting Supporting Components Project is mainly for the production of LED circuit boards, and was originally scheduled to reach full production capacity and generate benefits in September 2017. As of **June 30, 2019**, the proportion of raised funds invested in this project was **71.47%**. The project has been delayed, and production capacity is still being gradually commissioned. The economic benefits of the project have not been fully realized, and the achievement rate of the projected revenue in the 2018 feasibility study report was 62.46%.

The main reasons why this project failed to achieve the expected benefits are as follows: The project mainly produces circuit boards, which are newly developed supporting components for LED lighting by the Company. Technical solutions, product processes and cost control are still being continuously optimized, and production capacity absorption and market expansion also require time. To improve the efficiency of capital utilization, the Company moderately slowed down the pace of production capacity deployment, and the project was postponed to 2019. In addition, most positions were filled by new local recruitment in Xinyu, and the overall competence of these employees is lower than that of employees from the Pearl River Delta. Furthermore, since circuit boards are new products requiring continuous optimization by the Company, both the training time and cost for project personnel are higher than originally expected. As of **June 30, 2019**, some of the production capacity of this project had not yet been put into operation.

II. Analysis of the main factors affecting the decline in the Company's gross profit margin and operating performance

(I) Changes in the Company's operating performance during the reporting period

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Unit: RMB 10,000

Item	January-June 2019	YoY change	2018	YoY change	2017	YoY change	2016	YoY change
Operating income	**938,673.27**	**34.26%**	1,795,185.57	119.76%	816,872.56	47.97%	552,049.59	42.22%
Net profit	**39,716.90**	**-18.15%**	72,790.42	7.63%	67,630.91	39.32%	48,543.35	88.42%
Net profit attributable to parent company	**39,379.47**	**-18.64%**	72,036.45	7.75%	66,854.82	41.20%	47,345.94	85.27%
Recurring net profit attributable to parent company	**6,529.95**	**-27.66%**	21,380.95	-59.29%	52,516.60	13.04%	46,458.49	105.17%
Gross profit margin of main business	**31.54%**	**8.86%**	26.29%	**4.98%**	21.31%	**-3.20%**	24.51%	**3.41%**

Currently, the Company's sales revenue from LED packaging products ranks first among A-share listed companies in China, making it the largest LED packaging manufacturer in China. During the reporting period, the Company's operating income and net profit maintained rapid growth. Since April 2018, LEDVANCE, spun off from OSRAM, has been included in the Company's consolidated statements, causing a significant year-on-year increase in the Company's operating income and net profit in 2018.

In the first half of 2019, the Company's operating income increased by 34.26% compared with the same period of the previous year**, but its net profit and net profit** after deducting non-recurring profits and losses **declined** compared with the same period of the previous year**.** The operating performance has declined, mainly due to the price reduction of some of the Company's products and the increase in financial expenses, G&A expenses, and R&D expenses.

(II) Performance of MLS Headquarters in 2018

1. Comparative analysis of major items in the income statement of MLS Headquarters for 2018 compared with the same period of the previous year, after excluding the impact of LEDVANCE's consolidation

Unit: RMB 10,000

Item	2018	2017	Change in amount
Operating income	818,678.80	816,872.56	1,806.24
Operating costs	678,111.16	645,181.58	32,929.58
Operating gross profit	140,567.64	171,690.98	-31,123.34
Sales expenses	16,887.40	17,351.13	-463.73
G&A expenses	39,927.33	31,294.48	8,632.85
R&D expenses	47,073.45	30,582.14	16,491.31
Financial expenses	32,684.58	22,595.91	10,088.67

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Assets impairment losses	9,532.52	6,490.27	3,042.25
Net profit	49,390.48	67,630.91	-18,240.43
Recurring net profit attributable to parent company	-1,488.37	52,516.60	-54,004.97

In 2018, the operating income of MLS Headquarters increased by RMB 18,062,400 year-on-year, while its net profit decreased by RMB 182,404,300 year-on-year. However, its net profit attributable to the parent company after deducting non-recurring profits and losses decreased by RMB 540,049,700 year-on-year, a significant decline. The main factors affecting the year-on-year decline in the operating performance of MLS Headquarters in 2018 include:

(1) The gross profit margin of the SMD LED business decreased year-on-year

SMD LEDs account for the largest proportion of business at MLS Headquarters. In 2018, the gross profit margin of SMD LEDs was 18.73%, a decrease of 3.78 percentage points compared with the same period of the previous year, mainly due to the following reasons:

1) Since 2017, market competition for packaging products for display screens has intensified. New entrants have seized market share via aggressive price-cutting. To ramp up the new SMD LED production capacity and defend or expand market share, the Company proactively lowered the prices of certain products, resulting in a decline in product prices and gross profit margin in 2018;

2) Due to quality issues with chips and equipment from suppliers, the display screen packaging products of this project experienced quality issues in 2018. The Company compensated customers by reducing product prices, which led to a decrease in the gross profit margin of SMD LEDs.

(2) Significant year-on-year increase in G&A expenses and R&D expenses

In 2018, the G&A expenses of MLS Headquarters were RMB 399,273,300, a year-on-year increase of RMB 86,328,500; the G&A expense ratio was 4.88%, a year-on-year increase of 1.05 percentage points. In 2018, the R&D expenses were RMB 470,734,500, a year-on-year increase of RMB 164,913,100; the R&D expense ratio was 5.75%, a year-on-year increase of 2.01 percentage points.

Since the acquisition of LEDVANCE in March 2018, MLS Headquarters has continuously increased R&D investment in high-performance packaging products and LED application products to enhance the business and technological synergies between MLS Headquarters and LEDVANCE, resulting in a substantial increase in R&D expenses in 2018. In addition, MLS Headquarters adjusted its internal structure in 2018: the site in Xiaolan, Zhongshan will focus on functions including headquarters management, technical R&D and operation of high-performance production bases, while its production capacity will be gradually relocated to the production base in Ji'an, Jiangxi. This relocation process incurred certain relocation expenses and shutdown losses.

(3) Significant year-on-year increase in financial expenses

Due to acquisition activities, investments in new plants and equipment, and business growth, the Company's interest-bearing liabilities, such as short-term borrowings, long-term borrowings, and non-current liabilities due within one year, increased significantly in 2018. In 2018, MLS Headquarters recorded financial expenses of RMB 326,845,800, representing a year-on-year increase of RMB 100,886,700.

In summary, the above factors are the main reasons for the significant decline in the net profit after deducting non-recurring profits and losses of MLS Headquarters in 2018. As MLS Headquarters received large government subsidies from regions including Yiwu and Jiangxi in 2018,

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the net amount of non-recurring profits and losses (including government subsidies) reached RMB 506,555,000, which kept the Company's net profit before deducting non-recurring profits and losses at a relatively high level.

2. Performance of peer listed companies in the same industry in 2018

Unit: RMB 10,000

Peer companies	Operating income	YoY change	Operating gross profit	YoY change	Period expenses	YoY change	Net profit after deducting non-recurring profits and losses	YoY change
NATIONSTAR	362,679.99	4.44%	88,648.10	7.84%	36,502.59	-5.97%	39,040.96	21.14%
CHANGFANG GROUP	157,438.77	-10.06%	40,222.18	-14.65%	26,268.34	-0.22%	-15,321.77	-1021.59%
HONGLI ZHIHUI	400,316.10	8.22%	92,417.98	22.36%	49,130.07	15.92%	6,337.31	-73.57%
Refond Optoelectronics	156,200.82	-1.37%	30,775.71	3.84%	21,301.07	13.68%	1,413.99	-80.01%
Average	269,158.92	0.31%	63,015.99	4.85%	33,300.52	5.85%	7,867.62	-288.51%
MLS Headquarters	818,678.80	0.22%	140,567.64	-18.13%	136,572.76	34.13%	-1,488.37	-102.83%

As can be seen from the table above, listed companies in the same industry saw weak overall operating performance in 2018: all peers recorded a relatively large decline, with the exception of NationStar, which achieved year-on-year growth.

III. Explain whether the Company's current operating performance has improved, whether the main factors affecting the decline in operating performance have been eliminated, whether it will have a significant adverse impact on the Company's performance in 2018 and subsequent years, and whether this offering complies with the provision that "the weighted average ROE for the last three accounting years is not less than 6% on average"

(I) Whether the operating performance has improved, whether the main factors causing the operating performance decline have been eliminated, and whether these factors will have a material adverse impact on the Company's performance in 2018 and subsequent years

1. Whether the operating performance has improved

In the first half of 2019, the Company's operating income on a consolidated basis was **RMB 9,386,732,700**, a year-on-year increase of **34.26%**; Net profit attributable to shareholders of the parent company was **RMB** 393,794,700, a year-on-year **decrease of 18.64%**; Net profit attributable to shareholders of the parent company after deducting non-recurring profits and losses was **RMB 65.2995** million, a year-on-year **decrease of 27.66%**.

Among them, LEDVANCE's unaudited net profit and net profit after deducting non-recurring profits and losses for the first half of 2019 were RMB 168,714,300 and RMB 55,381,700 respectively.Compared with the first half of 2018, the year-on-year increases were RMB 117,695,700 and RMB 13,995,300 respectively, marking a positive year-on-year growth. Since the acquisition of LEDVANCE in March 2018, the Company has continued to promote the integration of related businesses and the closure of traditional light source factories. Although its operating income has decreased year-on-year, both its net profit and net profit after deducting non-recurring profits and losses have increased year-on-year.

The main items of the income statement of MLS Headquarters for the full year 2018 and

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January-June 2019, along with their year-on-year changes, are presented in the table below:

Unit: RMB 10,000

Item	January-June 2019	YoY change amount	2018	YoY change amount
Operating income	357,349.07	-48,969.74	818,678.80	1,806.24
Operating gross profit	73,865.90	583.14	140,567.64	-31,123.34
Gross profit margin of main business	22.57%	4.18%	18.06%	-3.25%
Sales expenses	7,340.36	-1,309.10	16,887.40	-463.73
G&A expenses	18,862.98	-10.03	39,927.33	8,632.85
R&D expenses	19,882.69	-1,655.30	47,073.45	16,491.31
Financial expenses	18,716.13	3,166.80	32,684.58	10,088.67
Net profit	23,731.41	-17,408.44	49,390.48	-18,240.43
Recurring net profit attributable to parent company	1,882.44	-721.29	-1,488.37	-54,004.97

(1) Operating income

From January to June 2019, the operating income of MLS Headquarters was RMB 3,573,490,700, a year-on-year decrease of 12.05%, of which the operating income of MLS Headquarters in the first quarter of 2019 was RMB 1,494,171,100, a year-on-year decrease of 26.13%. The operating income in the second quarter was RMB 2,079.3195 million, a year-on-year increase of 1.90%.

The significant year-on-year decrease in operating income of MLS Headquarters in the first quarter of 2019 was mainly due to a 24.48% year-on-year decrease in the average unit price of LED packaging products. The specific reasons include: 1. The unit cost of SMD LEDs decreased by 29.60% due to factors such as lower prices of raw materials like chips and improvements in production processes; 2. The Company lost part of its display packaging market share due to the 2018 quality incident. At the same time, the Company lowered product prices to regain and consolidate its market share. In addition, the optimization of the product structure by MLS Headquarters in the first quarter of 2019, which involved reducing the output of some low-margin products in highly competitive markets, also had a certain impact on the decline in operating income.

As the impact of the 2018 quality incident gradually diminished and product structure adjustments were progressively put in place, the sales of MLS Headquarters steadily recovered in the second quarter of 2019, with operating income achieving both year-over-year and quarter-over-quarter growth. In the second quarter of 2019, the operating income of MLS Headquarters increased by RMB 585.1484 million quarter-over-quarter compared to the first quarter of 2019, and by RMB 38.7838 million year-over-year compared to the second quarter of 2018. In addition, the significant quarter-on-quarter increase in the second quarter was also due to seasonal factors, as production and operating income were relatively low in the first quarter due to work stoppages for the Spring Festival holiday and subsequent recruitment challenges after the holiday; After March, the number of workers and production capacity gradually recovered, and production and sales progressively increased.

(2) Gross profit margin

Although the operating income of MLS Headquarters in the first half of 2019 decreased

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by 12.05% year-on-year, the direct impact of the quality incident has been gradually eliminated, and the average unit price of its key product SMD LED has rebounded starting from the second half of 2018. At the same time, driven by the advantages of large-scale procurement, mass production, and cost control, the cost reduction of key products was greater than the price reduction. In addition, the Company optimized and adjusted its product structure, leading to a gradual recovery of its gross profit margin. In the first half of 2019, the gross profit margin from main business of MLS Headquarters was 22.57%, up 4.18 percentage points year-on-year. In the second quarter of 2019 specifically, the gross profit margin from main business of MLS Headquarters reached 24.98%, up 5.54 percentage points from the first quarter of 2019, indicating that gross profit margin is continuing to recover and rebound.

(3) Period expenses

The Company has strengthened expense control, and in the first half of 2019, sales expenses, G&A expenses, and R&D expenses all decreased year-on-year. Specifically, sales expenses in the first half of 2019 amounted to RMB 73,403,600, a year-on-year decrease of RMB 13,091,000. This was mainly because since MLS completed the acquisition of LEDVANCE, it has reduced investment in LED light sources and luminaires for end consumers at its headquarters, thereby reducing marketing expenses such as advertising and promotion expenses for MLS Headquarters; R&D expenses for the first half of 2019 were RMB 198,826,900, a year-on-year decrease of RMB 16,553,000, mainly because the Company appropriately slowed down its investment in R&D projects that are difficult to generate returns in the short term, thereby reducing R&D expenditures.

(4) Non-recurring net profit attributable to parent company

From January to June 2019, the recurring net profit attributable to parent company of MLS Headquarters was RMB 18,824,400, a decrease of RMB 7,212,900 compared with the same period in 2018. Among which, the recurring net profit attributable to parent company of MLS Headquarters in the second quarter of 2019 was RMB 67,586,400, an increase of RMB 116,348,300 compared with the first quarter of 2019. This indicates that the profitability of MLS Headquarters is gradually recovering, and its gross profit margin has been returning to the normal level of previous years. This improvement is mainly attributable to the gradual elimination of the impact of the 2018 quality incident, product structure optimization, and enhanced cost control and expense management.

2. The adverse factors leading to the performance decline of MLS Headquarters are gradually improving and will not have a material adverse impact on the Company's performance in future years

Unit: RMB 10,000

Item	H1 2019	Q2 2019	Q1 2019
Operating income	357,349.07	207,931.96	149,417.11
Operating gross profit	73,865.90	44,572.81	29,293.09
Gross profit margin of main business	22.57%	24.98%	19.44%
Sales expenses	7,340.36	3,864.69	3,475.67
G&A expenses	18,862.98	9,781.93	9,081.05
R&D expenses	19,882.69	7,644.45	12,238.24
Financial expenses	18,716.13	10,659.46	8,056.67

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Other income	**27,598.54**	**11,704.86**	**15,893.68**
Net profit	**23,731.41**	**16,958.19**	**6,773.22**
Recurring net profit attributable to parent company	**1,882.44**	**6,758.64**	**-4,876.20**

The net profit after deducting non-recurring profits and losses was negative in the first quarter of 2019, mainly due to the following reasons:

(1) A year-on-year decrease in the price of packaging products resulted in lower operating income. In the first quarter of 2019, the prices of raw materials such as chips decreased and production processes improved, leading to a drop in unit costs, and the Company appropriately lowered its product prices. The Company lost part of its market share in display screen packaging due to the quality incident in 2018. At the same time, the Company lowered the prices of some products to regain and consolidate its market share.

(2) In the first quarter, due to work stoppages for the Spring Festival holiday and recruitment challenge after holiday, production was relatively low, leading to higher unit depreciation and amortization costs, which resulted in a relatively low gross profit margin for the quarter.

(3) Due to extensive technical R&D activities and high interest-bearing debts, R&D expenses and financial expenses were relatively high.

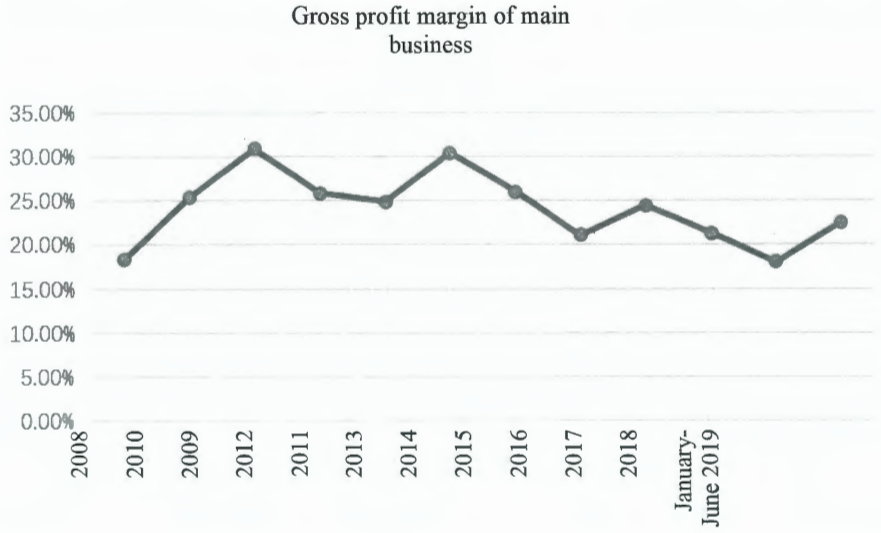
Moving into the second quarter of 2019, the direct impact of the 2018 quality incident has gradually been eliminated, sales at MLS Headquarters have started to return to normal, the gross profit margin has further recovered, and expenses have been effectively controlled. In the second quarter of 2019, MLS Headquarters achieved operating income of RMB 2,079,319,500, an increase of 39.16% quarter-on-quarter from the first quarter of 2019, and an increase of 1.90% year-on-year from the second quarter of 2018; The gross profit margin of the main business in the second quarter of 2019 was 24.98%, an increase of 5.54 percentage points from the first quarter of 2019 quarter-on-quarter and an increase of 2.11 percentage points from the second quarter of 2018 year year-on-year. As a result, MLS Headquarters achieved a net profit of RMB 169,581,900 and a recurring net profit attributable to parent company of RMB 67,586,300 in the second quarter of 2019, turning losses into profits in the first half of 2019.

The fluctuations in the gross profit margin of MLS Headquarters from 2008 to the present are shown in the figure below:

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As the largest LED packaging manufacturer in China, the Company has the scale advantages that gives it strong pricing power in the industry, significantly influencing the market pricing of domestic packaging products. Over a longer period, the Company's overall GPM has remained between 20% and 30%. In recent years, to release new production capacity, seize market share, and respond to price wars from new competitors, the Company has proactively adjusted the prices of some packaging products, which has led to a decrease in the product gross profit margin. In addition, in 2018, some products of the Company had quality issues caused by the suppliers, resulting in a historical low of the Company's gross profit margin in 2018. Currently, the impact of the 2018 quality incident has been **gradually** eliminated. As the market gradually clears up and some competitors exit, the Company's gross profit margin will recover step by step. By the **second quarter of 2019**, the gross profit margin of MLS Headquarters had increased both year-on-year and quarter-on-quarter, and the Company's gross profit margin is in a trend of recovery.

Moreover, MLS Headquarters plans to take multiple measures to reduce the period expense ratio and improve profitability. For financial expenses, MLS Headquarters plans to reduce financial expenses via such means of repaying some bank loans and financing leases, and lowering funding costs through note discounting. After the convertible bond funds are in place, part of the funds will be used to repay interest-bearing debts, further reducing financial leverage and financial expenses; for G&A expenses, the Company will take measures such as streamlining personnel and reducing expense budgets to lower G&A expenses; in terms of R&D expenses, the Company will appropriately slow down its investment in R&D projects that are difficult to generate returns in the short term to reduce R&D expenses. **The R&D expenses in the first half of 2019 decreased by RMB 16.5530 million year-on-year.**

Therefore, the factors that led to the decline in performance in 2019 have been basically eliminated and will not have a significant adverse impact on the Company's performance in future years.

3. Operating performance of listed companies in the same industry in the first half of 2019

The performance changes of MLS Headquarters and the comparable listed companies from January to June 2019 are shown in the table below:

Unit: RMB 10,000

Listed	Operating	YoY	Gross	YoY	Period	YoY	Recurring	YoY

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companies in the same industry	income	change ratio	profit margin	change amount	expenses	change ratio	net profit attributable to parent company	change amount
NATIONSTAR	162,615.64	-8.87%	25.22%	0.47%	17,443.64	-4.09%	17,383.64	-2,835.89
CHANGFANG GROUP	81,749.61	4.07%	28.01%	0.65%	13,666.16	10.96%	2,975.58	2,813.41
HONGLI ZHIHUI	94,270.21	7.89%	20.62%	-1.30%	10,380.85	-9.01%	6,906.61	722.06
Refond Optoelectronics	30,951.78	-6.29%	16.29%	-2.04%	4,953.28	5.67%	814.00	-382.52
MLS Headquarters	357,349.07	-12.05%	22.57%	4.18%	64,802.16	0.30%	1,882.44	-721.29

Note: as of the signing date of the reply to the feedback, the 2019 semi-annual reports of REFOND Optoelectronics and Hongli Zhihui have not yet been disclosed. The data for REFOND Optoelectronics and Hongli Zhihui in the table above are from their reports for the first quarter of 2019.

Affected by the quality incident in 2018, coupled with the Company's adjustment of its product structure and reduction in the output of some products with low gross profit margin, the operating income of MLS Headquarters declined significantly in the first quarter of 2019. Although it recovered in the second quarter, the decline in operating income in the first half of the year was still higher than the average level of comparable companies in the same industry. In the first half of 2019, as the impact of the 2018 quality incident gradually diminished and the Company's product structure optimization took effect, the gross profit margin of MLS Headquarters began to recover. Due to the relatively low base of the gross profit margin in the first half of 2018, the recovery rate was greater than that of comparable listed companies in the same industry.

4. Measures of the Company to improve its business operations

(1) Maintain the traditional competitive advantage in Lamp LED; balance the relationship between the gross profit margin and market share of SMD LED; negotiate for the compensation for quality issues with suppliers of chips and equipment

Lamp LED is a traditional dominant LED packaging product of the Company. The Company's production scale takes a leading position in the industry. The scale effect gives the Company a significant cost advantage in Lamp LED, and the gross profit margin has always remained at a high level. The Company will continue to maintain its traditional competitive advantage in Lamp LED.

The Company continues to increase its investment in the production capacity of SMDLED and has built multiple production bases in places like Jiangxi and Xiaolan. In recent years, the Company's operating income from SMDLED has maintained a trend of rapid growth. To release new production capacity and seize market share, the Company has proactively adjusted the prices of some packaging products, which caused a decline in the gross profit margin of SMDLED. It will take some time for the scale effect of the production base to be realized, which also led to higher unit costs. The Company will balance the relationship between the gross profit margin of SMDLED and market share, reasonably adjust the schedule of production capacity release, and expand its market share on the basis of ensuring high profitability.

In January 2019, the Company and relevant suppliers agreed on methods to deal with quality issues through discussions and initially reached an intention of compensation. In May 2019, the Company and the suppliers signed the Quality Compensation Agreement regarding the specific

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compensation amount and details, in which Supplier A will compensate the Company RMB 110.1684 million for this product quality issues, and Supplier B will compensate RMB 96 million.

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(II) This issuance complies with the provision that "the weighted average ROE for the last three accounting years shall not be less than 6% on average"

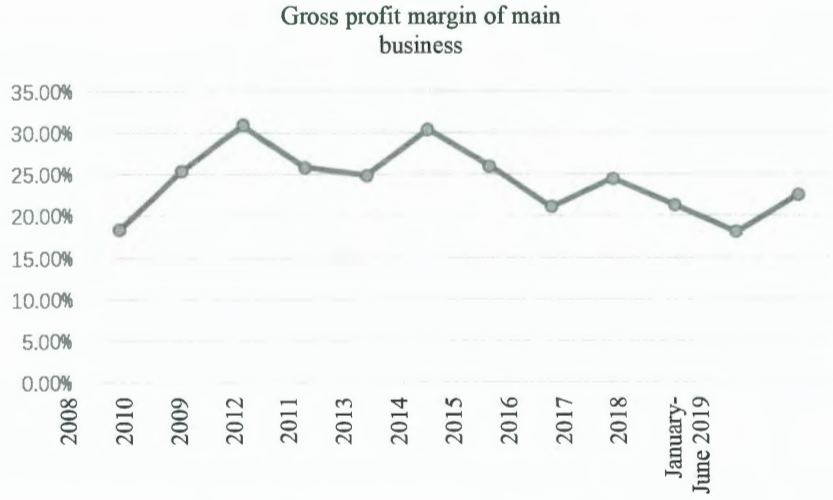
Item	2018	2017	2016
Weighted average return on equity (whichever is lower before or after deducting non-recurring items)	2.64%	9.48%	11.43%

The average weighted average ROE for 2016-2018 was 7.85%, which is not less than 6%, in compliance with the relevant provisions of the Administrative Measures for the Issuance of Securities by Listed Companies.

IV. The factors affecting the decline in the Company's operating performance in 2018 will not have a significant adverse impact on these fund-raising investment projects

(I) The decline in the gross profit margin of LED packaging products lacks sustainability. Adjusting the prices of some SMDLED packaging products is conducive to consolidating the Company's leading position in the LED packaging market, further increasing its market share, and helping to absorb the production capacity of the fund-raising investment project, the Xiaolan High-Performance LED Packaging Product Production Project

In recent years, in order to release new production capacity and seize market share, the Company has proactively adjusted the prices of some SMDLED packaging products, such as display screen and white light packaging products, resulting in a decrease in the gross profit margin of SMDLED. From the perspective of the industry's development patterns, as a thriving industry that still maintains high growth, the LED industry has experienced several cycles of "high profitability → capacity expansion and new competitors → declining profitability → exit of some competitors → recovery of profitability" over the past decade. From 2008 to **the first half of 2019**, the fluctuations in the gross profit margin of MLS Headquarters are as follows:



As can be seen from the table above, along with the development of the industry, the Company's gross profit margin of its main business shows cyclical fluctuations. The main reasons for the fluctuations are as follows: as the largest LED packaging manufacturer in China, the Company's advantages of scale give it a strong say in the industry and a significant influence on the market pricing of domestic packaging products. Over a longer period, the Company's gross profit margin has been maintained at a reasonable level between 20% and 30%. With the rapid development of the LED industry, packaging technology is constantly iterating and upgrading, and new products are continuously introduced. At the same time, the Company continuously enhances

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its competitiveness and updates its products during its development. Before expanding production capacity or launching new products, the Company often appropriately reduces the prices of related products to open up market space. After the market gradually clears and some competitors exit, the gross profit margin then gradually rebounds. In 2018, to release new production capacity, capture market space, and respond to a price war from new competitors, the Company proactively adjusted the prices of some packaging products. Additionally, some products of the Company had quality issues in 2018 due to suppliers, which caused the Company's gross profit margin to reach a historical low in 2018. Currently, the impact of the 2018 quality incident is **gradually** diminishing. As the market clears and some competitors exit, the Company's gross profit margin is expected to rebound gradually. **In the second quarter of 2019, the Company's gross profit margin returned to a normal level**. The adjustment of the prices of some packaging products by the Company is conducive to consolidating market share, capturing market space, and facilitating the absorption of the production capacity of this project.

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Sponsor's verification process and opinions:

The sponsor interviewed the Chief Financial Officer and finance manager of the Company to understand the benefit realization of the previous fund-raising investment projects and the reasons for failing to achieve the expected benefits, reviewed the feasibility study report and the actual benefit statistics table of the previous fund-raising investment projects, analyzed the changes and reasons for the changes in the Company's operating performance during the reporting period, checked and analyzed the main reasons for the changes in the main items of the income statement **in 2018 and the first half of 2019**, analyzed the impact of factors affecting the decline in operating performance on the Company's fund-raising investment projects and future performance, the performance **in the first half of 2019**, and checked whether the return on net assets for each period during the reporting period met the issuance conditions.

