

25 October 2024

*To: The independent board committee and the independent shareholders
of Chengdu SIWI Science and Technology Company Limited*

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTION —
2024 OPTICAL CABLE AND ELECTRIC CABLE COMPONENT
MANUFACTURING FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement (the “**Transaction**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 25 October 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 25 September 2024, the Company entered into the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement with Chengdu Siwi Hi-Tech, pursuant to which the Company agreed to manufacture and supply optical cable and electric cable components and related products to Chengdu Siwi Hi Tech from time to time, with a term of three years effective from 1 January 2025.

With reference to the Board Letter, the Transaction constitutes continuing connected transactions of the Company and is subject to the reporting and announcement, annual review and the Independent Shareholders’ approval requirement under the Listing Rules.

The Independent Board Committee comprising Ms. Fu Wenjie, Mr. Zhong Qishui and Mr. Xue Shujin (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transaction are on normal commercial terms and are fair and reasonable; (ii) whether the Transaction is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Transaction at the EGM.

We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

Besides, apart from the advisory fee and expenses payable to us in connection with this engagement as the Independent Financial Adviser, there is no arrangement whereby we shall be entitled to receive any other fees or benefits from the Company.

Having considered the above and that none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate in all material respects at the time when they were made and continue to be so as at the date of EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreement/arrangement or implied understanding with anyone concerning the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Chengdu Siwi High-Tech and each of their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Group

With reference to the Board Letter, the Group is principally engaged in the technology research and development, product production, sales and service of wires and cables, optical fibers and cables, special cable materials, irradiation processing, cable accessories, special equipment, equipment and devices and equipment for various information industry products (excluding categories restricted or prohibited by the State Council of the PRC).

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2023 as extracted from the Company's annual report for the year ended 31 December 2023 ("**2023 Annual Report**") and for the six months ended 30 June 2024 (with comparative figures) as extracted from the Company's interim report for the six months ended 30 June 2024 ("**1H2024**")

	For the six months ended 30 June 2024 RMB (unaudited)	For the six months ended 30 June 2023 RMB (unaudited)	For the year ended 31 December 2023 RMB (audited)	For the year ended 31 December 2022 RMB (audited)
Total operating revenue	143,945,328.65	156,171,066.88	403,641,154.18	304,013,607.91
<i>Copper cables, wires and related product</i>	65,594,318.80	46,063,864.53	196,065,417.27	100,398,439.47
<i>Optical communication products</i>	73,188,849.36	104,619,286.91	197,046,435.16	191,141,150.66
<i>Park Operation</i>	5,162,160.49	5,487,915.44	10,529,301.75	12,474,017.78
Net profit attributable to owners of parent company for the period/year	2,264,382.85	(2,453,057.48)	2,771,712.63	(2,224,261.22)

As illustrated in the above table, the Group's revenue increased from approximately RMB304.0 million for the year ended 31 December 2022 ("**FY2022**") to approximately RMB403.6 million for the year ended 31 December 2023 ("**FY2023**"), representing a year-on-year increase of approximately 32.8%. According to the 2023 Annual Report, the increase in turnover was attributable to the increase in turnover of (a) cable components business of approximately 144%, the Group's turnover of which was approximately RMB77.6 million for FY2023; and (b) cable manufacturing business of approximately 126%, the Group's turnover of which was approximately RMB85.4 million for FY2023, respectively, and various costs control measures taken by the Company during FY2023. The Group recorded a total operating revenue of approximately RMB143.9 million for 1H2024, representing a decrease of approximately 7.8% as compared to that for the six months ended 30 June 2023 ("**1H2023**"), which was mainly due to the decrease in operating revenue from optical communication products offsetting by the increase in operating revenue from copper cables, wires and related products. Among the Group's total operating revenue for 1H2024, total operating revenue from the cable business amounted to approximately RMB18.5 million, representing an increase of approximately 24.1% as compared to that for 1H2023; total operating revenue from the optical cable component business amounted to approximately RMB31.5 million, representing an increase of approximately 108.0% as compared to that for 1H2023.

