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To the Independent Board Committee and the Independent Shareholders

Yangtze Optical Fibre and Cable Joint Stock Limited Company*
長飛光纖光纜股份有限公司
5/F, Manulife Place
348 Kwun Tong Road
Kowloon
Hong Kong

Dear Sirs and Madams,

DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF ENTIRE EQUITY INTEREST IN
RADIO FREQUENCY SYSTEMS GMBH
AND RADIO FREQUENCY SYSTEMS (SUZHOU) CO., LTD.

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 Cable Business Acquisition contemplated under the Share Purchase Agreement. Details of the Cable Business Acquisition are set out in the "Letter from the Board" contained in the circular of the Company dated 20 September 2023 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein or required by the context.

On 1 August 2023 (Central European Time), the Company and YOFC Germany (an indirect wholly-owned subsidiary of the Company) entered into the Share Purchase Agreement with RFS Holding, pursuant to which RFS Holding conditionally agreed to sell, and (i) YOFC Germany conditionally agreed to purchase the entire equity interest in RFS Germany; and (ii)

* *For identification purposes only*

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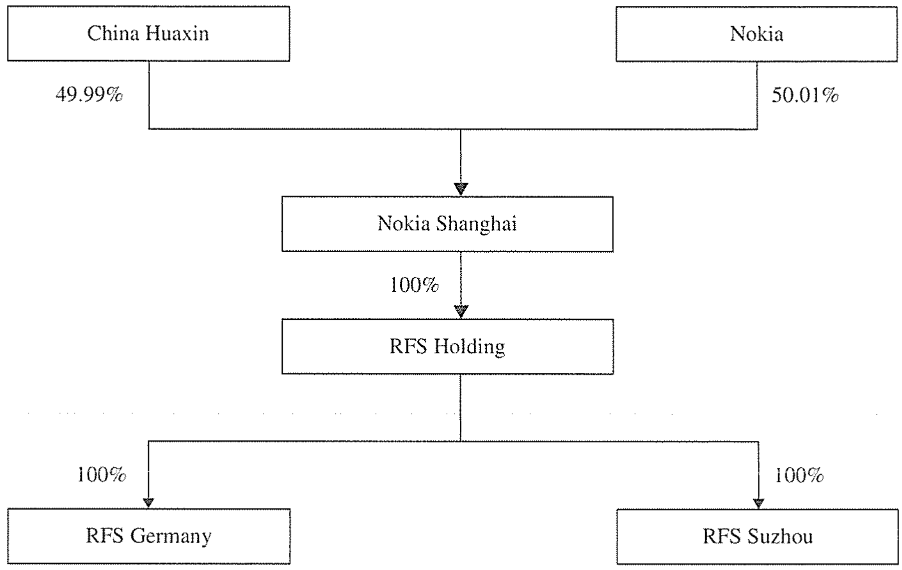
the Company conditionally agreed to purchase the entire equity interest in RFS Suzhou, at the Consideration of an amount equal to the Base Consideration of EUR7,100,000 after application of adjustments, in accordance with the terms and conditions of the Share Purchase Agreement.

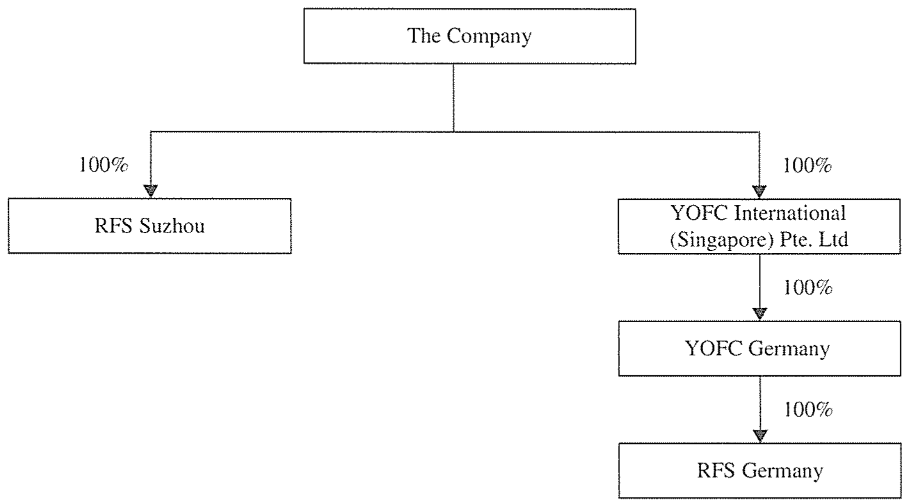
Upon Closing, RFS Germany and RFS Suzhou will be wholly-owned by the Company and their financial results will be consolidated into the financial statements of the Group.