Upon verification, the sponsor believes that:

The main reasons why the Ji'an SMD LED Packaging Phase I Construction Project did not achieve the expected benefits include intensified market competition, price-cutting sales by new competitors, product quality issues, and delays in the construction period due to the new off-site project and environmental protection inspections; The main reason why the Xinyu LED Lighting Supporting Components Project did not achieve the expected benefits is that the circuit board products are newly developed by the Company, and the product process and cost control are still being continuously optimized. The Company moderately slowed down the pace of production capacity release, and the project has been delayed.

The main factors for the decline in the Company's operating performance after deducting non-recurring gains and losses in 2018 include a year-on-year decrease in the gross profit margin of some products and a significant year-on-year increase in G&A expenses, R&D expenses and financial expenses; the Company has gradually taken various measures to curb the adverse effects of factors contributing to the performance decline, and it is expected that these factors will not have a material adverse effect on the Company's operating performance in 2019 and subsequent years; this issuance complies with the provision that "the weighted average ROE for the last three accounting years shall not be less than 6% on average"; the factors affecting the decline in the Company's operating performance **in 2018 and the first half of 2019** will not have a significant adverse impact on this fund-raising investment project.

Accountants' verification opinion:

Upon verification, the accountants believe that:

The main factors for the decline in MLS's operating performance after deducting non-recurring profits and losses in 2018 and the first **half** of 2019 include a year-on-year decrease in the gross profit margin of some products and a significant year-on-year increase in G&A expenses, R&D expenses and financial expenses; This issuance complies with the provision that "the weighted average ROE for the last three accounting years shall not be not less than 6% on average".



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4. During the reporting period, the amounts of available-for-sale financial assets and long-term equity investments held by the Applicant are relatively large. The Applicant is requested to: (1) explain the composition of available-for-sale financial assets and long-term equity investments at the end of the latest period, and state whether they constitute financial investment; (2) Explain the situation of financial investments and quasi-financial businesses that the Company has implemented or plans to implement from the reporting period to the present, explain whether the Company holds any large-amount, long-term financial investments (including quasi-financial businesses, the same below) as of the end of the latest period in conjunction with the Company's main business, and at the same time explain the necessity of the amount of funds to be raised this time by comparing the current total financial investment with this fund-raising scale and the Company's net assets level; (3) Based on whether the Company has invested in industrial M&A funds, and considering such funds' establishment purpose, investment direction, investment decision-making mechanism, method for distributing or bearing profits or losses, and whether the Company has promised principal and rate of return to other parties, explain whether the Company effectively controls such funds and should include them in the scope of consolidated statements, and whether the capital contributions from other parties constitute a situation of nominal equity and actual debt. The sponsor and the accountant shall conduct verification and issue opinions.

[Reply]:

I. Explain the composition of available-for-sale financial assets and long-term equity investments at the end of the latest period, and state whether they constitute financial investments

(I) Basis for recognition of financial investments

1、According to the in Regulatory Guideline for Listed Companies No. 2- Q&A on the Recognition of Financial Investments, in addition to the circumstances of financial investments already specified in the regulatory guidelines, such as holding financial assets held for trading and available-for-sale financial assets, lending to others, and entrusted wealth management, investments by listed companies in industrial funds and other similar funds or products shall be recognized as financial investments if they also meet the following conditions:

(1) The listed company is a limited partner or its investment status is similar to that of a limited partner, and it has neither actual management nor right of control over the fund (product);

(2) The main purpose of the listed company is to obtain investment income from the fund (product) or its investment projects. 2. According to the Regulatory Q&A - Regulatory Requirements for Guiding and Standardizing the Financing Activities of Listed Companies, when a listed company applies for refinancing, with the exception of financial enterprises, it should in principle not hold large amounts of long-term financial assets held for trading, available-for-sale financial assets, loans to others, entrusted wealth management, or other financial investments at the end of the latest period.

(II) Composition of available-for-sale financial assets and long-term equity investments at the end of the latest period

1. Details of the Company's other equity instrument investments (available-for-sale financial assets) as of June 30, 2019

Starting from January 1, 2019, the Company has implemented the new accounting standards for financial instruments, designating some of its non-trading equity investments as financial assets measured at fair value with changes recognized in other comprehensive income, which are presented as other equity instrument investments. Therefore, the original available-for-sale financial assets are presented as other equity instrument investments. As of June 30, 2019, the details of the Company's other equity instrument investments are as follows:

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Unit: RMB 10,000

S/N	Investee	June 30, 2019
1	Lianhe Guangdong New Light Sources Industry Innovation Center of Nanhai District, Foshan	300.00
2	Zhongshan Longshan Sewage Treatment Co., Ltd.	318.65
3	Fujian MLS	5.00
4	Chongqing Lighting	1.05
5	Jilin Lighting	1.32
6	Shaanxi Lighting	1.32
7	Hebei Lighting	2.63
8	Guizhou Good Lighting	2.63
9	Shanxi Good Lighting	2.63
10	Zhejiang Optoelectronics	2.45
11	Beijing Lighting	2.63
12	Gansu Lighting	1.32
13	Liaoning Shidai Lighting	2.63
14	Heilongjiang Lighting	1.32
Total book balance		**645.57**
Impairment provisions		**300.00**
Carrying value		**345.57**

Lianhe Guangdong New Light Sources Industry Innovation Center of Nanhai District, Foshan is a non-profit, technology-focused, private and non-enterprise corporate entity established with non-state-owned assets and on a voluntary basis. It is primarily engaged in the research, development, and public services of the semiconductor lighting industry. The center was jointly established by the Department of Science and Technology of Guangdong Province, Foshan Municipal Government, Nanhai District Government, Luocun Sub-district, Guangdong Light Emitting Diode Industry Association, and China Solid State Lighting Alliance, with joint funding from the scientific research institutions, LED listed companies, and leading enterprises in Guangdong Province. The start-up capital is RMB 63 million, contributed equally by 21 entities, with each entity contributing RMB 3 million to establish this center. The Company invested RMB 3 million. Due to its non-profit nature, the Company fully recognized impairment provisions for it in 2016.

Zhongshan Longshan Sewage Treatment Co., Ltd. is a sewage treatment company established as a joint venture by local enterprises in accordance with government requirements. The Company invested RMB 3 million in it in 2015. The establishment of a joint venture sewage treatment company enables the effective treatment of industrial and domestic wastewater generated during the Company's production process. Its primary purpose is to support the development of the Company's main business, not to obtain investment income, and therefore it is not a financial investment.

All other invested enterprises are equity investments in MLS product distributors, with an investment ratio of about 5%. The purpose of these investments is to facilitate the management of distribution channels and prevent distributors from unauthorized sales and unfair competition. They are closely related to the Company's main business and are not financial investments.

2. Details of the Company's long-term equity investment balance as of **June 30, 2019**

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Unit: RMB 10,000

S/N	Invested enterprises	June 30, 2019
1	INTEMATIX Lighting	**46,107.04**
2	HUAIAN Aoyang	**63,390.12**
3	Global Value Lighting, LLC	**2,410.65**
4	LEDVANCE Prosperity Company Ltd.	**497.60**
Total book balance		**112,405.41**

The business scope of INTEMATIX Lighting covers various segments of the industrial chain, including LED epitaxial wafers, chips, packaging modules, and lighting applications. In 2015, the Company invested RMB 180 million to acquire a 10.91% stake in INTEMATIX Lighting. Starting from 2016, the Company made an additional investment of RMB 300 million, and its current shareholding ratio is 25.50%. As of **June 30, 2019**, the carrying value of long-term equity investments calculated with the equity method was RMB **461.0704** million. The main purpose of the Company's investment in INTEMATIX Lighting is to enter the upstream sectors of LED epitaxial wafers and chips, which is directly related to the Company's main business. It is a strategic investment of the Company, not primarily for obtaining investment income. Therefore, it does not constitute a financial investment.

HUAIAN Aoyang is a subsidiary of Jiangsu Aucksun Co., Ltd. (stock code: 002245), a listed company on the SME board mainly engaged in businesses such as the manufacturing of LED chips. The Company made an initial investment of RMB 250 million in 2015, and increased the total investment to RMB 500 million in 2016, holding a 26.88% equity interest in it. As of **June 30, 2019**, the carrying value of long-term equity investments calculated with the equity method was RMB **633.9012** million. The main purpose of the Company's investment in HUAIAN Aoyang is to ensure a sufficient supply of LED chips to the Company. It is not primarily for obtaining investment income and therefore does not constitute a financial investment.

Global Value Lighting, LLC is a limited liability company jointly established in the U.S. by MLS and LSG MLS JV HOLDINGS (hereinafter referred to as "SPV"), a subsidiary of the U.S. company LSG (Lighting Science Group Corporation). MLS contributed USD 4.9 million in foreign exchange after obtaining relevant overseas investment approvals, accounting for 49% of the total capital contribution of this company, while SPV contributed USD 5.1 million in cash, accounting for 51% of the total capital contribution. As of **June 30, 2019**, the carrying value of long-term equity investments calculated with the equity method was RMB **24.1065** million. This company is the Company's sales company in the U.S., which is directly related to the Company's main business. It is not primarily for obtaining investment income, so it does not constitute a financial investment.

LEDVANCE Prosperity Company Ltd. is a limited liability company registered in Hong Kong, in which LEDVANCE holds a 50% investment stake. As of **June 30, 2019**, the carrying value of long-term equity investments calculated with the equity method was RMB **4.976** million. This company mainly sells LEDVANCE's products, which is directly related to its overseas business. The main purpose is not to obtain investment income, so it does not fall into the category of financial investment.

All of the Company's aforementioned long-term equity investments were made in the industrial chain related to its existing main business. The main purposes of these investments are to expand the scale of its existing business, secure the supply of raw materials, and develop new business layouts. The Company intends to hold these investments for the long term, and none of them are financial investments.

II. Explain the situation of financial investments and quasi-financial businesses that the

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Company has implemented or plans to implement from the reporting period to the present, explain whether the Company holds any large-amount, long-term financial investments (including quasi-financial businesses, the same below) as of the end of the latest period in conjunction with the Company's main business, and at the same time explain the necessity of the amount of funds to be raised this time by comparing the current total financial investment with the scale of this fund-raising and the Company's net assets level

(I) Explain the situation of financial investments and quasi-financial businesses that the Company has implemented or plans to implement from the reporting period to the present, and in conjunction with the Company's main business, explain whether the Company holds any large-amount, long-term financial investments (including quasi-financial businesses, the same below) as of the end of the latest period

1. The situation of financial investments and quasi-financial businesses that the Company has implemented or plans to implement from the reporting period to the present

As of the end of each reporting period, the accounting titles involved in the Regulatory Guideline for Listed Companies No. 2- Q&A on the Recognition of Financial Investments are as follows:

Unit: RMB 10,000

Item	June 30, 2019	2018.12.31	2017.12.31	December 31, 2016
Financial assets held for trading	**216,159.22**	-	-	-
Financial assets measured at fair value with changes in fair value recognized in profit or loss	-	697.25	16.47	1.32
Available-for-sale financial assets	-	345.57	165,345.57	18,300.00
Other equity instrument investments	**345.57**	-	-	-
Other current assets - wealth management products	-	98,750.00	109,155.10	103,649.03
Other non-current financial assets	**10,000.00**	-	-	-

(1) Financial assets held for trading

Starting from January 1, 2019, the Company has implemented the new standards for financial instruments. Certain wealth management products held by the Company, whose returns depend on the yield of the underlying assets, were originally classified as available-for-sale financial assets and presented under the item of other current assets in the financial statement. Since their contractual cash flows are not solely payments of principal and interest on the outstanding principal, the Company performed a reclassification on or after January 1, 2019, categorizing them as financial assets measured at fair value with changes recognized in profit or loss for the current period, and presented them as financial assets held for trading. Therefore, starting from January 1, 2019, the Company has made a reclassification of the original other current assets - wealth management products and financial assets measured at fair value with changes recognized in profit or loss for the current period to financial assets held for trading.

As of June 30, 2019, the financial assets held for trading of the Company amounted to RMB 2,161.5922 million, including RMB 8.132 million of derivative financial assets and RMB 2,153.4602 million of other assets.

Among them, the RMB 8.132 million of financial assets held for trading - derivative

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financial assets were originally accounted for as financial assets measured at fair value with changes recognized in profit or loss for the current period. These are forward foreign exchange settlement/sale contracts signed by the Company with financial institutions to reduce foreign exchange fluctuation risks, which are related to the main business and not primarily for the purpose of obtaining investment income. Therefore, this asset is not a large-amount long-term financial investment.

RMB 2,153,460,200 of financial assets held for trading - others were formerly other current assets - wealth management products, primarily short-term wealth management or cash management products purchased to improve the efficiency of fund utilization. With a term of less than one year or the conditions of being redeemable in advance, they are bank wealth management products for principal protection with floating returns and do not fall within the scope of financial investments for "purchasing non-principal-guaranteed and non-interest-guaranteed financial products" as stipulated by the CSRC. The wealth management products purchased by the Company have been basically pledged to banks for issuing bankers' acceptance bills or letters of guarantee. They have been actually used for the Company's production and operation, thus they are not large-amount long-term financial investments.

(2) Financial assets measured at fair value with changes recognized in profit or loss for the current period

At the end of each period during the reporting period, the Company's financial assets measured at fair value with changes recognized in profit or loss for the current period were RMB 13,200, RMB 164,700, RMB 6,972,500, **and RMB 0**, respectively, accounting for 0.00%, 0.00%, 0.07%, **and 0.00%** of the Company's net assets, which is a very small proportion. Financial assets measured at fair value with changes recognized in profit or loss for the current period are forward foreign exchange settlement/sale contracts signed by the Company with financial institutions to reduce foreign exchange fluctuation risks, which are related to the main business and not primarily for the purpose of obtaining investment income. Therefore, this asset is not a large-amount long-term financial investment.

(3) Available-for-sale financial assets/**other equity instrument investments**

At the end of each period during the reporting period, the carrying value of the Company's available-for-sale financial assets was RMB 183 million, RMB 1,653.4557 million, RMB 3.4557 million **and RMB 0**, respectively. The available-for-sale financial assets during the reporting period mainly included the M&A funds for the acquisition of LEDVANCE, HARMONY MINGXIN and HARMONY Guangcan, and investments in distributors.

On or after January 1, 2019, the Company has designated some of its non-trading equity investments as financial assets measured at fair value with changes recognized in other comprehensive income, which are presented as other equity instrument investments. As of June 30, 2019, the carrying value of the Company's other equity investments was RMB 3.4557 million, mainly including investments in distributors and Zhongshan Longshan Sewage Treatment Co., Ltd., which do not fall into the category of large-amount long-term financial investments.

(4) Other current assets - wealth management products

At the end of each period from 2016 to 2018, the Company's other current assets - wealth management products were RMB 1,036,490,300, RMB 1,091,551,000, and RMB 987,500,000, respectively, accounting for 19.28%, 18.42%, and 10.27% of the Company's net assets, respectively. **The Company performed a reclassification on and after January 1, 2019, categorizing them as financial assets measured at fair value with changes recognized in profit or loss for the current period, and presented them as financial assets held for trading. For details, please refer to the explanation in "(1) Financial assets held for trading" of this sub-section.**

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(5) Other non-current financial assets

As of June 30, 2019, the other non-current financial assets of the Company amounted to RMB 100 million, which are fixed-rate bank certificates of time deposit purchased by the Company as a security deposit for the issuance of bankers' acceptance bills. The amount is relatively small, accounting for 1.02% of the Company's net assets.

2. Information on quasi-financial business

From the reporting period to date, the Company has neither implemented nor planned to implement any quasi-financial business.

(II) Explain the necessity of the amount of raised funds this time by comparing the current total financial investment with the scale of the raised funds this time and the Company's level of net assets

As of June 30, 2019, the amount of the Company's wealth management products was RMB 2,253.4602 million. The wealth management products purchased by the Company are **mainly** cash management or short-term wealth management products purchased by the Company to improve capital use efficiency, which are bank wealth management products of principal protection with floating returns. As of **June 30, 2019**, the Company's debt-to-asset ratio was **69.36%**, and interest-bearing debts due within one year amounted to RMB **7,802.1519 million**. The disposable funds of the Company as of **June 30, 2019** were mainly used for repaying due interest-bearing debts and maintaining the liquidity of domestic and overseas businesses. The Company will have a large demand for funds in the future, and the sum of its available monetary funds and wealth management products cannot meet this future demand. Therefore, the Company plans to issue convertible bonds to raise funds to meet the capital needs of the fund-raising investment projects.

III. Explain whether the Company effectively controls such funds and should include them in the scope of consolidated statements, and whether the capital contributions from other parties constitute a situation of nominal equity and actual debt, based on whether the Company has invested in industrial M&A funds and the purpose, investment direction, investment decision-making mechanism, profit/loss distribution or assumption method of such funds, and whether the Company has made any commitment on the principal and rate of return to other parties.

(I) The Company's investment in HARMONY Guangcan

1. Basic information of HARMONY Guangcan

Name	Yiwu HARMONY Guangcan Enterprise Management Consulting Partnership (Limited Partnership)
Type	Limited partnership enterprise
Main business premises	No. L33 Shangcheng Avenue, Futian Sub-District, Yiwu City, Zhejiang Province
Executive Partner	Xizang Anhui Venture Capital Management Co., Ltd.
Unified Social Credit Identifier	91330782MA28P0602F
Business scope	Business management consulting, private equity investment (the above business scope shall not include financial services such as accepting deposits, financing guarantees, wealth management for clients, and public fundraising (financing) without the approval of financial and other industry regulatory authorities). (Items that require approval according to law can only be operated after obtaining approval of relevant authorities)
Date of establishment	December 21, 2016
Term of partnership	From December 21, 2016 to long-term

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(1) On December 20, 2016, the fourth meeting of the third Board of Directors of the Company deliberated and approved the Proposal on Signing the Partnership Agreement of Yiwu HARMONY Guangcan Enterprise Management Consulting Partnership (Limited Partnership). The Company, together with Zhejiang Yiwu Industrial Park Development Co., Ltd. (hereinafter referred to as "Yiwu Industrial Park", later renamed "Zhejiang Yiwu High-tech Zone Development and Construction Co., Ltd.") and Xizang Aiqi Huide Venture Capital Management Co., Ltd. (hereinafter referred to as "Xizang Aiqi"), jointly signed the Partnership Agreement of Yiwu HARMONY Guangcan Enterprise Management Consulting Partnership (Limited Partnership) and established HARMONY Guangcan. The total subscribed capital contribution of the partnership was RMB 650.01 million, of which the Company subscribed RMB 500 million with its self-owned funds.

(2) On June 8, 2017, the Company completed a capital increase of RMB 300 million in HARMONY Guangcan. Upon the completion of this capital increase, the total capital contribution of HARMONY Guangcan increased from RMB 650.01 million to RMB 950.01 million, of which the Company held 84.2096% of the capital contribution, Xizang Aiqi held 0.0011%, and Yiwu Industrial Park held 15.7893%. This matter was within the authority of the chairman of the Company's Board of Directors.

(3) On November 8, 2017, Xizang Aiqi, one of HARMONY Guangcan's investors, was changed to Xizang Anhui Venture Capital Management Co., Ltd., and Xizang Anhui Venture Capital Management Co., Ltd. made an additional investment in HARMONY Guangcan. After the change was completed, the total capital contribution of HARMONY Guangcan changed from RMB 950.01 million to RMB 951 million.

(4) On December 20, 2017, the 18th meeting of the third Board of Directors of the Company deliberated and approved the Proposal on the Planned Reduction of Capital Contribution to Yiwu HARMONY Guangcan Enterprise Management Consulting Partnership (Limited Partnership). The Company has decided to reduce its capital contribution to HARMONY Guangcan. HARMONY Guangcan will return the paid-in capital of RMB 500 million to the Company and pay the corresponding investment income to the Company in accordance with relevant agreements. Upon the completion of this capital reduction, the total capital contribution of HARMONY Guangcan was reduced from RMB 951 million to RMB 451 million, with the Company's capital contribution being RMB 300 million, holding 66.52% of the capital contribution to HARMONY Guangcan. The capital contribution of each partner after the completion of the capital contribution is shown in the table below:

S/N	Partner name	Subscribed capital contribution (RMB 10,000)	Method of capital contribution	Proportion of capital contribution	Partnership type
1	Zhejiang Yiwu High-tech Zone Development and Construction Co., Ltd.	15,000	Currency	33.26%	Limited partner
2	MLS	30,000	Currency	66.52%	Limited partner
3	Xizang Anhui Venture Capital Management Co., Ltd.	100	Currency	0.22%	General partner
Total		**45,100**	**-**	**100.00%**	**-**

(5) On June 30, 2018, the 26th meeting of the third Board of Directors of the Company deliberated and approved the Proposal on Withdrawing from Yiwu HARMONY Guangcan Enterprise Management Consulting Partnership (Limited Partnership). In view of the Company management's multiple considerations in project investment and capital operations, and to improve

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the efficiency of capital use, the Company, after careful decision-making, intends to withdraw its capital contribution from HARMONY Guangcan. After the withdrawal, the Company will no longer hold any partnership share in HARMONY Guangcan, and HARMONY Guangcan will return the paid-in capital of RMB 300 million to the Company.

Fund name	MLS's capital contribution	Time of capital contribution	Time of exit	Whether to consolidate financial statements
HARMONY Guangcan	The Company makes capital contribution as a limited partner	December 2016	June 2018	No

3. Main contents of the partnership agreement

(1) Purpose of establishing the fund: to broaden the Company's profit channels, and enhance its profitability and competitiveness.

(2) Investment focus: the fund focuses on equity investment in companies in the electronics industry, while also considering strategic/emerging industry investments.

(3) Investment decision-making mechanism: the prevailing market practice will be adopted. The fund manager is entrusted to manage the investment of assets, and the custodian is entrusted to supervise the accounts.

(4) Method for distribution or assumption of profits or losses:

1) The proceeds from project disposal shall first be used to return all investment principal to the partners, and after all the investment principal has been returned, the remaining proceeds, after deducting the performance fee by the fund manager, shall be distributed to the fund investors according to their proportion of capital contribution;

2) Fund manager's management fee: all partners shall pay an annual management fee at a rate of 2.5% of their subscribed capital contributions per year;

3) Fund manager's performance fee: a 20% fee is charged on the net investment income.

The agreement does not stipulate that MLS makes any commitment on the principal and rate of return to other partners of the partnership.

4. Analysis of whether the listed company substantially controls the fund and should include it in the consolidated statements, and whether the capital contributions from other parties constitute a situation of nominal equity and actual debt

According to the provisions of Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements (Revised in 2014), the three elements for an investor to control an investee are: (1) power over the investee; (2) exposure to variable returns from its involvement with the investee; and (3) the ability to use its power over the investee to affect the amount of its returns. If a listed company (or its subsidiaries, the same below) participates in an M&A fund and exhibits the following characteristics simultaneously, it should generally be considered that the listed company has the right of control over the M&A fund, and the M&A fund and the investee enterprises controlled by the fund should be included in the listed company's consolidated statements:

(1) The listed company is the sole inferior limited partner (LP) or holds the vast majority of inferior LP shares in the fund. The other LPs are financial investors (priority LPs) seeking guaranteed fixed returns. Consequently, the listed company enjoys or bears all (or the vast majority of) the residual risks and rewards of the fund's operations. The variability of the fund's returns is

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basically concentrated in the fund shares held by the listed company, while the principal safety and agreed returns of the other LPs can be highly guaranteed.

(2) The purpose of this M&A fund is to serve the M&A needs of the listed company and provide leverage financing for its external M&A activities. The listed company led and participated in its establishment and structural design. The fund's investment focus is concentrated in the same industry and upstream/downstream industries of the listed company (or other industries the listed company intends to enter), which can achieve M&A synergies for the listed company.

(3) Although there is a general partner (GP), its share is very low, and it can be basically considered that the GP is an "agent" as referred to in the Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements (Revised in 2014). Although the GP nominally has extensive decision-making power, including a majority voting right or veto right in the investment committee or similar bodies, its power is actually attributed to the listed company as the primary responsible party. The listed company, through its power as the subordinated LP and the power held by the GP as its agent, essentially dominates the fund's investment entry and exit decisions.

(4) The listed company can control the fund's investment exit channels. For example, it is stipulated that the listed company should acquire the investment from the fund after a period of time once the fund has made an investment, or the listed company has a right of first refusal when the fund exits. The acquisition price arrangement upon its exit is sufficient to ensure the safety of the principal and the agreed returns for the priority LPs.

In consideration of the provisions of the standards and the background of this transaction, according to the Business License of HARMONY Guangcan, HARMONY Guangcan is a limited partnership whose executive partner is Xizang Aiqi Huide, and the designated representative of Xizang Aiqi Huide is Mr. Yu Xinhua of IDG Capital. IDG Capital was established in 1993, with offices in Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Boston, Silicon Valley and other locations. It is one of the U.S. M&A investment firms that entered China at the earliest time. According to the supplementary agreement between the fund manager and MLS, in this transaction, IDG Capital shall directly execute the decision-making and management of the partnership, and MLS shall not participate in the decision-making and management of this transaction; MLS will receive a return at a fixed income rate upon its exit from the M&A fund. Based on this, MLS's equity investment in HARMONY Guangcan cannot constitute control, joint control, or significant influence. Therefore, it should be treated as a financial asset falling within the scope of Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments. The Company accounts for it as an available-for-sale financial asset and does not need to include it in the scope of consolidated statements.

According to the partnership agreement, there is no situation of nominal equity and actual debt in the capital contributions from other parties.

(II) The Company's investment in HARMONY MINGXIN

1. Basic information of HARMONY MINGXIN

Name	Yiwu Harmony Mingxin Equity Investment Partnership (Limited Partnership)
Type	Limited partnership enterprise
Main business premises	No. 126 Sufu Road, Suxi Town, Yiwu, Zhejiang
Executive Partner	Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership)
Unified Social Credit Identifier	91330782MA28E38J93
Business scope	Equity investment, equity investment management (the above business scope does

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	not include financial services such as securities and futures, and shall not engage in financial services such as absorbing deposits, financing guarantees, wealth management on behalf of clients, or public fund-raising without the approval of financial and other industry regulatory authorities). (Items that require approval according to law can only be operated after obtaining approval of relevant authorities)
Date of establishment	July 19, 2016
Term of partnership	From 19 July 2016 to perpetual

2. The Company's investment and HARMONY MINGXIN history

(1) In July 2016, the partnership was established

On July 15, 2016, Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership), HARMONY Haoshu Investment Management (Beijing) Co., Ltd., MLS and Yiwu State-owned Capital Operation Center (later renamed "Yiwu State-owned Capital Operation Co., Ltd.") signed the Partnership Agreement of Yiwu Harmony Mingxin Equity Investment Partnership (Limited Partnership), jointly initiating the establishment of Harmony Mingxin, with a total subscribed capital contribution of RMB 500.01 million from all partners. The business scope of the partnership includes equity investment and equity investment management. On July 15, 2016, the Yiwu Market Supervision Administration issued the [2016] No. 330782675034 Notice of Pre-approval of Enterprise Name for pre-approving the enterprise name. On July 19, 2016, the Yiwu Administration for Market Regulation issued the "Business License".