The Group recorded net profit attributable to owners of parent company of approximately RMB2.8 million for FY2023 while a net loss attributable to owners of parent company of approximately RMB2.2 million for FY2022. As advised by the Directors, (i) the net loss attributable to owners of parent company for FY2022 was significantly less than that for the year ended 31 December 2021 as a result of the increase in gross profit of principal business activities of the Group due to the establishment of cable assembly business and the increase in sales volume and average sales price of optical fiber products as a result of the improvement in market sentiment of the optical fiber market during 2022; and (ii) the turnaround of the Group's loss to profit attributable to the owners of the Company for FY2023 was principally attributable to the year-on-year increase in revenues of optical cable component business and cable manufacturing business of the Company as mentioned above, and various costs control measures taken by the Company during FY2023.

In addition, the Group recorded net profit attributable to owners of parent company of approximately RMB2.3 million for 1H2024 as compared to a net loss attributable to owners of parent company of approximately RMB2.5 million for 1H2023. As advised by the Directors, (i) the Group's net loss attributable to owners of parent company for 1H2023 was mainly due to (a) an increase in compensation costs resulting from negotiated termination of labour contracts for certain staff pending for duties; and (b) the fact that the Company is not yet eligible to benefit from the preferential tax policies of property tax and land use tax during 1H2023; and (ii) the turnaround of loss to profit attributable to the owners of the Company for 1H2024 was mainly attributable to the improvement of the sales of the Group's cable and cable component, total operating revenue from the cable business for 1H2024 increased by approximately 24.1% and from the optical cable component for 1H2024 increased by approximately 108.0% as compared to those for 1H2023 respectively, together with the adoption of effective cost control measures during 1H2024.

Information on Chengdu Siwi High-Tech

With reference to the Board Letter, Chengdu Siwi High-Tech is company incorporated in the PRC with limited liability and is principally engaged in research, development, production, sales and technical consultancy services for microwave systems, microwave products, communications equipment (excluding radio broadcasting and television transmitting equipment and terrestrial satellite receiving equipment).

As at the Latest Practicable Date, Chengdu Siwi High-Tech holds 34% equity interest in the Company.

Reasons for and benefit of the Transaction

With reference to the Board Letter, the Group has provided its cable assembly processing services to Chengdu Siwi High-Tech since 2022. Through the continued cooperation between Chengdu Siwi High-Tech and the Group, the Group is familiar with specification and standards of Chengdu Siwi High-Tech, and has confidence in the quality of the services supplied to Chengdu Siwi High-Tech. In addition, given the satisfactory co-operation between Chengdu Siwi High-Tech and the Company pursuant to the 2022 Cable Assembly Processing Service Framework Agreement, the continuation of the longstanding and established business relationship will further secure a stable source of income and facilitate the expansion of the

Group's business in the cable component segment. The 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement expands the role of the Group from cable assembly processing to full-scale manufacturing, enabling the Group to have greater control over the entire production process and strengthen the market position of the Group.

As advised by the Directors, the Transaction is conducted in ordinary and usual course of business of the Group and revenue in nature. Revenue generated from the Transaction will be recorded in copper cables, wires and related product segment. As mentioned above, revenue generated from copper cables, wires and related product segment accounted for approximately 33%, 49% and 46% of the Group's revenue for FY2022, FY2023 and 1H2024 respectively.

Furthermore, as the Transaction will be conducted in the ordinary and usual course of business of the Group and may be on a frequent basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders as required by the Listing Rules, if necessary.

In light of the above reasons, in particular, the Transaction is revenue in nature, we are of the view that the Transaction is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Transaction

Set out below are the key terms of the Transaction, details of which are set out under the section headed "B. Summary of Terms of the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement" of the Board Letter.

Date:	25 September 2024
Parties:	(1) The Company (as manufacturer and supplier); and (2) Chengdu Siwi High-Tech (as purchaser).
Nature of the transaction:	Subject to the terms and conditions of each relevant purchase order, the Company shall manufacture and supply optical cable and electric cable components and related products to Chengdu Siwi High-Tech from time to time during the effective term of the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement.
Term:	The 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement will be effective from 1 January 2025 to 31 December 2027 (both dates inclusive).

Pricing policy

The price of the cable components shall be determined on a “cost-plus” basis by reference to the Company’s cost of sale, including, the costs of raw materials and other direct costs that make the cable components up to the sellable status, and a predetermined profit margin. The Company considers that the gross profit margin of the transactions contemplated under the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement should be no less than 15%, with reference to the historical transactions between the Company and Chengdu Siwi High-Tech under the 2022 Cable Assembly Processing Service Framework Agreement, the expected market competition during the term of the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement and the market practice by other industry players. Under certain circumstances, the gross profit margin may fall below 15%. In these circumstances, other than the gross profits recognized from the relevant contracts or purchase orders, the Company will take into account whether the contract for services may help the Company to explore more future business opportunities with Chengdu Siwi High-Tech.