Set out below is the simplified shareholding relationship before and after the completion of the Cable Business Acquisition.

Before completion of the Cable Business Acquisition



After completion of the Cable Business Acquisition



LISTING RULES IMPLICATIONS

Since one or more of the applicable percentage ratios under the Listing Rules in respect of the Cable Business Acquisition exceed 5% but are all less than 25%, the Cable Business Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, RFS Holding is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules by virtue of the fact that (i) RFS Holding is owned as to 100% by Nokia Shanghai; (ii) Nokia Shanghai is owned as to 49.99% by China Huaxin and 50.01% by independent third parties; and (iii) China Huaxin is a substantial shareholder of the Company who holds approximately 23.73% of the total issued share capital of the Company. Accordingly, the transactions contemplated under the Share Purchase Agreement constitute connected transactions of the Company under the Listing Rules. As one or more of the applicable percentage rations with respect to the Cable Business Acquisition exceed 5%, the Cable Business Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Bingsheng Teng, Mr. Song Wei, Dr. Wong Tin Yau, Kelvin and Ms. Li Chang'ai, has been formed to advise the Independent Shareholders as to (i) whether the entering into of the Share Purchase Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the proposed resolution at the EGM to approve the entering into of the Share Purchase Agreement and the transactions contemplated thereunder, taking into account the recommendation from the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the entering into of the Share Purchase Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the proposed resolution at the EGM to approve the entering into of the Share Purchase Agreement and the transactions contemplated thereunder.

We acted as the independent financial adviser for the Company with regards to its renewal of continuing connected transactions with Yangtze Optical Fibre and Cable (Shanghai) Co,. Ltd. and the Prysmian Group (being Prysmian S.p.A. and its associates), details of which were set out in the circular of the Company dated 20 January 2023 (the "**January 2023 Service**"). Save for the aforesaid transaction, we have not acted as the independent financial adviser or financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. We were the independent financial adviser in relation to the January 2023 Service as we were independent when none of the circumstances set out in Rule 13.84 of the Listing Rules exist as at the time of making the declaration required by Rule 13.85(1) of the Listing Rules. We act as Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Cable Business Acquisition as contemplated under the Share Purchase Agreement since we are independent when none of the circumstances set out in Rule 13.84 of the Listing Rules exist as at the time of making the declaration required by Rule 13.85(1) of the Listing Rules. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the transactions contemplated under the Share Purchase Agreement is at market level and not conditional upon successful passing of the resolution, and that our engagement is on normal commercial terms, we are independent of the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the Share Purchase Agreement; (ii) the annual report of the Company for the year ended 31 December 2022 (the "**2022 Annual Report**"); (iii) the interim results announcement of the Company for the six months ended 30 June 2023 (the " **2023 Interim Results Announcement**"); (iv) the unaudited consolidated management account of the Target Group Companies as at 30 June 2023; and (v) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the date of the EGM. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards 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 facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

1.1 Principal business of the Group

The Group is principally engaged in the manufacture and sales of optical fibre preforms, optical fibres and optical fibre cables with various standard specifications that are widely used in the telecommunications industry and the provision of other related products and services.

1.2 Financial information of the Group

Set out below is a table summarising certain key financial information of the Group extracted from the 2022 Annual Report and the 2023 Interim Results Announcement.

Extract of consolidated income statement

	For the year ended 31 December		For the six months ended 30 June	
	2021	**2022**	**2022**	**2023**
	RMB	*RMB*	*RMB*	*RMB*
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
Operating income	9,536,075,578	13,830,318,400	6,391,374,976	6,915,183,145
Gross profit	1,871,847,237	3,243,227,123	1,435,602,360	1,804,396,482
Profit for the year/period attributable to the Shareholders	708,506,406	1,166,998,457	525,393,238	607,014,926

Extract of consolidated balance sheet

	As at 31 December		As at 30 June
	2021	**2022**	**2023**
	RMB	*RMB*	*RMB*
	(audited)	*(audited)*	*(unaudited)*
Total assets	19,478,649,093	28,203,306,647	31,039,024,348
Cash at bank and on hand	*2,771,270,979*	*4,323,893,889*	*5,193,754,284*
Total liabilities	8,893,621,576	13,666,245,433	16,127,288,607
Total equity attributable to the Shareholders	9,781,997,943	10,144,245,884	10,510,256,814

