

26 October 2024

*To the Independent Board Committee and  
the Independent Shareholders of Digital Domain Holdings Limited*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
UNDER THE DISTRIBUTOR AGREEMENT**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 26 October 2024, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 25 October 2024, DD Gaming Media, a wholly-owned subsidiary of the Company, entered into the Distributor Agreement with ADATA for an initial term commencing on the Effective Date and up to 31 December 2026.

As set out in the Letter from the Board, as at the Latest Practicable Date, based on notices from ADATA, ADATA and its subsidiary were interested in 1,547,940,000 Shares, representing approximately 19.40% of the total issued share capital of the Company. Accordingly, ADATA is a substantial Shareholder and connected person of the Company, and the Distributor Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Annual Caps exceeds 5.0%, the entering into of the Distributor Agreement and the Continuing Connected Transactions are subject to annual review, reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. DUAN Xiongfei, Ms. LAU Cheong, Dr. Elizabeth Monk DALEY and Mr. WOO King Hang, has been established to consider, and make recommendations to the Independent Shareholders as to whether the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable, conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

## **INDEPENDENCE DECLARATION**

We are not associated or connected with the Company, DD Gaming Media, the counterparty of the Distributor Agreement or their respective core connected persons or associates. In the two years immediately preceding the Latest Practicable Date, save for this appointment as the independent financial adviser in relation to the Distributor Agreement, we did not have any other relationship with or interests in the Company, DD Gaming Media, the counterparty of the Distributor Agreement or their respective core connected persons or associates. Accordingly, we consider we are eligible to give independent advice on the Distributor Agreement and the transactions contemplated thereunder.

## **BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company.

The Directors have declared in a responsibility statement set out in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, DD Gaming Media, the counterparty of the Distributor Agreement or any of their respective subsidiaries or associates.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

### A. Background information of the Group, DD Gaming Media and ADATA

#### *The Group*

The Group is principally engaged in (i) media entertainment business (the “**Media Entertainment Segment**”), including visual effects production, post-production services and virtual human business; and (ii) trading business (the “**Trading Segment**”).

For the year ended 31 December 2023, the Media Entertainment Segment recorded a revenue of approximately HK\$709.7 million, accounting for approximately 96.4% of the Group’s total revenue and the Trading Segment recorded a revenue of approximately HK\$26.8 million, accounting for approximately 3.6% of the Group’s total revenue. For the six months ended 30 June 2024, the Media Entertainment Segment and the Trading Segment recorded a revenue of approximately HK\$208.3 million and HK\$56.6 million respectively, accounting for approximately 78.6% and 21.4% respectively of the Group’s total revenue.

#### *DD Gaming Media*

DD Gaming Media is a wholly-owned subsidiary of the Company, which is principally engaged in trading business.

#### *ADATA*

ADATA is a Taiwan-based company whose shares are listed on The Taiwan Stock Exchange Corporation (stock code: 3260). According to its consolidated financial statements for the six months ended 30 June 2024, ADATA and its subsidiaries are primarily engaged in the manufacturing and sales of electronics products, including the manufacture and sales of memory products, the sales of electric tricycles, cultural creative goods and catering, the lease of electric tricycle and activity venue, agricultural cultivation and portal website operation.

ADATA’s main product lines comprise Dynamic Random Access Memory (“**DRAM**”) modules, USB flash drives, hard disk drives, solid state drives (SSD), memory cards and mobile accessories. Its products are used in computers, industrial computers, servers, workstations, printers, media players, televisions and game consoles and are sold domestically and internationally. ADATA also sells personal computer (“**PC**”) gaming hardware and accessories under the brand of “XPG” (Xtreme Performance Gear).

According to ADATA’s published financial results, ADATA recorded an audited consolidated revenue of approximately NT\$33.68 billion (equivalent to approximately HK\$8.23 billion) and net profit of approximately NT\$1.49 billion (equivalent to approximately HK\$0.36 billion) for the year ended 31 December 2023.