At the time of its establishment, the proportion of capital contribution of each partner of HARMONY MINGXIN was as follows:

S/N	Partner name	Subscribed capital contribution (RMB 10,000)	Method of capital contribution	Proportion of capital contribution	Partnership type
1	Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership)	1	Currency	0.002%	General partner
2	HARMONY Haoshu Investment Management (Beijing) Co., Ltd.	14,286	Currency	28.571%	Limited partner
3	MLS	17,857	Currency	35.713%	Limited partner
4	Yiwu State-owned Capital Operation Center	17,857	Currency	35.713%	Limited partner
Total		**50,001**	-	**100.00%**	-

(2) In July 2016, the partnership underwent a capital increase

On July 15, 2016, Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership), HARMONY Haoshu Investment Management (Beijing) Co., Ltd., MLS, and Yiwu State-owned Capital Operation Center signed the Partnership Agreement of Yiwu Harmony Mingxin Equity Investment Partnership (Limited Partnership). The limited partners intended to increase their subscribed capital contribution to Harmony Mingxin on a pro-rata basis, wherein MLS intended to increase its subscribed capital contribution from RMB 178.57 million to RMB 1,250 million, Yiwu State-owned Capital Operation Center intended to increase its subscribed capital contribution from RMB 178.57 million to RMB 1,250 million, and HARMONY Haoshu Investment Management (Beijing) Co., Ltd. intended to increase its subscribed capital contribution from RMB 142.86 million to RMB 1,000 million. In July 2016, the Yiwu Administration for Market Regulation issued the Business License.

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The proportion of capital contribution of each partner after this capital increase is as follows:

S/N	Partner name	Subscribed capital contribution (RMB 10,000)	Method of capital contribution	Proportion of capital contribution	Partnership type
1	Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership)	1	Currency	0.0002%	General partner
2	HARMONY Haoshu Investment Management (Beijing) Co., Ltd.	150,000	Currency	37.5000%	Limited partner
3	MLS Co., Ltd.	125,000	Currency	31.2499%	Limited partner
4	Yiwu State-owned Capital Operation Center	125,000	Currency	31.2499%	Limited partner
Total		**400,001**	-	**100.00%**	-

(3) In December 2016, the partnership underwent a capital increase

In December 2016, Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership), HARMONY Haoshu Investment Management (Beijing) Co., Ltd., MLS, and Yiwu State-owned Capital Operation Center signed the Partnership Agreement of Yiwu Harmony Mingxin Equity Investment Partnership (Limited Partnership), under which the general partner, Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership), intended to increase its subscribed capital contribution from RMB 10,000 to RMB 1 million. The Yiwu Administration for Market Regulation issued the Business License.

The proportion of capital contribution of each partner after this capital increase is as follows:

S/N	Partner name	Subscribed capital contribution (RMB 10,000)	Method of capital contribution	Proportion of capital contribution	Partnership type
1	Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership)	100	Currency	0.025%	General partner
2	HARMONY Haoshu Investment Management (Beijing) Co., Ltd.	150,000	Currency	37.491%	Limited partner
3	MLS	125,000	Currency	31.242%	Limited partner
4	Yiwu State-owned Capital Operation Co., Ltd.	125,000	Currency	31.242%	Limited partner
Total		**400,100**	-	**100.00%**	-

3. Basic information of the Subject Company

Company name	Ledvance Lighting Co., Ltd.
Company type	Limited liability company (wholly-owned by a foreign legal person)

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Business scope	Engaged in the production, manufacturing, design, development, wholesale, commission agency (excluding auction), import and export business, and related trade consulting services for products of electric light sources, various types of luminaires, related control devices, accessory components, production equipment for electric light sources, and smart home products related to lighting (no physical store operations; not involving products under state-run trade management; for products involving quota and license management, applications shall be handled in accordance with relevant national regulations); Providing installation, maintenance, and after-sales services for such products, and organizing related business training and consulting services; Providing accounting, financial management, and other related services to affiliated companies (including overseas). (The above business scope excludes restricted and prohibited items. Items subject to legal and administrative regulations must operate with the relevant licenses.). (the operating activities of items subject to approval in accordance with the law may not be carried out without the approval of the relevant departments.)
Date of establishment	April 20, 2016
Business term	20 April 2016 - 20 April 2046

4、 Main contents of the partnership agreement

(1) Purpose of the fund: to prosper the market economy and achieve asset appreciation through legal operations.

(2) Investment direction: equity investment, and equity investment management.

(3) Investment decision-making mechanism: the prevailing market practice will be adopted. The fund manager is entrusted to manage the investment of assets, and the custodian is entrusted to supervise the accounts.

(4) Method for distribution or assumption of profits or losses:

1) The profits and losses of the enterprise shall be distributed and borne by the partners in accordance with their proportion of capital contribution.

2) During the existence of the partnership, partners may increase their capital contributions to the partnership to expand the scale of business or cover losses, in accordance with the provisions of the Partnership Agreement or upon the decision of all partners.

3) The specific plan for the annual or periodic profit distribution or loss sharing of the enterprise shall be decided by all partners through consultation.

5、 Implementation of partnership affairs

(1) The partners shall entrust one general partner as the managing partner, and the other partners shall no longer implement the affairs of the partnership. Partners who do not participate in implementing the affairs have the right to supervise the managing partner and inspect its implementation of the partnership affairs, and shall, in accordance with the agreement, report the implementation of affairs and the operating conditions and financial position of the partnership to other non-managing partners. The income shall belong to the partnership, and the resulting expenses shall be borne by the partnership.

(2) Any change, cancellation of registration, establishment of branches, filing of the liquidation team, or amendment to the partnership agreement of the partnership shall be subject to the unanimous consent of all partners, unless otherwise expressly provided by laws, regulations and this Agreement.

The agreement does not stipulate that MLS makes any commitment on the principal and rate of return to other partners of the partnership.

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6. Analysis on whether the listed company substantially controls the fund and should include it in the scope of consolidated statements, and whether the capital contributions from other parties constitute a situation of nominal equity and actual debt

In combination with the provisions of the Standards and the background of the transaction, the Company and Yiwu State-owned Capital Operation Co., Ltd., as limited partners, have a proportion of capital contribution of 31.242% and 31.242% respectively in this partnership. Although the general partner, Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership), has a proportion of capital contribution of 0.025%, its investors are the same as those of another limited partnership, HARMONY Haoshu Investment Management (Beijing) Co., Ltd. Therefore, the general partner's actual share is 37.516%. Consequently, the company is not the sole subordinate LP in this Partnership, and the security of the company's principal and returns as an LP can be highly guaranteed.

The investors of the general partner in this transaction, Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership), including Lin Dongliang, Niu Kuiguang, Yang Fei, and Wang Jingbo, who are also the co-investors of another limited partner, HARMONY Haoshu Investment Management (Beijing) Co., Ltd., collectively hold a 37.516% share in the partnership. Lin Dongliang, Niu Kuiguang, Yang Fei, and Wang Jingbo of IDG Capital are the ultimate investors. IDG Capital has made numerous industrial investments in the LED industry, mainly including HC SEMITEK Corporation (stock code: 300323), which is engaged in the LED chip business, and MLS, which is engaged in the LED packaging business. The purpose of establishing the HARMONY MINGXIN M&A Fund was for IDG Capital's M&A investment in the overseas LED industry. As the leading and participating party in this transaction, IDG Capital carried out this M&A investment based on its own operational and investment background in the LED industry, and it has no relationship with MLS.

The actual contributors of the general partner (GP) and its other limited partnership enterprise collectively hold a 37.516% share of the partnership, and Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership) is the sole general partner. According to the Partnership Agreement of Yiwu Harmony Mingxin Equity Investment Partnership (Limited Partnership), all partners entrust Zhuhai Harmony Zhuoyue Investment Center (Limited Partnership) as the executive partner, and other partners no longer execute the partnership's affairs. The executive partner is responsible for the daily operations of the enterprise and represents the partnership externally. In this fund, IDG Capital, as the sole general partner, executes partnership affairs and has the largest capital contribution and operational experience in investment, M&A, and the LED industry. Therefore, IDG Capital is the de facto executor of HARMONY MINGXIN.

According to the Agreement on Acquisition of Assets by Issuing Shares and Paying Cash signed by MLS with all shareholders of MINGXIN Optoelectronics, HARMONY MINGXIN and ZHUORUI Investment in March 2017, HARMONY MINGXIN will receive a cash consideration of RMB 1.25 billion, all of which will be used for MLS's withdrawal from HARMONY MINGXIN to avoid indirect circular shareholding caused by this restructuring transaction. MLS's capital contribution to HARMONY MINGXIN is RMB 1.25 billion, which is consistent with the cash consideration received in this transaction, and MLS has not obtained variable returns. Therefore, MLS does not have control over HARMONY MINGXIN and is not required to include it in the scope of its consolidated statements.

Based on the above analysis, the Company **did not obtain variable returns** during the operation of the partnership, and therefore the Company does not have control over such funds and is not required to include them in the scope of its consolidated statements. There is no situation of nominal equity and actual debt in the capital contributions from other parties.

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Sponsor's verification process and conclusions:

The sponsor has reviewed the detailed lists of the issuer's financial investment-related accounting items, the detailed lists of wealth management products purchased, and the agreements for external investments, interviewed the issuer's Chief Financial Officer to understand the business background of the financial investment-related items and to check whether the issuer has quasi-financial business, and calculated the scale of financial investments and their proportion to net assets and the currently raised funds; it reviewed the accounting treatment methods for M&A funds under the Accounting Standards, reviewed and analyzed the partnership agreement of the M&A fund, and interviewed the issuer's Chief Financial Officer to understand the operation method of the M&A fund.

Upon verification, the sponsor believes that: as of the end of the latest reporting period, the issuer does not hold any large-amount long-term financial investments; the issuer has not engaged in any quasi-financial business from the reporting period to the present; the issuer has a substantial demand for funds in the future, and the sum of its available monetary funds and wealth management products cannot meet its future needs for funds, making it necessary to raise funds through convertible bonds; the issuer does not have control over the M&A funds, and there is no situation of nominal equity and actual debt in the capital contributions from other parties.

Accountants' verification opinion:

Upon verification, the accountant believes that: the issuer does not have control over the M&A funds that existed during the reporting period, and there is no situation of nominal equity and actual debt in the capital contributions from other parties.

5. The Applicant is requested to explain, in conjunction with the issued and proposed bonds, whether this issuance complies with the provision that "the aggregate outstanding balance of corporate bonds after this issuance shall not exceed 40% of the net assets as of the end of the latest period." The sponsor shall conduct verification and issue opinions.

[Reply]:

I. Issued bonds of the company during the reporting period

Unit: RMB 10,000

Bond name	**Bond type**	**Value date**	**Term**	**Issue scale**	**Interest rate type**	**Whether it is due**	**Whether it is included in the quota**
17 MLS SCP001	Super short-term commercial paper	2017-05-08	270 days	50,000.00	Fixed interest rate	Yes	No
17 MLS SCP002	Super short-term commercial paper	2017-05-10	270 days	50,000.00	Fixed interest rate	Yes	No
18 MLS SCP001	Super short-term commercial paper	2018-02-07	270 days	50,000.00	Fixed interest rate	Yes	No
18 Musen 01	General corporate bond	2018-07-16	3 years	20,000.00	Progressive interest rate	No	Yes
19 Musen G1	**Green corporate bond**	**2019-06-03**	**5 years**	**20,000.00**	**Fixed interest**	**No**	**Yes**

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II. Debt financing instruments approved but not yet issued by the company as of the current date

Unit: RMB 10,000

Type	Total approved quota	Issued quota	Approved but unissued quota
Publicly issued corporate bonds to qualified investors	200,000.00	20,000.00	180,000.00
Medium-term notes issued in the inter-bank bond market	200,000.00	-	200,000.00
Publicly issued green bonds	150,000.00	**20,000.00**	130,000.00

(I) Public issuance of corporate bonds of up to RMB 2,000 million to qualified investors

On July 20, 2017, according to the Approval of the Public Issuance of Corporate Bonds to Qualified Investors by MLS Co., Ltd. (ZJXK [2017] No. 1298) issued by the CSRC, the Company was approved to publicly issue corporate bonds with a total face value not exceeding RMB 2,000 million to qualified investors in tranches. The approval was valid for 24 months from the date of approval of the issuance.

As of the signing date of the reply to the feedback, the Company has issued the first tranche of "18 Musen 01" corporate bonds totaling RMB 200 million (with a term of 3 years), with RMB 1,800 million yet to be issued. After comprehensively considering the relevant financing costs and its own financing plan, the Company currently has no plan to issue the remaining corporate bonds.

(II) Medium-term notes of RMB 2,000 million issued in the inter-bank bond market

On September 19, 2017, according to the Notice of Acceptance of Registration (ZSXZ [2017] No. MTN523) issued by the National Association of Financial Market Institutional Investors, the Company was approved to issue RMB 2,000 million in medium-term notes. The Company may issue the aforementioned medium-term notes in tranches within 2 years from the date of issuance of the notice, and must file with the National Association of Financial Market Institutional Investors before issuance.

As of the signing date of the reply to the feedback, after comprehensively considering the relevant financing costs and its own financing plan, the Company currently has no plan to issue the aforementioned medium-term notes.

(III) Public issuance of green bonds of up to RMB 1,500 million

On December 28, 2017, according to the Approval of the National Development and Reform Commission on the Issuance of Green Bonds by MLS Co., Ltd. (FGQYZQ [2017] No. 364) issued by the National Development and Reform Commission, the Company was approved to publicly issue corporate bonds of up to RMB 1,500 million. The Company was required to formally submit the transfer application documents to the SZSE within 12 months from the date of issuance of the aforementioned approval; upon expiry of such period without submission, the approval would automatically become invalid.

On December 16, 2018, according to the Letter from the General Office of the National Development and Reform Commission on Approving the Extension of the Validity Period of Approval Documents for Corporate Bonds of Nine Companies Including Shandong Weifang Binhai Investment Development Co., Ltd. (FGBCJ [2018] No. 1641) issued by the General Office of the National Development and Reform Commission, the Company obtained a 12-month extension of

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the validity period of the aforementioned green bond approval to December 28, 2019.

As of the signing date of the reply to the feedback, the Company has issued the first tranche of 2019 green corporate bonds of MLS Co., Ltd., with bond abbreviation: 19 Musen G1, bond codes: 111082 (SZSE), 1980182 (inter-bank bond market), and issue size of RMB 200 million.

III. Status of the aforementioned issued and approved but unissued debt financing instruments and the quota for this convertible bond issuance

According to the relevant requirements of the CSRC, the scope for calculating the cumulative bond balance includes all publicly and non-publicly issued debt financing instruments, but excludes subordinated bonds, perpetual bonds, and debt financing instruments with a term of less than one year. As of **June 30, 2019**, the company's owners' equity attributable to shareholders of the parent company was RMB **9,758,917,700**; the cumulative balance of bonds was RMB **400,000,000**, and the proposed issue size of this convertible bond is RMB 2,660,017,700. After the issuance of this convertible bond, the ratio of the cumulative balance of bonds to the owners' equity attributable to shareholders of the parent company as of the end of **June 2019** is **31.36%**, which does not exceed 40% of the net assets attributable to shareholders of the parent company.

The Company commits: "Considering factors such as the Company's business development plan and the external financing environment, the Company currently has no plan to issue the approved but unissued debt financing instruments. According to the Company's financing plan, the Company will give priority to financing through convertible bonds, that is, to prioritize the issuance of convertible bonds with a quota of RMB 2,660,017,700. After the issuance of these convertible bonds, the Company will decide whether to issue the aforementioned approved but unissued debt financing instruments based on the bond issuance quota of 40% of its net assets at the end of the latest period, taking into account the bond market and the Company's financing plan, in order to continuously comply with Article 16 of the Securities Law which provides that "To publicly issue corporate bonds, the following conditions shall be met: ... (II) the accumulated bond balance shall not exceed 40% of the company's net assets' and Article 14 (II) of the Administrative Measures for the Issuance of Securities by Listed Companies which provides that 'the cumulative bond balance after this issuance shall not exceed 40% of the net assets at the end of the latest period'."

Sponsor's verification process and opinions:

The sponsor has reviewed the Company's relevant documents and announcements of relevant board of directors, shareholders' meeting and supervisory committee regarding the aforementioned debt financing instruments, the Approval of the Public Issuance of Corporate Bonds to Qualified Investors by MLS Co., Ltd. (ZJXK [2017] No. 1298) issued by the CSRC, the Notice of Acceptance of Registration (ZSXZ [2017] No. MTN523) issued by the National Association of Financial Market Institutional Investors, the Approval of the National Development and Reform Commission on the Issuance of Green Bonds by MLS Co., Ltd. (FGQYZQ [2017] No. 364) issued by the National Development and Reform Commission, the Letter from the General Office of the National Development and Reform Commission on Approving the Extension of the Validity Period of Approval Documents for Corporate Bonds of Nine Companies Including Shandong Weifang Binhai Investment Development Co., Ltd. (FGBCJ [2018] No. 1641) issued by the General Office of the National Development and Reform Commission, and **the National Development and Reform Commission's documents FGQYZQ [2017] No. 364 and FGBCJ [2018] No. 1641**; interviewed the Company's Chief Financial Officer to understand the Company's future financing plans, and calculated and analyzed the Company's bond issuance quota.

Upon verification, the sponsor believes that: The issuer will give priority to financing through convertible bonds, and choose whether to issue the approved but unissued debt financing instruments within the remaining bond quota. This will not result in a situation where the

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cumulative bond balance exceeds 40% of the net assets at the end of the most recent period.

6. During the reporting period, the amount of the Applicant's accounts receivable was relatively large and continued to grow, while its accounts receivable turnover continued to decline. The Applicant is requested to: (1) based on the Company's actual operating conditions, analyze and explain the reasons for the growth of the Company's accounts receivable and the continuous decline of its accounts receivable turnover rate during the reporting period, and whether the Company's sales credit policy has changed; (2) explain the post-period recovery of accounts receivable from major customers; Actual bad debt losses incurred during the reporting period, whether the policy for making provisions for bad debts is in line with the Company's actual situation, and whether the provisions for bad debts are adequate. The sponsor and the accountant shall conduct verification and issue opinions.

[Reply]:

I. Based on the Company's actual operating conditions, analyze and explain the reasons for the growth in the Company's accounts receivable and the continuous decline in its accounts receivable turnover during the reporting period, and whether the Company's sales credit policy has changed

The Company has always focused on the R&D, production, and sales of LED packaging and application series products. It is a major domestic supplier of LED packaging and application products, which are widely used in fields like home electronic products, decorative lighting, landscape lighting, traffic signals, flat panel displays, and lighting projects. The Company completed the acquisition of LEDVANCE on April 1, 2018 and included it in the scope of consolidation. LEDVANCE's main business is general lighting business, primarily covering traditional light sources and LED light sources, and will focus on expanding OTC luminaires and smart home electronics business in the future.

During the reporting period, the growth of the company's accounts receivable and its accounts receivable turnover are as follows:

Item	January-June 2019/End of June 2019	2018/End of 2018	2017/End of 2017	2016/End of 2016
Carrying value of accounts receivable (RMB 10,000)	**408,580.15**	390,542.52	160,183.71	110,879.91
Operating income (RMB 10,000)	**938,673.27**	1,795,185.57	816,872.56	552,049.59
Accounts receivable turnover (times)	**2.35**	6.52	6.03	7.53

The accounts receivable and accounts receivable turnover of mls headquarters and LEDVANCE for 2018 **and January-June 2019** are as follows:

Item	MLS Headquarters		LEDVANCE	
	January-June 2019/End of June 2019	2018/End of 2018	January-June 2019/End of June 2019	2018/End of 2018
Carrying value of accounts receivable (RMB 10,000)	**231,301.61**	185,867.89	**195,013.66**	21,085.20
Operating income	**357,349.07**	818,678.80	**603,205.01**	995,955.13

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(RMB 10,000)				
Accounts receivable turnover (times)	**1.71**	4.73	**2.94**	6.17

The Company's accounts receivable increased rapidly at the end of 2018, mainly because LEDVANCE was included in the scope of the Company's consolidated statements from April 1, 2018, resulting in an increase of RMB 2,150.852 million in the carrying value of the Company's accounts receivable at the end of 2018. After excluding the impact of LEDVANCE's consolidation, the carrying value of the Company's accounts receivable at the end of 2018 was RMB 1,858.6789 million, an increase of RMB 256.8418 million or 16.03% compared to the beginning of 2018, which is basically normal.

In 2016, 2017, 2018, and **the first half of 2019**, the accounts receivable turnover of MLS Headquarters was 7.53, 6.03, 4.73, and **1.71** times, respectively. The accounts receivable turnover is currently stable at around **4** times per year. In recent years, the accounts receivable turnover of MLS Headquarters has decreased year by year, mainly because the proportion of sales through agents has increased, and their credit period is relatively longer than that of the direct sales model, resulting in a decrease in the overall accounts receivable turnover. During the reporting period, the Company's credit policy did not change significantly.

In 2018 and the first half of 2019, LEDVANCE's accounts receivable turnover was 6.17 times and 2.94 times, respectively, remaining generally stable.

II. Explain the post-period recovery of accounts receivable from major customers; the actual bad debt losses incurred during the reporting period, whether the policy for making provision for bad debts is in line with the Company's actual situation, and whether the provision for bad debts are adequate

(I) Post-period collection of accounts receivable from major customers

As of the end of 2018 and **the end of March 2019**, the balance of accounts receivable from the company's top ten customers and their post-period collection are as follows:

Unit: RMB 10,000

Item	Balance as of December 31, 2018	Collection in 1Q19	Collection rate	Item	Balance as of March 31, 2019	Collections in 2Q19	Collection rate
Customer 1	35,570.76	4,645.07	13.06%	**Customer A**	**45,364.11**	**29,456.36**	**64.93%**
Customer 2	16,646.64	4,507.07	27.07%	**Customer B**	**36,151.15**	**20,683.61**	**57.21%**
Customer 3	15,574.35	4,142.32	26.60%	**Customer C**	**24,185.90**	**24,713.03**	**102.18%**
Customer 4	13,078.43	6,918.47	52.90%	**Customer D**	**19,284.41**	**27,628.88**	**143.27%**
Customer 5	8,247.64	3,041.49	36.88%	**Customer E**	**12,038.05**	**17,699.24**	**147.03%**
Customer 6	27,138.12	8,378.39	30.87%	**Customer F**	**11,676.70**	**31,445.52**	**269.30%**
Customer 7	26,728.18	10,425.78	39.01%	**Customer G**	**10,615.98**	**18,382.08**	**173.15%**
Customer 8	13,878.25	5,506.32	39.68%	**Customer**	**10,310.73**	**4,500.02**	**43.64%**

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Customer 9	13,016.73	8,279.48	63.61%	**Customer I**	**9,470.36**	**14,702.78**	**155.25%**
Customer 10	8,027.06	8,459.56	105.39%	**Customer J**	**8,245.58**	**5,487.48**	**66.55%**
Subtotal	**177,906.15**	**64,303.96**	**36.14%**	**Subtotal**	**187,342.97**	**194,699.00**	**103.93%**
Proportion of total accounts receivable	42.83%	-	-		**41.87%**	-	-

As of December 31, 2018, the balance of accounts receivable from the top ten customers accounted for 42.83% of the total. The subsequent collection rate as of March 31, 2019 was 36.14%. The relatively low subsequent collection rate was mainly due to the large number of holidays in the first quarter affecting sales collections from customers and suppliers, which is consistent with the Company's situation in previous years.

As of March 31, 2019, the balance of accounts receivable from the top ten customers accounted for 41.87% of the total, and the subsequent collection rate as of the second quarter of 2019 was 103.93%.

Overall, the collection rate of the Company's accounts receivable is relatively high, and there is no significant recovery risk.

(II) Bad debt losses actually incurred during the reporting period

The Company has established a sound credit sales policy, formulating different sales and credit policies for different customers. It has also established a sound credit management system,with dedicated personnel regularly reconciling accounts with customers and following up on the collection of overdue accounts receivable. The details of the Company's bad debts of accounts receivable during the reporting period are as follows:

Unit: RMB 10,000

Item	H1 2019	2018	2017	2016	Average
Amount of bad debts actually incurred	**1,019.25**	852.42	249.62	205.42	**581.68**
Balance of accounts receivable	**434,546.46**	415,365.11	170,546.89	117,825.84	**284,571.08**
Actual bad debt ratio	**0.23%**	0.21%	0.15%	0.17%	**0.20%**

As of the end of 2018 **and the end of June 2019,** the bad debt losses of MLS Headquarters and LEDVANCE are as follows:

Unit: RMB 10,000

Item	MLS Headquarters		LEDVANCE	
	End of June 2019	End of 2018	End of June 2019	End of 2018
Amount of bad debts actually incurred	**0.11**	13.52	**1,019.14**	838.89
Gross value of accounts receivable	**227,965.36**	198,146.60	**206,581.10**	227,629.07
Actual bad debt ratio	**0.01%**	0.01%	**0.49%**	0.37%

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During the reporting period, the Company's actual bad debt ratios from 2016 to **the first half of 2019** were 0.17%, 0.15%, 0.21%, and **0.23%**, respectively, and the cumulative bad debt ratio for accounts receivable was **0.20%, of which: the actual bad debt ratios for MLS Headquarters from 2016 to the first half of 2019 were 0.17%, 0.15%, 0.01%, and 0.01%, respectively; the actual bad debt ratios of LEDVANCE from 2018 to the first half of 2019 were 0.37% and 0.49%, respectively.** The amount of actual bad debts incurred by MLS Headquarters and LEDVANCE was relatively small and significantly lower than the amount of provision for bad debts of accounts receivable made by the Company. Taking into account the overall policy for making provision for bad debts of accounts receivable for MLS is reasonable.

(III) Whether the policy for making provision for bad debts is in line with the Company's actual situation

1. Before the implementation of the new financial instruments standards on January 1, 2019

(1) Recognition standards for provision for bad debts

The Company reviews the carrying value of its accounts receivable on the balance sheet date, and makes impairment provisions if there is objective evidence indicating impairment of accounts receivable; objective evidence includes: 1) the debtor is experiencing significant financial difficulty; 2) the debtor has breached the contract terms (such as default or delinquency in interest or principal payments, etc.); 3) the debtor is likely to become bankrupt or undergo other financial restructuring; 4) other objective evidence indicating that the accounts receivable are impaired.

(2) Method for provision for bad debts at MLS Headquarters

1) Recognition criteria and method for provision for bad debts for accounts receivable that are individually significant and for which provision for bad debts are made on an individual basis

The Company recognizes accounts receivable as individually significant if the balance of a single account receivable accounts for 10% (including 10%) or more of the total balance of such receivables, or the ending balance of a single account receivable is RMB 5 million (including RMB 5 million) or more.

The Company conducts individual impairment tests on accounts receivable that are individually significant. For financial assets that are not impaired in the individual tests, they are included in a portfolio of financial assets with similar credit risk characteristics for impairment test. Accounts receivable for which impairment losses have been recognized through individual test are no longer included in the portfolio of accounts receivable with similar credit risk characteristics for impairment test.

2) Basis for determining accounts receivable for which provision for bad debts are made on a credit risk portfolio basis, and the method for provision for bad debts

A. Basis for determining the portfolio with credit risk characteristics

For accounts receivable that are not individually significant, as well as those that are individually significant but for which no impairment was found in individual testing, the Company groups the financial assets based on the similarity and relevance of their credit risk characteristics. These credit risks generally reflect the debtor's ability to repay all amounts due in accordance with the contractual terms of such assets and are related to the measurement of future cash flows of the assets under examination.

Basis for determining different portfolios:

Item	Basis for determining the portfolio
Aging	For accounts receivable that are individually significant and not impaired in separate testing and

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portfolio	those that are not individually significant, aging is adopted as the classification basis for credit risk portfolios
Related party portfolio	Accounts receivable among companies within the scope of the consolidated statements

B. Method for provision for bad debts based on credit risk characteristic portfolios When conducting impairment test on a portfolio basis, the amount of the provision for bad debts is determined based on the structure of the accounts receivable portfolio,

similar credit risk characteristics (the debtor's ability to repay amounts due according to the contract terms), historical loss experience, current economic conditions, and an assessment of existing losses in the accounts receivable portfolio.

