

12 June 2024

*To: The independent board committee and the independent shareholders
of Q Technology (Group) Company Limited*

Dear Sir/Madam,

REVISION OF ANNUAL CAPS FOR 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 proposed revision of annual caps under the Continuing Connected Transaction Agreements (the “**Annual Caps Revisions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 12 June 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 18 December 2023, the Company entered into the Continuing Connected Transaction Agreements, pursuant to which, the Company will from time to time (i) purchase, or procure its subsidiaries to purchase (A) the VCM Components from Heyuan Youhua and/or its subsidiaries (the “**Heyuan Youhua Transactions**”); and (B) the PCBs from Huangshi C-Flex Electronic and/or its subsidiaries (the “**Huangshi C-Flex Electronic Transactions**”); and (ii) supply or procure its subsidiaries to supply the Automated Equipment and Software to Xiamen Zhonghui and/or its subsidiaries/or designated agents (if any)(the “**Xiamen Zhonghui Transactions**”), during the period from 1 January 2024 to 31 December 2026 (both days inclusive).

Based on the latest information available to the Company, including the Group's projected demand for the VCM Components and the PCBs supplied by Heyuan Youhua and Huangshi C-Flex Electronic, respectively and Xiamen Zhonghui's projected demand for the Automated Equipment and Software supplied by the Group, as well as the Group's customer orders on hand and successful tenders on customers' smartphone and automotive vehicle production projects as of 30 April 2024, it is expected that the existing annual caps in respect of the transactions contemplated under the Continuing Connected Transaction Agreements for the three years ending 31 December 2026 will not be sufficient. Accordingly, on 20 May 2024, the Company entered into the Supplemental Agreements to revise the respective annual caps for the transactions contemplated under the Continuing Connected Transaction Agreements for the three years ending 31 December 2026, subject to approval by the Independent Shareholders at the EGM.

With reference to the Board Letter, the Annual Caps Revisions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Chu Chia-Hsiang, Mr. Ko Ping Keung and Ms. Hui Hiu Ching (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Annual Caps Revisions are on normal commercial terms and are fair and reasonable; (ii) whether the Annual Caps Revisions are in the interests of the Company and the Shareholders as a whole and 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 Annual Caps Revisions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to the Company's proposed spin-off, details of which were set out in the Company's circular dated 8 December 2022. Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company during the past two years immediately preceding the Latest Practicable Date.

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

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial advisory engagement and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate 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 Annual Caps Revisions. 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 omitted 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, Heyuan Youhua, Huangshi C-Flex, Xiamen Zhonghui or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Annual Caps Revisions. 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 and such sources are reliable.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Group

With reference to the Board Letter, the Group is principally engaged in the design, research and development, manufacture and sales of camera modules and fingerprint recognition modules, with a focus on mid-to-high end camera modules and fingerprint recognition modules markets for intelligent mobile terminals such as global smartphone and tablet brands, Internet of Things (IoT) and smart vehicles. At the same time, the Group is also engaged in the research and development, production, sales and after-sales service of automated equipment and software.

Reasons for and benefits of the Annual Caps Revisions

Certain reasons for and benefits of the Annual Caps Revisions are set out under the section headed “2.4 Reasons for and benefits of entering into the Supplemental Agreements and adoption of the Revised Annual Caps” of the Board Letter.

As mentioned above, the principal activities of the Group are manufacturing and sales of camera modules and fingerprint recognition modules for mobile phones, automobiles, Internet of Things (IoT) and other intelligent mobile terminals. According to the Company's annual report (the "2023 Annual Report") for the year ended 31 December 2023 ("FY2023"), revenue generated from camera modules accounted for approximately 92% of total revenue for FY2023 (for the year ended 31 December 2022 ("FY2022"): approximately 91%) and revenue generated from fingerprint recognition modules accounted for approximately 6% of total revenue for FY2023 (FY2022: approximately 8%).

As advised by the Directors, both VCM Components and PCBs (i.e. products under the Heyuan Youhua Purchase Agreement and the Huangshi C-Flex Electronic Purchase Agreement) will be used as materials for the production of camera modules and/or fingerprint recognition modules, the revenue generated from which accounted for a very significant proportion to the Group's revenue for FY2022 and FY2023. Therefore, the stable supply of VCM components and PCBs is crucial to the Group's production.

In addition, as stated in the Board Letter, Xiamen Zhonghui is a leading intelligent manufacturing company in the industry, which is engaged in the research and development, manufacture and sales of periscope motors and optical image stabilization motors and other relevant motors, and is in good business development. The cooperation with Xiamen Zhonghui would strengthen the Group's understanding and practice in semi-automated and automated equipment production lines with optical automated inspection and algorithm integration as the focus, which would in turn further enhance the Group's ability to design, develop and manufacture automated equipment with optical automated inspection and algorithm integration as the focus.

Based on the latest information available to the Company, including the Group's projected demand for the VCM Components supplied by Heyuan Youhua and the PCBs supplied by Huangshi C-Flex Electronic, respectively and Xiamen Zhonghui's projected demand for the Automated Equipment and Software supplied by the Group, it is expected that the existing annual caps in respect of the transactions contemplated under the Continuing Connected Transaction Agreements for the three years ending 31 December 2026 will not be sufficient.