Operating income

According to the 2022 Annual Report, the Group's operating income reached its highest historical level of approximately RMB13,830.3 million in 2022, representing a significant increase of approximately 45.0% from approximately RMB9,536.1 million in 2021. Such significant increase was attributable to improvement in revenue generated from all product segments as the Company continued with its in-depth implementation of internationalisation and diversification strategies, as well as optimisation of its product mix. For optical fibres and optical fibre preforms segment, the revenue increased by approximately 30.7% from approximately RMB2,918.5 million in 2021 to approximately RMB3,814.8 million in 2022. For optical fibre cables segment, the revenue increased by approximately 47.9% from approximately RMB3,920.8 million in 2021 to approximately RMB5,799.1 million in 2022. For optical components and modules segment, the revenue increased by approximately 120.7% from approximately RMB650.4 million in 2021 to approximately RMB1,435.4 million in 2022. For others segment, the revenue increased by approximately 35.9% from approximately RMB2,046.4 million in 2021 to approximately RMB2,780.9 million in 2022, which was mainly due to the substantial increase in revenue generated from power cable. We understand from the Management that the Group's revenue generated from power cable was mainly derived in the PRC.

The Group continued to deliver improvement in operating income during the six months ended 30 June 2023, which increased by approximately 8.2% from approximately RMB6,391.4 million during the six months ended 30 June 2022 to approximately RMB6,915.2 million during the six months ended 30 June 2023.

Gross profit

In line with the increase in operating income, the Group's gross profit increased by approximately 73.3% from approximately RMB1,871.8 million in 2021 to approximately RMB3,243.2 million in 2022, representing gross profit margins of approximately 19.6% and 23.5% respectively. Such increase in gross profit margin was mainly due to the Group's improvement in manufacturing efficiency as well as increase in unit prices of main products in 2022.

During the six months ended 30 June 2023, the Group's gross profit increased by approximately 25.7% to approximately RMB1,804.4 million from approximately RMB1,435.6 million during the six months ended 30 June 2022. The Group's gross profit margin continued to increase from approximately 22.5% to approximately 26.1% during the six months ended 30 June 2022 and 2023 respectively.

Profit for the year/period attributable to the Shareholders

As a result of the above, profit attributable to the Shareholders increased significantly by approximately 64.7% from approximately RMB708.5 million in 2021 to approximately RMB1,167.0 million in 2022. Such increase continued in the first half of 2023, which recorded at approximately RMB607.0 million as compared to approximately RMB525.4 million during the same period in 2022.

Total assets

The Group's total assets increased from approximately RMB19,478.6 million as at 31 December 2021 to approximately RMB28,203.3 million as at 31 December 2022, mainly due to the increase in (i) fixed assets from approximately RMB3,763.7 million as at 31 December 2021 to approximately RMB5,749.4 million as at 31 December 2022; (ii) intangible assets from approximately RMB314.5 million as at 31 December 2021 to approximately RMB1,732.4 million as at 31 December 2022; and (iii) accounts receivable from approximately RMB4,160.7 million as at 31 December 2021 to approximately RMB5,035.2 million as at 31 December 2022, which were in line with the Group's business growth. The Group's cash at bank and on hand also increased significantly from approximately RMB2,771.3 million as at 31 December 2021 to approximately RMB4,323.9 million as at 31 December 2022, mainly due to net cash inflow from operating activities (as described above) and financing activities (as elaborated below) of approximately RMB1,594.5 million and RMB1,977.5 million respectively in 2022.

The Group's total assets further increased to approximately RMB31,039.0 million as at 30 June 2023, mainly due to the continued increase in (i) fixed assets to approximately RMB6,905.8 million as at 30 June 2023; and (ii) accounts receivable to approximately RMB5,718.2 million as at 30 June 2023, which were in line with the Group's business growth. The Group's cash at bank and on hand balance further increased to approximately RMB5,193.8 million as at 30 June 2023, mainly due to the net cash inflow from operating activities and financing activities of approximately RMB344.0 million and RMB1,496.4 million respectively in the first half of 2023.

Total liabilities

The Group's total liabilities increased from approximately RMB8,893.6 million as at 31 December 2021 to approximately RMB13,666.2 million as at 31 December 2022, mainly due to the increase in long-term loans from approximately RMB1,289.5 million as at 31 December 2021 to approximately RMB3,951.0 million as at 31 December 2022 since the Group drew down additional loans for acquisitions and operating use in 2022.