## **B. Reasons for and benefits of the Distributor Agreement**

As disclosed in the Letter from the Board, the Group anticipated that advancements in artificial intelligence (“AI”) and related technologies will drive increased demand for DRAM in various AI applications, in addition to those relevant to the media industry. Given the unstable operating environment in the media industry in recent years, including the events affecting Hollywood since 2023, the Group has been vigilant in exploring opportunities to expand the Group’s income stream. The management of the Group believes that demand for DRAM will continue to grow and aims to further expand the trading segment by partnering with reputable business partners. ADATA is a reputable hardware manufacturer specialising in memory products and their products are well-received in both Greater China and the Americas. Aligning with such a manufacturer enhances the Group’s brand image and credibility in the market and allows the Group to expand its market presence and reach new customer segments. When all existing customers of ADATA in the Territories are transitioned to DD Media Gaming which will then become the sole and exclusive general distributor of the XPG Products in the Territories, the Group can secure a competitive advantage by offering unique products not available through other channels in the Territories and the direct relationship with ADATA can streamline supply chain operations, reducing costs and improving delivery times. Access to a wider range of high-demand products like DRAM and other gaming hardware can also broaden the Group’s product mix and boost the Group’s revenue and profitability. These benefits can strategically position the Group for growth in the evolving tech landscape.

Taking into account that (i) the Distributor Agreement allows the Group to expand its market presence and reach new customer segments; (ii) the Distributor Agreement enables the Group to expand its product mix and boost the Group’s revenue and profitability; (iii) the nature of the Distributor Agreement falls within the scope of the trading business of the Group; and (iv) our analysis and view on the major terms of the Distributor Agreement (as explained below), we consider the entering into of the Distributor Agreement is within the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

## **C. Principal terms of the Distributor Agreement**

Major terms of the Distributor Agreement are set out below.

Date: 25 October 2024

Parties: (i) DD Gaming Media  
(ii) ADATA

Term: The initial term is from the Effective Date to 31 December 2026.

After the expiry of the initial term, DD Gaming Media has the right to extend the term of the Distributor Agreement for another three years, subject to compliance with the requirements of the Listing Rules, if applicable.



Subject matter: ADATA appoints DD Gaming Media as the exclusive general distributor of ADATA to promote, market, sell and distribute the XPG Products to third party customers in the Territories (being Greater China and the Americas), such that only DD Gaming Media or its affiliates may distribute such products as general distributor in the Territories. However, to facilitate a smooth and orderly transition of ADATA's existing customers in the Territories to DD Gaming Media, ADATA may, with the prior consent of DD Gaming Media, continue to sell the XPG Products to certain existing customers in the Territories during the transition period in case DD Gaming Media does not have sufficient capacity and resources to handle sales to those customers initially. DD Gaming Media aims to be able to fully service all customers of ADATA in the Territories by end of 2027. For the avoidance of doubt, ADATA shall not appoint any other third party as a general distributor for distributing the XPG Products in the Territories during the term of the Distributor Agreement.

DD Gaming Media shall purchase the XPG Products from ADATA from time to time for sale and distribution to third party customers in the Territories.

Pricing policy: Licence Fee:  
US\$500,000 (equivalent to approximately HK\$3,900,000) per calendar year, or a pro-rated amount for periods of less than one calendar year, to ADATA for the exclusive distributorship, which rate is to continue to apply upon the first renewal of the initial term.

Purchases of the XPG Products from ADATA:  
The terms and conditions, including product pricing, under the Product Contract(s) for supplying XPG Products to DD Gaming Media shall be determined with reference to the prevailing market terms and prices and such terms shall be more favourable to DD Gaming Media, offering discounts (the extent of which may vary depending on factors such as product type, popularity, order size, seasonality and DD Gaming Media's sales performance) to ADATA's sales price for such products to third party customers in the Territories.

Payment term: 45 days starting from the first day of the subsequent month following the delivery of the XPG Products.

### *Our view on the major terms of the Distributor Agreement*

#### Licence Fee

Pursuant to the Distributor Agreement, DD Gaming Media is required to pay an annual Licence Fee of US\$500,000 (equivalent to approximately HK\$3,900,000) per calendar year, or a pro-rated amount for periods of less than one calendar year, to ADATA for the exclusive distributorship, which rate is to continue to apply upon the first renewal of the initial term.