Having considered that (i) VCM Components and PCBs are purchased for the Group's manufacture of major products; (ii) benefits of the cooperation between the Group and Xiamen Zhonghui as mentioned above; and (iii) it is anticipated that the existing annual caps will not be sufficient which in turn led to the need to revise the existing annual caps to cater for future growth of the Group and our analysis on the fairness of the Revised Annual Caps as discussed below, we are of the view that the Annual Caps Revisions are 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.

A. THE HEYUAN YOUHUA SUPPLEMENTAL AGREEMENT

Information on Heyuan Youhua

With reference to the Board Letter, Heyuan Youhua is principally engaged in the development, production and sales of auto-focusing voice coil motors, linear motors, precise electronic products, domestic trade, import and export of goods and technologies.

Heyuan Youhua is owned as to approximately 0.25% and approximately 0.99% by Mr. Hu and Mr. Fan, respectively, both of whom are executive Directors of the Company, and as to approximately 66.11% by Westalgo Great China (a wholly-owned subsidiary of QT Investment, the controlling shareholder of the Company, which in turn is owned as to 100% by Mr. He) and as to approximately 18.01% by Shenzhen Handi (a company wholly-owned by Shenzhen CK, which in turn is owned as to 90% by Mr. He and 10% by Mr. Wang). The remaining 14.64% interests of Heyuan Youhua are owned by Independent Third Parties. Accordingly, Heyuan Youhua is a connected person of the Company under the Listing Rules.

Principal terms of the Heyuan Youhua Transactions

Set out below are the principal terms of the Heyuan Youhua Transactions (as supplemented by the Heyuan Youhua Supplemental Agreement), details of which are set out under the section headed “2.1 The Heyuan Youhua Supplemental Agreement” of the Board Letter:

Date:	20 May 2024
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Heyuan Youhua (for itself and on behalf of its subsidiaries)
Term:	From 1 January 2024 to 31 December 2026 (both days inclusive)
Subject matter:	Pursuant to the Heyuan Youhua Purchase Agreement, the Group will from time to time purchase, and Heyuan Youhua and/or its subsidiaries will from time to time supply to the Group electronic components, such as open-loop motors, closed-loop motors, bi-directional voice coil motors, motors for periscope camera modules, optical image stabilization motors, variable aperture motors, etc. (i.e. VCM Components) in the ordinary and usual course of business.

Pricing policies

With reference to the Board Letter, the price of the VCM Components will be determined with reference to the price at which comparable types of electronic components are sold to the Group by suppliers which are Independent Third Parties on normal commercial terms and in the ordinary and usual course of business and such price shall be no less favourable to the Group than that available from suppliers which are Independent Third Parties. In considering whether to purchase from Heyuan Youhua, the Group will seek quotations from at least two suppliers which are Independent Third Parties offering the same or comparable products. The Group will purchase the VCM Components from Heyuan Youhua if the price and quality of the products offered are comparable to or more favourable to the Group than those offered by such Independent Third Parties for the same or comparable products.

To assess the fairness of the pricing policy, we conducted independent research based on the following criteria:

- (i) continuing connected transactions conducted by other companies listed on the Stock Exchange involving purchase or sale of materials/products/services from/to their connected persons; and
- (ii) the transactions announced from 21 April 2024 to 20 May 2024 (being approximate one month period immediately prior to the date of Supplemental Agreements).

Based on the aforesaid selection criteria, we found over 15 transactions and noted that comparing prices with those offered by/to independent third parties for the same/similar product/service is one of the commonly adopted pricing policies. Therefore, we consider that the pricing policies contemplated under the Heyuan Youhua Purchase Agreement are fair and reasonable.

The Company adopted certain internal control policies and procedures to ensure that the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as whole. Details of the internal control policies and procedures are set out under the section headed “2.8 Internal control” of the Board Letter. Having considered that there will be quotations and comparison procedures for transactions in relation to the purchase of products from related parties, we consider that the effective implementation of the internal control measures will ensure the fair pricing of Heyuan Youhua Purchase Agreement.

For our due diligence purpose, we obtained from the Company a set of invoices (comprising one invoice from Heyuan Youhua and one invoice from independent third party) for each of the four months ended 30 April 2024 (“the “4M2024”) (i.e. four sets of invoices or eight copies of invoices in total). As the aforesaid invoices indicated the transactions in each month during 4M2024, we consider the number of sampled invoices is sufficient for our analyses purposes. After reviewing the four sets of invoices, we noted that the prices offered by Heyuan Youhua to the Group were no less favourable than those offered by independent third parties to the Group for the same type of products.

Furthermore, we noted from the internal control procedures that the finance department will maintain monthly statistics on the transaction amounts of the Continuing Connected Transactions, and will communicate with the sales and purchase department of the Group in time for possible future changes in the maximum amount of each Continuing Connected Transaction and reasons for such changes. If the cumulative actual transaction amount of the Continuing Connected Transactions reaches certain thresholds, further action will be taken. We also noted that the previous annual caps for the three years ended 31 December 2023 were not exceeded.

