

19 November 2024

*To: The independent board committee and the independent shareholders
of S.A.S. Dragon Holdings Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

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 Continuing Connected Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 19 November 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.

With reference to the Board Letter, the Previous Conditional Master Agreement in relation to the sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group will expire on 31 December 2024. In anticipation of continuity of the aforesaid transactions, the Company entered into the Conditional Master Agreement with Hon Hai for the three financial years ending 31 December 2027.

With reference to the Board Letter, the Continuing Connected Transactions constitute non-exempted continuing connected transactions of the Company and the Conditional Master Agreement and the Caps are subject to the announcement and the reporting and independent shareholders’ approval requirements under the Listing Rules.

The Independent Board Committee comprising Mr. Wong Tak Yuen, Adrian, Mr. Liu Chun Ning, Wilfred, Mr. Cheung Chi Kwan and Mr. Wong Wai Kin (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Conditional Master Agreement and the transactions contemplated thereunder and the Caps at the SGM. 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

As at the Latest Practicable Date, 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 hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

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

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

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of and reasons for the Continuing Connected Transactions

Information on the Group

With reference to the Board Letter, the Group specialises in design, development, sourcing, quality assurance and logistics management of global proprietary electronic components and semiconductor products including chipset solutions, display panels, memory chips, power supply system solutions, multimedia system solutions, PEMCO, IoT home automation solutions, LED lighting solutions and other premier solutions for a wide range of applications for mobile, consumer electronic, computer and networking, telecommunication and LED lighting and display products.

Set out below is the financial information of the Group for the two years ended 31 December 2023 and the six months ended 30 June 2024 as extracted from the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report") and interim report for the six months ended 30 June 2024 (the "2024 Interim Report"):

	For the six months ended 30 June 2024 (unaudited) HK\$'000	For the year ended 31 December 2023 (audited) HK\$'000	For the year ended 31 December 2022 (audited) HK\$'000	Change from 2022 to 2023 %
Revenue	13,639,486	22,370,616	24,968,652	(10.41)
– Sales of electronic components and semiconductors	13,569,461	22,206,540	24,818,008	(10.52)
– Sales of business equipment and provision of related ancillary services	33,407	70,709	69,144	2.26
– Sales and contract works of LED lighting and display products	27,770	72,507	59,026	22.84
– Rental income from investment properties	8,765	19,370	20,061	(3.44)
– Rental income from LED lighting and display products	83	1,490	2,413	(38.25)
Gross profit	804,243	1,316,411	1,285,327	2.42
Profit attributable to owners of the Company	330,288	403,801	400,337	0.87

As illustrated in the above table, the Group's revenue was approximately HK\$22.37 billion for the year ended 31 December 2023 ("FY2023"), representing a decrease of approximately 10.41% as compared to that for the year ended 31 December 2022 ("FY2022"). The largest revenue contributor of the Group was sales of electronic components and semiconductors for the two years ended 31 December 2023 and the six months ended 30 June 2024 ("1H2024"). With reference to the 2023 Annual Report, the aforesaid decrease in revenue was mainly due to the decrease in sales of electronic components and semiconductors caused by challenging macroeconomic environment that had lowered consumer demand for mobile phones and other consumer electronic products across the world. Despite the aforesaid decrease in the Group's revenue, there were slight increases in the Group's gross profit and profit attributable to owners of the Company for FY2023 as compared to those for FY2022.

We noted from the 2024 Interim Report that the Group's revenue, gross profit and profit attributable to owners of the Company for 1H2024 increased by approximately 46.92%, approximately 14.82% and approximately 21.72% respectively as compared with those for the six months ended 30 June 2023 ("1H2023").

With reference to the 2024 Interim Report, the Company believes it is in a much better position than before against challenges and has confidence that the Group will maintain competitive in the Greater China region by virtue of its economies of scales, solid long-term customer relations supported by its strong financial strength, localized sales and engineers, competent inventory management and other value added services. By leveraging on its experience, industry expertise and market recognition, the Group is confident to pursue a healthy and sustainable business growth and generate more returns to the Shareholders.

Information on Hon Hai Group

With reference to the Board Letter, Hon Hai is a company listed on the Taiwan Stock Exchange Corporation (stock code: TW2317) and the Hon Hai Group is the world's leading computer, communication, consumer electronics manufacturing services provider.