The Group's total liabilities further increased to approximately RMB16,127.3 million as at 30 June 2023, mainly due to (i) increase in other payables from approximately RMB641.5 million as at 31 December 2022 to approximately RMB1,763.1 million as at 30 June 2023; (ii) increase in non-current liabilities due within one year from approximately RMB732.9 million as at 31 December 2022 to approximately RMB1,882.4 million as at 30 June 2023; and (iii) further increase in long-term loans to approximately RMB4,217.9 million as at 30 June 2023.

Total equity attributable to the Shareholders

With the combined effects of the above, total equity attributable to the Shareholders increased from approximately RMB9,782.0 million as at 31 December 2021 to approximately RMB10,144.2 million and RMB10,510.3 million as at 31 December 2022 and 30 June 2023 respectively.

Such improvement in the overall financial structure of the Group was generally in line with the Group's business growth and profitability recorded.

1.3 Outlook of the Group

As noted in the Company's 2022 Annual Report and 2023 Interim Results Announcement, with the continuous implementation of national policies such as "Strong Cyber Power" (網絡強國), "Digital China" (數字中國) and "Eastern Data Western Computing" (東數西算) in 2022 and the first half of 2023, the PRC's digital economy and real economy continued to deepen their integration, and the construction of new information infrastructure, including 5G and gigabit optical network, has achieved milestone progress. In March 2023, the Central Committee of the Communist Party of China (中共中央) and the State Council (國務院) issued the Overall Layout Plan for the Construction of Digital China (《數字中國建設總體佈局規劃》), proposing key measures such as opening up the main arteries of digital economy infrastructure and unblocking the circulation of data resources, laying the foundation for the PRC's overall digital economy development. The Group, being a leading player in the industry, determined to seize the opportunity of market recovery and gain leading shares in telecommunication operators' centralised procurements, so as to achieve rapid growth in operating income and profit.

In 2023, the Management expects that the global telecommunication industry will continue to grow and the Group will continue to implement its development strategies, including (i) to optimise product mix, increase efficiency and lower costs; (ii) to diversify, integrate and achieve synergies among various businesses; (iii) to strengthen internationalisation so as to seize growth opportunities in overseas markets; and (iv) to improve smart manufacturing ability, strengthen investment in research and development and develop new products and materials, so as to achieve sustainable growth.

In view of the solid financial position of the Group as described above, we believe that it has provided the Group with the foundation and flexibility to conduct merger and acquisition activities in achieving its development strategies and strive for further growth, which in turn, is in the interests of the Company and the Shareholders as a whole.

2. Background information of the Target Group Companies

2.1 Principal businesses of the Target Group Companies

RFS Germany

RFS Germany is a company with limited liability incorporated in Germany and is principally engaged in the development and production of power cables for sales across Europe, Middle East and Africa ("**EMEA**"). Its products include a wide range of power cables including radio frequency cable, leaky cable and hybrid cable. These power cables are mainly used in areas such as in-tunnel traffic, broadcasting, outdoor and in-building communications and network. As at the Latest Practicable Date, RFS Germany was owned as to 100% by RFS Holding, and the sales team and research and development team of the Target Group Companies are mainly based in Germany.

RFS Suzhou

RFS Suzhou is a limited liability company incorporated in the PRC. RFS Suzhou is principally engaged in the manufacturing of networking equipment for the base stations supporting third-generation and next generation mobile communication system and other connectivity systems for the Asia-Pacific market, as well as providing wide range of other related services and technical support. As at the Latest Practicable Date, RFS Suzhou was owned as to 100% by RFS Holding, and mainly acted as the production base for the Target Group Companies.

2.2 *Financial information of the Target Group Companies*

Set out below is a table summarising certain key financial information of the Target Group Companies as at 30 June 2023.

Extract of consolidated balance sheet

	As at 30 June 2023 *EUR'000* *(unaudited)*
Total assets	**84,808**
– Cash and bank balances	*5,032*
– Restricted cash	*1,339*
– Accounts receivable	*18,788*
– Inventory	*37,686*
– Other receivable	*3,154*
Total liabilities	**66,500**
– Accounts payable	*27,619*
– Other payable	*6,688*
Total equity	**18,300**

We understand from the Management that the Target Group Companies had been undergoing reorganisation to carve out businesses that are unrelated to the Cable Business Acquisition, which was completed in May 2023. As such, analysis and discussions relating to Target Group Companies' financials will be focused on 30 June 2023.