We understand that the Licence Fee is agreed between the Group and ADATA after arm's length negotiations, having taken into consideration that (i) the licence fees for exclusive distribution rights of comparable transactions identified, based on the criteria that the transactions involved the granting of exclusive licence for distribution to companies in the sectors of consumer electronics, household goods and home appliances that are listed on the Stock Exchange and the transactions were announced by the listed companies during the period from 1 January 2023 to the Latest Practicable Date, were more than 3% of the relevant companies' net sales while the annual Licence Fee accounts for less than 1% of the projected annual sales of the XPG Products to be generated from the distributorship by DD Gaming Media; (ii) no minimum guaranteed amount of purchases from ADATA is required to be committed by DD Gaming Media for securing the exclusive distributorship in the Territories, despite it being customary for principals to request distributors to commit to such an amount when granting exclusive rights; and (iii) ADATA's existing customers will be transitioned to DD Gaming Media at no additional costs to DD Gaming Media.

In assessing the fairness and reasonableness of the Licence Fee, we have endeavoured to identify comparable transactions which (i) involved the grant of licence for distribution by or to companies listed on the Stock Exchange within the "computers and peripherals" category (to which the XPG Products are related) based on AASTOCKS.com; (ii) were announced by those companies since 1 January 2021 up to the Latest Practicable Date; and (iii) have disclosed the pricing basis and amount of the licence fee charged for distribution. However, we were not able to identify any comparable transactions among the 22 companies under this category. Therefore, we expanded the company categories to include "consumer electronics", "household goods" and "home appliances" and identified two comparable transactions (the "**Comparable Transactions**") based on the above criteria for comparison purpose. Although the circumstances relating to the Comparable Transactions, and therefore the licensing arrangement, may be different from those relating to the Company, we consider that the Comparable Transactions provide us with general market information of licence fee arrangement conducted by companies listed on the Stock Exchange for our assessment. Details of the Comparable Transactions are set out below.

Date of announcement	Company name (stock code)	Transaction details	Pricing basis of the licence fee	
19 June 2024	Crosstec Group Holdings Limited (3893)	The grant of an exclusive licence by a third party to the company to reproduce, distribute and publish the licensed game in the licensed territories	(i)	Fixed licence fee of US\$500,000 for 5 years; and
			(ii)	Monthly licence fee equivalent to 15% of the gross revenue generated by the company
31 July 2023	JS Global Lifestyle Company Limited (1691)	A connected person granted to the group the non-exclusive rights to obtain, produce and source, and the exclusive rights to distribute and sell, SN brands of products in the Asia Pacific Region and Greater China	Expected to be approximately 3% of net sales	

We noted that the licence fee for one of the Comparable Transactions comprised a fixed portion of US\$100,000 per annum and a variable portion equivalent to 15% of gross revenue while the licence fee for the other Comparable Transaction comprised only a variable portion equivalent to 3% of net sales. In the case of the Distributor Agreement, the Licence Fee is a fixed amount of US\$500,000 per annum and there was no variable portion based on sales revenue. For illustration purpose, assuming that the Group achieves a sales revenue under the Distributor Agreement of an amount of US\$76 million for the year ending 31 December 2025 (being the Proposed Annual Cap for the purchase amount for the year), the fixed annual Licence Fee of US\$500,000 represents approximately 0.66% of such sales revenue, which is significantly lower than the variable portion (i.e. 3% of net sales and 15% of gross revenue) of the licence fee for the Comparable Transactions.

Based on the above analysis and the fact that (i) the Licence Fee was determined after arm's length negotiations between the Group and ADATA; and (ii) the Licence Fee is significantly lower than the variable portion of the licence fee of the Comparable Transactions, we consider that the Licence Fee is on normal commercial terms and is fair and reasonable so far as the Company is concerned.



