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VALUATION OF THE FAIR VALUE OF 4.0% EQUITY INTERESTS IN SOURCE PHOTONICS HOLDINGS (CAYMAN) LIMITED

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The Directors
Nanfang Communication Holdings Limited
Unit 903, 9/F, Capital Centre,
151 Gloucester Road,
Wan Chai, Hong Kong.

Date: 25 August 2025
Our Ref.: P/HK/2025/VAL/0032

Dear Sir/Madam,

RE: VALUATION OF THE FAIR VALUE OF 4.0% EQUITY INTERESTS IN SOURCE PHOTONICS HOLDINGS (CAYMAN) LIMITED

In accordance with your instructions, we have undertaken a valuation on behalf of Nanfang Communication Holdings Limited (the "Company") to determine the fair value ("Fair Value", to be defined below) of 4.0% equity interest ("Equity") in Source Photonics (the "Target Company") as at 30 April 2025 ("Valuation Date").

The Target Company is principally engaged in the business of manufacturing optical and photonic modules and transmission components for supporting high-speed connectivity in data centers and fiber-to-premises access networks across various regions around the world.

The purpose of this valuation is to express an independent opinion of the Fair Value of the Target Company as at the Valuation Date for circular reference purposes. The valuation result should not be construed to be a fairness opinion, a solvency opinion or an investment recommendation. It is inappropriate to use our valuation report for purposes other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of captioned subjects.

We relied upon completeness, accuracy and fair representation of operational, financial information and business plans in relation to the business provided by Management. The fair value of the equity of the Target Company is subject to a number of assumptions concerning historical financial information and its current financial position. To the extent that any of these assumptions or facts changed, the result of the valuation would be changed accordingly.

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STANDARD OF VALUE

We will conduct the valuation exercises in accordance with International Valuation Standards (IVS) and provide our opinion of values in formal reports. According to IVS, our opinion of the Fair Value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

The valuation will be prepared in accordance with IVS as published by International Valuation Standards Council.

PREMISE OF VALUE

Premise of value is an assumption regarding the most likely set of transaction circumstances that may be applicable to the subject valuation such as going concern or liquidation.

A going concern value represents the value of a business enterprise that is expected to continue to operate into the future. A liquidation value represents the value of the business on the premise that all assets of the enterprise will be disposed on a piecemeal basis.

This report is prepared using the premise that the subject company is a going concern, which presumes that the subject business enterprise will continue to operate into the future.

FINANCIAL OVERVIEW

According to its 2024 audited financial statements, the Target Company reported revenue of RMB 2,931,662,308, net profit before tax ("NPBT") of RMB 465,187,862 and net profit after tax ("NPAT") of RMB 386,847,442 for the year ended 31 December 2024. After minority interest adjustments, net profit after tax attributable to common shareholders ("CS Attributable NPAT") was RMB 388,463,903.

The effective tax rate of the Target Company is calculated as tax expense (NPBT – NPAT = RMB 78,340,420) divided by NPBT (RMB 465,187,862) = 16.84%.

Non-recurring items comprised other income of RMB 16,089,441 (primarily one-off gains from financial assets and non-recurring government grants), and other expenses of RMB 34,557,615 (mainly one-off losses from disposal of fixed assets and one-off losses from financial liabilities). Accordingly, the post-tax other income, and other expenses are calculated as RMB 16,089,441 x (1 – 16.84%) = RMB 13,379,979, and RMB 34,557,615 x (1 – 16.84%) = RMB 28,738,113 respectively. The above post-tax non-recurring amounts will be reversed from the CS Attributable NPAT to derive the normalized net income for valuation purposes.

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The statement of financial position of the Target Company is summarized in the below table.

Consolidated Statement of Financial Position as at 31 December 2024

	Book Value RMB million
NON-CURRENT ASSETS	
Net assets of defined benefit plans	3.00
Fixed assets	639.59
Construction in progress	34.32
Right-of-use assets	105.74
Intangible assets	100.30
Development expenditure	46.73
Long-term deferred expenses	33.10
Deferred tax assets	54.86
Other non-current assets	18.69
Total non-current assets	**1,036.33**
CURRENT ASSETS	
Cash and bank balances	295.21
Financial assets held for trading	14.03
Accounts receivable	883.68
Receivables under financing	6.02
Prepayments	22.44
Other receivables	38.38
Inventories	847.76
Non-current assets due within one year	1.85
Other current assets	22.41
Total current assets	**2,131.78**
CURRENT LIABILITIES	
Short-term loans	450.88
Financial liabilities held for trading	374.48
Accounts payable	918.13
Contract liabilities	1.23
Employee benefits payable	153.56
Taxes payable	35.48
Other payables	2.24
Non-current liabilities due within one year	32.18
Other current liabilities	15.06
Total non-current liabilities	**1,983.24**
NET CURRENT ASSETS	**148.54**

	Book Value RMB million
NON-CURRENT LIABILITIES	
Lease liabilities	107.50
Deferred income	25.85
Deferred tax liabilities	43.94
Total non-current liabilities	**177.29**
Net assets	**1,007.58**

Based on the audited report, we identify the following non-core items unrelated to the Target Company's primary optical assemblies, modules and transmission component manufacturing operations:

Item	RMB million	USD Equivalent (million)*
Financial asset held for trading	14.03	1.93
Financial liability held for trading	374.48	51.49

** USD equivalents calculated at exchange rate USD 0.1375/RMB*

These items would be adjusted to the operating equity value to arrive at the equity valuation of the Target Company.