To assess the fairness and reasonableness of the pricing policy of the Transaction, we searched over the Stock Exchange’s, Shenzhen Stock Exchange’s and Shanghai Stock Exchange’s website to identify companies with similar business segment (i.e. production and selling of cables in the PRC). We set the following criteria: (i) the company is listed on the Stock Exchange, Shenzhen Stock Exchange or Shanghai Stock Exchange; and (ii) revenue generating from the production and selling of cables and related products in the PRC accounted for over 50% to total revenue for the latest financial years with gross profit/cost/gross profit margin of such segments have been explicitly disclosed in latest annual report. To the best of our knowledge, we identified following companies which met the aforesaid criteria and are exhaustive (the “**Comparables**”). Details of our findings are set out as follows:

Company	Principal business	Gross profit margin of relevant segment of the listed issuer
Trigiant Group Limited (1300.HK)	Principally engaged in feeder cable series, optical fibre cable series and related products, flame-retardant flexible cable series, new-type electronic components and others (including couplers and combiners).	10.90%
Zhejiang Zhaolong Interconnect Technology Co., Limited (300913.SZ)	Principally engaged in the design, manufacture, and sale of data cables, special cables, and connecting products.	15.20%

Company	Principal business	Gross profit margin of relevant segment of the listed issuer
Shenyu Communication Technology Inc. (300563.SZ)	Principally engaged in the research, production, and sales of high-frequency radio-frequency coaxial cables.	22.56%
Tongding Interconnection Information Co., Ltd. (002491.SZ)	Principally engaged in the optoelectronic communication sector and the network security sector.	21.60%
Sichuan Huiyuan Optical Communications Co., Ltd. (000586.SZ)	Principally engaged in power optical cables, online monitoring, air-blown micro cables, plastic optical fibers with related accessories, as well as materials and construction for highway electromechanical engineering.	29.39%
Jiangsu Tongguang Electronic Wire and Cable Co., Ltd. (300265.SZ)	Principally engaged in optical fiber cables, power transmission cables, and equipment cables.	17.77%
Jiusheng Electric Co., Ltd. (301082.SZ)	Principally engaged in the research, production, sales, and services of fire-resistant special cables and power cables.	13.89%
Henan Tong-da Cable Co., Ltd. (002560.SZ)	Principally engaged in wire and cable production and sales, precision machining and assembly of aircraft components, and aluminum-based composite new materials.	14.54%
Far East Smarter Energy Co., Ltd. (600869.SH)	Principally engaged in clean energy, intelligent marine engineering, smart grids, smart manufacturing, intelligent transportation, and green building sectors.	12.38%

Company	Principal business	Gross profit margin of relevant segment of the listed issuer
Hangzhou Cable Co., Ltd. (603618.SH)	Principally engaged in the research, production, sales, and services of wires and cables, as well as the research, production, sales, and services of products such as optical fiber preforms, optical fibers, optical cables, and optical communication-related equipment within the optical communication industry chain.	14.88%
Jiangsu Zhongchao Holding Corporation (002471.SZ)	Principally engaged in in the research, production, sales, and service of wires and cables.	10.51%
Yuan Cheng Cable Co., Ltd. (002692.SZ)	Principally engaged in the research, production, and operation of wire and cable products.	10.89%
Sinostar Cable Co., Ltd. (300933.SZ)	Principally engaged in the research, production, and sales of wires, cables, and cable accessories.	14.52%
Jinlongyu Group Co., Ltd. (002882.SZ)	Principally engaged in the research, production, sales, and service of wires and cables.	13.18%
Sunway Co., Ltd. (603333.SH)	Principally engaged in the research, production, sales, and service of high-end special cable products.	17.71%
Maximum		29.39%
Minimum		10.51%
Average		15.99%
Median		14.54%
The Transaction		Not less than 15%

Source: Latest annual reports of the Comparables

Based on the above table, we noted that the gross profit margin of the Comparables ranged from 10.51% to 29.39%, with average and median of approximately 15.99% and 14.54% respectively. The minimum gross profit margin of the Transaction fell within the range of gross profit margin of the Comparables and was close to the average and median of the range of gross profit margin of the Comparables. In addition, as the cable products are customized products, the Directors advised us that they will consider the different specifications and technicality involved when determining the gross profit margin for the individual transaction pursuant to the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement. As the products of the Comparables covered a variety of industries for different types of usage, we consider the gross profit margin range of the Transaction to be fair and reasonable.