As advised by the Directors, the sales and purchases of electronic components between the Group and Hon Hai Group commenced since 1999, at such time Hon Hai was not a connected person of the Company. In 2000, Foxconn (a wholly-owned subsidiary of Hon Hai) became a substantial Shareholder. As further confirmed by the Directors, since the commencement of business between the Group and Hon Hai Group, the Group has maintained good business relationship with Hon Hai Group and the Group has neither received any material complaint from Hon Hai Group in respect of the electronic components sold to Hon Hai Group nor from the end-customers of the Group in respect of the electronic components purchased from Hon Hai Group and resold to the end-customers. Moreover, the Group has not suffered from any bad debt due to its sales of the electronic components to Hon Hai Group.

Reasons for and benefits for the Continuing Connected Transactions

With reference to the Board Letter, the Previous Conditional Master Agreement will expire on 31 December 2024. As a result, the Company entered into the Conditional Master Agreement which governs the Continuing Connected Transactions during the period between 1 January 2025 and 31 December 2027 (both dates inclusive).

With reference to the Board Letter, a number of members of Hon Hai Group are the approved vendors designated by certain end-customers of the Group (the “**End-Customers**”). The Group is required by the End-Customers to purchase materials and components from approved vendors. The aggregated amount of purchases of electronic components made by the Group from the Hon Hai Group had increased slightly from 2022 to 2023. The Board estimates that the Purchase Transactions will continue to grow in the next three financial years since the Group has expanded its customer base in 2024 which employing products supplied by the Hon Hai Group. As confirmed by the Directors, the sales to the End-Customers and the Hon Hai Group have been recognized as the Group's revenue.

As confirmed by the Directors, the Group is one of the suppliers of the Hon Hai Group. The Group acts as an agent between the Hon Hai Group and other suppliers to sell electronic components to the Hon Hai Group. For sales of electronic components by the Group to the Hon Hai Group, the Hon Hai Group would conduct sourcing in advance and instruct the Group to purchase the electronic components from the designated supplier and resell the same to the Hon Hai Group. The sales to Hon Hai Group have been recognized as the Group's revenue.

With reference to the 2024 Interim Report, the Group keeps focusing on its strategy to provide comprehensive portfolio of design and supply chain services to its target customers in the Greater China region by broadening its world's leading semiconductor supplier base as well as expanding its geographical sales network.

As shown in the section headed "Information on the Group" above, the sales of electronic components and semiconductors was also the largest business segment of the Group for FY2022, FY2023 and 1H2024, accounting for over 99% of the Group's revenue correspondingly.

In view of the above, we concur with the Directors that the Continuing Connected Transactions are conducted under the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Continuing Connected Transactions

The tables below summarise the major terms of the Continuing Connected Transactions:

Agreement date:	26 September 2024
Parties:	(i) The Company (ii) Hon Hai
Subject matter:	Sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group
Term:	From 1 January 2025 to 31 December 2027

The Conditional Master Agreement is conditional upon the approval of the Conditional Master Agreement, the Caps and the transactions contemplated thereunder by the Independent Shareholders at the SGM.

Under the Conditional Master Agreement, the parties agree that the Continuing Connected Transactions shall be on normal commercial terms and, in particular: (a) the members of the Group who are parties to the Continuing Connected Transactions shall receive or pay such consideration for the transactions with members of the Hon Hai Group based on market rates or rates which are no less favourable than those available from or to (as appropriate) independent third parties; (b) the terms of the Continuing Connected Transactions shall be fair and reasonable and negotiated on arm's length basis; (c) for purchases made by the Group from the Hon Hai Group, as the members of the Hon Hai Group are the approved vendors designated by certain end-customers, the Group will review and ensure prices for products to be purchased are charged on a cost-plus basis with reasonable profit margin; (d) for sales made by the Group to the Hon Hai Group, for the purpose of ensuring the terms of sales being fair and reasonable, the Group will review its pricing policy based on the following factors: (i) the historical selling price of similar products; (ii) the market information obtained from current customers or other vendors; (iii) quotations from independent third party(ies); or (iv) the expanded Company's customer base and market information obtained from those customers; and (e) the total amount of the Continuing Connected Transactions shall not exceed the applicable caps or such other caps as approved by the Independent Shareholders from time to time.