Method for provision for bad debts for different portfolios:

Item	Accrual method
Aging portfolio	Aging analysis method
Nature portfolio	When conducting impairment test based on a nature-based portfolio, it involves significant judgment from management, as well as management's analysis and assessment of specific customer creditworthiness, the current economic situation, and historical bad debts based on the investment portfolio.

In the aging portfolio, the portfolio method for provision for bad debts using the aging analysis method is as follows:

Aging	Provision ratio of accounts receivable (%)	Provision ratio of other receivables (%)
Within 1 year (including 1 year, the same below)	5.00	5.00
1-2 years	20.00	20.00
2-3 years	50.00	50.00
Over 3 years	100.00	100.00

3) Accounts receivable that are not individually significant but for which bad debt provisions are individually provided

Reason for individual provision for bad debts	For accounts receivables that are not individually significant but have the following characteristics, a separate impairment test is conducted.
Method for provision for bad debts	If there is objective evidence indicating impairment, the impairment loss is recognized and the provision for bad debts is made based on the difference between the present value of its future cash flows and the carrying value. For example: receivables from related parties; accounts receivable subject to disputes or involving litigation or arbitration with the counterparty; accounts receivable where there are clear indications that the debtor is highly likely to be unable to fulfill its repayment obligations, etc.

4) For other accounts receivable (including notes receivable, advances to supplier, interest receivable, etc.), the provision for bad debts is made based on the difference between the present value of its future cash flows and the carrying value.

5) Reversal of provision for bad debts

If objective evidence indicates that the value of the accounts receivable has been restored, and it is objectively related to an event that occurred after the loss was recognized, the originally

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recognized impairment losses shall be reversed and recognized in the current profit or loss. However, the carrying value after such reversal shall not exceed the amortized cost of the accounts receivable on the date of reversal, assuming no impairment provisions has been made.

When the Company transfers accounts receivable to a financial institution on a non-recourse basis, the difference between the transaction proceeds and the carrying value of the written-off accounts receivable and related taxes and fees is recognized in the current profit or loss.

2. After the implementation of the new financial instruments standards on January 1, 2019

(1) Recognization method for impairment provisions

Based on expected credit losses, the Company makes impairment provisions for the above items in accordance with their applicable expected credit loss measurement methods (general method or simplified method) and recognizes credit impairment losses.

Credit loss refers to the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate, i.e., the present value of all cash shortfalls. For purchased or originated credit-impaired financial assets, the Company discounts them at the credit-adjusted effective interest rate of the financial asset.

The general method of measuring expected credit losses means that the Company assesses at each balance sheet date whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, it is in the Stage 1, and the Company measures the provision for losses at an amount equal to 12-month expected credit losses; if the credit risk has increased significantly since initial recognition but no credit impairment has occurred, it is in the Stage 2, and the Company measures the provision for losses at an amount equal to lifetime expected credit losses and calculates interest income based on the book balance and the effective interest rate; if credit impairment has occurred since initial recognition, it is in the Stage 3, and the Company measures the provision for losses at an amount equal to lifetime expected credit losses and calculates interest income based on the amortized cost and the effective interest rate. For financial instruments with low credit risk on the balance sheet date, the Company assumes that their credit risk has not increased significantly since initial recognition and measures the provision for losses at an amount equal to 12-month expected credit losses. The Company individually assesses the credit risk of financial assets with significantly different credit risks, such as: receivables due from related parties; accounts receivable subject to disputes or involving litigation or arbitration with the counterparty; accounts receivable where there are clear indications that the debtor is highly likely to be unable to fulfill its repayment obligations, etc.

Except for financial assets whose credit risk is assessed individually, the Company classifies financial assets into different groups based on common risk characteristics and assesses credit risk on a portfolio basis.

When assessing expected credit losses, the Company considers all reasonable and supportable information, including forward-looking information.

(2) Method for determining credit losses of accounts receivable of MLS Headquarters

1) Accounts receivable

For accounts receivable and contractual assets that do not contain a significant financing component, the Group measures the provision for losses at an amount equal to lifetime expected credit losses.

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For accounts receivable that contain a significant financing component, the Group chooses to apply the simplified measurement method and measures the provision for losses at an amount equal to lifetime expected credit losses.

Except for accounts receivable whose credit risk is assessed individually, the Group classifies them into different portfolios based on their credit risk characteristics:

Item	Basis for determining the portfolio
Aging portfolio	This portfolio uses the aging of accounts receivable of the Group's headquarters as the credit risk characteristic.
Portfolio of companies within the scope of consolidation	Accounts receivable between companies within the scope of the consolidated statements.

2) Other receivables

The Group measures impairment losses at an amount equal to 12-month or lifetime expected credit losses, depending on whether the credit risk of other receivables has increased significantly since initial recognition. Except for other receivables whose credit risk is assessed individually, the Group classifies them into different portfolios based on their credit risk characteristics:

Item	Basis for determining the portfolio
Portfolio of companies within the scope of consolidation	Accounts receivable between companies within the scope of the consolidated statements.
Security deposits and other deposits	This portfolio includes accounts receivable such as various deposits, advances, warranty deposits arising from ordinary operating activities.
Others	Other accounts receivable other than those in the security deposits and guarantees portfolio.

3. Method for provisions for bad debts of LEDVANCE

(1) Recognition standards for provision for bad debts

LEDVANCE reviews the carrying value of its accounts receivable on the balance sheet date, and makes impairment provisions if there is objective evidence indicating impairment of accounts receivable; objective evidence includes: 1) the debtor is experiencing significant financial difficulty; 2) the debtor has breached the contract terms (such as default or delinquency in interest or principal payments, etc.); 3) the debtor is likely to become bankrupt or undergo other financial restructuring; 4) other objective evidence indicating that the accounts receivable are impaired.

(2) Methods for provision for bad debts

1) Recognition criteria and method for provision for bad debts for accounts receivable that are individually significant and for which provision for bad debts are made on an individual basis

LEDVANCE recognizes an accounts receivable as individually significant if its balance accounts for 10% (including 10%) or more of the total balance of such accounts receivables.

LEDVANCE conducts separate impairment tests on individually significant accounts receivable. Financial assets that are not impaired in the separate test are included in a portfolio of financial assets with similar credit risk characteristics for impairment test. Accounts receivable for which impairment losses have been recognized through individual test are no longer included in the portfolio of accounts receivable with similar credit risk characteristics for impairment test.

2) Basis for determining accounts receivable for which provision for bad debts are made on a credit risk portfolio basis, and the method for provision for bad debts

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A. Basis for determining the portfolio with credit risk characteristics

For accounts receivable that are not individually significant, as well as those that are individually significant but for which no impairment was found in individual testing, LEDVANCE groups the financial assets based on the similarity and relevance of their credit risk characteristics. These credit risks generally reflect the debtor's ability to repay all amounts due in accordance with the contractual terms of such assets and are related to the measurement of future cash flows of the assets under examination.

Basis for determining different portfolios:

Item	Basis for determining the portfolio
Nature portfolio	When conducting an impairment test on a nature-based portfolio, it involves significant judgment from management, as well as management's analysis and assessment of specific customer creditworthiness, the current economic situation, and historical bad debts based on the investment portfolio; provisions for bad debts are made based on country-specific risks, customer rating risks, customer-specific risks, or customer credit risks.

B. Method for provision for bad debts determined based on credit risk characteristic portfolios

When conducting impairment test based on a nature-based portfolio, it involves significant judgment from management, as well as management's analysis and assessment of specific customer creditworthiness, the current economic situation, and historical bad debts based on the investment portfolio. To determine the provision for bad debts on receivables, management makes corresponding risk provisions for accounts receivable based on the following possible recovery risks:

(a) Risk provisions by country, determined based on information from external rating agencies;

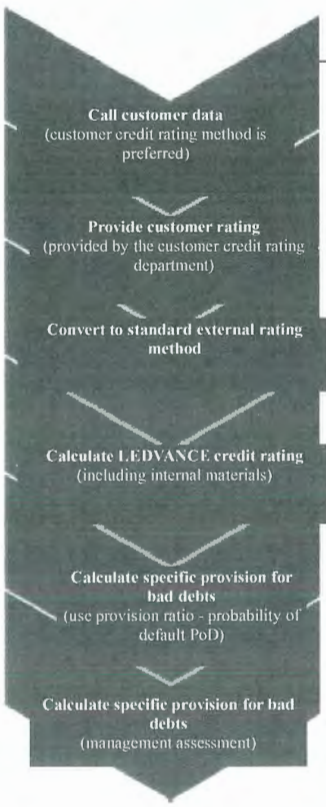
(b) Risk provisions by rating, determined based on management's comprehensive judgment of customer creditworthiness;

(c) Risk provisions based on customer-specific risks or customer credit risks, which are determined by management when, after considering customer country risk and rating risk, it concludes that special risks still exist.

LEDVANCE's assessment of customer creditworthiness mainly relies on credit investigation and risk rating reports from external rating agencies Coface and Creditsafe. Based on the different assessment levels of Coface and Creditsafe, and combined with its own risk level classification, LEDVANCE classifies grades 0-3 assessed by Coface and grade D assessed by Creditsafe as Level 3 (Weak); grades 4-6 assessed by Coface and grade C assessed by Creditsafe are classified as Level 2 (Moderate); grades 7-10 assessed by Coface and grades B and A assessed by Creditsafe are designated as Level 1 (Good); and based on the three risk levels of Weak, Moderate and Good as classified above, it applies bad debt provision ratio of 13%, 1.3% and 0.2%, respectively. For customers that have not yet been rated, a temporary bad debt provision ratio of 0.5% is applied. See the table below for details:

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Monthly bad debt estimation
(Effective from **April 1, 2016**)

Cofece rating	Credit security rating	Rating by other intermediary agencies	External rating/**LEDVANCE** rating	Provision ratio (probability of default **PoD)**
10=Low risk **9**=Low risk **8**=Low risk **7**=Low risk	**A**=Very low risk **B**=Low risk	Depending on specific circumstances	**1**=Good	**0.20%**
6=Medium risk **5**=Medium risk **4**=Medium risk	**C**=Medium risk	Depending on specific circumstances	**2**=Moderate	**1.30%**
3=High risk **2**=High risk **1**=Very high risk **0**=Very high risk	D=Risk	Depending on specific circumstances	**3**=Weak	**13.00%**
	E=Unrateable	Depending on specific circumstances	**0**=Unrateable	**0.50%**
Bankrupt/Insolvent customers		Depending on specific circumstances	**9**=Bankrupt/Insolvent	**100.00%**

Basis for bad debt provision in **SAP** system **E5** (Europe) and **A5** (Asia)

LEDVANCE conducts credit ratings on customers at the end of each fiscal year, classifies customer grades based on the assessment of sales department management, and updates the information in the information system; it assesses customer credit risk based on standardized indicators and formulate different sales credit terms for each customer according to the risk assessment results; LEDVANCE makes bad debt provisions based on customer credit rating classifications as shown in the table above. At the end of each month, the sales department reconciles customer balances with the established provision for bad debts of accounts receivable.

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3) Accounts receivable that are not individually significant but for which bad debt provisions are individually provided

Reason for individual provision for bad debts	For accounts receivables that are not individually significant but have the following characteristics, a separate impairment test is conducted.
Method for provision for bad debts	If there is objective evidence indicating impairment, the impairment loss is recognized and the provision for bad debts is made based on the difference between the present value of its future cash flows and the carrying value. For example: receivables from related parties; accounts receivable subject to disputes or involving litigation or arbitration with the counterparty; accounts receivable where there are clear indications that the debtor is highly likely to be unable to fulfill its repayment obligations, etc.

4) For other accounts receivable (including notes receivable, advances to supplier, interest receivable, etc.), the provision for bad debts is made based on the difference between the present value of its future cash flows and the carrying value.

(3) Reversal of provisions for bad debts

If objective evidence indicates that the value of the accounts receivable has been restored, and it is objectively related to an event that occurred after the loss was recognized, the originally recognized impairment losses shall be reversed and recognized in the current profit or loss. However, the carrying value after such reversal shall not exceed the amortized cost of the accounts receivable on the date of reversal, assuming no impairment provisions has been made.

4. Specific reasons why **LEDVANCE** has not been adjusted to align with MLS's policies

According to the provisions of the Accounting Standards for Business Enterprises, if the accounting estimates adopted by the acquiree are considered to be appropriate for its actual circumstances, there is no need to unify them with the accounting estimates of the acquirer when preparing the consolidated statements; if the original accounting estimates of the acquiree are unreasonable, an independent analysis and judgment should be made to determine the most appropriate estimates for its current situation. After assessing LEDVANCE's relevant policies on making provisions for bad debts of accounts receivable, it was determined that its accounting estimates are more in line with the enterprise's actual operating conditions and credit policy compared to MLS's accounting estimates. Therefore, it complies with the provisions of the Accounting Standards for Business Enterprises that MLS has not modified LEDVANCE's accounting estimates.

5. The Company's provision for bad debts of accounts receivable during the reporting period

According to the above-mentioned policy for making provision for bad debts of accounts receivable, the Company's actual provision for bad debts of accounts receivable are as follows:

Unit: RMB 10,000

Item	End of June 2019	End of 2018	End of 2017	End of 2016	Average
Provisions for bad debts made	**25,966.31**	24,822.59	10,363.18	6,945.93	**17,024.50**
Balance of accounts receivable	**434,546.46**	415,365.11	170,546.89	117,825.84	**284,571.08**
Bad debt provision ratio	**5.98%**	5.98%	6.08%	5.90%	**5.98%**

As of the end of 2018 **and the end of June 2019**, the bad debt provision ratios of MLS

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Headquarters and LEDVANCE are as follows:

Unit: RMB 10,000

Item	MLS Headquarters		LEDVANCE	
	End of June 2019	End of 2018	End of June 2019	End of 2018
Provisions for bad debts made	**14,323.49**	12,278.71	**11,642.82**	12,543.88
Balance of accounts receivable	**227,965.36**	198,146.60	**206,581.10**	227,629.07
Bad debt provision ratio	**6.28%**	6.20%	**5.64%**	5.51%

At the end of each reporting period, the Company's provision ratio of accounts receivable was 5.90%, 6.08%, 5.98%, and **5.98%**, respectively, and the average bad debt provision ratio of accounts receivable was **5.98%; among these, the provision ratio accounts receivable of MLS Headquarters from 2016 to the first half of 2019 was 5.90%, 6.08%, 6.20%, and 6.28%, respectively, all of which were higher than the actual bad debt ratio of MLS Headquarters over the years; the provision ratio of accounts receivable of LEDVANCE for 2018 and the first half of 2019 was 5.51% and 5.64% respectively, both of which were higher than the actual bad debt ratio of LEDVANCE over the years. Therefore,** the Company's actual bad debt loss ratio did not exceed its bad debt provision ratio, so the policy for provisions for bad debts is in line with the Company's actual situation.

(IV) Adequacy of provision for bad debts of accounts receivable

1. Comparison of policies for provision for bad debts of accounts receivable with industry peers

The Company conducts a horizontal comparison of its policies for provision for bad debts of accounts receivable with those of comparable listed companies in the same industry. The specific details are as follows:

Accrual method	Foshan Lighting	OPPLE Lighting	DEBANG Lighting	NATIONSTAR	HONGLI ZHIHUI	MLS
Judgment basis or amount standards for individually significant amount	Top five or balance of 10% or more	Over RMB 5 million	Over RMB 5 million	Over RMB 2 million	Over RMB 1 million	Balance of 10% or more, or over RMB 5 million
Provision method for receivables with individually significant amount and individual provision for bad debts	If there is objective evidence indicating impairment after a separate impairment test, a provision for bad debts is made based on the difference between the present value of its future cash flows and the carrying value; if no impairment is found after a separate impairment test, the accounts receivable is included in the corresponding portfolio for provision for bad debts.					
Aging portfolio	For details, see the table below: Comparison of policies of provision for bad debts on an aging portfolio basis with industry peers					
Related party portfolio	Percentage-of-balance method					

The comparison of policies of provision for bad debts on an aging portfolio basis with industry peers is as follows:

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Item	Bad debt ratio					
	Foshan Lighting	OPPLE Lighting	DEBANG Lighting	NATIONSTAR	HONGLI ZHIHUI	MLS
Within 1 year (including 1 year)	3%	5%-10%	5%	2%	2%-5%	5%
1-2 years	10%	20%	10%	10%	10%	20%
2-3 years	30%	50%	15%	30%	30%	50%
3-4 years	50%	100%	100%	50%	100%	100%
4-5 years	80%	100%	100%	80%	100%	100%
Over 5 years	100%	100%	100%	100%	100%	100%

Based on the above analysis of the aging provision ratios of major listed companies in the LED industry, it can be seen that the Company's policy for provision for bad debts of accounts receivable is generally consistent with that of comparable listed companies in the same industry.

2. Comparison of actual provision for bad debts of accounts receivable with industry peers

During the reporting period, the comparative analysis of actual provision for bad debts of accounts receivable between the company and listed companies in the same industry is as follows:

Company name	Ticker	End of June 2019	End of 2018	End of 2017	End of 2016
Foshan Lighting	**000541**	**-**	**5.55%**	**6.15%**	**6.12%**
OPPLE Lighting	603515	**8.34%**	5.86%	8.25%	9.68%
DEBANG Lighting	603303	**-**	6.08%	5.95%	5.62%
NATIONSTAR	002449	**2.99%**	2.90%	3.60%	3.93%
HONGLI ZHIHUI	**300219**	**-**	**3.82%**	**4.09%**	**3.54%**
Industry average		**5.66%**	**4.84%**	**5.61%**	**5.78%**
MLS		**5.98%**	**5.98%**	**6.08%**	**5.90%**
Including: MLS Headquarters		**6.28%**	**6.20%**	**6.08%**	**5.90%**
Including: LEDVANCE		**5.64%**	**5.51%**	**Not applicable**	**Not applicable**

Note: As of the signing date of this feedback reply, the 2019 semi-annual reports of Foshan Lighting, DEBANG Lighting, and Hongli Zhihui have not yet been disclosed.

According to the above comparison of bad debt provision ratios of accounts receivable under the portfolio method with industry peers, it can be seen that during the reporting period, the actual bad debt provision ratios of accounts receivable of the Company, MLS Headquarters and LEDVANCE were generally consistent with the average of listed companies in the same industry.

Sponsor's verification process and opinions:

The sponsor reviewed the issuer's Auditor's Reports and sales orders during the reporting period, interviewed the Chief Financial Officer to understand the Company's credit policies for customers and accounts receivable management policies, verified the issuer's accounts receivable turnover and provision for bad debts of accounts receivable during the reporting period, analyzed the policy for provision for bad debts of accounts receivable, and compared them with the accounts receivable turnover of listed companies in the same industry.

Upon verification, the sponsor believes that: the increase in the issuer's accounts receivable

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during the reporting period was mainly due to the rapid growth in operating income and the inclusion of LEDVANCE in the Company's consolidated statements; the issuer's credit policy did not change significantly during the reporting period.

The post-period collection rate of accounts receivable from the issuer's major customers was relatively high during the reporting period; the amount of actual bad debts incurred was relatively small and significantly lower than the amount of the Company's provision for bad debts of accounts receivable; the issuer's provisions for bad debts are adequate, consistent with the issuer's actual operating conditions, and comparable to those of listed companies in the same industry.

Accountants' verification opinion:

Upon verification, the accountant believes that: the increase in the issuer's accounts receivable during the reporting period was mainly due to the rapid growth in operating income and the inclusion of LEDVANCE in the Company's consolidated statements since April 1, 2018; the issuer's credit policy did not change significantly during the reporting period;

The collection rate of accounts receivable from the issuer's major customers during the reporting period was relatively high, and the amount of actual bad debts incurred was relatively small and significantly lower than the amount of the Company's provision for bad debts of accounts receivable; the issuer's provisions for bad debts are consistent with its actual operating conditions and are not significantly different from those of listed companies in the same industry, and the provisions for bad debts at the end of the period are adequate.

7. The Applicant is requested to explain the reasons for the significant increase in the inventory balance and inventory impairment provision at the end of 2018. In conjunction with the outstanding orders and turnover at the end of the period, please explain whether there is any inventory backlog and whether the inventory impairment provision at the end of the latest period is adequate. The sponsor and the accountant shall conduct verification and issue opinions.

[Reply]:

I. Reasons for the significant increase in the inventory balance and inventory impairment provision **at the end of June 2019**

During the reporting period, the Company's inventory balance and inventory impairment provision at the end of each period are as follows:

Unit: RMB 10,000

Item	End of June 2019	End of 2018	End of 2017	End of 2016
Inventory balance	**525,769.57**	539,952.49	162,441.26	86,585.73
Inventory impairment provision	**53,427.41**	59,502.49	1,420.62	835.75
Net inventory	**472,342.16**	480,450.00	161,020.64	85,749.98
Inventory impairment provision/inventory balance	**10.16%**	11.02%	0.87%	0.97%

As of the end of 2018 **and the end of June 2019**, the inventories and inventory impairment provision of MLS Headquarters and LEDVANCE are as follows:

Item	MLS Headquarters		LEDVANCE	
	End of June 2019	End of 2018	End of June 2019	End of 2018
Inventory balance	**210,079.03**	190,197.39	**315,690.53**	349,755.10

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Inventory impairment provision	**6,135.84**	7,909.18	**47,291.57**	51,593.31
Net inventory	**203,943.19**	182,288.21	**268,398.96**	298,161.79
Inventory impairment provision/inventory balance	**2.92%**	**4.16%**	**14.98%**	**14.75%**

The increase in the Company's inventories at the end of 2016 and 2017 was mainly due to the corresponding increase in inventory balance resulting from the expansion of the Company's business scale, and the increase in inventories was basically in line with the expansion of the Company's business scale.

From 2016 to the **first half of 2019**, the Company's provision ratio for inventory impairment was 0.97%, 0.87%, 11.02%, and **10.16%**, respectively. The inventory balance and inventory impairment provision at the end of 2018 increased significantly compared to the end of 2017, mainly because LEDVANCE was included in the scope of the Company's consolidated statements from April 2018.

At the end of each reporting period, the provision ratio for inventory impairment of MLS Headquarters was 0.97%, 0.87%, 4.16%, and 2.92%, respectively. The higher provision ratio for inventory impairment at the end of 2018 was mainly due to quality issues with some of the Company's products caused by suppliers. Based on the quality condition of the inventory, the Company made an inventory impairment provision of RMB 56.6592 million for the relevant inventories with quality issues. After excluding this portion of inventory impairment provision, the provision ratio for inventory impairment of MLS Headquarters at the end of 2018 was 1.23%, which is close to the levels in 2016 and 2017. The provision ratio for inventory impairment at the end of June 2019 decreased by 1.24% compared to the end of 2018, mainly because the inventory with quality issues in 2018 was written off during the current period.

The provision ratio for inventory impairment of LEDVANCE at the end of 2018 and the end of June 2019 was 14.75% and 14.98%, respectively. The relatively high provision ratio for inventory impairment was mainly because LEDVANCE took over some long-aged inventories from OSRAM. A significant amount of inventory impairment provision had already been made for these inventories when MLS acquired LEDVANCE, resulting in an overall higher provision ratio for inventory impairment at the end of the period. Excluding this portion of restructuring-related inventory, the provision ratio for inventory impairment for normal sales inventories of LEDVANCE was around 4%, which is within a normal and reasonable range.

II. Status of outstanding orders at the end of the period

For MLS Headquarters, inventory management involves preparing procurement and production plans based on customers' sales orders each month under the annual sales contracts signed with customers, and establishing relevant inventory budgets; for LEDVANCE, inventory management involves preparing procurement and production plans as well as inventory budgets based on the annual sales contracts signed with various sales channels and the sales department's sales budget for the following three months.

As of December 31, 2018, MLS Headquarters had an inventory balance of RMB 1,901,973,900 and an outstanding orders of RMB 844,985,100. In the **first half of** 2019, MLS Headquarters reported sales revenue of RMB **3,573,490,700**; LEDVANCE had an inventory balance of RMB 3,497,551,000, and reported sales revenue of RMB **6,032,050,100** in the **first half of** 2019. The inventories of MLS Headquarters and LEDVANCE at the end of 2018 were **basically** sold in the **first half of** 2019.

III. Inventory turnover and whether there is any inventory accumulation

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We have selected listed companies in LED packaging and LED applications to conduct a comparative analysis of the Company's inventory turnover days during the reporting period, as shown below:

Company name	Ticker	Inventory turnover days (days)				
		January-June 2019	2018	2017	2016	Average value
Foshan Lighting	000541	**94**	93	92	94	**93**
OPPLE Lighting	603515	**65**	56	50	48	**55**
DEBANG Lighting	603303	**70**	65	58	54	**62**
NATIONSTAR	002449	**123**	108	105	115	**113**
HONGLI ZHIHUI	300219	**49**	50	44	49	**48**
Industry average		**80**	**74**	**70**	**72**	**74**
MLS		**149**	**95**	**69**	**65**	**95**
Including: MLS Headquarters		**127**	**92**	**69**	**65**	**88**
Including: LEDVANCE		**156**	**110**	**Not applicable**	**Not applicable**	**Not applicable**

Note: As of the signing date of the reply to the feedback, the 2019 semi-annual reports of Foshan Lighting, DEBANG Lighting, and Hongli Zhihui have not yet been disclosed, and inventory turnover days are calculated based on Q1 report data.

From the above analysis, it can be seen that the Company's inventory turnover days were generally stable in 2016 and 2017. The higher inventory turnover days in 2018 were mainly because LEDVANCE's operating income was included in the Company's scope of consolidation from April 2018. LEDVANCE has a relatively wide variety of LED application products that are ultimately sold to consumers, and its inventory turnover days are relatively high, which resulted in higher inventory turnover days for the Company for the full year of 2018.

The inventory turnover days for MLS Headquarters from 2016 to the first half of 2019 were 65 days, 69 days, 92 days, and 127 days, respectively. The inventory turnover days increased **year by year** during the reporting period, mainly because some of the Company's finished products had quality issues in 2018 due to quality issues with suppliers' raw materials and equipment, leading to an increase in the ending balance of finished products and the inventory impairment provision. The Company has sought compensation from its suppliers and established an inventory disposal plan. Excluding the impact of the special event in 2018 mentioned above, the inventory turnover days of MLS Headquarters for **2018** was 79 days, which is basically consistent with those of other listed companies in the same industry. **The increase in inventory turnover days of MLS Headquarters in the first half of 2019 was mainly due to seasonal factors such as the quality incident and the Spring Festival holiday, and its inventory turnover ratio was close to that of NationStar.**

The inventory turnover days of LEDVANCE for 2018 and the first half of 2019 were 110 days and 156 days, respectively. The relatively high inventory turnover days of LEDVANCE were mainly because its production bases are primarily located in the U.S., Germany and China, while its sales regions are spread across the globe. Cross-regional transportation is

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generally by sea freight, resulting in inventory turnover days generally exceeding 100 days, which is higher than that of domestic companies. LEDVANCE's inventory turnover days in the first half of 2019 were higher than those in 2018, mainly because major holidays such as overseas Christmas and New Year are concentrated in the second half of the year, resulting in relatively lower demand in the first half of the year.

In summary, the Company's inventories were highly matched with outstanding orders during the reporting period, and its inventory turnover ratio was generally consistent with that of listed companies in the same industry. There was no significant accumulation of slow-moving inventory at the end of the period.