Internal control

With reference to the Board Letter, for the Transaction, the Company has adopted the certain internal procedures to safeguard the interest of the Shareholders as a whole. Details of which are set out under the section headed “F. Internal Control Measures” of the Board Letter. We noted from the internal control procedures that (i) Discipline Audit and Legal Risk Control Department* (紀檢審計與法務風控部) of the Company will conduct regular checks to review and assess the Transaction in various aspects; (ii) the Finance Department will conduct assessment on gross profit prior to fulfilling purchase orders; and (iii) further action will be taken to assess the individual transaction should such transaction is not charged at cost-plus basis of not less than 15%, we consider that the effective implementation of such internal control measures would help to ensure fair pricing of the Transaction according to its pricing policies.

For our due diligence purpose, we obtained a list from the Company, showing all individual agreements (the “**Individual Agreements**”) entered into by the Company pursuant to the 2022 Cable Assembly Processing Service Framework Agreement from the agreement date (being 29 April 2022) to 30 June 2024. The Company provided us all Individual Agreements with cost of such transactions contemplated. After reviewing the aforesaid documents and information, we noted that the gross profit margin of the transactions contemplated under the Individual Agreements are no less favourable than the expected gross profit margin of the 2022 Cable Assembly Processing Service Framework Agreement.

In addition, we also discussed with the Discipline Audit and Legal Risk Control Department* (紀檢審計與法務風控部), the Finance Department, and the Market Research and Development Department* (市場研發部), being the departments involved in the internal control measures. We noted that such staff were aware of the internal control measures and would comply with the internal control measures when conducting the transactions contemplated under the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement. Having considered the aforesaid discussion and our findings on gross profit margin of the transactions contemplated under the Individual Agreements as mentioned above, we do not doubt the effectiveness of the implementation of the internal control measures.

Furthermore, we noted from the internal control procedures that data on the Company's continuing connected transactions (including quarterly transaction amounts and cumulative amounts) shall be complied and summarized by the Market Research and Development Department* (市場研發部) on a quarterly basis, reconciled by Finance Department, and reviewed by the Discipline Audit and Legal Risk Control Department, and a report on the execution of continuing connected transactions shall be prepared and reported to the management of the Company. Further actions will be taken if the actual transaction amounts reach certain threshold of the annual caps. We consider there is sufficient measure to monitor the utilisation of the annual caps.

The proposed annual caps

Set out below are (i) historical transaction amounts of the transactions contemplated under the 2022 Cable Assembly Processing Service Framework Agreement for the two years ended 31 December 2023 and eight months ended 31 August 2024, with the existing annual caps for the three years ending 31 December 2024; and (ii) the proposed annual caps of the Transaction for the three years ending 31 December 2027:

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000
Historical transaction amounts	31,746	77,049	31,385 (Note)
Existing annual caps	110,000	240,000	280,000
	For the year ending 31 December 2025 RMB'000	For the year ending 31 December 2026 RMB'000	For the year ending 31 December 2027 RMB'000
Proposed annual caps	180,000	200,000	240,000

Note: The figure was for the eight months ended 31 August 2024.

With reference to the Board Letter, the proposed annual caps were determined based on various factors, details of which were set out under the section headed "E. The proposed annual caps" of the Board Letter.

Upon our request, we obtained a calculation sheet for the proposed annual caps. According to the calculation sheet, the proposed annual caps represented the estimated demand of services/products under the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement, being the summation of estimated demand of (i) electric cable components and related products; and (ii) optical cable components and related products, for the three years ending 31 December 2027.