As set out above, total assets of the Target Group Companies as at 30 June 2023 amounted to approximately EUR84.8 million, which consisted mainly of (i) inventory amounted to approximately EUR37.7 million; and (ii) accounts receivable and other receivable of approximately EUR21.9 million. Cash and bank balances and restricted cash of the Target Group Companies amounted to approximately EUR6.4 million as at 30 June 2023.

Total liabilities of the Target Group Companies as at 30 June 2023 amounted to approximately EUR66.5 million; amongst which, accounts payable and other payable amounted to approximately EUR34.3 million. Other liabilities of the Target Group Companies as at 30 June 2023 were mainly related to pension reserve and lease liabilities. As at 30 June 2023, the Target Group Companies did not have any outstanding debts. According to the Share Purchase Agreement, all outstanding debts (if any) of the Target Group Companies will be settled on or before the Closing Date.

As a result of the above, total equity of the Target Group Companies as at 30 June 2023 amounted to approximately EUR18.3 million.

From information provided by the Management, we understand that the Target Group Companies generated revenue of approximately EUR96.8 million in 2022, where majority of which were being generated from the EMEA region. In terms of bottom-line, we understand that the Target Group Companies were loss-making during the latest financial year, which was mainly due to the impact of price fluctuations in copper (being a major raw material) and in turn, led to an increase in costs of production. Such adverse impact was further augmented by (i) the COVID-19 pandemic; (ii) assets impairment loss; and (iii) expenses incurred in relation to deregistration of subsidiaries.

3. Principal terms of the Share Purchase Agreement

On 1 August 2023 (Central European Time), the Company and YOFC Germany (an indirect wholly-owned subsidiary of the Company) entered into the Share Purchase Agreement with RFS Holding, pursuant to which RFS Holding conditionally agreed to sell, and (i) YOFC Germany conditionally agreed to purchase the entire equity interest in RFS Germany; and (ii) the Company conditionally agreed to purchase the entire equity interest in RFS Suzhou, at the Consideration of an amount equal to the Base Consideration of EUR7,100,000 after application of adjustments. Based on the Target Group Companies' financials as at 30 June 2023, the total Consideration (for illustration) would be amounted to approximately EUR1,106,000. The Consideration shall be settled in cash funded by the Group's internal resources.

For details of the principal terms of the Share Purchase Agreement, please refer to the "Letter from the Board" of the Circular. When considering the fairness and reasonableness of the terms of the Share Purchase Agreement, we have taken into account the following factors.

3.1 *The Consideration*

As set out in the "Letter from the Board" of the Circular, the Consideration shall be determined in accordance to the following formula.

Base Consideration

The Base Consideration for the Cable Business Acquisition payable by the Company and YOFC Germany under the Share Purchase Agreement is EUR7,100,000.

Adjustment to the Base Consideration

The total Consideration payable by the Company and YOFC Germany to RFS Holding for the Cable Business Acquisition shall be determined according to the following price adjustment mechanism:

The total Consideration = A + B – C + D – E – F – G, where:

A = the Base Consideration, being EUR7,100,000.

B = the aggregate amount of cash and cash equivalents of the Target Group Companies as per the Share Purchase Agreement, if any, on the Closing Date.

C = the aggregate amount of financial debt obligations (including interest accrued, if any) of the Target Group Companies as per the Share Purchase Agreement, if any, on the Closing Date.

D = the balance sheet items of the Target Group Companies which are to remain economically with RFS Holding and to be taken into account as increase items as per the Share Purchase Agreement on the Closing Date (being the aggregate of accounts receivable and other receivable) (the "**Balance Sheet Increase Items**").

E = the balance sheet items of the Target Group Companies which are to remain economically with RFS Holding and to be taken into account as deductibles as per the Share Purchase Agreement on the Closing Date (being the aggregate of accounts payable and other payable) (the "**Balance Sheet Deductible Items**").

F = EUR34,200,000 less the total net inventory value of the Target Group Companies (after inter-company elimination) as per the Share Purchase Agreement on the Closing Date.

G = the amount of Cash Pool Payable as per the Share Purchase Agreement on the Closing Date.