IV. Adequacy of the inventory impairment provision at the end of the latest period

(I) The Company's inventory impairment provision

The Company measures its inventory impairment provision at the end of the period at the lower of cost and net realizable value. For the portion where the net realizable value of inventory is lower than its cost, an inventory impairment provision is made. For raw materials and work-in-progress held for production, the net realizable value is determined based on the estimated selling price of the finished products produced, less estimated costs to completion, estimated sales expenses, and related taxes and fees; for finished products held directly for sale, the net realizable value is determined based on the estimated selling price of the inventory, less estimated sales expenses and related taxes and fees.

The company performed calculations of inventory impairment and conducted a self-assessment of inventory impairment by reference to the average market selling prices of its key products, the prices of unexecuted contracts on hand, and the gross profit margins of the Company's products. Based on the calculations, the Company's core products were generally not impaired at the end of the period, and no inventory impairment provision was made for this portion of inventories. The market price of some products has dropped too quickly, causing the estimated selling price, less estimated sales expenses and related taxes and fees to fall below the carrying value of the inventory, resulting in an impairment; on this basis, the Company, following the principle of prudence, has made adequate inventory impairment provision.

(II) Comparison of the Company's inventory impairment provision ratio with those of industry peers

We have selected listed companies in LED packaging and LED applications, and compared the ratio of the inventory impairment balance to the inventory balance at the end of each reporting period between the Company and comparable companies, as shown below:

Company name	Ticker	End of June 2019	End of 2018	End of 2017	End of 2016
Foshan Lighting	000541	-	3.57%	1.90%	2.23%
OPPLE Lighting	603515	**7.92%**	5.11%	7.30%	9.46%
DEBANG Lighting	603303	-	5.40%	3.68%	4.64%
NATIONSTAR	002449	**8.55%**	7.24%	4.07%	3.32%
HONGLI ZHIHUI	300219	-	5.96%	5.60%	6.36%
Industry average		**8.23%**	**5.46%**	**4.51%**	**5.20%**
MLS		**10.16%**	**11.02%**	**9.87%**	**0.97%**

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Including: MLS Headquarters	**2.92%**	**4.15%**	**0.87%**	**0.97%**
Including: LEDVANCE	**14.98%**	**14.75%**	**Not applicable**	**Not applicable**

Note: As of the signing date of this feedback reply, the 2019 semi-annual reports of Foshan Lighting, DEBANG Lighting, and Hongli Zhihui have not yet been disclosed.

According to the above analysis, it can be seen that the Company's average provision ratio for inventory impairment at the end of 2016 and 2017 was 0.92%, while the industry average provision ratio was 4.86%. The Company's provision ratio for inventory impairment at the end of the period was lower than that of the industry peers, mainly because the Company has a high proportion of LED packaging products, which are standardized products for downstream manufacturers and therefore have a lower risk of obsolescence; the scale of the Company's packaging business scale is much larger than that of other listed companies in the same industry, giving the Company strong bargaining power in raw material procurement; Its production costs are substantial, providing a significant cost advantage. The above reasons resulted in the Company having a significant cost advantage in the unit cost of finished products in 2016 and 2017, which in turn led to a lower inventory impairment ratio under the same market price conditions compared to its industry peers.

At the end of 2018, the Company's provision ratio for inventory impairment was 11.02%, which was higher than the average of listed companies in the same industry. Among them, the provision ratio for inventory impairment at MLS Headquarters was 4.15%, higher than in 2016 and 2017, mainly because some of the company's products had quality issues in 2018 due to supplier reasons. The company made an inventory impairment provision of RMB 56.6592 million for the relevant inventories with quality issues. After excluding this portion of inventory impairment provision, the provision ratio for inventory impairment at MLS Headquarters at the end of 2018 was 1.23%, which was close to the levels in 2016 and 2017.

LEDVANCE's provision ratio for inventory impairment at the end of 2018 was 14.75%, mainly due to the factory closure plans involving business restructuring after LEDVANCE's consolidation in April 2018, which resulted in a substantial amount of inventory impairment provision.

At the end of June 2019, the Company's provision ratio for inventory impairment did not change significantly compared to the end of 2018. Specifically, the provision ratio for inventory impairment of LEDVANCE at the end of June 2019 increased by 0.23% compared to the end of 2018; The provision ratio for inventory impairment of MLS Headquarters at the end of June 2019 decreased by 1.24% compared to the end of 2018, mainly due to the write-off of inventories with quality issues from 2018 in the current period.

In summary, the Company's inventory impairment provision at the end of the period was adequate.

Sponsor's verification process and opinions:

The sponsor reviewed the issuer's relevant inventory management system, policies for provision for inventory impairment, and working papers of inventory impairment tests; It analyzed the inventory level, inventory turnover rate and inventory impairment provisions, and made comparisons with listed companies in the same industry. It also interviewed the Company's Chief Financial Officer and Finance Manager to learn about the inventory management and provision for inventory impairment.

Upon verification, the sponsor believes that:

At the end of last period, the issuer's outstanding orders and inventory balance were well matched, with inventory turnover, and there was no significant backlog of inventory at the end of the period; The significant increase in the inventory balance and inventory impairment provision at

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the end of 2018 compared to the beginning of the year was mainly due to the inclusion of LEDVANCE into the Company's scope of consolidation since April 2018, and LEDVANCE recorded a significant amount of inventories and inventory impairment provisions; The issuer's inventory impairment provision was adequate and reasonable.

Accountants' verification opinion:

Upon verification, the accountant holds the view that the significant increase in the inventory balance and inventory impairment provision at the end of 2018 was mainly due to the inclusion of LEDVANCE into the Company's scope of consolidation since April 2018, and LEDVANCE recorded a significant amount of inventories and inventory impairment provisions on its book; During the reporting period, the Company's inventories are well matched with outstanding orders, and its inventory turnover rate was basically in line with that of listed companies in the same industry. There was no significant inventory backlog at the end of the period. The Company's inventory impairment provision at the end of the period was adequate.

8. The Applicant's current Articles of Association stipulate that when the conditions for cash dividends are met, the annual cash profit distribution of the Company shall be no less than 20% of the distributable profits realized in the current year. The Applicant is requested to explain whether the actual implementation of the Company's cash dividend policy during the reporting period complied with the provisions of the CSRC's Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies and Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies. The sponsor shall conduct verification and issue opinions.

[Reply]:

I. Clauses related to cash dividends in the Company's Articles of Association

The relevant profit distribution policies stipulated in the currently effective Articles of Association of the Company are as follows:

"Article 154: Each year, the Company shall, based on its operating conditions and the funding needs of project investments for the current period, handle the relationship between the Company's short-term interests and long-term development on the basis of fully considering the interests of shareholders, formulate a reasonable profit distribution plan, and maintain the continuity and stability of the Company's profit distribution policies.

The company may distribute profits in cash, by stock, through a combination of cash and stock, or by other means permitted by laws and regulations. The company distributes dividends to shareholders based on the number of shares they hold, in accordance with the principle of equal pay for equal shares. When conditions for cash dividends are met, the company shall prioritize cash dividends for profit distribution.

If the Company distributes profits by way of both cash dividends and stock dividends, it shall implement a differentiated cash dividend policy on the premise of meeting the funding needs for normal production and operation:

(I) Where the Company is in a mature development stage and has no major capital expenditure plans, cash dividends shall account for no less than 80% of the total profit distribution for the current period;

(II) Where the Company is in a mature development stage and has major capital expenditure plans, cash dividends shall account for no less than 40% of the total profit distribution for the current period;

(III) Where the Company is in a growth stage and has major capital expenditure plans, cash dividends shall account for no less than 20% of the total profit distribution for the current period.

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The Shareholders' Meeting authorizes the Board of Directors to propose the annual profit distribution plan based on the principles above, after comprehensively considering factors such as the Company's industry characteristics, development stage, business model, profitability, and whether there are any major capital expenditure arrangements.

Article 155 The Company shall actively implement cash dividends when the following conditions are met:

(I) The Company's distributable profit for the year (i.e., the remaining after-tax profit after making up losses and appropriating capital reserve) is positive;

(II) The Auditor issues a standard unqualified Auditor's Report on the Company's financial report for the year;

(III) The Company has no major investment plans or significant cash expenditures (excluding projects financed by raised funds); Major investment plans or major cash expenditures refer to: the Company's proposed cumulative expenditures for external investments, asset acquisitions, or equipment purchases in the next twelve months reaching or exceeding 30% of the Company's latest audited total assets, and exceeding RMB 50 million;

(IV) The Company's profitability and cash flow meet the needs of its normal operations and long-term development.

When the conditions for cash dividends are met, the annual cash profit distribution of the Company shall be no less than 20% of the distributable profits realized in the current year. The Company may make interim cash dividends based on its profitability and capital position, but the Company's profit distribution shall not exceed the scope of cumulative distributable profits. The specific distribution ratio shall be formulated by the Board of Directors based on the Company's operating conditions and development requirements,and reviewed and determined by the Shareholders' Meeting.

Where a shareholder illegally occupies the Company's funds, the Company shall deduct the cash dividends payable to such shareholder to offset the occupied funds.

Article 156 The dividend distribution plan of the Company shall be formulated by the Board of Directors in light of the Company's profitability, capital needs and shareholder return plans. When drafting profit distribution-related proposals, the Board of Directors shall fully consider the opinions of independent directors and external supervisors (if any). The relevant proposals must be approved by more than half of all directors on the Board of Directors and by more than half of all independent directors. Independent directors shall express clear opinions when formulating cash dividend proposals.

Independent directors can solicit opinions from small and medium-sized shareholders, propose dividend distribution plans, and submit them directly to the Board of Directors for deliberation. The Board of Directors, independent directors, and shareholders who meet certain conditions may solicit voting rights from the Company's shareholders for the Shareholders' Meeting; When the Shareholders' Meeting deliberates on the specific cash dividend plan, it shall actively communicate and exchange with shareholders, especially minority shareholders, through various channels; If the Company turns a profit during the reporting period but does not make a cash dividends proposal, the Company will provide shareholders with an online voting platform in addition to a physical meeting when convening the Shareholders' Meeting.

Article 157 The Company shall formulate a three-year shareholder return plan by taking into full account factors such as profitability, business development plans, shareholder returns, social capital costs and external financing environment, specifying the specific arrangements and forms of profit distribution for each period, cash dividend plans and their intervals.

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Independent directors shall express independent opinions on the dividend distribution proposal. If the Company makes profits during the reporting period but no cash dividend proposal is put forward, independent directors shall issue independent opinions and make public disclosure.

The Board of Supervisors shall supervise the implementation of the Company's dividend distribution policies and shareholder return plans as well as the decision-making procedures by the Board of Directors and the management.

After the company's Shareholders' Meeting makes a resolution on the profit distribution plan in accordance with the established profit distribution policy, the Company's Board of Directors must complete the distribution of dividends (or shares) within two months after the Shareholders' Meeting is held.

If the Company needs to adjust its profit distribution policy due to significant changes in the external business environment or its own operating conditions, it should proceed from the perspective of protecting shareholder rights and interests, provide detailed argumentation and explanation of the reasons. Relevant systems shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the Shareholders' Meeting, and detailed explanations on the adjustment of the cash dividend distribution policies shall be provided in the Company's periodic reports.

The Company shall, in strict accordance with relevant regulations, disclose the implementation of the profit distribution plan and cash dividend policy in its annual and semi-annual reports. If the Company makes a profit for the year but does not put forward a cash dividend proposal, it shall also explain the reasons for not distributing dividends, as well as the purposes and usage plans of the retained funds that are not distributed."

II. The actual implementation of the Company's cash dividend policy during the reporting period complied with the provisions of the CSRC's Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies and Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies

(I) The actual implementation of the Company's cash dividends during the reporting period complied with the provisions on cash dividends in the CSRC's Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies

1. Original text of the Notice: "1. Listed companies shall further strengthen the awareness of rewarding shareholders, independently decide on profit distribution matters in strict accordance with the Company Law and the provisions of the Articles of Association, formulate clear return plans, fully protect shareholders' legal rights including the right to asset income, and continuously improve the decision-making procedures and mechanisms of the Board of Directors and Shareholders' Meeting concerning profit distribution."

In accordance with the provisions of the Notice, the Company held the 14th Meeting of the First Board of Directors on January 15, 2013, and the 1st Extraordinary Shareholders' Meeting of 2013 on January 31, 2013, respectively, to deliberate and approve the relevant proposals for amending the Company's Articles of Association. The amended Articles of Association, in line with the requirements of the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies, clarified and improved the Company's principles, methods, conditions of profit distribution, as well as the decision-making procedures and mechanisms for profit distribution.

In addition, the Company held the 16th Meeting of the Second Board of Directors on August 10, 2015, and the 4th Extraordinary Shareholders' Meeting of 2015 on August 26, 2015, respectively, to deliberate and approve the Proposal on the Three-Year (2016-2018) Shareholder Dividend and Return Plan of the Company. The Company held the 30th Meeting of the third Board of Directors on December 14, 2018, and the 1st Extraordinary Shareholders' Meeting of 2019 on January 3, 2019,

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respectively, to deliberate and approve the Proposal on the Three-Year (2019-2021) Shareholder Dividend and Return Plan of the Company.

The Company complied with the relevant requirements stipulated in Item 1 of the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies.

2. Original text of the Notice: "II. When formulating profit distribution policies, especially cash dividend policies, listed companies shall go through necessary decision-making procedures. The Board of Directors shall conduct special research and demonstration on shareholder returns and elaborate on the reasons for relevant plans and arrangements. Listed companies shall fully solicit opinions from independent directors and minority shareholders through various channels, properly disclose information on cash dividends, and specify the following contents in their Articles of Association:

(I) The decision-making procedures and mechanisms of the Company's Board of Directors and Shareholders' Meeting for profit distribution (in particular cash dividend) matters, the specific conditions, decision-making procedures and mechanisms for adjusting the established profit distribution policies (in particular cash dividend policies), as well as the measures adopted to fully solicit opinions from independent directors and minority shareholders.

(II) The specific provisions of the Company's profit distribution policies (in particular cash dividend policies), forms of profit distribution, intervals for profit distribution (in particular cash dividends), specific conditions for cash dividends, conditions for issuing stock dividends, and the minimum amount or proportion of cash dividends (if any) for each period.

Companies conducting initial public offerings shall reasonably formulate and improve profit distribution policies, and specify relevant contents in the draft Articles of Association in accordance with the requirements of this Notice. Sponsors shall urge companies conducting initial public offerings to implement the requirements of this Notice when undertaking IPO sponsorship businesses."

When formulating profit distribution policies (in particular cash dividend policies), during the reporting period, the Company completed necessary decision-making procedures upon review and approval by the Board of Directors and the Shareholders' Meeting:

On January 15, 2013, the Company held the 16th Meeting of the Second Board of Directors, at which the relevant proposal on amending the Articles of Association was reviewed and approved. The Board of Directors conducted special research and demonstration on shareholder return matters, and formulated relevant clauses on the profit distribution policies in light of the Company's actual conditions. On January 31, 2013, the Company held the 1st Extraordinary Shareholders' Meeting of 2013, at which the relevant proposals were reviewed and approved.

During the implementation of cash dividends in the reporting period, the Company fully solicited opinions from independent directors and minority shareholders and fulfilled the information disclosure obligations:

Independent directors issued independent opinions expressing their consent, and made public disclosures, at all meetings of the Board of Directors where profit distribution plans were reviewed;

When the Shareholders' Meeting reviewed the profit distribution plan, the Company actively communicated with minority shareholders to fully hear their opinions, conducted separate count of votes for minority shareholders and issued announcements in a timely manner.

The Company complied with the relevant requirements stipulated in Item 2 of the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies.

3. Original text of the Notice: "III. When formulating specific cash dividend plans, the Board of Directors shall carefully study and demonstrate the timing, conditions, minimum proportion,

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adjustment conditions and relevant decision-making procedures for cash dividends, and independent directors shall put forward clear opinions. When reviewing specific cash dividend plans at Shareholders' Meeting, the Company shall actively communicate with shareholders, especially minority shareholders, through various channels, fully listen to their opinions and demands, and promptly respond to their concerns."

During the reporting period, the Company formulated and submitted cash dividend plans for review at Shareholders' Meeting in strict accordance with the provisions of the Articles of Association. During the reporting period, at all Shareholders' Meetings reviewing specific cash dividend plans, the Company actively communicated with shareholders, especially minority shareholders, through online voting and other channels, fully listened to their opinions and demands, and promptly responded to their concerns.

The Company complied with the relevant requirements stipulated in Item 3 of the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies.

4. Original text of the Notice: "IV. Listed companies shall strictly implement the cash dividend policies stipulated in the Articles of Association and the specific cash dividend plans reviewed and approved by the Shareholders' Meeting. If it is truly necessary to adjust or change the cash dividend policies specified in the Articles of Association, the conditions set forth therein shall be met. After detailed demonstration, relevant decision-making procedures shall be completed, and the adjustment or change shall be approved by more than two-thirds of the voting rights held by shareholders present at the Shareholders' Meeting."

On January 15, 2013, the Company held the 16th Meeting of the Second Board of Directors, at which the relevant proposal on amending the Articles of Association was reviewed and approved. The Board of Directors conducted special research and demonstration on shareholder return matters, and formulated relevant clauses on the profit distribution policies in light of the Company's actual conditions. On January 31, 2013, the Company held the 1st Extraordinary Shareholders' Meeting of 2013, at which the relevant proposals were reviewed and approved by more than two-thirds of the shareholders.

During the reporting period, all cash dividends distributed by the Company were implemented in strict accordance with the cash dividend policies set forth in the Articles of Association and the cash dividend plans reviewed and approved by the Shareholders' Meeting:

(1) On June 15, 2017, upon review and approval by more than two-thirds of the voting rights held by shareholders present at the 2016 Annual Shareholders' Meeting, the Company distributed a cash dividend of RMB 1.70 (tax inclusive) per 10 shares to all shareholders, with a total cash dividend distribution of RMB 89.8157 million. The aforesaid profit distribution has been fully implemented.

(2) On March 26, 2018, upon review and approval by more than two-thirds of the voting rights held by shareholders present at the 2017 Annual Shareholders' Meeting, the Company distributed a cash dividend of RMB 2.47 (tax inclusive) per 10 shares to all shareholders, and concurrently, issued converted shares from capital reserve to all shareholders at a ratio of 10 new shares for every 10 outstanding shares held by all shareholders, with a total cash dividend distribution of RMB 130.4970 million. The aforesaid profit distribution has been fully implemented.

(3) On September 7, 2018, upon review and approval by more than two-thirds of the voting rights held by shareholders present at the 6th Extraordinary Shareholders' Meeting of 2018, the Company distributed a cash dividend of RMB 0.75 (tax inclusive) per 10 shares to all shareholders, with a total cash dividend distribution of RMB 95.7876 million. The aforesaid profit distribution has been fully implemented.

(4) On March 29, 2019, upon review and approval at the 32nd Meeting of the third Board of

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Directors of the Company, the Company distributed a cash dividend of RMB 1.30 (tax inclusive) per 10 shares to all shareholders, with a total proposed cash dividend distribution of RMB 166.0319 million. The aforesaid profit distribution has been fully implemented. The Company complied with the relevant requirements stipulated in Item 4 of the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies.

5. Original text of the Notice: "V. Listed companies shall disclose in detail the formulation and implementation of cash dividend policies in periodic reports, and explain whether such policies comply with the provisions of the Articles of Association or the resolutions of Shareholders' Meeting, whether the dividend standards and ratios are clear and definite, whether the relevant decision-making procedures and mechanisms are complete, whether independent directors have duly performed their duties and played their due roles, whether minority shareholders have opportunities to fully express their opinions and demands, and whether the legitimate rights and interests of minority shareholders are fully safeguarded. Where cash dividend policies are adjusted or changed, companies shall also elaborate on whether the conditions and procedures for such adjustment or change are compliant and transparent."

During the reporting period, the Company fully disclosed the formulation and implementation of cash dividend policies in its periodic reports. It clearly stated that the cash dividends complied with the provisions of the Articles of Association and the resolutions of Shareholders' Meeting. The dividend standards and ratios are clear and definite, the relevant decision-making procedures and mechanisms are complete. Independent directors have duly performed their duties and played their due roles. Minority shareholders have had opportunities to fully express their opinions and demands, and their legitimate rights and interests are fully safeguarded.

The Company complied with the relevant requirements stipulated in Item 5 of the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies.

6. Original text of the Notice: "VI. Companies conducting initial public offerings shall fully disclose information concerning profit distribution in their prospectuses:

(I) Disclose the contents related to profit distribution in the Articles of Association (Draft).

(II) Disclose the special research and demonstration conducted by the Board of Directors on shareholder return arrangements as well as the reasons for the corresponding planning and arrangements.

(III) Disclose the major considerations for formulating the Company's profit distribution policies and the decision-making procedures that have been completed. Where the profit distribution policy clearly stipulates no cash dividend distribution or sets a minimum ratio for cash dividends, the major considerations for formulating such policies or ratios shall be further disclosed. Where the issuer's profits are mainly derived from its controlled subsidiaries, it shall disclose the financial management systems of the controlled subsidiaries, the profit distribution provisions in their Articles of Association, and whether such provisions can ensure that the issuer can maintain the capacity for cash dividends in the future. The issuer shall elaborate on the utilization and arrangement of undistributed profits in light of its own production and operation conditions.

(IV) Disclose whether the Company has a specific profit distribution plan for the next three years. If any, the specific contents, formulation basis and feasibility of such plan shall be further disclosed. The issuer shall elaborate on the utilization and arrangement of undistributed profits in light of its own production and operation conditions.

(V) Disclose the specific contents of the Company's long-term return plan and the major considerations for formulating such plan. The dividend and return plan shall focus on the Company's long-term and sustainable development. Based on a comprehensive analysis of factors such as the actual business development, shareholders' demands and intentions, social capital costs,

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and the external financing environment, it shall fully consider the Company's current and future profitability, cash flow status, development stage, project investment funding needs, this issuance financing, and the bank credit and debt financing environment to establish a continuous, stable, and scientific return mechanism for investors and maintain the continuity and stability of the profit distribution policies.

(VI) Include a "Material Matters Notice" in the prospectus to draw investors' attention to the Company's profit distribution policies after its issuance and listing, the minimum ratio of cash dividends (if any), the specific profit distribution plan for the next three years (if any), and the long-term return plan, and remind investors to refer to the specific content in the prospectus for details.

The sponsor shall reflect in its sponsorship work report the improvement of the issuer's profit distribution policies, and issue clear opinions on whether the issuer's profit distribution decision-making mechanism complies with the these provisions, as well as whether the issuer's profit distribution policies and future dividend plans focus on delivering reasonable returns to investors and are conducive to protecting investors' legitimate rights and interests."

(1) The Company disclosed its profit distribution policies and relevant provisions on profit distribution set forth in the Articles of Association (Draft) in Section XIV Dividend Distribution Policies of the Prospectus for Initial Public Offering of Shares of MLS Co., Ltd.;

(2) In Section VI Dividend Distribution Analysis under Chapter XI Management's Discussion and Analysis of the Prospectus for Initial Public Offering of Shares of MLS Co., Ltd., the Company disclosed the principles of its profit distribution plans, the decision-making procedures implemented, as well as the basis, feasibility, continuity and stability of its future profit distribution plans;

(3) The Company disclosed matters such as its dividend distribution policies and provisions on cash dividend ratios after this offering in the "Material Matters Notice" of the Prospectus for Initial Public Offering of Shares of MLS Co., Ltd., and advised investors to refer to the specific content in the prospectus for details;

(4) Ping An Securities, the sponsor for the initial public offering, disclosed the Company's profit distribution policies in the Issuance Sponsorship Work Report for the Issuance. It also issued clear opinions on whether the Company's profit distribution decision-making mechanism complies with the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies, and whether the profit distribution policies and future dividend plans focus on providing reasonable returns to investors and are conducive to protecting investors' legitimate rights and interests.

The Company complied with the relevant requirements stipulated in Item 6 of the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies.

7. Original text of the Notice: "VII. Listed companies planning to issue securities shall formulate reasonable plans for shareholder returns, strike a proper balance between using operating profits for business development and rewarding shareholders, and attach importance to raising the level of cash dividends so as to improve returns for shareholders."

Listed companies shall additionally disclose in the prospectus or issuance proposal the formulation and implementation of profit distribution policies, especially cash dividend policies, the amount and ratio of cash dividends over the latest 3 years, and the arrangement for the use of undistributed profits, and include a "Material Matters Notice" to draw investors' attention to the aforementioned information. The sponsor shall express a clear opinion in the sponsorship work report on whether the decision-making mechanism of the listed company's profit distribution policies are compliant, whether a mechanism for continuous, stable, and scientific returns to investors has been established, whether the commitment to cash dividends has been fulfilled, and whether the requirements of this Notice have been implemented.

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For listed companies with a relatively low level of cash dividends over the past three years, the issuer and its sponsor shall explain the reasons therefor by taking into account the characteristics and business models of enterprises in different industries and of different types, the company's development stage, profitability and capital needs, and issue explicit opinions on whether the company has fully considered shareholders' demands and intentions, whether it has delivered reasonable returns to investors, and whether its cash dividend policies comply with the principle of maximizing shareholders' interests of listed companies."

(1) The Company has formulated a reasonable shareholder return plan, achieved a proper balance between applying operating profits to business development and rewarding shareholders, increased cash dividends and attached great importance to returns for shareholders:

The Company held the 16th Meeting of the second Board of Directors and the 4th Extraordinary Shareholders' Meeting of 2015 on August 10, 2015 and August 26, 2015, respectively, at which the Proposal on the Three-Year (2016-2018) Shareholder Dividend and Return Plan of the Company was reviewed and approved.

The Company held the 30th Meeting of the third Board of Directors on December 14, 2018, and the 1st Extraordinary Shareholders' Meeting of 2019 on January 3, 2019, respectively, to deliberate and approve the Proposal on the Three-Year (2019-2021) Shareholder Dividend and Return Plan of the Company.

(2) The Company elaborated on the "Dividend Distribution Policies and Distribution Status" in the prospectus. The main content included the profit distribution policies stipulated in the Articles of Association, the Shareholder Return Plan for the Next Three Years (2019-2021) of MLS Co., Ltd. formulated by the Company, and the profit distribution status for the last three years of the Company. The Company also listed its current profit distribution policies and the profit distribution status during the reporting period under "Material Matters Notice" to draw investors' attention to the aforesaid information.

(3) In the Issuance Sponsorship Work Report issued by Ping An Securities, the sponsor for this convertible bond issuance, it is concluded that the decision-making mechanisms for profit distribution in the Articles of Association, the Shareholder Dividend and Return Plan for the Next Three Years (2016-2018) of MLS Co., Ltd., and the Shareholder Return Plan for the Next Three Years (2019-2021) of MLS Co., Ltd. complies with the provisions of the CSRC's Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies and Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies. The issuer's profit distribution policies and future dividend plan attach importance to reasonable investment returns for investors while taking into account the Company's sustainable development, focus on delivering stable and reasonable investment returns to investors, and the implementation of proactive profit distribution policies are conducive to protecting the legitimate rights and interests of investors.

(4) The Company's cumulative cash dividends from 2016 to 2018 accounted for 77.66% of the net profit attributable to shareholders of the listed company from 2016 to 2018. The Company's dividend distribution decision-making mechanism is sound and effective, which is conducive to protecting the legitimate rights and interests of public shareholders.

The Company complied with the relevant requirements stipulated in Item 7 of the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies.

8. Original text of the Notice: "VIII. Where a party conducts backdoor listing, major asset restructuring, merger or division, or where a change in the control of a listed company arises from acquisition, it shall, in accordance with the requirements of this Notice, fully disclose in the major asset restructuring report, equity change report or acquisition report the listed company's cash dividend policies, corresponding plans and arrangements as well as explanations from the Board of

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Directors after the restructuring or change of control."