ECONOMIC OVERVIEW

The past year has been characterized by heightened volatility and uncertainty. Politically, the Russia-Ukraine conflict has intensified with Russian forces occupying approximately 20% of Ukrainian territory, while Middle East tensions have escalated following direct confrontations between Israel and Iran, triggering U.S. military deployments and exacerbating regional instability. These disruptions have continued to strain global supply chains, particularly through critical chokepoints like the Red Sea where Houthi attacks have diverted 50% of Suez traffic. Following his victory in the 2024 U.S. presidential election, President Trump has implemented substantial tariff increases, culminating in April 2025 with U.S. tariffs reaching 145% on Chinese imports and an average effective rate of 14.5% across all imports—the highest level in 90 years—though some rates were later partially suspended or exempted. These measures have significantly amplified geopolitical and trade uncertainty globally.

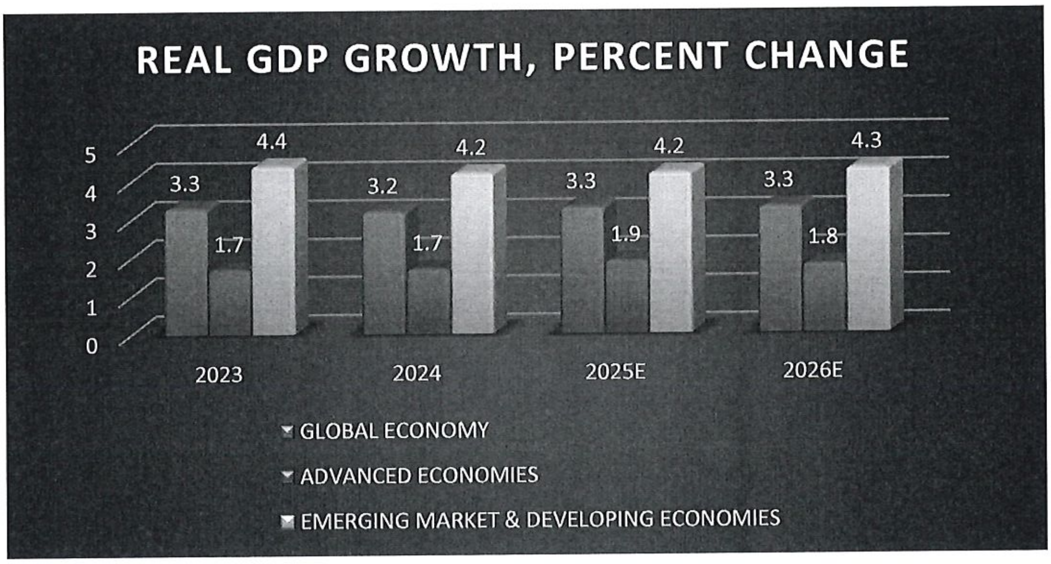
Economically, the global recovery trajectory has weakened substantially since early 2025. According to the IMF's April 2025 World Economic Outlook, global growth projections have been revised down to 2.8% for 2025 (from 3.3% in January) and 3.0% for 2026, reflecting the impact of tariff escalations and policy uncertainty. The United States experienced the largest downgrade among advanced economies (from 2.7% to 1.8%), while Mexico's growth projection plunged into negative territory at -0.3%. Although inflationary pressures are easing in advanced economies, with euro area inflation projected at 2.1% for 2025, and the emerging economies continue to face elevated inflation, particularly in conflict-affected regions like Gaza where inflation reached 140%. Labor markets remain relatively resilient overall, but trade fragmentation is accelerating, with U.S.-China trade volumes now 10% below 2018 levels and supply chains rerouting through intermediary economies like Vietnam and Mexico

In developed economies, monetary policies remain cautious. The Federal Reserve has maintained its benchmark rate at 4.25%-4.50% since September 2024, with market expectations shifting toward potential cuts in late 2025 amid slowing growth. The European Central Bank reduced rates to 2.50% in March 2025 but faces constrained easing capacity due to Germany's €48 billion fiscal stimulus package and persistent services inflation. The Bank of Japan continues ultra-loose policies despite yen depreciation to 169/USD (34-year low), with potential July rate hikes under consideration to counter 2.8% inflation.

Emerging markets continue driving global growth, though momentum shows divergence. China's 2024 GDP growth reached 4.8%, but 2025 projections were revised down to 4.0% due to trade tensions and property sector challenges, even as policies emphasize "high-quality development". India's growth outlook was downgraded to 6.5% (from 6.8%) on monsoon risks, while Southeast Asia benefits from supply chain diversification with Vietnam's exports rising 18% year-on-year.