Based on the unaudited consolidated management account of the Target Group Companies as at 30 June 2023, the total Consideration (for illustration) payable under the Share Purchase Agreement would be approximately EUR1,106,000. Details are illustrated below:

		EUR'000
(A)	Base Consideration	7,100
(B)	*Plus:* Aggregate amount of cash and cash equivalents as at 30 June 2023	6,371
(C)	*Less:* Aggregate amount of financial debts as at 30 June 2023	–
(D)	*Plus:* Balance Sheet Increase Items as at 30 June 2023 (being the aggregate of accounts receivable and other receivable)[(1)]	21,942
(E)	*Less:* Balance Sheet Deductible Items as at 30 June 2023 (being the aggregate of accounts payable and other payable)[(2)]	(34,307)
(F)	*Less:* Amount of total net inventory value as at 30 June 2023 which falls short of EUR34,200,000	–
(G)	*Less:* Amount of Cash Pool Payable as at 30 June 2023	–
	Total Consideration:	**1,106**

Notes:

1. Out of the Balance Sheet Increase Items of approximately EUR21.9 million as at 30 June 2023, approximately EUR18.8 million was accounts receivables; and the remaining approximately EUR3.1 million was other receivables, which mainly consisted of advance payment to supplier.

2. Out of the Balance Sheet Deductible Items of approximately EUR34.3 million as at 30 June 2023, approximately EUR27.6 million was accounts payables; and the remaining approximately EUR6.7 million was other payables, which mainly consisted of payroll payable, tax payable and advance payment received.

We have discussed with the Management and understand that the formula in deriving at the Consideration payable in essence takes into account the value of the Target Group Companies after arm's length negotiations between the Group and RFS Holding, and adjusted by the net cash and certain balance sheet items of the Target Group Companies. We understand that Cash Pool Payable represents certain payable from RFS Holding to the Target Group Companies resulted from a cash pool system operated by RFS Holding with its subsidiaries, where such arrangement will be terminated on or before the completion of Closing. With reference to the aforesaid formula in deriving at the total Consideration, we are of the view that the adjustments made to the Base Consideration, which takes into account the balance sheet positions of the Target Group Companies on the Closing Date, is fair and reasonable.

To assess the fairness and reasonableness of the Consideration, we have identified listed companies engaging in similar business of the Target Group Companies (the "**Comparable Companies**") and analysed their price-to-net asset value or price-to-book ratio (the "**P/B Ratio(s)**"), which is a commonly used valuation yardstick in conducting market comparable analysis. Since the Target Group Companies are loss-making during the most recent financial year, price-to-earning ratio is not applicable.

In selecting the Comparable Companies, our selection criteria focused on companies that are (i) listed on the Stock Exchange; and (ii) principally engaged in research, development, manufacturing and sales of power cable and networking equipment for base stations. Considering the Company is listed on the Stock Exchange and the Target Group Companies are principally engaged in the aforesaid businesses, we are of the view that the selection criteria for Comparable Companies is fair and representative.

Independent Shareholders should note that despite of the aforesaid criteria, the business and scale of operations of the Target Group Companies are not exactly the same as those of the Comparable Companies, and we have not conducted any in-depth investigation into the business and operations of the Comparable Companies. For instance, (i) in terms of scale of operations, the net asset attributable to equity holders of the Comparable Companies ranged from approximately HK$610.2 million to HK$3,828.0 million as illustrated below, while the net asset attributable to equity holders of the Target Group Companies amounted to approximately EUR18.3 million (equivalent to approximately HK$152.8 million); and (ii) in terms of business, based on publicly available information and as summarised below, we noted that certain businesses of the Comparable Companies, such as irradiation processing and the manufacturing and sales of high temperature resistant cables, have not been engaged by the Target Group Companies.

Notwithstanding the above, considering both the Comparable Companies and the Target Group are principally engaged in the same business sector (i.e. majority of the revenue are related to the manufacturing and sales of power cable and networking equipment for base stations), we believe that the Comparable Companies selected are appropriate to serve as a benchmark reference for comparable analysis purpose, which reflects the prevailing market sentiment towards this business sector.

The Comparable Companies below have been selected based on the above criteria, and have been identified through our research using public information. We believe it is an exhaustive list based on these criteria.