Purchases of the XPG Products from ADATA

Pursuant to the Distributor Agreement, all supplies and purchases of the XPG Products shall be carried out in accordance with the principal terms of the Distributor Agreement while the specific terms of the purchases, such as product model, quantity, price and other terms and conditions of delivery of the relevant products, shall be specified in the Product Contract(s) and subject to acceptance and confirmation by ADATA from time to time. The terms and conditions, including product pricing, under the Product Contract(s) for supplying XPG Products to DD Gaming Media shall be determined with reference to the prevailing market terms and prices and such terms shall be more favourable to DD Gaming Media, offering discounts (the extent of which may vary depending on factors such as product type, popularity, order size, seasonality and DD Gaming Media's sales performance) to ADATA's sales price for such products to third party customers in the Territories.

As set out in the Letter from the Board, the Company will put in place internal control procedures to monitor and the entering into of the Continuing Connected Transactions. In particular, prior to entering into any Product Contract with ADATA, the procurement team of DD Gaming Media shall (a) compare the terms offered by ADATA with (i) the market data published in reputable industry research websites such as DRAmEXchange, a semiconductor research department focusing on the supply chains of memory and semiconductor products of TrendForce, which is an independent global information provider of the latest development, insight and analysis of the technology industry; and (ii) ADATA's invoices issued to Independent Third Parties and/or other supporting documents, if necessary, to ensure that the terms offered by ADATA are fair and reasonable and more favourable to DD Gaming Media than those offered by ADATA to Independent Third Parties in the Territories; and (b) take into consideration the customer order on hand, historical sales volume or (in the case of any new products) expected market demand from its sales team as well as any published product reviews and analyse whether the supply price would allow DD Gaming Media to generate a reasonable operating margin having regard to the portfolio of XPG Products being sold and the costs of operations and allow DD Gaming Media to appropriately manage risks.

With the above procedures, we consider that the Company has sufficient and effective internal control measures in place to ensure that the purchase price of the Group under the Distributor Agreement will be fair and reasonable and more favourable to DD Gaming Media than those offered by ADATA to Independent Third Parties in the Territories.

*Our view*

Based on the above, we concur with the view of the Directors that the terms of the Distributor Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

#### D. The Proposed Annual Caps

The table below sets out the Proposed Annual Caps for the period ending 31 December 2026.

	Proposed Annual Caps		
	For the period from the Effective Date to 31 December 2024 ("PE2024") US\$	For the year ending 31 December 2025 US\$	For the year ending 31 December 2026 US\$
Purchase Amount	13,500,000	76,000,000	103,000,000
Licence Fee	83,333	500,000	500,000
<b>Total</b>	<b>13,583,333</b>	<b>76,500,000</b>	<b>103,500,000</b>

As stated in the Letter from the Board, the Proposed Annual Caps in respect of the Purchase Amount were arrived at based on, among other things:

- (i) ADATA's historical sales amount of the XPG Products in the Territories for the year ended 31 December 2023 ("FY2023");
- (ii) the currently planned sales capacity and resources of DD Gaming Media for conducting the distribution business during the initial transition period;
- (iii) a projected annual growth rate of 15% in the sales amount of the XPG Products in the Territories for each of the three period/years ending 31 December 2026, having taken into consideration ADATA's historical annual growth rate of approximately 15% in sales of XPG Products in the Territories for FY2023 over the year ended 31 December 2022 ("FY2022") and the anticipated annual growth rate of over 15% of the gaming PC market during the forecast period of 2024 to 2036 projected by Research Nester, an independent market research company;
- (iv) the assumption that the Distributor Agreement will commence on or about 1 November 2024; and
- (v) the assumption that the sales amount of the XPG Products in the Territories for the two months ending 31 December 2024 may account for approximately 25% of the projected total sales of the XPG Products in the Territories for the year ending 31 December 2024 ("FY2024") given that November and December are traditional peak seasons for sales of computer and gaming products.

### *Our work done*

In assessing the fairness and reasonableness of the Proposed Annual Caps, we have reviewed and discussed with management of the Company on the underlying calculation, including the basis and assumptions, in formulating the same.