The above clause is not applicable to the Company.

(II) The Company's actual implementation of cash dividends in the last three years complied with the provisions on cash dividends in the CSRC's Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies

1. Original text of the Guidelines: "Article 2 Listed companies shall firmly establish the awareness of rewarding shareholders, improve the cash dividend system in strict accordance with the Company Law, the Securities Law and the provisions of the Articles of Association, maintain the consistency, rationality and stability of cash dividend policies, and ensure the authenticity of information disclosure on cash dividends."

The Company held the 14th Meeting of the First Board of Directors and the 1st Extraordinary Shareholders' Meeting of 2013, on January 15, 2013, and January 31, 2013, respectively, to review and approve the relevant proposals for amending the Articles of Association. The amended Articles of Association clarified and improved the Company's profit distribution principles, methods, conditions, and the decision-making procedures and mechanisms for profit distribution in accordance with the requirements of the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies.

In addition, the Company held the 16th Meeting of the Second Board of Directors on August 10, 2015, and the 4th Extraordinary Shareholders' Meeting of 2015 on August 26, 2015, respectively, to deliberate and approve the Proposal on the Three-Year (2016-2018) Shareholder Dividend and Return Plan of the Company. The Company held the 30th Meeting of the third Board of Directors on December 14, 2018, and the 1st Extraordinary Shareholders' Meeting of 2019 on January 3, 2019, respectively, to deliberate and approve the Proposal on the Three-Year (2019-2021) Shareholder Dividend and Return Plan of the Company.

The Company complied with the relevant requirements stipulated in Item 2 of the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies.

2. Original text of the Guidelines: "Article 3 When formulating profit distribution policies, a listed company shall follow the decision-making procedures specified in its Articles of Association. The Board of Directors shall conduct special research and demonstration on shareholder returns, formulate clear and explicit shareholder return plans, and elaborate on the reasons for such plans and arrangements. A listed company shall specify the following contents in its Articles of Association:

(I) The decision-making procedures and mechanisms of the Company's Board of Directors and Shareholders' Meeting for profit distribution (in particular cash dividend) matters, the specific conditions, decision-making procedures and mechanisms for adjusting the established profit distribution policies (in particular cash dividend policies), as well as the measures adopted to fully solicit opinions from independent directors and minority shareholders.

(II) The specific provisions of the Company's profit distribution policies (in particular cash dividend policies), forms of profit distribution, intervals for profit distribution (in particular cash dividends), specific conditions for cash dividends, conditions for issuing stock dividends, and the minimum amount or ratio of cash dividends (if any) for each period."

Article 156 of the Company's Articles of Association prescribes the principles for dividend distribution, the decision-making procedures and mechanisms for profit distribution plans, and requirements on full solicitation of opinions from independent directors and minority shareholders; When reviewing a specific profit distribution plan, the Shareholders' Meeting shall proactively communicate and exchange ideas with shareholders, especially minority shareholders, through

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various channels. If the Company turns a profit during the reporting period but does not make a cash dividends proposal, the Company will provide shareholders with an online voting platform in addition to a physical meeting when convening the Shareholders' Meeting.

Article 157 of the Company's Articles of Association prescribes a supervision mechanism for independent directors and the Board of Supervisors over dividend policies, shareholder return plans and relevant decision-making procedures, as well as the procedures and mechanisms for adjusting the established profit distribution policies, and relevant systems shall be approved by more than two-thirds of the voting rights held by shareholders present at the Shareholders' Meeting, and a detailed explanation on the adjustment of cash dividend policies shall be provided in the Company's periodic reports.

Article 155 of the Company's Articles of Association prescribes the principles, methods and conditions for profit distribution, as well as the minimum cash dividend ratio when relevant conditions are met.

During the reporting period, all profit distribution plans implemented by the Company were executed in strict accordance with the provisions of the Articles of Association.

The Company complied with the relevant requirements stipulated in Item 3 of the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies.

3. Original text of the Guidelines: "Article 4 A listed company shall specify in its Articles of Association the priority of cash dividends over stock dividends in profit distribution. Where conditions for cash dividends are met, the company shall distribute profits by way of cash dividends."

Where profits are distributed by way of stock dividends, there shall be genuine and reasonable factors such as the Company's growth potential and the dilution of book value per share."

Article 154 of the Company's Articles of Association clearly specifies the priority and conditions of cash dividends over stock dividends in profit distribution. Article 156 of Company's Articles of Association stipulates that the dividend distribution plan shall be formulated by the Board of Directors in light of the Company's profitability, capital needs and shareholder return plans.

During the reporting period, all profit distribution plans implemented by the Company were executed in strict accordance with the provisions of the Articles of Association.

The Company complied with the relevant requirements stipulated in Item 4 of the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies.

4. Original text of the Guidelines: "Article 5 The Board of Directors of a listed company shall comprehensively consider factors including industry characteristics, development stage, the company's business model, profitability and whether there are major capital expenditure arrangements, distinguish the following circumstances, and propose differentiated cash dividend policies in accordance with the procedures stipulated in the Articles of Association:

(I) Where the Company is in a mature development stage and has no major capital expenditure plans, cash dividends shall account for no less than 80% of the total profit distribution for the current period;

(II) Where the Company is in a mature development stage and has major capital expenditure plans, cash dividends shall account for no less than 40% of the total profit distribution for the current period;

(III) Where the Company is in a growth stage and has major capital expenditure plans, in terms of profit distribution, cash dividends shall account for no less than 20% of the total profit distribution for the current period; If the Company's development stage is hard to distinguish but

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there are major capital expenditure arrangements, the provisions of the preceding paragraph shall apply."

Article 154 of the Company's Articles of Association clearly stipulates that the Shareholders' Meeting authorizes the Board of Directors to propose differentiated cash dividend policies each year by comprehensively taking into account the Company's industry characteristics, development stage, business model, profitability and major capital expenditure arrangements.

The Company complied with the relevant requirements stipulated in Item 5 of the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies.

5. Original text of the Guidelines: "Article 6 When formulating specific cash dividend plans, the Board of Directors of a listed company shall carefully study and demonstrate the timing, conditions and minimum ratio, as well as the conditions for adjustment and relevant decision-making procedures of cash dividends, and independent directors shall issue clear opinions.

Independent directors can solicit opinions from small and medium-sized shareholders, propose dividend distribution plans, and submit them directly to the Board of Directors for deliberation. Before the Shareholders' Meeting deliberates on the specific cash dividend plan, the listed company shall proactively communicate and exchange ideas with shareholders, especially minority shareholders, fully listen to the opinions and demands of minority shareholders, and promptly respond to their concerns, through various channels."

Article 155 of the Company's Articles of Association prescribes the principles, methods and conditions for profit distribution, as well as the minimum cash dividend ratio when relevant conditions are met.

Article 156 of the Company's Articles of Association prescribes the principles for dividend distribution, the decision-making procedures and mechanisms for profit distribution plans, and requirements on full solicitation of opinions from independent directors and minority shareholders; When reviewing a specific profit distribution plan, the Shareholders' Meeting shall proactively communicate and exchange ideas with shareholders, especially minority shareholders, through various channels. If the Company turns a profit during the reporting period but does not make a cash dividends proposal, the Company will provide shareholders with an online voting platform in addition to a physical meeting when convening the Shareholders' Meeting.

The Company complied with the relevant requirements stipulated in Item 6 of the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies.

6. Original text of the Guidelines: "Article 7 Listed companies shall strictly implement the cash dividend policies stipulated in the Articles of Association and the specific cash dividend plans reviewed and approved by the Shareholders' Meeting. If it is truly necessary to adjust or change the cash dividend policies specified in the Articles of Association, the conditions set forth therein shall be met. After detailed demonstration, relevant decision-making procedures shall be completed, and the adjustment or change shall be approved by more than two-thirds of the voting rights held by shareholders present at the Shareholders' Meeting."

Article 157 of the Company's Articles of Association stipulates that any adjustment to the established profit distribution policies shall be made with the protection of shareholders' rights and interests as the starting point, with detailed demonstration and explanation of the reasons. Relevant systems shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the Shareholders' Meeting, and detailed explanations on the adjustment of the cash dividend distribution policies shall be provided in the Company's periodic reports.

The Company complied with the relevant requirements stipulated in Item 7 of the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies.

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7. Original text of the Guidelines: "Article 8 A listed company shall fully disclose the formulation and implementation of its cash dividend distribution policies in the annual report, and provide special explanations on the following matters:

(I) Whether it complies with the provisions of the Company's Articles of Association or the requirements of the resolutions of the Shareholders' Meeting;

(II) Whether the dividend standards and ratios are clear and explicit;

(III) Whether the relevant decision-making procedures and mechanisms are complete;

(IV) Whether the independent directors have duly fulfilled their duties and played their due roles;

(V) Whether minority shareholders have opportunities to fully express their opinions and demands, and whether the legitimate rights and interests of minority shareholders are fully protected. Where the cash dividend distribution policies are adjusted or changed, detailed explanations shall also be given on whether the conditions and procedures for such adjustment or revision are compliant and transparent."

During the reporting period, the Company fully disclosed the formulation and implementation of cash dividend policies in its periodic reports. It clearly stated that the cash dividends complied with the provisions of the Articles of Association and the resolutions of Shareholders' Meeting. The dividend standards and ratios are clear and definite, the relevant decision-making procedures and mechanisms are complete. Independent directors have duly performed their duties and played their due roles. Minority shareholders have had opportunities to fully express their opinions and demands, and their legitimate rights and interests are fully safeguarded.

The Company complied with the relevant requirements stipulated in Item 8 of the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies.

8. Original text of the Guidelines: "Article 9 Where a listed company plans to issue securities, conduct backdoor listing, major asset restructuring, merger or division, or undergoes a change of control as a result of acquisition, it shall fully disclose in the prospectus, issuance proposal, major asset restructuring report, equity change report or acquisition report the cash dividend policies and corresponding arrangements of the listed company after the fundraising, issuance, restructuring or change of control, as well as explanations from the Board of Directors on the aforesaid matters."

The above clause is not applicable to the Company.

9. Original text of the Guidelines: "Article 10 A listed company may issue preferred shares and repurchase its shares in accordance with the law. Listed companies are encouraged to repurchase shares when their share price falls below the book value per share (excluding loss-making companies)."

The above clause is not applicable to the Company.

10. Original text of the Guidelines: "Article 11 A listed company shall take effective measures to encourage general minority investors and institutional investors to actively participate in the decision-making on the company's profit distribution matters, and give full play to the professional guiding role of intermediaries."

Article 156 of the Company's Articles of Association prescribes the principles for dividend distribution, the decision-making procedures and mechanisms for profit distribution plans, and requirements on full solicitation of opinions from independent directors and minority shareholders; When reviewing a specific profit distribution plan, the Shareholders' Meeting shall proactively communicate and exchange ideas with shareholders, especially minority shareholders, through various channels. If the Company turns a profit during the reporting period but does not make a

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cash dividends proposal, the Company will provide shareholders with an online voting platform in addition to a physical meeting when convening the Shareholders' Meeting.

The Company complied with the relevant requirements stipulated in Item 11 of the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies.

III. The actual implementation of the Company's cash dividend policies during the reporting period complied with the provisions on cash dividends in the Articles of Association

Pursuant to Article 155 of the current Articles of Association of the Company: "The Company shall actively implement cash dividend distribution when the following conditions are met:

(I) The Company's distributable profit for the year (i.e., the remaining after-tax profit after making up losses and appropriating capital reserve) is positive;

(II) The Auditor issues a standard unqualified Auditor's Report on the Company's financial report for the year;

(III) The Company has no major investment plans or significant cash expenditures (excluding projects financed by raised funds); Major investment plans or major cash expenditures refer to: the Company's proposed cumulative expenditures for external investments, asset acquisitions, or equipment purchases in the next twelve months reaching or exceeding 30% of the Company's latest audited total assets, and exceeding RMB 50 million;

(IV) The Company's profitability and cash flow meet the needs of its normal operations and long-term development.

When the conditions for cash dividends are met, the annual cash profit distribution of the Company shall be no less than 20% of the distributable profits realized in the current year. The Company may make interim cash dividends based on its profitability and capital position, but the Company's profit distribution shall not exceed the scope of cumulative distributable profits. The specific distribution ratio shall be formulated by the Board of Directors based on the Company's operating conditions and development requirements,and reviewed and determined by the Shareholders' Meeting."

The profit distribution of the Company during the reporting period is as follows:

1. Profit distribution plan for 2016

Upon review and approval at the 2016 Annual Shareholders' Meeting held on June 15, 2017, The 2016 profit distribution plan of the Company was as follows: based on the Company's outstanding total share capital of 528,327,918 shares, a cash dividend of RMB 1.70 (tax inclusive) per 10 shares shall be distributed to all shareholders, with a total cash dividend distribution of RMB 89.8157 million. The aforesaid profit distribution has been fully implemented.

According to the Auditor's Report (RHSZ [2017] No. 48380008) issued by the auditing firm Ruihua Certified Public Accountants (Special General Partnership), the parent company recorded a net profit of RMB 448.9749 million in 2016. After appropriating 10% for the statutory surplus reserve at RMB 44.8975 million, the distributable net profit recorded by the parent company for 2016 was RMB 404.0774 million.

2. Profit distribution plan for 2017

Upon review and approval at the 2017 Annual Shareholders' Meeting held on March 26, 2018, the Company's profit distribution plan for 2017 was as follows: based on the Company's outstanding total share capital of 528,327,918 shares, a cash dividend of RMB 2.47 (tax inclusive) per 10 shares shall be distributed to all shareholders, concurrently, it shall issue converted shares from capital reserve to all shareholders at a ratio of 10 new shares for every 10 outstanding shares held by all shareholders, with no bonus shares issued (tax inclusive), with a total cash dividend

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distribution of RMB 130.4970 million. The aforesaid profit distribution has been fully implemented.

According to the Auditor's Report ([2018] No. 48510001) issued by the auditing firm Ruihua Certified Public Accountants (Special General Partnership), the parent company recorded a net profit of RMB 424.1171 million in 2017. After appropriating 10% for the statutory surplus reserve at RMB 42.4117 million, the distributable net profit recorded by the parent company for 2017 was RMB 381.7054 million.

3. Interim profit distribution plan for 2018

Upon review and approval at the 6th Extraordinary Shareholders' Meeting of 2018 held on September 7, 2018, the Company's interim profit distribution plan for 2018 was as follows: based on the Company's outstanding total share capital of 1,277,168,540 shares, a cash dividend of RMB 0.75 (tax inclusive) per 10 shares shall be distributed to all shareholders, for a total cash dividend distribution of RMB 95.7876 million. The aforesaid profit distribution has been fully implemented.

4. Annual profit distribution plan for 2018

Upon review and approval at the 32nd Meeting of the third Board of Directors held on March 29, 2019, the Company's profit distribution plan for 2018 was as follows: based on the Company's existing total share capital of 1,277,168,540 shares, a cash dividend of RMB 1.30 (tax inclusive) per 10 shares shall be distributed to all shareholders, with a total proposed cash dividend distribution of RMB 166.0319 million. The aforesaid profit distribution has been fully implemented.

According to the Auditor's Report issued by the audit firm Ruihua Certified Public Accountants (Special General Partnership), the parent company recorded a net profit of RMB 299.3449 million in 2018. After appropriating 10% for the statutory surplus reserve at RMB 29.9345 million, the distributable net profit recorded by the parent company for 2018 was RMB 269.4104 million. The Company's cash dividends during the reporting period are as follows:

Unit: RMB 10,000

Item	2018	2017	2016
Cash dividends (tax inclusive)	26,181.95	13,049.70	8,981.57
Distributable profits recorded by the parent company	26,941.04	38,170.54	40,407.74
Ratio of cash dividends to the distributable profits recorded by the parent company	97.18%	34.19%	22.23%

Notes: 1. The cash dividends for 2018 include the interim cash dividends for 2018 and the annual cash dividends for 2018;

2. The distributable profit realized by the parent company = the net profit realized by the parent company in the current year - the amount withdrawn for the surplus reserve. During the reporting period, the proportion of the Company's cash dividends to the distributable profit realized by the parent company exceeded 20%, and the actual implementation of the cash dividend policy complied with the Articles of Association.

Sponsor's verification process and opinions:

The sponsor reviewed the issuer's information disclosure documents, profit distribution plans, relevant resolutions of the Board of Directors and Shareholders' Meeting, and the Articles of Association, and checked, item by item, whether the Articles of Association and the actual implementation of the cash dividend policy during the reporting period complied with the Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies and the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies.

Upon verification, the sponsor believes that: the clauses related to cash dividends in the issuer's

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Articles of Association and the actual implementation of the cash dividend policy during the reporting period comply with the requirements of the CSRC's Notice on Further Implementing Matters Concerning Cash Dividends of Listed Companies and the Regulatory Guidelines for Listed Companies No. 3 - Cash Dividends of Listed Companies, and the issuer's cash dividends during the reporting period comply with the Articles of Association.

9. During the reporting period, the Applicant was subject to administrative penalties on multiple occasions. The Applicant is requested to provide supplementary disclosure on: (1) main reasons for and details of the aforementioned administrative penalties, and whether the Company has completed rectification; (2) whether the aforementioned administrative penalties constitute a legal obstacle to this issuance. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions.

[Reply]:

During the reporting period, the main administrative penalties received by the Company and its subsidiaries are as follows:

S/N	Party subject to penalty	Penalizing authority	Date of penalty decision	Reason for penalty	Penalty details	Rectification situation	Authority determining the nature of the penalty	Whether the administrative authority determines that it constitutes a major violation
1	MLS Co., Ltd.	Zhongshan Administration of Work Safety	May 4, 2017	Contracting the decoration and construction project of the office building to a unit that does not have the corresponding qualifications	A fine of RMB 100,000	The fine has been paid and rectification work has been completed	**The Zhongshan Emergency Management Bureau (formerly known as "Zhongshan Administration of Work Safety") issued a certificate on June 5, 2019**	The violation involved in this administrative penalty pertains to a general production safety accident and does not constitute a major violation of laws and regulations. The above penalty is not an administrative penalty with serious circumstances. The issuer has

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								completed rectification and paid the fine for the aforementioned administrative penalty.
2	XINYU MLS Circuit Board	Xinyu Economic Development Zone Public Security Fire Brigade	November 3, 2017	Phase III was put into use without passing the fire safety inspection, and its fire protection facilities were not kept intact and effective	Phase III was ordered to immediately cease production and business operations, and a fine of RMB 120,000 was imposed	The rectification work has been completed and the fine has been paid	**The Xinyu Economic Development Zone Public Security Fire Brigade issued a certificate on December 11, 2018**	This violation did not constitute a major violation, and this penalty was not a serious administrative penalty. Jiangxi MLS Optoelectronics Technology Co., Ltd. has completed rectification and paid the fine for the aforementioned administrative penalty.
		Xinyu Environmental Protection Bureau	April 24, 2018	The supporting environmental protection facilities for the Phase III Circuit Board Assembly Construction Project were put into production before being inspected	A fine of RMB 610,000	The rectification work has been completed and the fine has been paid	**The Xinyu Environmental Protection Bureau issued a certificate on December 11, 2018**	This violation did not cause major environmental pollution or ecological damage, does not constitute a major violation of laws and regulations, and the above penalty is

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				and accepted				not considered a severe administrative penalty. Jiangxi MLS Optoelectronics Technology Co., Ltd. has completed rectification and paid the fine for the above administrative penalty.
3	Jiangxi MLS Semiconductor Material Co., Ltd.	Xinyu Administration of Work Safety	November 8, 2017	An electric shock safety accident occurred	A fine of RMB 300,000	The rectification work has been completed and the fine has been paid	**The Xinyu Administration of Work Safety issued a certificate on December 12, 2018.**	The violation did not constitute a major violation of laws and regulations, and the penalty was not a serious administrative penalty. Jiangxi MLS Semiconductor Material Co., Ltd. has completed rectification and paid the fine for the aforementioned administrative penalty.

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4	Zhongshan MLS Electronics Co., Ltd.	Zhongshan Bureau of Ecology and Environment (ZSBEE)	December 15, 2017	Abnormal operation of air pollution prevention and control facilities, with waste gas directly discharged into the external environment without being collected and treated by treatment facilities	A fine of RMB 120,000	The rectification work has been completed and the fine has been paid	**Zhongshan Bureau of Ecology and Environment (ZSBEE) (formerly known as the "Zhongshan Bureau of Environmental Protection") issued a statement of circumstances on June 6, 2019**	The violation does not constitute a major violation, and the above administrative penalty is not a major administrative penalty. Zhongshan MLS Electronics Co., Ltd. has paid all fines and completed rectification.
5	Sunny World (Shaoxing) Green Lighting Co. Ltd.	Inspection Bureau of Shaoxing Local Taxation Bureau	December 11, 2017	Underpayment of property tax and individual income tax	A fine of RMB 65,800	The rectification work has been completed and the fine has been paid	**The Inspection Bureau of Shaoxing Local Taxation Bureau issued a certificate on December 20, 2018**	The violation did not constitute a major violation of laws and regulations, and the penalty was not a serious administrative penalty. Sunny World (Shaoxing) Green Lighting Co. Ltd. has completed rectification and paid the fine for the aforementioned administrative penalty.

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6	LEDVANCELLC	California Energy Commission	Self-reported violations on April 27, 2018	Small-diameter directional lamps not in compliance with the Appliance Efficiency Regulations	Reached a settlement agreement and claim waiver, and paid an administrative civil penalty of USD 10,420 to the California Energy Commission to waive claims arising from violations of the aforementioned regulations	According to the legal documents issued by CKR Law LLP on March 24, 2019, LEDVANCE LLC has paid the aforementioned fine and is able to comply with the relevant requirements of the California Energy Commission's Appliance Efficiency Regulations	-	The aforementioned violations were voluntarily reported by LEDVANCE LLC to the California Energy Commission. The fine amount was small, and the violations did not constitute an administrative penalty or a serious circumstance.

1. Administrative penalties imposed on MLS

On May 4, 2017, the Zhongshan Administration of Work Safety issued the Administrative Penalty Decision ((ZZ) AJF [2017] No. 30), imposing a fine of RMB 100,000 on the Company for contracting the decoration and construction project of its office building to a unit without the corresponding qualifications, which violated Article 46, Paragraph 1 of the Work Safety Law of the People's Republic of China.

In response to the above penalty, the Company has completed the relevant rectification work.

The Zhongshan Emergency Management Bureau (formerly known as the "Zhongshan Administration of Work Safety") issued a certificate (ZYJZ [2019] No. 5) on June 5, 2019, confirming that the violation involved in the aforementioned administrative penalty is a general work safety accident violation, and does not constitute a major violation of laws and regulations. The aforesaid penalty is not deemed a severe administrative penalty. The issuer has completed rectification and paid the fine for the aforementioned administrative penalty.

2. Administrative penalties imposed on XINYU MLS Circuit Board

(1) Fire safety penalties

On November 3, 2017, the Xinyu Economic Development Zone Public Security Fire Brigade issued the Administrative Penalty Decision (KG (X) XFJZ [2017] No. 0084), ordering Phase III of JIANGXI Optoelectronics to immediately cease production and business operations and imposing a fine of RMB 120,000 for putting it into use without passing the fire safety inspection, which violated Article 13, Paragraph 2 of the Fire Protection Law of the People's Republic of China.

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In response to the above penalty, the Company has completed the relevant rectification work.

The Xinyu Economic Development Zone Public Security Fire Brigade issued a certificate on December 11, 2018, confirming that: "On November 3, 2017, this authority, in accordance with Article 58, Paragraph 1, Item 3 and Article 60, Paragraph 1, Item 1 of the Fire Protection Law of the People's Republic of China, issued the Administrative Penalty Decision (KG (X) XFJZ [2017] No. 0084) to Jiangxi MLS Optoelectronics Technology Co., Ltd. The violation does not constitute a major violation of laws or regulations, and the penalty is not considered a severe administrative penalty. Jiangxi MLS Optoelectronics Technology Co., Ltd. has completed rectification and paid the fine for the aforementioned administrative penalty.

Except for the aforementioned penalty, from January 1, 2015 to the date of issuance of this certificate, Jiangxi MLS Optoelectronics Technology Co., Ltd. has not had any other violations of fire protection-related laws, regulations, and normative documents, nor has it been subject to any other fire protection-related administrative penalties."

(2) Environmental penalties

On April 24, 2018, the Xinyu Environmental Protection Bureau issued the Administrative Penalty Decision (YHF [2018] No. 10), stating that Jiangxi MLS Optoelectronics Technology Co., Ltd. had put its Phase III circuit board assembly construction project into production prior to acceptance of the supporting environmental protection facilities, in violation of Paragraph 1 of Article 19 of the Regulations on the Administration of Environmental Protection for Construction Projects, and was fined RMB 610,000.

In response to the above penalty, the Company has completed the relevant rectification work.

The Xinyu Environmental Protection Bureau issued a certificate on December 11, 2018, confirming that: "On April 24, 2018, this Bureau, in accordance with Article 23 of the Regulations on the Administration of Environmental Protection for Construction Projects, issued the Administrative Penalty Decision (YHF [2018] No. 10) to Jiangxi MLS Optoelectronics Technology Co., Ltd. The violation did not cause significant environmental pollution or ecological damage and does not constitute a major violation of laws or regulations. This penalty is not considered a severe administrative penalty. Jiangxi MLS Optoelectronics Technology Co., Ltd. has completed rectification and paid the fine for the aforementioned administrative penalty.

Except for the aforementioned penalty, from January 1, 2015 to the date of issuance of this certificate, Jiangxi MLS Optoelectronics Technology Co., Ltd. has not had any other violations of environmental protection-related laws, regulations, and normative documents, nor has it been subject to any other environmental protection-related administrative penalties."

3. Administrative penalties imposed on Jiangxi MLS Semiconductor

On November 8, 2017, the Xinyu Administration of Work Safety issued the Administrative Penalty Decision ((Y) AJGF [2017] No. 302), stating that, as a result of an electric shock safety accident at Jiangxi MLS Semiconductor, the company violated Articles 25 and 38 of the Work Safety Law of the People's Republic of China, and was fined RMB 300,000.

In response to the above penalty, the Company has completed the relevant rectification work.

On December 12, 2018, the Xinyu Administration of Work Safety issued a certificate confirming that: "On November 8, 2017, this administration issued the Administrative Penalty Decision ((Y) AJGF [2017] No. 302) to Jiangxi MLS Semiconductor in accordance with Article 109, Paragraph 1 of the Work Safety Law of the People's Republic of China. This violation does not constitute a major violation of laws and regulations, and this penalty is not considered a severe administrative penalty. Jiangxi MLS Semiconductor Material Co., Ltd. has completed rectification and paid the fines for the above administrative penalty.

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Except for the aforementioned penalty, from January 1, 2015 to the date of issuance of this certificate, Jiangxi MLS Semiconductor Material Co., Ltd. has not had any other violations of work safety-related laws, regulations, and normative documents, nor has it been subject to any other work safety-related administrative penalties."

4. Administrative penalties imposed on Zhongshan MLS Electronics

On December 15, 2017, the Zhongshan Bureau of Ecology and Environment (ZSBEE) issued the Administrative Penalty Decision (Z (L) HFZ [2017] No. 56), stating that Zhongshan MLS Electronics was fined RMB 120,000 for violating Article 20, Paragraph 2 of the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution due to the abnormal operation of its air pollution prevention and control facilities.

In response to the above penalty, the Company has completed the relevant rectification work.

On June 6, 2019, the Zhongshan Bureau of Ecology and Environment (ZSBEE) (formerly known as the "Zhongshan Bureau of Environmental Protection") issued a statement confirming that the above violation does not constitute a major violation, and the above administrative penalty is not a major administrative penalty. Zhongshan MLS Electronics Co., Ltd. has paid all fines and completed rectification.