Upon our request, we obtained the internal control document of the Heyuan Youhua Transactions. After reviewing the document, we acknowledged that the contents of internal control document contained all relevant procedures for both fair pricing measures and annual cap monitoring measure for the Heyuan Youhua Transactions as disclosed in the Board Letter. In addition, the Company also provided us supporting document, showing that the Board of Directors Office of the Company provided the internal control document to all relevant departments and required such departments to follow the internal control measures as contained in the document. Based on (i) the aforesaid; (ii) our review results on invoices and previous annual caps for the three years ended 31 December 2023; and (iii) the Company’s intention to amend its existing annual caps for the three years ending 31 December 2026 based on current situations, we do not doubt the effectiveness of the implementation of the internal control measures.

Proposed annual caps

The table below demonstrates (i) the existing annual caps of Heyuan Youhua Transactions (the “Existing Heyuan Youhua Caps”); and (ii) the revised annual caps of Heyuan Youhua Transactions (the “Revised Heyuan Youhua Caps”) for the three years ending 31 December 2026:

	For the year ending 31 December 2024 (the “FY2024”) RMB'million	For the year ending 31 December 2025 (the “FY2025”) RMB'million	For the year ending 31 December 2026 (the “FY2026”) RMB'million
Historical transaction amount	70.9 <i>(Note)</i>	N/A	N/A
Existing Heyuan Youhua Caps	120	120	120
Utilisation rate	Undetermined	N/A	N/A
	For the year ending 31 December 2024 RMB'million	For the year ending 31 December 2025 RMB'million	For the year ending 31 December 2026 RMB'million
Revised Heyuan Youhua Caps	280	280	280

Note: the figure was for the 4M2024.

The basis for determining the Revised Heyuan Youhua Caps is set out under the subsection headed “Basis of determination of the revised annual caps” of the section headed “2.1 The Heyuan Youhua Supplemental Agreement” of the Board Letter.

Based on the above table, the historical transaction amount of Heyuan Youhua Transactions for 4M2024 was approximately RMB70.9 million. The annualised amount of Heyuan Youhua Transactions for FY2024 was approximately RMB212.7 million, which exceeded the Existing Heyuan Youhua Caps of RMB120 million.

In addition, the Revised Heyuan Youhua Caps represent an increase of approximately 70.9% as compared to the historical transaction amount of Heyuan Youhua Transactions for FY2023. Upon our further enquiry, the Directors advised that the historical transaction amount of Heyuan Youhua Transactions for the four months ended 30 April 2023 (“4M2023”) was approximately RMB30.8 million. The historical transaction amount of Heyuan Youhua Transactions for 4M2024 represented an increase of approximately 130.0% as compared to that for 4M2023.

As mentioned above, VCM Components will be used as materials for the production of camera modules. With reference to the Company's voluntary announcements dated 9 May 2024 and 10 May 2023 in relation to the Group's total sales volumes of major products, the total sales volume of camera modules for 4M2024 represented an increase of approximately 28.6% as compared to that for 4M2023.

We further obtained from the Company the historical price of VCM Components offered by Heyuan Youhua to its customers and noted that the average price of VCM Components for 4M2024 represents an increase of approximately 19.0% as compared to that for 4M2023.

Based on the above and on the assumption that the demand of VCM Components is in line with the sales volume of camera modules, the comprehensive impact on transaction amounts of VCM Components for 4M2024 would be an increase of approximately 53.0%. Despite the aforesaid comprehensive impact (i.e. an increase of approximately 53.0%) was less than the increase between the Revised Heyuan Youhua Caps and historical transaction of Heyuan Youhua Transactions for FY2023 (i.e. approximately 70.9%), it is noteworthy to mention that the average monthly price of VCM Components fluctuated during the period from January 2023 to April 2024, with difference of approximately over 100% between the maximum average monthly price and minimum average monthly price of VCM Components during the aforesaid period.

Based on the above, we are of the view that the Revised Heyuan Youhua Cap for FY2024 is fair and reasonable.

We also noted that the Revised Heyuan Youhua Caps for FY2025 and FY2026 are same as that for FY2024.

Although the historical transaction amount of Heyuan Youhua Transactions fluctuated for the three years ended 31 December 2023 (i.e. RMB79.9 million, RMB39.4 million and RMB163.9 million), we are of the view that it is acceptable for the Revised Heyuan Youhua Caps for FY2025 and FY2026 to be same as that for FY2024 after considering the followings factors:

- The trend of Revised Heyuan Youhua Caps for the three years ending 31 December 2026 are the same as the trend of existing annual caps for the three years ending 31 December 2026;
- VCM Components will be used for manufacturing of the Group's camera modules products, which accounted for approximately 92% of the Group's total revenue for FY2023 (FY2022: approximately 91%).

With reference to the Company's annual report for FY2022, the Group's revenue for FY2022 represented a decrease of approximately 26.3% as compared to that for FY2021, which was mainly because that (i) under the impact of the recurrence of COVID-19 pandemic and the slowdown in global economic growth, the global smartphone market, especially high-end models, was in poor demand, and the sales volume of the camera modules and fingerprint recognition modules applied to smartphone reported a year-on-year decline of approximately 12.4% and 2.7%, respectively; and (ii) the decline in proportion of high-specification products of the camera modules and fingerprint recognition modules applied to smartphone resulted in a year-on-year decline in average unit sales price of the camera modules and fingerprint recognition modules of approximately 15.8% and 34.8%, respectively.