### *Assessment of the reasonableness of the Proposed Annual Caps of the Purchase Amount*

#### *(a) PE2024*

We understand from the management of the Company that the Proposed Annual Cap for PE2024 is determined after taking into consideration (i) a projected annual growth rate of 15% as compared to the historical sales amount of the XPG Products for FY2023; (ii) the sales amount of the XPG Products by DD Gaming Media for November and December 2024 will account for approximately 25% of the total projected sales amount of the XPG Products for FY2024 as November and December are traditional peak seasons for sales of computer and gaming products; and (iii) the planned sales capacity and resources of DD Gaming Media for conducting the distribution business during PE2024. We noted from ADATA's published monthly sales data for FY2023 that the aggregate sales contributed by November and December 2023 represented approximately 21% of the total sales amount for FY2023. Therefore, we concur with the management that it is fair and reasonable to assume 25% of the projected sales of FY2024 for the Proposed Annual Cap for PE2024.

To ascertain if the projected annual growth rate of 15% is determined on a fair and reasonable basis, we have reviewed the historical growth rate of the sales amount of the XPG Products by ADATA for FY2023 as compared to that of FY2022 which was 15% and we have performed independent research regarding the projected annual growth rate of 15%. According to Research Nester (an independent market research company) (<https://www.researchnester.com/reports/gaming-pc-market/6035>), the gaming PC market was valued at US\$53 billion in 2023 and is anticipated to grow at an annual growth rate of over 15% during the forecast period of 2024 to 2036. In the year 2024, the industry size of gaming PC is evaluated at US\$60 billion, representing an increase of approximately 13.2% as compared to that of 2023. Besides, according to World Semiconductor Trade Statistics (a non-profit mutual benefit corporation to define services for the world semiconductor industry) (<https://www.wsts.org/76/Recent-News-Release>), the global semiconductor market is expected to grow by approximately 12.5% in 2025 primarily driven by the memory and logic sectors. Hence, we consider that applying 15% as the projected annual growth rate is fair and reasonable.



(b) *FY2025*

We noted that the Proposed Annual Cap for FY2025 represented an increase of approximately 41% over the projected sales of the XPG Products for FY2024. We understand from the management of the Company that the Proposed Annual Cap for FY2025 is determined (i) based on a projected annual growth rate of 15% as compared to the projected sales of the XPG Products for FY2024; and (ii) assuming that DD Gaming Media can service more customers of ADATA in the Territories during FY2025. Please refer to the paragraph headed “(a) PE2024” under “D. The Proposed Annual Caps” for our due diligence on the projected annual growth rate of 15%.

(c) *FY2026*

We noted that the Proposed Annual Cap for FY2026 represented an increase of approximately 36% over the Proposed Annual Cap for FY2025. Such increase is mainly attributable to the projected annual growth rate of 15% as explained above under paragraph headed “(a) PE2024” under “D. The Proposed Annual Caps” and the management’s expected increase in sales capacity and resources of DD Gaming Media in servicing more customers of ADATA in the Territories.

*Assessment of the reasonableness of the Proposed Annual Caps of the Licence Fee*

The Licence Fee represents approximately 0.6%, 0.7% and 0.5% of the total Proposed Annual Caps for PE2024, FY2025 and FY2026, respectively. The Proposed Annual Caps of the Licence Fee are determined at the fixed annual rate for FY2025 and FY2026 or a pro-rated amount for PE2024 which we consider fair and reasonable according to our analysis and view under the above paragraph headed “C. Principal Terms of the Distributor Agreement”.

***Our view***

Based on the factors, reasons and our analysis explained above and our review of the underlying calculations from the Company, we concur with the view of the management of the Company that the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **E. Internal Control Measures**

For details of the Group's internal control measures, please refer to the paragraph headed "Internal Control Procedures for the Continuing Connected Transactions" in the Letter from the Board.