From January 2018 to the present, this Bureau has not identified any violations of national and local environmental protection laws and regulations by Zhongshan MLS Electronics Co., Ltd."

5. Administrative penalties imposed on SHAOXING Xinhe

On December 11, 2017, the Inspection Bureau of Shaoxing Local Taxation Bureau issued the Administrative Penalty Decision (SSDSJF [2017] No. 103), stating that Shaoxing Xinhe was fined RMB 65,800 for underpaying property tax and individual income tax, in violation of Article 63, Paragraph 1 and Article 69 of the Law of the People's Republic of China on the Administration of Tax Collection.

In response to the above penalty, the Company has completed the relevant rectification work.

The Inspection Bureau of Shaoxing Local Taxation Bureau of Zhejiang Province issued a certificate on December 20, 2018, confirming that: "On December 11, 2017, this Bureau, in accordance with Article 63, Paragraph 1 and Article 69 of the Law of the People's Republic of China on the Administration of Tax Collection, issued the Tax Administrative Penalty Decision (SSDSJF [2017] No. 103) to Sunny World (Shaoxing) Green Lighting Co. Ltd. This violation does not constitute a major violation of laws and regulations, and this penalty is not a severe administrative penalty. Sunny World (Shaoxing) Green Lighting Co. Ltd. has completed rectification and paid the fine for the aforementioned administrative penalty.

Except for the above penalty, from January 1, 2015 to the date of issuance of this certificate, Sunny World (Shaoxing) Green Lighting Co. Ltd. has not been subject to any other administrative penalties for violating tax-related laws, regulations, or normative documents."

6. Administrative and civil fines imposed on LEDVANCE LLC

During the period from February 2018 to April 2018, LEDVANCE LLC negligently sold or offered for sale, through retailers or distributors, small-diameter directional lamps regulated in California that did not meet the efficiency standards set forth in Title 20, Article 4, Section 1605.3(k) of the California Code of Regulations, the Appliance Efficiency Regulations of the California Energy Commission, after being tested in accordance with the appropriate test method specified in Section 1604(k). On April 27, 2018, LEDVANCE LLC voluntarily reported this violation to the California Energy Commission. On May 30, 2018, LEDVANCE LLC reached a settlement agreement and claim waiver with the California Energy Commission, under which LEDVANCE

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LLC paid an administrative civil penalty of USD 10,420 to the California Energy Commission to waive claims arising from violations of the aforementioned regulations.

According to the legal documents issued by CKR Law LLP on March 24, 2019, LEDVANCE LLC has paid the aforementioned fine and is able to comply with the relevant requirements of the California Energy Commission's Appliance Efficiency Regulations

The aforementioned violations were voluntarily reported by LEDVANCE LLC to the California Energy Commission. The fine amount was small, and the violations did not constitute an administrative penalty or a serious circumstance.

In summary, the aforementioned administrative penalties do not constitute severe administrative penalties. The issuer and its subsidiaries have completed rectification and paid the fines for the aforementioned administrative penalties, which will not pose a substantial legal obstacle to this issuance.

The above content has been supplemented and disclosed in "Section IV Basic Information of the Issuer", "IX. Environmental Protection and Work Safety", "(III) Administrative Penalties During the Reporting Period" of the prospectus.

Sponsor's verification process and opinions:

The sponsor reviewed the Administrative Penalty Decisions and other relevant documents for the aforementioned administrative penalties, and verified the payment of fines and the rectification status; assessed the severity of such violations by searching applicable laws and regulations; checked the credit information of the issuer and its major subsidiaries through public channels such as the National Enterprise Credit Information Publicity System; interviewed the relevant business personnel of the issuer to understand the impact of the administrative penalties on the issuer's subsequent daily operations; obtained certification documents issued by the competent authorities.

Upon verification, the sponsor believes that: the aforementioned administrative penalties do not constitute severe administrative penalties. The issuer and its subsidiaries have completed rectification and paid the fines for the aforementioned administrative penalties, which will not pose a substantial legal obstacle to this issuance.

Lawyers' verification opinion:

Upon verification, the lawyer believes that: the aforementioned administrative penalties do not constitute severe administrative penalties. The issuer and its subsidiaries have completed rectification and paid the fines for the aforementioned administrative penalties, which does not constitute a substantial legal obstacle to this issuance.

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11. The Applicant is requested to provide supplementary disclosure on: (1) penalties or regulatory measures imposed by securities regulatory authorities and exchanges in the past five years and the corresponding rectification measures; (2) the Company has been subject to regulatory measures by the exchange multiple times since its listing; whether the Company's internal control is sound and effectively implemented; whether such measures constitutes a legal obstacle to this issuance. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions.

[Reply]:

I. Penalties or regulatory measures imposed by securities regulatory authorities and exchanges in the past five years and the corresponding rectification measures

(I) Penalties imposed by securities regulatory authorities and exchanges in the past five years
In the past five years, the Company has not been subject to any penalties imposed by securities regulators and exchanges.

(II) Regulatory measures imposed by securities regulators and exchanges in the past five years, and the corresponding rectification measures

The regulatory measures taken against the Company by securities regulatory authorities and stock exchanges in the last five years and its rectification are as follows:

S/N	Regulated entity	Regulatory authority	Date of regulatory letter	Reason for regulatory action	Regulatory measures	Rectification situation
1	MLS Co., Ltd.	SZSE SME Board Company Management Department	April 28, 2015	1) Insufficient preparation for information disclosure. 2) Incomplete selection of announcement categories. 3) Incomplete information disclosure documents and their contents.	Regulatory letter	The Company will strengthen the training of its information disclosure staff on relevant laws and regulations, conduct related business training, enhance the management of information disclosure affairs, effectively improve the quality of information disclosure work, and ensure the completeness, accuracy, and timeliness of the information disclosed by the Company
2	MLS Co., Ltd.	SZSE SME Board Company Management	May 31, 2017	In July 2016, the Company made a capital increase in INTEMATIX Lighting and appointed Chairman Sun	Regulatory letter	The Company strengthens the promotion of the related-

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		Department		Qinghuan as a director of INTEMATIX. INTEMATIX has been a related party of the Company since July 2016. From July to December 2016, the Company's actual purchases from INTEMATIX (including subsidiaries) amounted to RMB 24 million, and actual sales amounted to RMB 141 million. The amount of the aforementioned related-party transactions exceeded 0.5% of the Company's audited net assets at the end of 2015. It was not until April 20, 2017 that the Company's Board of Directors reviewed, approved, and disclosed the Proposal on Confirming Related-Party Transactions for 2016, which is still subject to approval at the Company's Shareholders' Meeting. The above actions violated the provisions of Articles 2.1, 2.7, 10.2.4, and 10.2.11 of the Stock Listing Rules (2014 Revision) of this Exchange.		party transaction system to relevant personnel, paying special attention to the review and disclosure of related-party transactions caused by changes in affiliated relationships to prevent similar incidents from occurring.
3	MLS Co., Ltd.	SZSE SME Board Company Management Department	July 21, 2017	The Company received government subsidies of RMB 19 million, RMB 10.972 million, and RMB 19 million, totaling RMB 48.972 million, from the Jinggangshan Economic and Technological Development Zone Management Committee on June 1, June 2, and June 5, 2017, respectively. The Company failed to fulfill its information disclosure obligations in a timely manner regarding the aforementioned government subsidies, and did not disclose them until July 15, 2017. The aforementioned actions of the Company have violated the provisions of Articles 2.1, 2.7, and 11.11.4 of the Listing Rules (2014 Revision) of the Exchange.	Regulatory letter	The Company strengthens the study of laws and regulations related to information disclosure for its information disclosure staff, and conducts relevant business training. The Company holds special meetings with the Chairman and other directors, supervisors, and senior management to clarify the scope of information disclosure responsibilities at all levels of the Company

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						and its subsidiaries, requiring relevant responsible personnel to pay more attention to the Company's major matters and strictly implement internal control systems to ensure the completeness, accuracy, and timeliness of the information disclosed by the Company.
4	MLS Co., Ltd.	SZSE SME Board Company Management Department	March 23, 2018	The Company disclosed the Announcement on Confirming Related-Party Transactions in 2017 and Increasing the Estimated Amount of Routine Related-Party Transactions in 2018 on March 15, 2018. In 2017, the Company had related-party transactions with its related parties INTEMATIX Lighting (including its subsidiaries) and Global Value Lighting, LLC, amounting to RMB 113 million and RMB 75.05 million, respectively. The total amount accounted for 3.58% of the Company's audited net assets in 2016. The Company did not convene a Board of Directors' meeting to perform the decision-making procedures and information disclosure obligations for the above related-party transactions until March 14, 2018. The aforementioned actions of the Company have violated the provisions of Articles 2.1, 2.7, and 10.2.4 of the Listing Rules (2014 Revision) of the Exchange.	Regulatory letter	In response to the issues of excessive and omitted related-party transactions lacking proper approval and timely information disclosure, the Company has improved relevant procedures and established a closer communication mechanism with business departments. At the end of each quarter, it reviews the cumulative related-party transactions for the year and compares them with the initial estimates to identify potential overruns and fulfill information disclosure

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						obligations in a timely manner.
5	MLS Co., Ltd.	CSRC Guangdong Bureau	August 4, 2017	Jiangxi MLS Lighting Co., Ltd., a wholly-owned subsidiary of the Company, received government subsidy payments of RMB 19 million, RMB 10.97 million, and RMB 19 million from the Management Committee of Jinggangshan Economic and Technological Development Zone on June 1, June 2, and June 5, 2017, respectively, totaling RMB 48.972 million. This amount accounted for 10.34% of the Company's audited net profit for 2016, constituting a material event that should have been disclosed on an interim basis. The Company failed to fulfill its information disclosure obligations in a timely manner after receiving the government subsidies, and did not publicly disclose this matter in the form of an interim report until July 15, 2017. The aforementioned actions violated the relevant provisions of Article 2 and Article 30 of the Administrative Measures for Information Disclosure of Listed Companies. In accordance with the provisions of Article 59 of the Administrative Measures for Information Disclosure of Listed Companies, a warning is hereby issued to your company.	Warning letter	1) Further improve the Company's information disclosure system and strictly implement it. 2) Strengthen communication between financial personnel, information disclosure personnel, and the company's subsidiaries, and improve the Company's information communication mechanism to ensure the timeliness of information transmission.
6	MLS Co., Ltd.	CSRC Guangdong Bureau	July 26, 2018	1. Failure to timely perform deliberation procedures for some daily related-party transactions 2. Inaccurate and incomplete disclosure of information on wealth management products	Warning letter	After receiving the regulatory warning letter, the Company attached great importance to it, deeply reflected on the problems and deficiencies in information disclosure, internal control system construction, and implementation,

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						and ordered the Company's management to organize various departments and relevant personnel to hold a special rectification work meeting to take effective measures to rectify the issues mentioned in the regulatory warning letter. The Company carefully checked against the provisions of relevant laws and regulations and internal management systems, clarified the responsible persons and deadlines for rectification, formulated a corresponding rectification plan, and completed the rectification on time.

1. Regulatory Supervision Letter on MLS Co., Ltd. (ZXBGZH [2015] No. 139)

(1) Main contents

On April 28, 2015, the Company received the Regulatory Supervision Letter on MLS Co., Ltd. (ZXBGZH [2015] No. 139) from the SME Board Management Department of the SZSE. The main content of the regulatory letter is as follows:

"1) Inadequate preparation for information disclosure. The Company did not submit the initial information disclosure documents for the annual report through the SME Board's online business platform until after 17:00 on April 21, and did not submit all information disclosure documents for the annual report until after 20:00 on that same day.

2) Incomplete selection of announcement categories. In the information disclosure application for the annual report, the Company omitted 6 announcement categories, namely: "Board of Directors Resolution", "Board of Supervisors Resolution", "Notice of Convening a Shareholders' Meeting based on a Board of Directors Resolution", "Internal Control Self-Assessment Report", "Profit Distribution and Capital Reserve Conversion Proposal", and "Initial Disclosure

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Announcement for Regularly Disclosed Entrusted Wealth Management".

3) Incomplete information disclosure documents and their contents. First, regarding the use of self-owned funds to purchase principal-guaranteed short-term wealth management products, the Company failed to disclose this matter in accordance with Articles 9.14 and 9.15 of the Stock Listing Rules (2014 Revision) of this Exchange; second, in the initially submitted 2014 annual report, the Company erroneously included the margin trading collateral securities account in the list of the top 10 unrestricted tradable shareholders in the annual report; third, in the initially submitted first quarterly report of 2015, the Company failed to explain the changes in the main items of the financial statements and financial indicators for the reporting period and the reasons for such changes, as required by the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 13 - Special Provisions on the Content and Format of Quarterly Reports (2014 Revision).

After being reminded by this Department, the Company promptly supplemented and corrected the relevant announcement categories and contents. This Department is highly concerned about the above matters. The Company is requested to fully recognize the importance of information disclosure, strengthen the management of information disclosure affairs, and effectively improve the quality of information disclosure.

Additionally, please be reminded that: listed companies shall operate with integrity and in a standardized manner, and earnestly and timely fulfill their information disclosure obligations in accordance with national laws, regulations, the Listing Rules and the Guidelines for Standardized Operation of Listed Companies on the SME Board of the SZSE."

(2) Rectification measures

The Company will strengthen the training of its information disclosure staff on relevant laws and regulations, conduct related business training, enhance the management of information disclosure affairs, effectively improve the quality of information disclosure work, and ensure the completeness, accuracy, and timeliness of the information disclosed by the Company.

2. Regulatory Letter on MLS Co., Ltd. (ZXBJGH [2017] No. 73)

(1) Main contents

On May 31, 2017, the Company received the Regulatory Letter on MLS Co., Ltd. (ZXBJGH [2017] No. 73) from the SME Board Management Department of the SZSE. The main content of the regulatory letter is as follows:

"According to the Company's 2016 Annual Report and 2016 Annual Self-Inspection Report on Related-Party Transactions, the Company made a capital increase to INTEMATIX Lighting (hereinafter referred to as "INTEMATIX") in July 2016 and appointed Chairman Sun Qinghuan as a director of INTEMATIX. As a result, INTEMATIX became a related party of the Company in July 2016. From July to December 2016, the Company's actual purchase amount from INTEMATIX (including its subsidiaries) was RMB 24 million, and the actual sales amount was RMB 141 million. The amount of the above related-party transactions exceeded 0.5% of the Company's audited net assets at the end of 2015. It was not until April 20, 2017 that the Company's Board of Directors reviewed, approved, and disclosed the Proposal on Confirming Related-Party Transactions in 2016, which still needs to be submitted to the Company's Shareholders' Meeting for review.

The aforementioned actions of the Company have violated Articles 2.1, 2.7, 10.2.4, and 10.2.11 of the Listing Rules (2014 Revision) of the Exchange. The Board of Directors of the Company is requested to attach great importance to the above issues, learn from them, make timely rectifications, and prevent them from recurring. Additionally, please be reminded that: listed companies shall operate with integrity and in a standardized manner, and earnestly and timely fulfill

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their information disclosure obligations in accordance with national laws, regulations, the Listing Rules and the Guidelines for Standardized Operation of Listed Companies on the SME Board of the SZSE. All directors, supervisors, and senior management of the listed company shall warrant that the information disclosed is true, accurate, and complete, without any false records, misleading statements, or major omissions, and shall bear individual and joint liability for such warranty."

(2) Rectification measures

The Company strengthens the promotion of the related-party transaction system to relevant personnel, paying special attention to the review and disclosure of related-party transactions caused by changes in affiliated relationships to prevent similar incidents from occurring.

3. Regulatory Letter on the Untimely Information Disclosure of MLS Co., Ltd. (ZXBJGH [2017] No. 123)

(1) Main contents

On July 21, 2017, the Company received the Regulatory Letter on the Untimely Information Disclosure of MLS Co., Ltd. (ZXBJGH [2017] No. 123) from the SME Board Management Department of the SZSE. The main content of the regulatory letter is as follows:

"The Company received government subsidies of RMB 19 million, RMB 10.972 million, and RMB 19 million, totaling RMB 48.972 million, from the Management Committee of Jinggangshan Economic and Technological Development Zone on June 1, June 2, and June 5, 2017, respectively. The Company failed to fulfill its information disclosure obligations in a timely manner for the above government subsidies and did not disclose them until July 15, 2017.

The aforementioned actions of the Company have violated the provisions of Articles 2.1, 2.7, and 11.11.4 of the Listing Rules (2014 Revision) of the Exchange. The Board of Directors of the Company is requested to attach great importance to the above issues, learn from them, and prevent them from recurring.

Additionally, please be reminded that: listed companies shall operate with integrity and in a standardized manner, and earnestly and timely fulfill their information disclosure obligations in accordance with national laws, regulations, the Listing Rules and the Guidelines for Standardized Operation of Listed Companies on the SME Board of the SZSE. All directors, supervisors, and senior management of the listed company shall warrant that the information disclosed is true, accurate, and complete, without any false records, misleading statements, or major omissions, and shall bear individual and joint liability for such warranty."

(2) Rectification measures

The Company strengthens the study of laws and regulations related to information disclosure for its information disclosure staff, and conducts relevant business training. The Company holds special meetings with the Chairman and other directors, supervisors, and senior management to clarify the scope of information disclosure responsibilities at all levels of the Company and its subsidiaries, requiring relevant responsible personnel to pay more attention to the Company's major matters and strictly implement internal control systems to ensure the completeness, accuracy, and timeliness of the information disclosed by the Company.

4. Regulatory Letter on MLS Co., Ltd. (ZXBJGH [2018] No. 39)

(1) Main contents

On March 23, 2018, the Company received the Regulatory Letter on MLS Co., Ltd. (ZXBJGH [2018] No. 39) from the SME Board Management Department of the SZSE. The main content of the regulatory letter is as follows:

"The Company disclosed the Announcement on Confirming Related-Party Transactions in

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2017 and Increasing the Estimated Amount of Routine Related-Party Transactions in 2018 on March 15, 2018. In 2017, the Company had related-party transactions with its related parties INTEMATIX Lighting (including its subsidiaries) and Global Value Lighting, LLC, amounting to RMB 113 million and RMB 75.05 million, respectively. The total amount accounted for 3.58% of the Company's audited net assets in 2016. The Company did not convene a Board of Directors' meeting to perform the decision-making procedures and information disclosure obligations for the above related-party transactions until March 14, 2018.

The aforementioned actions of the Company have violated the provisions of Articles 2.1, 2.7, and 10.2.4 of the Listing Rules (2014 Revision) of the Exchange. The Board of Directors of the Company is requested to attach great importance to the above issues, learn from them, and prevent them from recurring.

Additionally, please be reminded that: listed companies shall operate with integrity and in a standardized manner, and earnestly and timely fulfill their information disclosure obligations in accordance with national laws, regulations, the Listing Rules and the Guidelines for Standardized Operation of Listed Companies on the SME Board of the SZSE. All directors, supervisors, and senior management of the listed company shall warrant that the information disclosed is true, accurate, and complete, without any false records, misleading statements, or major omissions, and shall bear individual and joint liability for such warranty."

(2) Rectification measures

In response to the issues of excessive and omitted related-party transactions lacking proper approval and timely information disclosure, the Company has improved relevant procedures and established a closer communication mechanism with business departments. At the end of each quarter, it reviews the cumulative related-party transactions for the year and compares them with the initial estimates to identify potential overruns and fulfill information disclosure obligations in a timely manner.

5. Decision on Adopting the Measure of Issuing a Warning Letter to MLS Co., Ltd. ([2017] No. 43)

(1) Main contents

On August 4, 2017, the Company received the Decision on Adopting the Measure of Issuing a Warning Letter to MLS Co., Ltd. ([2017] No. 43) from the CSRC Guangdong Bureau. The main content of the regulatory letter is as follows:

"After investigation, the Company's wholly-owned subsidiary, Jiangxi MLS Lighting Co., Ltd., received government subsidies of RMB 19 million, RMB 10.97 million, and RMB 19 million on June 1, June 2, and June 5, 2017, respectively, totaling RMB 48.972 million. This amount accounted for 10.34% of the Company's audited net profit for 2016 and constituted a major event that should have been disclosed on an ad-hoc basis. The Company failed to fulfill its information disclosure obligations in a timely manner after receiving the government subsidies and did not publicly disclose this matter in the form of an ad-hoc report until July 15, 2017. The aforementioned actions violated the provisions of Article 2 and Article 30 of the Administrative Measures for Information Disclosure of Listed Companies. In accordance with Article 59 of the Administrative Measures for Information Disclosure of Listed Companies, a warning is hereby issued to the Company. The Company should earnestly learn from this lesson, effectively strengthen the study of securities laws and regulations, fulfill its information disclosure obligations truthfully, accurately, completely, and in a timely manner in accordance with the law, and prevent such incidents from recurring."

(2) Rectification measures

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1) Further improve the Company's information disclosure system and strictly implement it.

2) Strengthen communication between financial personnel, information disclosure personnel, and the company's subsidiaries, and improve the Company's information communication mechanism to ensure the timeliness of information transmission.

6. Decision on Adopting the Measure of Issuing a Warning Letter to MLS Co., Ltd. ([2018] No. 42)

(1) Main contents

On July 26, 2018, the Company received the Decision on Adopting the Measure of Issuing a Warning Letter to MLS Co., Ltd. ([2018] No. 42) from the CSRC Guangdong Bureau. The main content of the regulatory letter is as follows:

"1. Failure to timely perform deliberation procedures and disclosure obligations for some daily related-party transactions

(1) The daily related-party transactions with the related party INTEMATIX were not subject to timely deliberation procedures and disclosure obligations. INTEMATIX Lighting (hereinafter referred to as "INTEMATIX") has become a related legal entity of the Company since July 2016. From July to December 2016, the Company purchased a total of RMB 24 million worth of goods from and sold a total of RMB 141 million worth of goods to INTEMATIX Lighting, accounting for 0.96% and 5.61% of the Company's audited net assets at the end of 2015, respectively. At the time of the above related-party transactions, the Company failed to perform the deliberation procedures and disclosure obligations in a timely manner in accordance with relevant regulations. It was not until April 20, 2017 that a Board of Directors' meeting was held for supplementary confirmation and disclosure of the above related-party transactions, and a Shareholders' Meeting was held on June 15, 2017 for supplementary confirmation. In 2017, the Company failed to perform the required review procedures and disclosure obligations in accordance with relevant rules when the amount of goods sold to INTEMATIX exceeded the authorized limit of the Company's Shareholders' Meeting (the excess amount was RMB 113 million, accounting for 2.15% of the Company's audited net assets at the end of 2016). It was not until March 14, 2018 that a Board of Directors' meeting was held for supplementary confirmation and disclosure of the aforementioned related-party transaction. The above actions of the Company do not comply with the provisions of Articles 2, 30, and 48 of the Administrative Measures for Information Disclosure of Listed Companies, Articles 10.2.4 and 10.2.11 of the Listing Rules of Shenzhen Stock Exchange, and Article 111 of the Articles of Association.

(2) The daily related-party transactions with the related party GVL were not subject to timely deliberation procedures and disclosure obligations. Global Value Lighting, LLC (hereinafter referred to as "GVL") has become a related legal entity of the Company since March 2017. In 2017, the Company sold a total of RMB 75 million worth of goods to GVL, accounting for 1.43% of the Company's audited net assets at the end of 2016. At the time of the above daily related-party transaction, the Company failed to perform the deliberation procedures and disclosure obligations in accordance with relevant regulations, and it was not until March 14, 2018 that a Board of Directors' meeting was held for supplementary confirmation and disclosure of the above related-party transaction. The above actions of the Company do not comply with the provisions of Articles 2, 30, and 48 of the Administrative Measures for Information Disclosure of Listed Companies, Articles 10.2.4 and 10.2.11 of the Listing Rules of Shenzhen Stock Exchange, and Article 111 of the Articles of Association.

2. Inaccurate and incomplete disclosure of information on wealth management products

(1) The temporary announcement contains inaccurate and incomplete disclosure of information on wealth management products. The Announcement on the Use of Self-owned Funds to Purchase

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Principal Protection Short-term Wealth Management Products in 2018, disclosed by the Company on March 5, 2018, contains inaccurate and incomplete disclosures, as detailed below:

1) The outstanding balance of wealth management products as of December 31, 2017, disclosed in the above announcement, was RMB 766.1245 million less than the actual amount, and the cumulative amount of wealth management products purchased within 12 months was RMB 174.1721 million less than the actual amount. These differences accounted for 13.03% and 2.96% of the Company's audited net assets at the end of 2017, respectively.

2) When the aforementioned announcement disclosed the "purchase of wealth management products with self-owned funds in the twelve months prior to the date of this announcement", it failed to list 9 wealth management products of the parent company and 66 wealth management products of its subsidiaries, with a total amount of RMB 2.161801 billion, accounting for 52.10% of the total amount of wealth management products purchased by the Company during the statistical period. The aforementioned behavior does not comply with the provisions of Articles 2 and 33 of the Administrative Measures for Information Disclosure of Listed Companies.

(2) The periodic report contains incomplete disclosure of information on wealth management product. In November 2016, the Company's subsidiary, Jiangxi MLS Optoelectronics Technology Co., Ltd., purchased two principal protection floating-income wealth management products from Ping An Bank with amounts of RMB 106 million and RMB 400 million, respectively. The wealth management products matured in February 2018. Although the Company disclosed the above wealth management products in its 2016 Annual Report, it failed to disclose the two outstanding wealth management products when disclosing significant single-item entrusted wealth management products in the "XVII. Timely performance of material contracts" of its 2017 Annual Report. The 2 wealth management products accounted for 8.61% of the Company's audited net assets in 2017. The aforementioned behavior does not comply with the provisions of Article 2 of the Administrative Measures for Information Disclosure of Listed Companies and Article 41 (III) of the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 - Contents and Formats of Annual Reports.

According to the provisions of Article 59 of the Administrative Measures for Information Disclosure of Listed Companies, we have decided to adopt the administrative regulatory measure of issuing a warning letter to the Company. The Company shall earnestly learn from this lesson, effectively strengthen the study of securities laws and regulations, continuously improve internal controls, fulfill information disclosure obligations in accordance with the law, and prevent such incidents from happening again."

(2) Rectification measures

After receiving the regulatory warning letter, the Company attached great importance to it, deeply reflected on the problems and deficiencies in information disclosure, internal control system construction, and implementation, and ordered the Company's management to organize various departments and relevant personnel to hold a special rectification work meeting to take effective measures to rectify the issues mentioned in the regulatory warning letter. The Company carefully checked against the provisions of relevant laws and regulations and internal management systems, clarified the responsible persons and deadlines for rectification, formulated a corresponding rectification plan, and completed the rectification on time.

None of the above regulatory measures constitute administrative penalties by the CSRC or public condemnation from the SZSE, and they will not pose a substantial obstacle to this convertible bond issuance.

Except for the regulatory concerns mentioned above, as of the signing date of the reply to the feedback, the issuer had not been subject to any other penalties or regulatory measures taken by

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securities regulatory departments and exchanges in the last five years.

II. The Company has been subject to regulatory measures by the exchange multiple times since its listing; whether the Company's internal control is sound and effectively implemented; whether such measures constitutes a legal obstacle to this issuance

In response to the above regulatory concerns, the Company has made timely rectifications. The Company has increased its emphasis on and investment in information disclosure, further improved the efficiency of internal control implementation and the punishment mechanism within the group's system, and has improved and effectively implemented relevant internal control systems.