With reference to 2023 Annual Report, the Group's revenue for FY2023 represented a decrease of approximately 8.9% as compared to that for FY2022, which was mainly due to the impact of macro factors, the sales volume of smartphones worldwide dropped in FY2023 as compared with that of FY2022, resulting in a decrease in the demand for camera modules and fingerprint recognition modules applied to smartphones, and the sales volume of the Group's camera modules declined by approximately 11.9% year-on-year.

Notwithstanding the above, as stated in the 2023 Annual Report, in 2024, global macro situation remains confusing, with both challenges and opportunities. The "World Economic Outlook Report" released by IMF on 30 January 2024 indicates the growth rate of the global economy to be 3.1% in 2024, representing an increase of 0.2 percentage points from the 2.9% forecast made in October 2023. The IMF continued to be optimistic about the growth momentum in China, the United States and various emerging markets and developing economies, and the global economic growth rate is expected to be 3.2% in 2025, with a stable mid-term development trend. Meanwhile, the IMF raised its forecast for China's economic growth in 2024 to 4.6%, representing an increase of 0.4 percentage point from the 4.2% forecast made in October 2023, to reflect the continuation of the higher-than-expected growth momentum of China's economy in 2023 and the driving force of the relevant policies introduced by the Chinese government. The resilience of economic growth will help restore the confidence of various industries and consumers, which will benefit the increased demand for consumer goods such as smart phones, smart cars and IoT terminals, and leading companies in these sectors will continue to enjoy better development opportunities.

The recovery of demand in industries such as smartphones, meta-universes and IoT intelligent terminals and the rapid growth of the smart car industry will bring impetus to the growth in the number of camera modules and fingerprint recognition modules. Meanwhile, the restoration of consumer purchasing power and consumer confidence is conducive to the sales of high-end mobile phones, thereby bringing positive help to camera modules and fingerprint recognition modules to get back on track with specification upgrades.

- According to publicly available information, a report in April 2024 from International Data Corporation (the “IDC”), an independent third-party research organization, stated that the global smartphone shipment volume in first quarter of 2024 was approximately 289.4 million units, which represented a year-on-year increase of approximately 7.8%. Although the industry is still facing challenges, the continuously growth in global smartphone shipment volume for the last three quarters indicated the recovering of the industry.
- With reference to the Board Letter, periscope camera modules, which are technically more advanced than typical camera modules and have a higher per unit price, are increasingly used in high-end smartphones, including Apple’s iPhone 15 Pro Max that was debuted in September 2023 and Huawei’s Pure 70 series that was first marketed in April 2024. The latest product trend is expected to drive the demand for motors for periscope camera modules and PCBs.

In light of the above factors, we consider that the Revised Heyuan Youhua Caps for FY2025 and FY2026 are fair and reasonable.

Shareholders should note that as the Revised Heyuan Youhua 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 2026, and they do not represent forecasts of cost to be incurred from the Heyuan Youhua Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Heyuan Youhua Transactions will correspond with the Revised Heyuan Youhua Caps.

Our conclusion

Having reviewed and considered the terms of the Heyuan Youhua Transactions in particular the key terms as listed above (including the pricing policy and Revised Heyuan Youhua Caps for the three years ending 31 December 2026 being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Heyuan Youhua Supplemental Agreement are on normal commercial terms and are fair and reasonable.

B. THE HUANGSHI C-FLEX ELECTRONIC SUPPLEMENTAL AGREEMENT

Information on Huangshi C-Flex Electronic

With reference to the Board Letter, Huangshi C-Flex Electronic is principally engaged in the production, development and sales of self-produced mobile phones, mobile communications systems, communications terminals, digital electronic systems, portable micro calculators, precision moulds, new electronic components, third generation mobile communications systems mobile phones, flexible printed circuit boards and relevant parts and auxiliary products.

Huangshi C-Flex Electronic is wholly-owned by Shenzhen Handi, a wholly-owned subsidiary of Shenzhen CK, which in turn is owned as to 90% by Mr. He and as to 10% by Mr. Wang. Accordingly, Huangshi C-Flex Electronic is a connected person of the Company under the Listing Rules.

Principal terms of the Huangshi C-Flex Electronic Transactions

Set out below are the principal terms of the Huangshi C-Flex Electronic Transactions (as supplemented by the Huangshi C-Flex Electronic Supplemental Agreement), details of which are set out under the section headed “2.2 The Huangshi C-Flex Electronic Supplemental Agreement” of the Board Letter:

Date:	20 May 2024
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Huangshi C-Flex Electronic (for itself and on behalf of its subsidiaries)
Term:	From 1 January 2024 to 31 December 2026 (both days inclusive)
Subject matter:	Pursuant to the Huangshi C-Flex Electronic Purchase Agreement, the Group will from time to time purchase, and Huangshi C-Flex Electronic and/or its subsidiaries will from time to time supply to the Group flexible printed circuit boards and rigid-flex printed circuit boards (i.e. the PCBs) in the ordinary and usual course of business.