Stock code	Company name	Principal businesses	Net asset attributable to equity holders[(1)] *(HK million)*	Market capitalisation[(2)] *(HK million)*	P/B Ratio[(3)] *(times)*
1720	Putian Communication Group Limited	Putian Communication Group Limited is a communication cable manufacturer and structured cabling system product provider.	616.0	63.8	0.10
947	MOBI Development Co., Ltd.	MOBI Development Co., Ltd. is an investment holding company principally engaged in the manufacture and sales of wireless communication antennas and base station radio frequency subsystems.	610.2	201.4	0.33
1202	Chengdu SIWI Science and Technology Company Limited	Chengdu SIWI Science and Technology Co Ltd is a PRC-based communication cable manufacturer. The company is principally engaged in the technology research and development, product manufacturing, sales and service of electric wires and cables, optical fiber and cables, wire and cable specific materials, irradiation processing, cable accessories, special equipment, equipment and different kinds of information industrial products devices and equipment.	816.3	272.0	0.33
1300	Trigiant Group Limited	Trigiant Group Limited is an investment holding company principally engaged in the manufacture and sales of feeder cable and related products for mobile communications and telecommunication equipment.	3,828.0	859.9	0.22

Stock code	Company name	Principal businesses	Net asset attributable to equity holders[(1)] *(HK million)*	Market capitalisation[(2)] *(HK million)*	P/B Ratio[(3)] *(times)*
1085	Hengxin Technology Ltd.	Hengxin Technology Limited is an investment holding company principally engaged in the production of radio frequency coaxial cables for mobile communications. The company is also engaged in the research, design, development and manufacture of telecommunications and technological products, mobile communications systems exchange equipment, as well as antennas and high temperature resistant cables.	2,005.7	764.4	0.38
				Maximum	**0.38**
				Minimum	**0.10**
				Mean	**0.27**
				Median	**0.33**
N/A	Target Group Companies		152.8	N/A	**0.06**[(4)]

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. The net asset attributable to equity holders of the Comparable Companies are extracted from their respective latest published annual reports or annual results announcements prior to the Latest Practicable Date. Where applicable, for illustration purpose, (i) RMB has been translated into HK$ with exchange rate of RMB1 to HK$1.08; and (ii) EUR has been translated into HK$ with exchange rate of EUR1 to HK$8.35.

2. The market capitalisation of the Comparable Companies are calculated based on their respective closing prices multiplied by the total number of issued shares as at the Latest Practicable Date.

3. P/B Ratios of the Comparable Companies are calculated based on their respective market capitalisation as at the Latest Practicable Date (calculated based on their respective closing prices multiplied by the total number of issued shares as at the Latest Practicable Date), divided by the net asset attributable to equity holders extracted from their respective latest published annual reports or annual results announcements prior to the Latest Practicable Date. Where applicable, for illustration purpose, RMB has been translated into HK$ with exchange rate of RMB1 to HK$1.08.

4. The implied P/B Ratio of the Target Group Companies is calculated based on the total Consideration of EUR1,106,000 (based on the Target Group Companies' financials as at 30 June 2023) and the net asset attributable to equity holder as at 30 June 2023 of approximately EUR18.3 million.

As shown in the table above, the total Consideration translates into an implied P/B Ratio of the Target Group Companies of approximately 0.06 times, which is significantly lower than the P/B Ratio range of the Comparable Companies from approximately 0.10 times to 0.38 times, as well as the mean and median of the Comparable Companies of approximately 0.27 times and 0.33 times respectively.

Based on the above, we are of the view that the Consideration is fair and reasonable as far as the Company and the Independent Shareholders are concerned.

3.2 Cash settlement

According to the Share Purchase Agreement, the Consideration shall be settled by cash in two instalments, being 50% on the Closing Date and the remaining 50% upon availability of accounts of the Target Group Companies as at the Closing Date (within three months after the Closing Date). For details of the payment arrangement, please refer to the paragraph headed "Payment arrangement" in the "Letter from the Board" of the Circular.

We noted that the Group had cash at bank and on hand balance of approximately RMB5,193.8 million as at 30 June 2023, where the total Consideration of approximately EUR1,106,000 (equivalent to approximately RMB9.2 million) (based on Target Group Companies' financials as at 30 June 2023) represents only approximately 0.2% of the aforesaid balance, which does not have significant impact to the Group.

3.3 Section conclusion

Having considered the factors above, we are of the view that the terms of the Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable.

4. Reasons for and benefits of the Cable Business Acquisition

As set out in the paragraph headed "Reasons for and benefits of the Cable Business Acquisition" in the "Letter from the Board" of the Circular, the Cable Business Acquisition would enable the Group to optimise its production capacity in power cable manufacturing, promote product diversification as well as develop customer base in the international market. The Management believes that the entering into of the Share Purchase Agreement will benefit the expansion of the Group's business.