FY2025

Electric cable components and related products

The Directors assumed the estimated demand of electric cable components and related products to be RMB120 million for FY2025. We understood that such estimated amounts were made with reference to, among other things, historical transaction amounts and procurement volume for FY2023 under the 2022 Cable Assembly Processing Service Framework Agreement. Having considered that (i) the Company will supply electric cable components and related products (i.e. high-low frequency cable assembling and processing service) to Chengdu Siwi High-Tech pursuant to the 2022 Cable Assembly Processing Service Framework Agreement (note: for the avoidance of doubt, optical cable components and related products were not included in the 2022 Cable Assembly Processing Service Framework Agreement); (ii) the historical transaction amounts for first half year and second half year fluctuated according to historical transaction amounts for FY2023 and therefore the historical transaction amounts for FY2022 (which was not a full year transaction amounts as the 2022 Cable Assembly Processing Service Framework Agreement was approved by independent Shareholders on 30 June 2022) and for eight months ended 31 August 2024 (which was an eight-month transaction amounts and not a full year transaction amounts) were not considered for reference, we are of the view that historical transaction amounts for FY2023 was appropriate for reference.

Based on the calculation sheet, we noted that the estimated demand of electric cable components and related products for FY2025 represented an increase of approximately 56% to the historical transaction amounts for FY2023 under the 2022 Cable Assembly Processing Service Framework Agreement. To assess the fairness and reasonableness of the aforesaid substantial increase, we discussed with the Directors and understood that such increase was mainly due to the possible change of business model of the electric cable components and related products supply arrangement, affecting the transaction amount of electric cable components and related products to be paid by Chengdu Siwi High-Tech. Under the 2022 Cable Assembly Processing Service Framework Agreement, the Company's income was predominantly comprised of service processing fees (as the material was prepared and provided by Chengdu Siwi High-Tech), which represented a relatively small portion of the total cable component product value. In contrast, the new supply model (as the material will be prepared and provided by the Group) pursuant to the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement is expected to enable the Company to recognise income inclusive of both material costs and processing service fees, thereby significantly increasing the Company's share of the final product value.

As advised by the Directors, cost ("**Part A Amount**") plus profit margin ("**Part B Amount**") approach was adopted pursuant to the 2022 Cable Assembly Processing Service Framework Agreement.

Based on the above, the Group charged Part B Amount (i.e. the amount of no less than 15% gross profit margin) as services fees for most individual transactions pursuant to the 2022 Cable Assembly Processing Service Framework Agreement as material of products under the aforesaid individual transactions were prepared and provided by Chengdu Siwi High-Tech.

However, the Company anticipated to prepare material of electric cable components and related products by the Group instead of by Chengdu Siwi High-Tech gradually. Under the new supply arrangement, the amounts of material cost will be recorded as income amounts under the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement. The amounts of electric cable components and related products will increase substantially under new supply arrangement (i.e. Part A Amount and Part B Amount) as compared to existing supply arrangement (Part B Amount).

For illustration purpose, assuming the gross profit margin is 15% for both existing business model and new business model of the electric cable components and related products supply arrangement under the cost plus profit margin approach, the Group will record 0.18 times of cost amounts as income from such transaction if material of products were prepared and provided by Chengdu Siwi High-Tech; but 1.18 times of cost amounts as income from such transaction if material of products were prepared by the Group.

Based on the above, in particular, the anticipated increase in income from individual transaction due to the possible change of business model of the electric cable components and related products supply arrangement (i.e. from Part B Amount (i.e. 0.18 times of cost amounts) to the summation of Part A Amount and Part B Amount (i.e. 1.18 times of cost amounts), we consider the estimated increase of 56% as mentioned above is justifiable.

For our due diligence purpose, we (i) obtained historical transaction amounts for the two years ended 31 December 2023 and eight months ended 31 August 2024; (ii) reviewed Individual Agreements list and contract amounts of the Individual Agreements; (iii) acknowledged the fluctuation in historical transaction amounts for first half year and second half year in 2023 (being a full year transaction amounts pursuant to the 2022 Cable Assembly Processing Service Framework Agreement); (iv) calculated and acknowledged the anticipated increase in income from individual transaction due to the possible change of business model as mentioned above; and (v) reviewed the 2022 Cable Assembly Processing Service Framework Agreement and noted that optical and related products were not included in 2022 Cable Assembly Processing Service Framework Agreement. We consider that the aforesaid information/documents provided by the Group to us are sufficient for us to analyse the estimated amounts of electric cable components and related products for FY2025.

Accordingly, we are of the view that the estimated amounts of electric cable components and related products for FY2025 are fair and reasonable.