### ***Our view***

Based on our discussion with the management of the Company on the internal control measures for the transactions contemplated under the Distributor Agreement and our review of the internal control procedures that include:

- (i) the Group has measures in place to ensure that the pricing of the XPG Products offered to the Group shall be more favourable than the selling price offered to the independent customers by ADATA. Prior to entering into any Product Contract with ADATA, the procurement team of DD Gaming Media shall (a) compare the terms offered by ADATA with (i) the market data published in reputable industry research websites such as DRAmEXchange, a semiconductor research department focusing on the supply chains of memory and semiconductor products of TrendForce, which is an independent global information provider of the latest development, insight and analysis of the technology industry; and (ii) ADATA's invoices issued to Independent Third Parties and/or other supporting documents; and (b) take into consideration the customers order on hand, historical sales volume or (in the case of any new products) expected market demand from its sales team as well as any published product reviews and analyse whether the supply price would allow DD Gaming Media to generate a reasonable operating margin having regard to the portfolio of XPG Products being sold and the costs of operations and allow DD Gaming Media to appropriately manage risks. Hence, the Group will be able to ensure that the pricing terms offered by ADATA to DD Gaming Media are fair and reasonable and more favourable than those offered by ADATA to Independent Third Parties in the Territories; and

- (ii) the Group has measures in place to ensure that the annual transaction amounts under the Distributor Agreement will not exceed the proposed annual caps of respective period/years. Such measures include (a) dedicated personnel from the procurement team will be designated to closely monitor the actual transaction amount incurred under the Continuing Connected Transactions on a weekly basis. If the actual transaction amount reaches 80% or more of the relevant annual caps at any time of the year, the dedicated personnel will inform the finance department and the Board as soon as possible. The Board would then consider taking appropriate measures in accordance with the requirements of the Listing Rules, including, but not limited to, publishing announcement for an increased annual cap amount and seeking approval from the Shareholders, if applicable; (b) monthly review on the Product Contracts and supporting documents for pricing comparison performed by the procurement team will be conducted by the finance department of the Company to ensure that the transactions are conducted in accordance with the terms and conditions of the Distributor Agreement, and that the approved annual caps are not exceeded; and (c) the external auditor and independent non-executive Directors will review the Continuing Connected Transactions on an annual basis, following which the independent non-executive Directors will provide an annual confirmation as to whether the Continuing Connected Transactions are conducted in accordance with the terms of the Distributor Agreement, on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole;

we consider that the Company has sufficient and effective internal control measures in place to ensure that (i) the Proposed Annual Caps of the Distributor Agreement will not be exceeded (or if it is expected to be exceeded, the Company will consider measures to be taken in a timely manner, which include notifying the finance department and the Board as soon as possible or re-complying with disclosure and independent shareholders' approval requirements under the Listing Rules, if applicable); and (ii) the pricing of the XPG Products will be determined on normal commercial terms and more favourable to DD Gaming Media than those offered by ADATA to Independent Third Parties in the Territories (through adopting internal procedures to compare the terms offered by ADATA with market data or ADATA's invoices issued to Independent Third Parties).

**F. Requirements by the Listing Rules regarding the Continuing Connected Transactions**

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts that they have been entered into:
- in the ordinary and usual course of business of the Group;



- on normal commercial terms or better; and
  - according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (b) each year the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
- have not been approved by the Board;
  - were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;
  - were not entered into, in all material respects, in accordance with the terms of the relevant agreement(s) governing the Continuing Connected Transactions; and
  - have exceeded the annual caps;
- (c) the Company must allow, and ensure that the relevant counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Continuing Connected Transactions; and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) above, respectively.

In light of the reporting requirements relating to the Continuing Connected Transactions, in particular, (i) the restriction of transaction value by way of the annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the Continuing Connected Transactions and the Proposed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Company and the Shareholders as a whole.

## RECOMMENDATION

Having considered the aforesaid principal factors, reasons and our analysis referred to above, we are of the opinion that the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the SGM to approve the entering into of the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps).

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



**Heidi Cheng**  
*Managing Director*



**Michelle Tse**  
*Director*

*Note:* Ms. Heidi Cheng is a responsible officer of Type 6 (advising on corporate finance) regulated activities and has over 25 years of experience in advising corporate finance transactions. Ms. Michelle Tse is a licensed representative of Type 6 (advising on corporate finance) regulated activities and has over 10 years of experience in advising corporate finance transactions.