In this regard, as noted from the 2022 Annual Report, diversification and to strengthen internationalisation are two of the development strategies of the Group. Considering the principal businesses of the Group, RFS Germany and RFS Suzhou as elaborated in the paragraphs headed "1.1 Principal business of the Group" and "2.1 Principal businesses of the Target Group Companies", we concur with the Management that the Group may achieve synergistic effects through the Cable Business Acquisition and may benefit from the diversification of product types, established brand names, technologies and international presence of the Target Group Companies in the manner as illustrated below:

– ***know-hows and products***: we noted that the Target Group Companies possess 91 patents, 18 know-hows and 226 trademarks relating to their power cable business. Through the Cable Business Acquisition, the Group can acquire and leverage on these established technologies to enhance and improve its current power cable products portfolio. For example, we understand from the Management that the

Target Group Companies possess mature technology in leaky cables, which are mainly adopted in the in-tunnel environment. In this regard, the Group can leverage on such technology to upgrade and enhance competitiveness of its leaky cables. In addition, as elaborated in the paragraph headed "2.1 Principal businesses of the Target Group Companies" above, the Target Group Companies currently have a wide range of power cables for applications in various areas; the Group can potentially achieve cross-sale of power cable products of the Group and the Target Group Companies to their respective customers;

– ***customers and market coverage***: the Target Group Companies have developed its brand names and customer base in the EMEA region for the sales of various power cables. We understand from the Management that the Group's coverage of its power cable business is mainly in the PRC. Therefore, the Cable Business Acquisition enables the Group to expand into the international power cable market and gain access to overseas customers;

– ***competitiveness of the Group's current products***: through the Cable Business Acquisition, the Group is expected to obtain the Target Group Companies' established technologies in power cables as detailed above. The Group can utilise these technologies to upgrade and improve its current production know-how and/or products portfolio, or even develop new types of power cables to meet potential unmet demands in the market. These in turn can enhance the Group's competitiveness in the domestic power cable market; and

– ***operational efficiency***: as adversely impacted by the COVID-19 pandemic, we understand from the Management that the utilisation rates of production facilities of the Target Group Companies had not been high during the past few years. Through the Cable Business Acquisition, the Group can consolidate the power cable production resources to improve operational efficiency. Further, the Group can also utilise the patents and know-hows currently owned by the Target Group Companies in its production. In addition, the Group can consolidate the human resources (i.e. sales team) of the Group and the Target Group Companies to enhance operational efficiency.

Having considered the above, it is expected that the Cable Business Acquisition will lead to further growth of the Group's others segment, which had grown significantly in 2022 due to revenue generated from power cable as discussed in the paragraph headed "1.2 Financial information of the Group" above. We considered that the Cable Business Acquisition is in line with the Group's development strategies and is in the ordinary and usual course of business of the Group.

Although the Target Group Companies were loss-marking in the latest financial year and its short-term contribution to the Group following the Cable Business Acquisition may not be substantial, having taken into account (i) the strategic value and synergistic effects with the Group's power cable business as illustrated above that may potentially lead to further growth and enhancement in profitability; (ii) the Consideration is fair and reasonable as discussed in the paragraph headed "3.1 The Consideration" above; and (iii) the Cable Business Acquisition enables the Group to benefit from the continued growth in the global power cable market as digitalisation, 5G densification and upgrade of wireless network etc. remain to be the vital trends in major economies, we are of the view that the Cable Business Acquisition is, on balance, beneficial to the Company and the Shareholders as a whole.

Overall, we concur with the Management that the entering into of the Share Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

5. Potential financial effects as a result of the Cable Business Acquisition

Upon completion of the Cable Business Acquisition, RFS Germany and RFS Suzhou will become subsidiaries of the Company and their financial results will be consolidated into the financial statements of the Group.

As discussed in the paragraph headed "3.2 Cash settlement" above, the total Consideration of approximately EUR1,106,000 (based on Target Group Companies' financials as at 30 June 2023) will be settled in cash. As such, it is expected that the Group's cash at bank and on hand balance will decrease by the same amount as a result of the Cable Business Acquisition, which is minimal as compared to the Group's cash at bank and on hand balance as at 30 June 2023.

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the entering into of the Share Purchase Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Share Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the proposed resolution at the EGM to approve the entering into of the Share Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung
Responsible Officer

*Ms. Jeanny Leung ("**Ms. Leung**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*