The Company has established a relatively complete and systematic internal control system in accordance with the requirements of relevant laws, regulations, and guidelines such as the Listing Rules, Guidelines for Standardized Operation, Application Guidelines for Enterprise Internal Control, and Basic Standards for Enterprise Internal Control. The entire set of internal control systems runs through all levels and aspects of the Company's business and management activities, including but not limited to: procurement, production, sales, information disclosure management, and financial reporting. The Company has established a sound corporate governance structure, where the Shareholders' Meeting, the Board of Directors, and the Board of Supervisors have clear powers and responsibilities and provide mutual checks and balances. The management can operate effectively in accordance with the Company's internal management system, forming a good internal control environment, and the Company's internal control systems are sound and effectively implemented. Ruihua CPAs issued the Internal Control Assurance Report for each period of the Company's reporting period and expressed the opinion that: at the end of each period of the Company's reporting period, the Company has maintained, in all material aspects, internal controls related to financial statements in accordance with the relevant standards in the Basic Standards for Internal Accounting Control - Basic Standards (for Trial Implementation) promulgated by the Ministry of Finance.

Therefore, the regulatory measures taken by securities regulatory departments and exchanges to the Company do not constitute a legal obstacle to this convertible bond issuance.

Supplementary disclosure in the Prospectus:

The Company has supplemented the disclosure of the above content in "XX. Regulatory measures or penalties taken by securities regulatory departments and exchanges in the past five years" of "Section IV Basic information on the issuer" of the Prospectus.

Sponsor's verification process and opinions:

The sponsor has reviewed the letters of concern, warning letters, and regulatory letters received by the issuer in the past five years and the relevant responses, searched the websites of the CSRC, the Guangdong Regulatory Bureau of CSRC, and the SZSE, reviewed the issuer's relevant information disclosure documents, various corporate governance system documents, and minutes of the "Three Meetings" over the years, as well as the auditor's internal control assurance report, and tested the Company's internal controls.

After review, the sponsor believes that the issuer has not been subject to any penalties taken by securities regulatory departments and exchanges in the past five years, and in response to the regulatory measures issued by them, the issuer has carried out effective rectification in a timely manner as required; the issuer's internal control system is sound and effectively implemented, and the regulatory measures taken by securities regulatory departments and exchanges do not constitute a legal obstacle to this convertible bond issuance.

Lawyers' verification opinion:

After review, the lawyer believes that the issuer has not been subject to any penalties taken by

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securities regulatory departments and exchanges in the past five years, and in response to the regulatory measures taken by them, the issuer has taken corresponding rectification measures in a timely manner as required; the issuer's internal control system is sound and effectively implemented, and the regulatory measures taken by securities regulatory departments and exchanges do not constitute a legal obstacle to this issuance.

12. During the reporting period, Ji'an MLS Real Estate Development Co., Ltd., a subsidiary of the Company, was a real estate development enterprise and was transferred to an external party on December 11, 2018. The Applicant is requested to provide supplementary disclosure on: (1) the transfer of the enterprise and the rationality of the transfer price; (2) whether the Applicant have any other real estate business other than the subsidiary. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions.

[Reply]:

I. The transfer of Ji'an Real Estate and the rationality of the transfer price

(I) Basic information on Ji'an Real Estate

Ji'an Real Estate is a real estate development company established by the Company in August 2017. The company originally planned to build and develop residential buildings for sale to internal employees, with no plans for external sales. Before the transfer, the specific information on Ji'an Real Estate is as follows:

Company name	Ji'an MLS Real Estate Development Co., Ltd.
Date of establishment	August 22, 2017
Registered address	No. 288 Nantang Road, Jinggangshan Economic and Technological Development Zone, Ji'an City, Jiangxi Province
Legal representative	Zhang Jianjun
Registered capital	RMB 10 million
Paid-in capital	RMB 10 million
Business scope	Real estate development and operations; leasing of self-owned houses; sales of building materials and interior decoration materials; landscaping and greening projects; interior design services. (For items subject to approval in accordance with law, operating activities can only be carried out after approval by relevant departments).
Equity structure	Ji'an MLS Optoelectronics Co., Ltd. (100.00%)

(II) Reasons for and relevant procedures of the transfer

1. Reasons for the transfer

To further focus on its main business and optimize its asset structure, the Company plans to divest Ji'an Real Estate as a whole and transfer all of its equity to natural persons Huang Xijia and Jing Bin, who have no affiliated relationship with the Company.

2. Transfer process

On November 27, 2018, the Company held the 29th meeting of the third Board of Directors, which reviewed and approved the Proposal on the Equity Transfer of a Grandchild Company by a Wholly-owned Subsidiary, to transfer 100.00% of the equity of Ji'an Real Estate to Huang Xijia and Jing Bin at a transfer price of RMB 11.9035 million.

On November 27, 2018, the independent directors issued an independent opinion on the aforementioned proposal, stating that: "The content of the Proposal on the Equity Transfer of a Grandchild Company by a Wholly-owned Subsidiary is in line with the Company's development needs and long-term interests. It is conducive to improving the Company's management efficiency,

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optimizing resource allocation, and reducing operating costs. There is no situation that harms the interests of the Company and all shareholders, especially minority shareholders. The deliberation procedures comply with the relevant provisions of the Listing Rules of Shenzhen Stock Exchange, the Guidelines for the Standardized Operation of Listed Companies on the SME Board of Shenzhen Stock Exchange, and the Articles of Association."

On November 27, 2018, the Company held the 20th meeting of the third Board of Supervisors, which reviewed and approved the Proposal on the Equity Transfer of a Grandchild Company by a Wholly-owned Subsidiary.

On December 4, 2018, the Company signed the Equity Transfer Agreement with Huang Xijia and Jing Bin respectively, to transfer 100.00% of the equity of Ji'an Real Estate to Huang Xijia and Jing Bin at a transfer price of RMB 11.9035 million.

The specific transfer details are as follows:

Transferor	Transferee	Equity transfer ratio	Transfer price (RMB 10,000)
Ji'an MLS Optoelectronics Co., Ltd.	Huang Xijia	50.00%	595.175
	Jing Bin	50.00%	595.175

On December 11, 2018, the industrial and commercial registration change for this transfer had been completed.

(III) Rationality of the transfer price

The Company engaged Kaiyuan Asset Appraisal Co., Ltd., an independent third-party appraisal firm qualified to engage in securities and futures-related business, to appraise 100.00% of the equity of Ji'an Real Estate, and issued the Asset Appraisal Report on the Value of All Equity Interest of Shareholders of Ji'an MLS Real Estate Development Co., Ltd. Involved in the Proposed Equity Transfer by Ji'an MLS Optoelectronics Co., Ltd. (KYPBZ [2018] No. 650). Due to the land yet to be developed and the uncertainty in future business policies of Ji'an Real Estate, the future earnings potential of the assets is highly uncertain, making it difficult to use the income approach for appraisal. Therefore, the appraisal company chose the appraisal conclusion based on the asset-based approach as the final appraisal conclusion. According to the appraisal, as of October 31, 2018, the appraised value of the net assets of Ji'an Real Estate was RMB 11.9035 million, representing an appreciation of RMB 2.6493 million over the carrying value, with an appreciation rate of 28.63%. The said appreciation was mainly due to the increase in the value of development costs within the inventories of Ji'an Real Estate.

Upon negotiation and unanimous agreement between the Company and Huang Xijia and Jing Bin, the transfer price for this equity transfer is based on the appraised value of RMB 11.9035 million in the aforementioned asset appraisal report. The pricing of this transaction followed the principles of fairness and impartiality. The transferees have no affiliated relationship with the Company. The transfer price is reasonable and fair, and will not harm the interests of the Company and its shareholders.

II. Whether the Applicant has any other real estate business other than the subsidiary

As of the signing date of the reply to the feedback, the Company had no other real estate development-related business except for the transferred Ji'an Real Estate.

Supplementary disclosure in the Prospectus:

The Company has supplemented the disclosure of the above content in "(I) Major related parties and affiliated relationships" of "II. Related-party transactions" of "Section V Horizontal competition and related-party transactions" of the Prospectus.

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Sponsor's verification process and opinions:

The sponsor reviewed the issuer's resolutions of the Board of Directors and the Board of Supervisors, as well as the opinions of independent directors regarding the transfer of Ji'an Real Estate; examined the Asset Appraisal Report on the Value of All Shareholders' Equity of Ji'an MLS Real Estate Development Co., Ltd. Involved in the Proposed Equity Transfer of Ji'an MLS Optoelectronics Co., Ltd. (KYPBZ [2018] No. 650) issued by Kaiyuan Asset Appraisal Co., Ltd., and the Equity Transfer Agreements signed by the issuer with Huang Xijia and Jing Bin respectively; and queried the business scopes of the Company and its subsidiaries on the National Enterprise Credit Information Publicity System.

After verification, the sponsor believes that the issuer's transfer of Ji'an Real Estate was to further focus on its main business and optimize its asset structure. The Company has fulfilled the necessary approval procedures and information disclosure obligations in accordance with relevant laws and regulations. The pricing for this equity transfer was based on the appraised value of net assets, adhering to the principles of fairness and impartiality. The transfer price is reasonable, with no circumstances that would harm the interests of the issuer and its shareholders. As of the signing date of the verification opinions, the issuer had no other real estate development-related business except for the transferred Ji'an Real Estate.

Lawyers' verification opinion:

After verification, the lawyer believes that the issuer has fulfilled the necessary approval procedures and information disclosure obligations for the transfer of 100% equity of Ji'an Real Estate. The transfer price is reasonable and fair, with no circumstances that would harm the interests of the issuer and its shareholders; except for Ji'an Real Estate, the issuer has no other real estate business.

13. The Applicant is requested to provide supplementary disclosure on: (1) the specific details and purposes of the equity pledge by the actual controller; (2) whether the actual controller faces debt repayment risks, and whether there is a risk of change in the Company's actual right of control. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions.

[Reply]:

I. The specific details and purposes of the equity pledge by the actual controller

As of the signing date of the reply to the feedback, Mr. Sun Qinghuan, the Company's controlling shareholder and actual controller, held 715,420,600 shares of the company, accounting for 56.02% of the Company's total share capital. **470,311,999** shares had been pledged, with the total number of pledged shares accounting for **65.74%** of his total shares in the Company and **36.82%** of the Company's total share capital. As of the date of signing the reply of the feedback, the specific details of the share pledge were as follows:

S/N	Pledge date	Number of pledged shares (shares)	Name of pledgee	Proportion of the Company's shares held
1	2016.09.23	**28,939,999**	Shanghai Haitong Securities Asset Management Co., Ltd.	**4.05%**
2	2017.02.21	96,000,000	THE EXPORT- IMPORT BANK OF CHINA Jiangxi Branch	13.42%
3	2017.02.20	61,200,000	Haitong Securities Co., Ltd.	8.55%
4	2018.05.21	690,000	Haitong Securities Co., Ltd.	0.10%
5	2018.05.21	850,000	Haitong Securities Co., Ltd.	0.12%

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6	2018.10.12	8,150,000	Haitong Securities Co., Ltd.	1.14%
7	2018.12.18	31,920,000	Haitong Securities Co., Ltd.	4.46%
8	2019.02.15	92,000,000	THE EXPORT- IMPORT BANK OF CHINA Jiangxi Branch	12.86%
9	2019.05.06	80,000,000	CITIC Securities Co., Ltd.	11.18%
10	**2019.07.24**	**70,562,000**	**Ping An Securities Co., Ltd.**	**9.86%**
Total		**470,311,999**	-	**65.74%**

Note: the share pledge by the actual controller is mainly used to provide guarantees for the Company's loans and for personal investment.

II. Whether the actual controller faces debt repayment risks, and whether there is a risk of change in the Company's actual right of control. The share pledge status of Mr. Sun Qinghuan, the Company's controlling shareholder and actual controller, is as follows:

No.	Name of pledgee	Number of pledged shares (shares)	Financing amount (RMB 10,000)	Stock market value (RMB 10,000)	Coverage ratio (Note)
1	Shanghai Haitong Securities Asset Management Co., Ltd. Company	**28,939,999**	**16,000**	**30,676.40**	**191.73%**
2	THE EXPORT- IMPORT BANK OF CHINA Jiangxi Branch	96,000,000	68,500	**101,760.00**	**148.55%**
3	Haitong Securities Co., Ltd.	61,200,000	50,000	**108,978.60**	**217.96%**
4	Haitong Securities Co., Ltd.	690,000			
5	Haitong Securities Co., Ltd.	850,000			
6	Haitong Securities Co., Ltd.	8,150,000			
7	Haitong Securities Co., Ltd.	31,920,000			
8	THE EXPORT- IMPORT BANK OF CHINA Jiangxi Branch	92,000,000	69,000	**97,520.00**	**141.33%**
9	CITIC Securities Co., Ltd.	80,000,000	47,000	**84,800.00**	**180.43%**
10	**Ping An Securities Co., Ltd.**	**70,562,000**	**25,000**	**74,795.72**	**299.18%**

Note: coverage ratio = market value of pledged shares / amount of pledged financing. The market value of pledged shares is calculated based on the closing price of RMB **10.60** per share on August **22**, 2019

Mr. Sun Qinghuan's pledged shares currently have a relatively high market value coverage ratio, and there is no risk of a change in the Company's right of control.

As of the date of signing the reply to the feedback, the share pledge financing agreements signed by Mr. Sun Qinghuan, the company's controlling shareholders and actual controller, had been executed well, with no overdue repayments or other defaults. In the event of a debt repayment risk caused by a sharp decline in share prices in the future, the Company's actual controller can respond through the following measures:

(I) Supplementary pledges with unpledged shares

As of the signing date of the reply to the feedback, Mr. Sun Qinghuan, the Company's actual controller, directly held the Company's **245,108,601** shares that were not pledged, and the number

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of unpledged shares accounted for **34.26%** of the Company's shares he directly holds, with a market value of approximately **RMB 2.598** billion (based on the closing price on **August 22**, 2019). If the Company's share price falls sharply, the actual controller can use unpledged shares for supplementary pledges. The market value of unpledged shares is high, indicating a strong ability to cover margin calls.

(II) The actual controller has strong personal fundraising capabilities

The Articles of Association stipulate cash dividends as follows: "When the conditions for cash dividends are met, the profit distributed by the Company in cash each year shall be no less than 20% of the distributable profit realized in that year". The Company has a high cash dividend ratio and strong profitability. Since its listing, the company has paid high cash dividends for many consecutive years. From 2015 to 2018, the cash dividends received by the actual controller amounted to approximately RMB 300 million (including tax). In addition, according to public information from China Judgements Online and the National Court System for Information on Persons Subject to Enforcement, the Company's actual controller has a good credit standing with no record of dishonesty. Therefore, the Company's actual controller has strong personal debt-servicing capabilities and can raise funds through various means such as asset disposal and realization, bank loans, and cash dividends from the listed companies.

(III) The shareholding ratios of the second and third largest shareholders are far lower than that of the controlling shareholder

As of the date of signing the reply to the feedback, the Company's second-largest shareholder is HARMONY MINGXIN, holding 195,305,832 shares, which accounts for 15.29% of the Company's total share capital. The Company's third-largest shareholder is Zhongshan Xiaolan Town Urban Construction Asset Management Co., Ltd., holding 28,630,600 shares, which accounts for 2.24% of the Company's total share capital. There is a significant gap between their shareholdings and the 56.02% direct shareholding of the Company's controlling shareholder and actual controller.

In summary, although part of the Company's shares held by the actual controller have been pledged, the large quantity and high proportion of unpledged shares create a thick safety cushion for supplementary pledges, resulting in a low risk of forced liquidation of the pledged shares. Moreover, the Company's actual controller has a good credit status and strong personal financial strength, and can raise funds through various means to ensure debt service ability. In addition, the shareholding ratios of the Company's second and third largest shareholders are far lower than that of the Company's actual controller. Therefore, the debt repayment risk of Mr. Sun Qinghuan, the Company's controlling shareholder and actual controller, is small, and the possibility of a change in the Company's right of control due to share pledges is low.

Supplementary disclosure in the Prospectus:

Supplementary disclosures regarding above content has been added in "(III) Pledged, frozen, and other restricted rights of the Company's shares held by the controlling shareholder and actual controller" of "IV. Basic information on the controlling shareholder and actual controller" of "Section IV Basic information on the issuer" of the Prospectus.

Sponsor's verification process and opinions:

The sponsor has reviewed the share pledge contracts of the actual controller, interviewed the company's actual controller to understand the use of the pledged funds, verified the main clauses stipulated in the contracts, reviewed the relevant equity pledge announcements disclosed by the issuer, inspected the issuer's dividend distribution over the years, and logged into the China Judgements Online and the National Court System for Information on Persons Subject to Enforcement to check the credit status of the issuer's actual controller.

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After verification, the sponsor believes that the funds obtained from the share pledge by the issuer's actual controller were mainly used to provide guarantees for the issuer's loans, for the issuer's production and operations, and for personal investment; the issuer's actual controller has a relatively strong ability to cover margin calls, possesses sound personal financial strength, and has a certain capacity for personal fund-raising, resulting in a relatively low risk of debt repayment issues arising from the relevant share pledges; The shareholding ratio of the issuer's actual controller is far higher than that of the second and third largest shareholders, so the risk of a change in the issuer's control is relatively low.

Lawyers' verification opinion:

After verification, the lawyer believes that the funds obtained from the share pledge by the issuer's actual controller were mainly used to provide guarantees for the issuer's loans and for personal investment; the actual controller has the ability to repay debts and release the pledges on schedule, maintains a good credit standing, and the probability of debt repayment risks arising from the relevant share pledges is relatively low; The actual controller's shareholding ratio is high, and the risk of a change in the company's actual right of control is small.

14. The Applicant has a relatively high proportion of overseas sales revenue. The Applicant is requested to provide supplementary disclosure in light of the latest developments in international trade frictions on: (1) the basic information of the top five overseas customers, and whether the Company has a significant dependence on them; (2) impact of relevant international trade frictions on the Company's production and operations, and whether there are any material adverse changes in the Company's production and operations. The sponsor and the Applicant's lawyers shall conduct verification and issue opinions.

[Reply]:

I. The basic situation of the top five customers, and whether the Company has a significant dependence on them

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Unit: RMB 10,000

No.	Top five overseas customers	Customer type	Operating income	Percentage of operating income
January-June 2019				
1	**Overseas customer ①**	**An internationally renowned trade channel distributor**	**44,596.59**	**4.75%**
2	**Overseas customer ②**	**An internationally renowned trade channel distributor**	**40,923.87**	**4.36%**
3	**Overseas customer ③**	**Large U.S. supermarket chain**	**32,566.06**	**3.47%**
4	**Overseas customer ④**	**An internationally renowned trade channel distributor**	**26,429.76**	**2.82%**
5	**Overseas customer ⑤**	**An internationally renowned trade channel distributor**	**22,082.06**	**2.35%**
-	**Total**	**-**	**166,598.34**	**17.75%**
2018				
1	Overseas customer ①	An internationally renowned trade channel distributor	61,672.26	3.44%
2	Overseas customer ②	An internationally renowned trade channel distributor	58,022.63	3.23%
3	Overseas customer ③	An internationally renowned trade channel distributor	55,004.05	3.06%
4	Overseas customer ④	Large U.S. supermarket chain	52,425.24	2.92%
5	Overseas customer ⑤	An internationally renowned trade channel distributor	37,651.91	2.10%
-	**Total**	**-**	**264,776.09**	**14.75%**

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In summary, the Company does not have a significant reliance on its top five customers.

II. The impact of relevant international trade friction on the Company's production and operations, and whether there are any material adverse changes in the Company's production and operations

(I) Current situation of the Sino-US trade frictions

Amid the slowdown in global economic growth, the U.S. has sought to restrict or reduce imports from other countries by creating international trade frictions and imposing trade barriers such as high tariffs, aiming to narrow its trade deficit and protect the U.S. domestic economic development and employment stability.

On June 15, 2018, the U.S. government announced the imposition of an additional 25% tariff on 1,102 categories of Chinese exports to the U.S., totaling USD 50 billion. Subsequently, the U.S. Department of Commerce released a detailed list, under which the tariff on the first batch of USD 34 billion worth of goods was officially implemented on July 6, 2018, and the tariff on the remaining second batch of USD 16 billion worth of goods commenced on August 23, 2018. LED chips, LED backlights for LCDs, transistors, and LED components were included in the USD 50 billion goods list.

On September 9, 2018, the U.S. government announced further tariff measures on an additional USD 200 billion of Chinese goods, implemented in two phases: a tariff rate of 10% was imposed from September 24, 2018, with the rate scheduled to increase to 25% from January 1, 2019. The majority of products related to the LED lighting industry were included in this USD 200 billion goods list.

On December 1, 2018, China's President Xi Jinping and U.S. President Trump held a meeting and reached a consensus: both sides decided to halt the escalation of tariffs and other trade restriction measures, including not raising existing tariff rates against each other and not introducing new tariff measures on other goods.

On May 9, 2019, the U.S. government announced that, effective May 10, 2019, the tariff rate on the USD 200 billion list of Chinese imports would be increased from 10% to 25%.

On August 15, 2019, the U.S. government announced the imposition of an additional 10% tariff on approximately USD 300 billion of Chinese exports to the U.S., to be implemented in two batches starting from September 1, 2019, and December 15, 2019, respectively.

(II) Impact of Sino-US trade frictions on the Company's production and operations

From 2016 to **January-June** 2019, the proportion of the Company's revenue from exports from Chinese Mainland to the U.S. relative to its export revenue and income from main business is as follows:

Unit: RMB 10,000

Item	January-June 2019	2018	2017	2016
Revenue from main business	**926,590.09**	1,770,742.26	801,774.62	544,558.59
Export sales revenue	**80,442.47**	172,949.18	103,121.86	47,895.51
Revenue from exports to the U.S.	**5,783.52**	12,931.23	4,587.05	394.38
Revenue from exports to the U.S./export sales revenue	**7.19%**	7.48%	4.45%	0.82%
Revenue from exports to the U.S./income from main business	**0.62%**	0.73%	0.57%	0.07%

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As shown in the table above, from 2016 to **the first half** of 2019, the Company's revenue from products exported from Chinese Mainland to the U.S. amounted to RMB 3.9438 million, RMB 45.8705 million, RMB 129.3123 million, and **RMB 57.8352** million, accounting for 0.07%, 0.57%, 0.73%, and **0.62%** of the income from main business during the respective periods. The amount and proportion of the Company's export revenue to the U.S. are both relatively low. The increase in proportion is mainly attributable to the acquisition of LEDVANCE. The Company's export revenue from Chinese Mainland to the U.S. accounts for less than 1% of its total revenue, and the newly imposed import tariffs have a limited impact on the Company. Furthermore, LEDVANCE has manufacturing facilities in the U.S., Mexico, and Europe, allowing the Company to ship goods from overseas factories to further reduce exports from Chinese Mainland to the U.S. and mitigate the impact of the trade war on the Company.

Therefore, the Sino-US trade friction has a relatively minor impact on the Company's business and will not cause material adverse changes in the Company's production and operations.

(III) Impact of trade policies of other countries or regions on the Company's production and operations

In addition to the U.S., the Company's products are primarily sold to countries and regions such as Europe and Asia. These countries and regions have not imposed measures such as tariff hikes on the relevant products exported or sold by the Company.

In summary, the relevant international trade frictions have not had a material adverse impact on the Company's production and operations.

Supplementary disclosure in the Prospectus: supplementary disclosure regarding the situation of the top five overseas customers, whether the Company has a significant dependence on them, the impact of relevant international trade frictions on the Company's production and operations, and whether there have been any material adverse changes in the Company's production and operations have been added in "(V) The Company's production and sales" of "VIII. Specific conditions of the issuer's main business" of "Section IV Basic information on the issuer" of the Prospectus.

Sponsor's verification process and opinions:

The sponsor has obtained materials and sales breakdowns for the issuer's top five overseas customers for 2018 and **the first half of 2019**, analyzed their sales situations, conducted internet searches on the latest developments in international trade frictions and their direct impact on the domestic LED industry, and assessed the impact of trade frictions on the issuer's performance.

After verification, the sponsor believes that the issuer does not have a dependency on its major overseas customers; the issuer's sales amount and proportion of products directly exported to the U.S. are relatively small, and the relevant international trade frictions have no material adverse impact on the Company's production and operations.

Lawyers' verification opinion:

After verification, the lawyer believes that the issuer does not have a dependency on its major overseas customers; the issuer's sales amount and proportion of products directly exported to the U.S. are relatively small, and the relevant international trade frictions have no material impact on the Company's production and operations.

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15. In 2018, based on the existing total share capital of 528,327,918 shares, the Company distributed a cash dividend of RMB 2.47 per 10 shares (tax inclusive) to all shareholders, and simultaneously, converted capital reserve into share capital at a rate of 10 bonus shares for every 10 shares held. The Applicant is requested to provide supplementary disclosure on: (1) the necessity and rationality of implementing the "high bonus and capitalization transfer"; (2) whether any relevant parties were subject to administrative penalties from the CSRC, public condemnation from the stock exchange, or were placed under investigation by the CSRC or by judicial authorities for illegal activities such as illegal share reduction, insider trading, or market manipulation before or after the "high bonus and capitalization transfer". The sponsor and the Applicant's lawyers shall conduct verification and issue opinions.

[Reply]:

I. Basic information on the high bonus and capitalization transfer

On January 23, 2018, the Board of Directors of the Company received the Proposal and Commitment on the 2017 Profit Distribution and Capital Reserve Converted into Share Capital Plan submitted by Mr. Sun Qinghuan, the Company's controlling shareholder and actual controller. The Proposal suggested that based on the Company's then total share capital of 528,327,918 shares, a cash dividend of RMB 2.47 (tax inclusive) per 10 shares be distributed to all shareholders, and at the same time, 16 additional shares be issued for every 10 shares held by all shareholders from the capital reserve. On January 24, 2018, the Company disclosed the Announcement of MLS Co., Ltd. on the Preliminary Disclosure of the 2017 Profit Distribution and Capital Reserve Converted into Share Capital Plan on CNINFO.

On January 25, 2018, the Company disclosed the Announcement of MLS Co., Ltd. on the Change in the Preliminary Disclosure of the 2017 Profit Distribution and Capital Reserve Converted into Share Capital Plan on CNINFO. After careful consideration by Mr. Sun Qinghuan, the Company's controlling shareholder and actual controller, it was proposed to change the relevant content of the 2017 Profit Distribution and Capital Reserve Converted into Share Capital Plan. The original profit distribution plan was adjusted to be based on the Company's then total share capital of 528,327,918 shares, distributing a cash dividend of RMB 2.47 (tax inclusive) per 10 shares to all shareholders, and at the same time, issuing 10 additional shares for every 10 shares held by all shareholders from the capital reserve.

On March 2, 2018, the company held the 21st Meeting of the third Board of Directors, at which the Proposal on the Company's 2017 Profit Distribution Plan was reviewed and approved. The plan proposed to distribute a cash dividend of RMB 2.47 (tax inclusive) per 10 shares to all shareholders based on the company's then total share capital of 528,327,918 shares, and at the same time, to issue 10 additional shares for every 10 shares held by all shareholders from the capital reserve, with a total cash dividend distribution of RMB 130.4970 million. The Company's independent directors issued an independent opinion on the above proposal, stating that: The Company has formulated the 2017 profit distribution plan based on its existing business scale and stable growth, and on the premise of ensuring its normal operations and long-term development. This plan complies with the requirements of the profit distribution policy in the Articles of Association and is in line with the Company's actual situation.

On March 5, 2018, the Company disclosed the Announcement of MLS Co., Ltd. on the Preliminary Disclosure of 2017 Profit Distribution Plan and High Bonus and Capitalization Transfer on CNINFO.

On March 26, 2018, the company held the 2017 Shareholders' Meeting, at which the Proposal on the Company's 2017 Profit Distribution Plan was reviewed and approved.

On March 30, 2018, the company disclosed the Announcement of MLS Co., Ltd. on the

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