Pricing policies

With reference to the Board Letter, the price of the PCBs will be determined with reference to the price at which comparable types of the PCBs are sold to the Group by suppliers which are Independent Third Parties on normal commercial terms and in the ordinary and usual course of business and such price shall be no less favourable to the Group than that available from suppliers which are Independent Third Parties. In considering whether to purchase the PCBs from Huangshi C-Flex Electronic, the Group will seek quotations from at least two suppliers which are Independent Third Parties offering the same or comparable products. The Group will purchase the PCBs from Huangshi C-Flex Electronic if the price and quality of the products offered are comparable to or more favourable to the Group than those offered by such Independent Third Parties for the same or comparable products.

To assess the fairness of the pricing policy, we conducted independent research based on the following criteria:

- (i) continuing connected transactions conducted by other companies listed on the Stock Exchange involving purchase or sale of materials/products/services from/to their connected persons; and
- (ii) the transactions announced from 21 April 2024 to 20 May 2024 (being approximate one month period immediately prior to the date of Supplemental Agreements).

Based on the aforesaid selection criteria, we found over 15 transactions and noted that comparing prices with those offered by/to independent third parties for the same/similar product/service is one of the commonly adopted pricing policies. Therefore, we consider that the pricing policies of the Huangshi C-Flex Electronic Transactions are fair and reasonable.

The Company adopted certain internal control policies and procedures to ensure that the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as whole. Details of the internal control policies and procedures are set out under the section headed “2.8 Internal control” of the Board Letter. Having considered that there will be quotations and comparison procedures for transactions in relation to the purchase of products from related parties, we consider that the effective implementation of the internal control measures will ensure the fair pricing of the Huangshi C-Flex Electronic Transactions.

For our due diligence purpose, we obtained from the Company a set of invoices (comprising one invoice from Huangshi C-Flex Electronic and one invoice from independent third party) for each of February 2024 to April 2024 (i.e. three sets of invoices or six copies of invoices in total). As the aforesaid invoices indicated the transactions in most of months during 4M2024, we consider the number of sampled invoices is sufficient for our analyses purposes. After reviewing the aforesaid three sets of invoices, we noted that the prices offered by Huangshi C-Flex Electronic to the Group were no less favourable than those offered by independent third parties to the Group for the same type of products.

Furthermore, we noted from the internal control procedures that the finance department will maintain monthly statistics on the transaction amounts of the Continuing Connected Transactions, and will communicate with the sales and purchase department of the Group in time for possible future changes in the maximum amount of each Continuing Connected Transaction and reasons for such changes. If the cumulative actual transaction amount of the Continuing Connected Transactions reaches certain thresholds, further action will be taken. We also noted that the previous annual caps for the three years ended 31 December 2023 were not exceeded.

Upon our request, we obtained the internal control document of the Huangshi C-Flex Electronic Transactions. After reviewing the document, we acknowledged that the contents of internal control document contained all relevant procedures for both fair pricing measures and annual cap monitoring measure for the Huangshi C-Flex Electronic Transactions as disclosed in the Board Letter. In addition, the Company also provided us supporting document, showing that the Board of Directors Office of the Company provided the internal control document to all relevant departments and required such departments to follow the internal control measures as contained in the document. Based on (i) the aforesaid; (ii) our review results on invoices and previous annual caps for the three years ended 31 December 2023; and (iii) the Company's intention to amend its existing annual caps for the three years ending 31 December 2026 based on current situations, we do not doubt the effectiveness of the implementation of the internal control measures.

Proposed annual caps

The table below demonstrates (i) the existing annual caps the Huangshi C-Flex Electronic Transactions (the “Existing Huangshi Caps”); and (ii) the revised annual caps the Huangshi C-Flex Electronic Transactions (the “Revised Huangshi Caps”) for the three years ending 31 December 2026:

	For the year ending 31 December 2024 RMB'million	For the year ending 31 December 2025 RMB'million	For the year ending 31 December 2026 RMB'million
Historical transaction amount	58.9 ^(Note)	N/A	N/A
Existing Huangshi Caps	90	90	90
	For the year ending 31 December 2024 RMB'million	For the year ending 31 December 2025 RMB'million	For the year ending 31 December 2026 RMB'million
Revised Huangshi Caps	200	200	200

Note: the figure was for the 4M2024

The basis for determining the Revised Huangshi Caps is set out under the sub-section headed “Basis of determination of the revised annual caps” of the section headed “2.2 The Huangshi C-Flex Electronic Supplemental Agreement” of the Board Letter.

Based on the above table, the historical transaction amount of Huangshi C-Flex Electronic Transactions for 4M2024 was approximately RMB58.9 million. The annualised amount of the Huangshi C-Flex Electronic Transactions for FY2024 was approximately RMB176.7 million, which exceeded the Existing Huangshi Caps of RMB90 million.

In addition, the Revised Huangshi Caps represent an increase of approximately 46.3% as compared to the historical transaction amount of Huangshi C-Flex Electronic Transactions for FY2023.

Upon our further enquiry, the Directors advised that the historical transaction amount of Huangshi C-Flex Electronic for 4M2023 was approximately RMB31.5 million. The historical transaction amount of Huangshi C-Flex Electronic Transactions for 4M2024 represented an increase of approximately 86.7% as compared to that for 4M2023.

As mentioned above, PCBs will be used as materials for the production of camera modules and fingerprint recognition modules. With reference to the Company's voluntary announcements dated 9 May 2024 and 10 May 2023 in relation to the Group's total sales volumes of major products, the total sales volume of (i) camera modules for 4M2024 represented an increase of approximately 28.6% as compared to that for 4M2023; and (ii) fingerprint recognition modules for 4M2024 represented an increase of approximately 7.6% as compared to that for 4M2023.