With reference to the Board Letter, the members of the Group will follow the internal policy and procedures as set out under the section headed "INTERNAL POLICIES AND PROCEDURES" of the Board Letter when entering into, or deciding whether to enter into any sale or purchase transactions, with members of the Hon Hai Group.

Price policy for purchases

With reference to the Board Letter, the current price negotiation mechanism in relation to the purchases of products made by the Group from the Hon Hai Group involves the end-customers and the Hon Hai Group first agreeing the price (i.e., the Group's selling price to the end-customers), which is then followed by the Group negotiating with the Hon Hai Group on its purchase price from the Hon Hai Group with reference to the mark-up rate not below 2% (the "**Minimum Purchase Mark-up Rate**"). Detailed pricing policy for the Purchase Transactions is set out under the section headed "Price Policy for Purchases" of the Board Letter.

For our due diligence purpose, we requested the Company to provide us with certain historical purchases (i) between the Group and Hon Hai Group; and (ii) between the Group and other independent third parties. As represented by the Company, a number of the members of Hon Hai Group are the only vendors approved by the End-Customers, the Group is thus required to purchase the products under the Purchase Transactions (the "**Purchase Products**") from Hon Hoi Group only. As such, there has been no purchases record between the Company and other independent third parties for the Purchase Products. In this respect, the Company provided us a list of Purchase Transactions for each of FY2022, FY2023 and the seven months ended 31 July 2024. We randomly selected from the aforesaid list and the Company provided us with a set of historical purchases invoices between the Group and Hon Hai Group and sales invoices between the Group and the End-Customers (comprising one invoice from each side) for each of FY2022, FY2023 and the seven months ended 31 July 2024 and noted from the aforesaid invoices that the gross profit margins were not below 2%. We consider the reviewed invoices to be sufficient from the Independent Financial Adviser's perspective as they were selected on a random basis and covered the historical transaction period (up to the latest available month) under the Previous Conditional Master Agreement.

We noted that the Group's gross profit margin was approximately 5.9% for FY2023, which is higher than the Minimum Purchase Mark-up Rate. In this respect, the Directors advised us that the Group may conduct sale transactions which generate low gross profit margin with large independent third party customers. Upon our request, the Company provided 3 transaction records for FY2022, FY2023 and the seven months ended 31 July 2024 with an independent third party customer which contributed over 10% of the Group's total sales for FY2023. The transactions under the said transaction records generated gross profit margin of less than 1.5% or negative gross margin (the "**Lower GP Margin of I3P**").

Accordingly, despite the lower Minimum Purchase Mark-up Rate as compared to the Group's gross profit margin for FY2023, it makes economic sense to conduct the Purchase Transactions provided that the Group has sufficient capacity and reasonable gross profit margins can be generated therefrom.

Price policy for sales

With reference to the Board Letter, for sales to be transacted with the Hon Hai Group, the sale executives of the Group will have 3-party meetings with each of our main suppliers and representatives from the Hon Hai Group on a quarterly basis to discuss the overall prices and quantities for each product categories. The suppliers and representatives from the Hon Hai Group will agree upon the prices and quantities of various products to be traded. Determination of the prices for sales with Hon Hai is generally with reference to the standard price range, prevailing market prices of those or similar products, or the gross profit mark-up rate not below 1.5% (the "**Minimum Sales Margin**"). Detailed pricing policy for the Sale Transactions is set out under the sub-section headed "Price Policy for Sales" of the Board Letter.

For our due diligence purpose, the Company provided us a list of Sale Transactions for each of FY2022, FY2023 and the seven months ended 31 July 2024. We randomly selected from the aforesaid list and the Company provided us a set of invoices (comprising one invoice to Hon Hai Group and one invoice to independent third party) for each of FY2022, FY2023 and the seven months ended 31 July 2024 (i) between the Group and Hon Hai Group; and (ii) between the Group and independent third parties, and we noted that the selling prices offered by the Group to Hon Hai Group were not less than the selling prices offered by the Group to independent third parties for the same products. We consider the reviewed invoices to be sufficient from the Independent Financial Adviser's perspective as they were selected on a random basis and covered the historical transaction period (up to the latest available month) under the Previous Conditional Master Agreement.