Optical and related products

The Directors assumed the estimated demand of optical cable components and related products to be RMB60 million for FY2025. There is no historical amount incurred between both parties prior to the date of the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement as the supply of optical cable components and related products by the Group is a new arrangement between the Group and Chengdu Siwi High-Tech. We discussed with the Directors and noted that such estimation was made with reference to Chengdu Siwi High-Tech's historical procurement amounts of optical cable components and related products for the two years ended 31 December 2023. Upon our request, we obtained the aforesaid figures from the Company (which was prepared by Chengdu Siwi High-Tech). According to the figures, Chengdu Siwi High-Tech has incurred the amount ranged from approximately RMB100 million to RMB150 million in the procurement of optical cable components and related products for the two years ended 31 December 2023 based on their internal procurement figures, with average of approximately RMB125 million. As stated in the Board Letter, rather than assuming the full capture of Chengdu Siwi High-Tech procurement needs, the Directors estimated that the Company would supply approximately half of the historical procurement amounts, taking into consideration of the fact that the average historical procurement amount of RMB125 million would imply a 50% share of approximately RMB63 million.

Furthermore, the historical amounts of electric cable components and related products for FY2023 (i.e. RMB77.0 million) represented approximately 39% to Chengdu Siwi High-Tech's procurement amounts of electric cable components and related products for FY2023. Therefore, we consider the Directors' adoption of 50% of historical amounts for a prudent sake consideration to be fair and reasonable.

As the estimated demands of optical and related products for FY2025 was close to (i) the aforesaid implied amounts of RMB63 million (with difference of 5%); and (ii) the implied procurement amounts of optical cable components and product procured by Chengdu Siwi High-Tech for FY2023 (i.e. RMB58.5 million, with difference of 5%) after taking into account the percentage rate of 39% as mentioned above, we are of the view that the estimated demands of optical and related products for FY2025 are fair and reasonable.

Conclusion on the estimated demands for FY2025

Based on our above analyses, including (i) the estimated amounts of electric cable components and related products for FY2025 being fair and reasonable; and (ii) the estimated demands of optical and related products for FY2025 being fair and reasonable, we are of the view that the estimated demand of services/products under the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement, being the summation of aforesaid (i) and (ii), are fair and reasonable. Accordingly, we are of the view that the proposed annual cap for FY2025 is fair and reasonable.

FY2026 and FY2027

We also noted that the proposed annual caps for FY2026 and FY2027 represented increases of approximately 11% and 20% as compared to those for FY2025 and FY2026 respectively.

For our due diligence purpose, we requested the Company to provide us the historical procurement amounts of optical cable components and related products and electric cable components and related products for FY2022 and FY2023. After calculating the implied growth of the procurement of such products by Chengdu Siwi High-Tech according to the information provided by the Company (which was prepared by Chengdu Siwi High-Tech), we noted that Chengdu Siwi High-Tech recorded an increase of approximately 17% in the procurement of (i) optical cable components and related products; and (ii) electric cable components and related products in total from FY2022 to FY2023 based on their internal procurement figures. As the abovementioned increase rates (i.e. 11% and 20%) was not deviated from the historical increase rate from FY2022 to FY2023 based on internal procurement figures (i.e. 17%), we consider the abovementioned increase rates to be justifiable.

Having considered that (i) the proposed annual cap for FY2025 being fair and reasonable as analysed above; and (ii) the increase rates (i.e. 11% and 20%) being justifiable, we are of the view that the proposed annual caps for FY2026 and FY2027 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2027, and they do not represent forecasts of cost to be incurred from the Transaction. Consequently, we express no opinion as to how closely the actual amount to be incurred from the Transaction will correspond with the proposed annual caps.

In light of the above, we consider that the terms of the Transaction (including proposed annual caps) are on normal commercial terms and are fair and reasonable.

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Transaction must be restricted by the relevant annual caps for the period concerned under the 2024 Optical Cable and Electric Cable Component Manufacturing Framework Agreement; (ii) the terms of the Transaction must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Transaction must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transaction (i) have not been approved by the listed issuer's board of directors; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the caps.

In the event that the maximum amounts of the Transaction are anticipated to exceed their respective annual caps, or that there is any proposed material amendment to the terms of the Transaction, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transaction and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of Transaction are on normal commercial terms and are fair and reasonable; and (ii) the Transaction is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transaction and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

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