We further obtained from the Company the historical price of PCBs offered by Huangshi C-Flex Electronic to its customers and noted that the average price of PCBs for 4M2024 represents an increase of approximately 21.2% as compared to that for 4M2023.

Based on the above and on the assumption that the demand of PCBs is in line with the sales volume of camera modules/fingerprint recognition modules, the comprehensive impact on transaction amounts of PCBs for 4M2024 would be an increase of approximately 55.8% (based on sales volume of camera modules); or an increase of approximately 30.4% (based on sales volume of fingerprint recognition modules). Having also considered that sale volume of camera modules accounted for approximately 80.6% of total sales volume of camera modules and fingerprint recognition modules), the comprehensive impact would be an increase of approximately 50.9% on a weighted average basis. The increase in Revised Huangshi Caps as compared to the historical transaction amount of Huangshi C-Flex Electronic Transactions for FY2022 (i.e. 46.3%) was close to the aforesaid implied growth (i.e. 50.9%).

Based on the above, we are of the view that the Revised Huangshi C-Flex Electronic Cap for FY2024 is fair and reasonable.

We also noted that the Revised Huangshi Caps for FY2025 and FY2026 are the same as that for FY2024.

Having considered the followings factors:

- The trend of Revised Huangshi Caps for the three years ending 31 December 2026 is same as the trend of Existing Huangshi Caps for the three years ending 31 December 2023;
- the historical transaction amounts of Huangshi C-Flex Electronic Transactions for FY2022 and FY2023 were at similar level (i.e. RMB120.4 million and RMB136.7 million respectively); and
- the indication on the recovering of global smartphone industry,

we are of the view that the Revised Huangshi Caps for FY2025 and FY2026 are fair and reasonable.

Shareholders should note that as the Revised Huangshi 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 2026, and they do not represent forecasts of cost to be incurred from the Huangshi C-Flex Electronic Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Huangshi C-Flex Electronic Transactions will correspond with the Revised Huangshi Caps.

Our conclusion

Having reviewed and considered the terms of the Huangshi C-Flex Electronic Transactions in particular the key terms as listed above (including the pricing policy and Revised Huangshi Caps for the three years ending 31 December 2026 being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Huangshi C-Flex Electronic Supplemental Agreement are on normal commercial terms and are fair and reasonable.

C. THE XIAMEN ZHONGHUI SUPPLEMENTAL AGREEMENT

Information on Xiamen Zhonghui

With reference to the Board Letter, Xiamen Zhonghui is principally engaged in the research and development, manufacture and sales of optoelectronic components such as periscope motors and optical image stabilization motors.

Xiamen Zhonghui is owned as to (i) 13.35% by certain Independent Third Parties; and (ii) 86.65% by Hangzhou CK. Hangzhou CK is wholly-owned by CK Telecom Asia, which is wholly-owned by Mr. He. Accordingly, Xiamen Zhonghui is a connected person of the Company under the Listing Rules.

Principal terms of the Xiamen Zhonghui Supplemental Agreement

Set out below are the principal terms of the Xiamen Zhonghui Transactions (as supplemented by the Xiamen Zhonghui Supplemental Agreement), details of which are set out under the section headed “2.3 The Xiamen Zhonghui Supplemental Agreement” of the Board Letter:

Date:	20 May 2024
Parties:	(i) the Company (for itself and on behalf of its subsidiaries); and (ii) Xiamen Zhonghui (for itself and on behalf of its subsidiaries)
Term:	From 1 January 2024 to 31 December 2026 (both days inclusive)
Subject matter:	Pursuant to the Xiamen Zhonghui Purchase Agreement, the Group will from time to time supply, and Xiamen Zhonghui and/or its subsidiaries will from time to time purchase from the Group semi-automated and automated equipment and related software, algorithms and after-sales services (i.e. Automated Equipment and Software) in the ordinary and usual course of business.

Pricing policies

With reference to the Board Letter, the price of the Automated Equipment and Software will be determined with reference to the cost of raw materials, production costs of the Group’s Automated Equipment and Software and profit margin, and with reference to the cost of materials and manpower required in the after-sale services and profit margin, which is expected to be comparable to the level of profit to be derived from the sales to the customers who are Independent Third Parties, subject to adjustments based on the expected quantity, quality, delivery schedule, specifications and market competition. It is envisaged that from time to time and as required, the Group will provide quotation and estimated delivery time of the specific products to Xiamen Zhonghui according to factors such as the specification and delivery schedule of the Automated Equipment and Software required to be purchased by Xiamen Zhonghui by comprehensively considering the factors such as cost of raw materials, production time, development time, the comparable price of the same or similar products selling to two or more Independent Third Parties, the expected gross profit margin of the same or similar products selling to Independent Third Parties, settlement period, and scale of order of specific products. After acceptance of the quotation and estimated delivery time, Xiamen Zhonghui will place order(s) to the Group or sign specific contract(s) for the purchase of the Automated Equipment and Software, and then the Group will fulfill the order and the contract. For orders with no comparable price from an Independent Third Party, the Group will provide quotations by considering the average gross profit margin of the Group comprehensively.