We noted that the Group's gross profit margin was approximately 5.9% for FY2023, which is higher than the Minimum Sales Margin. Having considered the Lower GP Margin of I3P as mentioned above, it makes economic sense to conduct the Sales Transactions (despite the lower Minimum Sales Margin as compared to the Group's gross profit margin for FY2023) provided that the Group has sufficient capacity and reasonable gross profit margins can be generated therefrom.

Annual review

With reference to the 2023 Annual Report, the independent non-executive Directors have reviewed the Continuing Connected Transactions for FY2023 and, in their opinion, the Continuing Connected Transactions were entered into by the Company: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditors were also engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the work performed, the auditors of the Company confirmed to the Board that, among other things, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions for FY2023 (i) had not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group (only applicable to the Sale Transactions); (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the Continuing Connected Transactions; and (iv) had exceeded the relevant cap disclosed previously.

3. The Caps

Set out below are (i) the historical amounts of the Continuing Connected Transactions for the two years ended 31 December 2023 and the seven months ended 31 July 2024; (ii) the historical annual caps of the Continuing Connected Transactions for the three years ending 31 December 2024; and (iii) the Caps for the three years ending 31 December 2027:

	For the year ended 31 December 2022 HK\$'000	For the year ended 31 December 2023 HK\$'000	For the seven months ended 31 July 2024 HK\$'000
Historical amount of the Purchase Transactions	1,502,422	1,790,063	1,235,856
Historical amount of the Sale Transactions	2,764,831	1,514,919	1,031,030

	For the year ended 31 December 2022 HK\$'000	For the year ended 31 December 2023 HK\$'000	For the year ending 31 December 2024 ("FY2024") HK\$'000
Historical annual caps of the Purchase Transactions (the " Historical Purchase Cap(s) ")	2,600,000	3,000,000	3,500,000
<i>Utilisation rate</i>	58%	60%	<i>Undetermined yet</i>
Historical annual caps of the Sale Transactions (the " Historical Sale Cap(s) ")	3,200,000	3,700,000	4,300,000
<i>Utilisation rate</i>	86%	41%	<i>Undetermined yet</i>
	For the year ending 31 December 2025 ("FY2025") HK\$'000	For the year ending 31 December 2026 ("FY2026") HK\$'000	For the year ending 31 December 2027 ("FY2027") HK\$'000
Purchase Caps	2,800,000	3,300,000	3,800,000
Sale Caps	2,300,000	2,700,000	3,200,000

Analysis on the Purchase Caps

Detailed basis of determining the Purchase Caps for the three years ending 31 December 2027 is set out under the sub-section headed "BASIS OF THE CAPS – Purchase Caps" of the Board Letter.

From the above tables, we noted that the utilisation rates of the Historical Purchase Caps for FY2022 and FY2023 were approximately 58% and approximately 60% respectively.

To assess the fairness and reasonableness of the Purchase Caps, we obtained the calculation of the Purchase Caps (the "**Purchase Caps Calculation**") from the Company. The Purchase Caps Calculation was based on the estimated demand from various business units of the Group.

Based on the Purchase Caps Calculation, the estimated amount of the Purchase Transactions is approximately HK\$2,203 million for FY2024, indicating an estimated utilisation rate of approximately 63% of the Historical Purchase Cap for FY2024. Given the above utilisation rates/estimated utilisation rate of the Historical Purchase Caps for the three years ending 31 December 2024, we consider that it is reasonable to set a lower Purchase Cap for FY2025 as compared to the Historical Purchase Cap for FY2024.

Based on the Purchase Caps Calculation, the estimated amount of the Purchase Transactions for FY2025 represents an increase of approximately 14% as compared to that for FY2024. The Purchase Cap for FY2025 was calculated based on such estimated amount of the Purchase Transactions and incorporating a buffer of 10% (the “Buffer”). We noted from other Hong Kong listed companies’ circulars regarding continuing connected transactions that the incorporation of buffer of 10% in determining proposed annual caps is not uncommon among Hong Kong listed companies. Accordingly, we consider the Buffer to be reasonable.

The Purchase Cap increases by approximately 18% from FY2025 to FY2026 and approximately 15% from FY2026 to FY2027.