To assess the fairness of the pricing policy, we conducted independent research based on the following criteria:

- (i) continuing connected transactions conducted by other companies listed on the Stock Exchange involving purchase or sale of materials/products/services from/to their connected persons; and
- (ii) the transactions announced from 21 April 2024 to 20 May 2024 (being approximate one month period immediately prior to the date of Supplemental Agreements).

Based on the aforesaid selection criteria, we found over 15 transactions and noted that comparing prices with those offered by/to independent third parties for the same/similar product/service is one of the commonly adopted pricing policies. Therefore, we consider that the pricing policies contemplated under the Xiamen Zhonghui Supply Agreement are fair and reasonable.

The Company adopted certain internal control policies and procedures to ensure that the transactions contemplated under the Continuing Connected Transaction Agreements (as supplemented by the Supplemental Agreements) are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as whole. Details of the internal control policies and procedures are set out under the section headed “2.8 Internal control” of the Board Letter. Having considered that there will be pricing/profit margin comparison procedures for transactions in relation to the sale of products to related parties, we consider that the effective implementation of the internal control measures will ensure the fair pricing of Xiamen Zhonghui Transactions.

The Directors advised that the Group only entered into three individual agreements pursuant to the Xiamen Zhonghui Supply Agreement before the date of Xiamen Zhonghui Supplemental Agreement. Upon our request, we obtained (a) the aforesaid signed individual agreements; and (b) a breakdown showing the cost (including labour cost, material cost and production cost) and price of products under the aforesaid signed agreements (the price of which in total represented contract value of such individual agreements). The Directors advised that they had made reference to the gross margin profit of two listed companies in Shenzhen Stock Exchange with products comparable to the products under the Xiamen Zhonghui Supply Agreement (i.e. Wuxi Lead Intelligent Equipment Co., Ltd. (stock code: SZ300450): 35.60%; and Shenzhen Inovance Technology Co., Ltd (stock code: SZ300124): 33.55%). We noted that the gross profit margins of transaction contemplated under each signed individual agreements are higher than average gross profit margins of the two comparable companies.

Furthermore, we searched for Hong Kong Main Board listed companies which are principally engaged in sales of automated equipment and software, and have more than 50% of their revenue from such businesses in aggregate based on their respective latest published financial information for the year and found a total of 4 comparable companies on an exhaustive basis. Details of our findings are as follows:

Company name (stock code)	Principal businesses	Gross profit margin
ASMPT Limited (stock code: 522)	An investment holding company principally engaged in the manufacture of machines and tools used in semiconductor and electronic assembly industries.	39.28%
Renze Harvest International Limited (stock code: 1282)	The company and its subsidiaries are principally engaged in the business of automation, property investment and development, financial services, and securities investment.	18.72%
Pentamaster International Limited (stock code: 1665)	The company's solutions include semiconductors and micro-electromechanical systems sensors, optics and photonic sensors, factory automation sensor, and medical industry solutions.	30.30%

Company name (stock code)	Principal businesses	Gross profit margin
Kinergy Corporation Ltd. (stock code: 3302)	A contract manufacturer specializing in the manufacture of equipment, machines, sub-systems, precision tools, spare parts and components in the semiconductor processing equipment industry.	7.57%

Source: Stock Exchange's website and annual reports of relevant comparable companies

We noted that the gross profit margin of transaction contemplated under each signed individual agreements are not less than average gross profit margins of the aforesaid four comparable companies.

Furthermore, we noted from the internal control procedures that the finance department will maintain monthly statistics on the transaction amounts of the Continuing Connected Transactions, and will communicate with the sales and purchase department of the Group in time for possible future changes in the maximum amount of each Continuing Connected Transaction and reasons for such changes. If the cumulative actual transaction amounts of the Continuing Connected Transactions reach certain thresholds, further action will be taken. As mentioned above, the historical transaction amounts of Heyuan Youhua Transactions and Huangshi C-Flex Electronic Transactions did not exceed their respective annual caps for the three years ended 31 December 2023.

Upon our request, we obtained the internal control document of the Xiamen Zhonghui Transactions. After reviewing the document, we acknowledged that the contents of internal control document contained all relevant procedures for both fair pricing measures and annual cap monitoring measure for the Xiamen Zhonghui Transactions as disclosed in the Board Letter. In addition, the Company also provided us supporting document, showing that the Board of Director office of the Company provided the internal control document to all relevant departments and required such departments to follow the internal control measures as contained in the document. Based on (i) the aforesaid; (ii) our review results on invoices and previous annual caps of Heyuan Youhua Transactions and Huangshi C-Flex Electronic Transactions for the three years ended 31 December 2023; and (iii) the Company's intention to amend its existing annual caps for the three years ending 31 December 2026 based on current situations, we do not doubt the effectiveness of the implementation of the internal control measures.

Proposed annual caps

The table below demonstrates (i) the existing annual caps Xiamen Zhonghui Transactions (the “Existing Xiamen Zhonghui Caps”); and (ii) the revised annual caps Xiamen Zhonghui Transactions (the “Revised Xiamen Zhonghui Caps”) for the three years ending 31 December 2026:

	For the year ending 31 December 2024 RMB'million	For the year ending 31 December 2025 RMB'million	For the year ending 31 December 2026 RMB'million
Historical transaction amount	Nil ^(Note)	N/A	N/A
Existing Xiamen Zhonghui Caps	20	20	20
Utilisation rate	Undetermined	N/A	N/A
	For the year ending 31 December 2024 RMB'million	For the year ending 31 December 2025 RMB'million	For the year ending 31 December 2026 RMB'million
Revised Xiamen Zhonghui Caps	80	40	40

Note: the figure was for 4M2024

The basis for determining the Revised Xiamen Zhonghui Caps is set out under the sub-section headed “Basis of determination of the revised annual caps” of the section headed “2.3 The Xiamen Zhonghui Supplemental Agreement” of the Board Letter.

Although the historical transaction amount for Xiamen Zhonghui Transactions was nil for 4M2024, the amount of orders that have been delivered but subject to inspection and acceptance according to the terms of the contract for the supply of Automated Equipment and Software by the Group to Xiamen Zhonghui and its subsidiaries for 4M2024 was approximately RMB14,708,000. Based on the aforesaid amounts of orders, the annualised amount of Xiamen Zhonghui Transactions for FY2024 would be approximately RMB44.1 million, which exceeded the Existing Xiamen Zhonghui Caps of RMB20 million.

To assess the fairness and reasonableness of the Revised Xiamen Zhonghui Caps, we conducted the following analyses:

- We discussed with the Directors and understood that the Director expected the demand for Automated Equipment and Software from Xiamen Zhonghui for the first nine months ended 30 September 2024 (the “**9M2024 Xiamen Zhonghui Demand**”) to be approximately RMB60.1 million, based on the completion of inspection and acceptance work.

We obtained a breakdown of the 9M2024 Xiamen Zhonghui Demand (i.e. RMB60.1 million). Upon our further request, we obtained (i) certain copies of the signed agreements for executed projects with contract value of approximately RMB16.6 million (tax inclusive) or approximately RMB14.7 million (tax exclusive); and (ii) documents showing quotations for potential projects of approximately RMB51.3 million (tax inclusive) or approximately RMB45.4 million (tax exclusive).

- As 9M2024 Xiamen Zhonghui Demand is approximately RMB60.1 million (tax exclusive), the annualised amount of demand for Automated Equipment and Software from Xiamen Zhonghui for FY2024 is approximately RMB80.2 million (RMB60.1 million/9 x 12 ≈ RMB80.2 million), which approximates the Revised Xiamen Zhonghui Cap for FY2024.

Based on the above, we are of the view that the Revised Xiamen Zhonghui Cap for FY2024 is fair and reasonable.

As advised by the Directors, before finalising of Revised Xiamen Zhonghui Caps for FY2025 and FY2026 (i.e. RMB40 million), the Company intended to set the proposed annual caps for FY2025 and FY2026 the same as the Revised Xiamen Zhonghui Cap for FY2024 (i.e. RMB80 million). As mentioned above, Xiamen Zhonghui is engaged in the research and development, manufacture and sales of periscope motors and optical image stabilization motors and other relevant motors, and is in good business development. The Automated Equipment and Software will be used for Xiamen Zhonghui’s production purposes.

Based on our discussion with the Directors, we understood that as the Automated Equipment and Software mainly contained semi-automated and automated equipment and related software, it would be highly unlikely for Xiamen Zhonghui to continuously maintain a high demand of equipment and related software for a long-term.

Based on the above factors, the Revised Xiamen Zhonghui Caps for FY2025 and FY2026 were set half amount of the Revised Xiamen Zhonghui Cap for FY2024.

In light of the above factors, we consider that the Revised Xiamen Zhonghui Caps for FY2025 and FY2026 are fair and reasonable.

Shareholders should note that as the Revised Xiamen Zhonghui 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 2026, and they do not represent forecasts of revenue to be generated from the Xiamen Zhonghui Transactions. Consequently, we express no opinion as to how closely the actual revenue to be generated from the Xiamen Zhonghui Transactions will correspond with the Revised Xiamen Zhonghui Caps.

Our conclusion

Having reviewed and considered the terms of the Xiamen Zhonghui Transactions in particular the key terms as listed above (including the pricing policy and Revised Xiamen Zhonghui Caps for the three years ending 31 December 2026 being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Xiamen Zhonghui Supplemental Agreement are on normal commercial terms and are fair and reasonable.

LISTING RULES IMPLICATION

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the value of the transactions must be restricted by Revised Annual Caps for the period concerned under the Supplemental Agreements; (ii) the terms of the transactions must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of transactions contemplated under the Continuing Connected Transaction Agreements (together with the Revised Annual Caps) must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that transactions contemplated under the Continuing Connected Transaction Agreements (i) have not been approved by the Board; (ii) was not, in all material respects, in accordance with the pricing policies of the Group; (iii) was not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) has exceeded the Revised Annual Caps.

In the event that the total amount of any transactions contemplated under the Continuing Connected Transaction Agreements is anticipated to exceed the Revised Annual Caps, or that there is any proposed material amendment to the terms of transactions contemplated under the Continuing Connected Transaction Agreements, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.



RECOMMENDATION

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

Yours faithfully,
For and on behalf of
Gram Capital Limited

Graham Lam
Managing Director

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