We consider the aforesaid year-on-year increase rates ranging from approximately 14% to approximately 18% to be reasonable after taking into account:

- (i) The historical amount of the Purchase Transactions for FY2023 increased by approximately 19% as compared to that for FY2022.
- (ii) The estimated amount of the Purchase Transactions for FY2024 increased by approximately 23% as compared to the historical amount for FY2023.
- (iii) The Group’s revenue for 1H2024 increased by approximately 47% as compared to that for 1H2023, which demonstrates the recent business growth of the Group.
- (iv) The growth factors as set out under the sub-sections headed “SALE AND PURCHASE CAPS – Purchase Caps” and “BASIS OF THE CAPS – Purchase Caps” of the Board Letter.

In light of the above, we consider the Purchase Caps for the three years ending 31 December 2027 to be fair and reasonable.

Analysis on the Sale Caps

Detailed basis of determining the Sale Caps for the three years ending 31 December 2027 is set out under the sub-section headed “BASIS OF THE CAPS – Sale Caps” of the Board Letter.

From the above tables, we noted that the utilisation rates of the Historical Sale Caps for FY2022 and FY2023 were approximately 86% and approximately 41% respectively.

To assess the fairness and reasonableness of the Sale Caps, we obtained the calculation of the Sale Caps (the “Sale Caps Calculation”) from the Company. The Sale Caps Calculation was based on the estimated sales from various business units of the Group.

Based on the Sale Caps Calculation, the estimated amount of the Sale Transactions is approximately HK\$1,781 million for FY2024, indicating an estimated utilisation rate of approximately 41% of the Historical Sale Cap for FY2024. Given the above utilisation rates/estimated utilisation rate of the Historical Sale Caps for the three years ending 31 December 2024, we consider that it is reasonable to set a lower Sale Cap for FY2025 as compared to the Historical Sale Cap for FY2024.

Based on the Sale Caps Calculation, the estimated amount of the Sale Transactions for FY2025 represents an increase of approximately 15% as compared to that for FY2024. The Sale Cap for FY2025 was calculated based on such estimated amount of the Sale Transactions and incorporating the Buffer of 10%. As aforementioned, we noted from other Hong Kong listed companies' circulars regarding continuing connected transactions that the incorporation of buffer of 10% in determining proposed annual caps is not uncommon among Hong Kong listed companies. Accordingly, we consider the Buffer to be reasonable.

The Sale Cap increases by approximately 17% from FY2025 to FY2026 and approximately 19% from FY2026 to FY2027.

We consider the aforesaid year-on-year increase rates ranging from approximately 15% to approximately 19% to be reasonable after taking into account:

- (i) The estimated amount of the Sale Transactions for FY2024 increases by approximately 18% as compared to the historical amount for FY2023.
- (ii) The Group's revenue for 1H2024 increased by approximately 47% as compared to that for 1H2023, which demonstrates the recent business growth of the Group.
- (iii) The growth factors as set out under the sub-sections headed "SALE AND PURCHASE CAPS – Sale Caps" and "BASIS OF THE CAPS – Sale Caps" of the Board Letter.

In light of the above, we consider the Sale Caps for the three years ending 31 December 2027 to be fair and reasonable.

Shareholders should note that as the Caps are relating to future events and were 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 purchase costs/revenue/income to be incurred/generated from the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual purchase costs/revenue/income to be incurred/generated from the Continuing Connected Transactions will correspond with the Caps.

Having considered the principal terms of the Continuing Connected Transactions as set out above (including the Caps), we are of the view that the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable.

4. Listing Rules implication

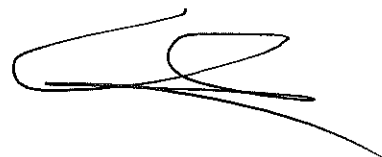
The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Continuing Connected Transactions must be restricted by the Caps for the period concerned under the Conditional Master Agreement; (ii) the terms of the Conditional Master Agreement must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Conditional Master Agreement must be included in the Company's subsequent published annual reports and financial accounts. 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 Continuing Connected Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group (only applicable to the Sale Transactions); (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 total amounts of the Continuing Connected Transactions exceed the Caps, or that there is any material amendment to the terms of the Conditional Master Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

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 Continuing Connected Transactions 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 the Continuing Connected Transactions (including the Caps) are on normal commercial terms and are fair and reasonable; and (ii) the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Conditional Master Agreement and the transactions contemplated thereunder 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 around 30 years of experience in investment banking industry.