Persistent geopolitical tensions maintain upside risks to energy prices. Trade protectionism has slowed projected global trade growth to 2.5% for 2025, while elevated interest rates exacerbate debt vulnerabilities, particularly in MENA where Egypt's debt reaches 91% of GDP and Tunisia's 82%.

Chart 1 – Real GDP Growth Rate %



Source: International Monetary Fund ("IMF")

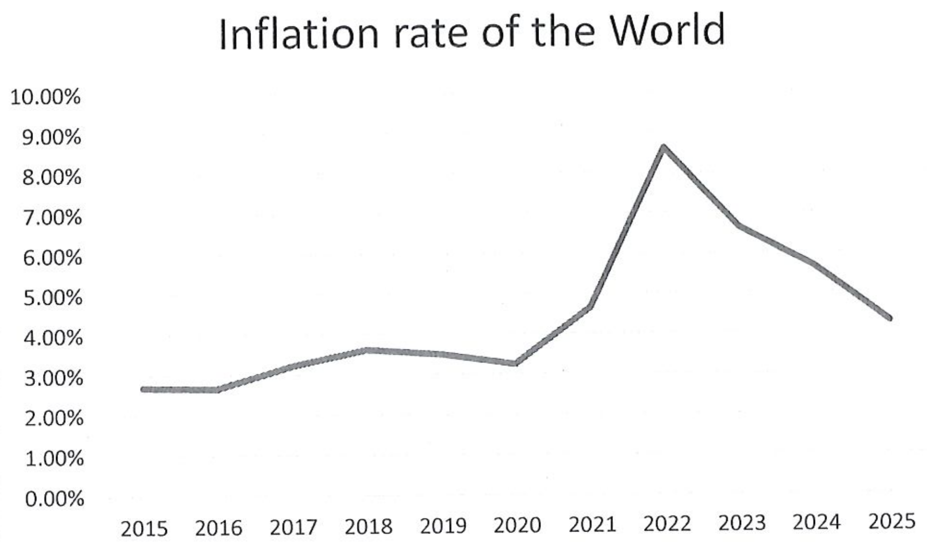
As the Target Company supplies its products around the globe, its business is influenced by the economic conditions and market fluctuations in the overall world's economy. This overview covers overall world's economic condition where the Target Company will derive its future income.

The global average inflation rate for the full year of 2024 was 5.9%, representing a decrease of 0.8 percentage points from 2023. In developed economies, the inflation rate was recorded at 2.7%, a reduction of 1.9 percentage points compared to 2023. According to data from the U.S. Department of Labor, the U.S. Consumer Price Index (CPI) in September 2024 increased by 2.4% year-on-year and 0.2% month-on-month; the core CPI, excluding food and energy, rose by 3.3% year-on-year, indicating a moderation in overall inflation. Eurostat data revealed that inflation in the eurozone eased in September 2024, with the harmonised CPI rising by 1.7% year-on-year, falling below the European Central Bank's 2% target for the first time since 2021.

Contrary to the downward trend observed in the US and EU, Japan's inflation rate has shown signs of recovery. Data from Japan's Ministry of Internal Affairs and Communications indicated that in September 2024, the core CPI excluding fresh food rose by 2.4% year-on-year, marking the 37th consecutive month of year-on-year increases.

Similar trends were noted in emerging markets and developing economies, where inflation rates continued to decline, reaching 7.9% in 2024, a slight decrease of 0.2 percentage points from 2023. National statistics bureaus reported the year-on-year CPI changes for September 2024 as follows: China (0.4%), Brazil (4.4%), India (5.49%), Russia (8.6%), and South Africa (3.8%).

<u>Chart 2 – Inflation Rates of the World</u>



Source: International Monetary Fund ("IMF")

The trend in unemployment rates varies between developed countries and emerging markets. Developed countries typically show an upward trend, while emerging markets and developing economies generally exhibit a downward trend. According to the U.S. Department of Labor, the seasonally adjusted unemployment rate in the United States was 4.1% in September 2024, compared to 3.6% in 2023. Eurostat data indicates that the seasonally adjusted unemployment rate in the Eurozone was 6.4% in August 2024, marking the lowest level since April 1998. The unemployment rates in the United Kingdom and Canada increased from 4.03% and 5.41% in 2023 to 4.45% and 5.9% in 2024, respectively. Unemployment rates in major emerging markets and developing economies remain high but mostly show a downward trend. Russia's unemployment rate reached a historic low of 2.4% in June 2024. Youth unemployment rates remain high globally, with no significant improvement expected in the short term.

The global economy is currently experiencing a complex interplay of short-term issues and long-term factors. Uncertain short-term factors are emerging continuously, while deep-seated contradictions and structural issues are becoming increasingly prominent. Compared to the past, the global economy now faces greater challenges and lacks sufficient growth momentum.

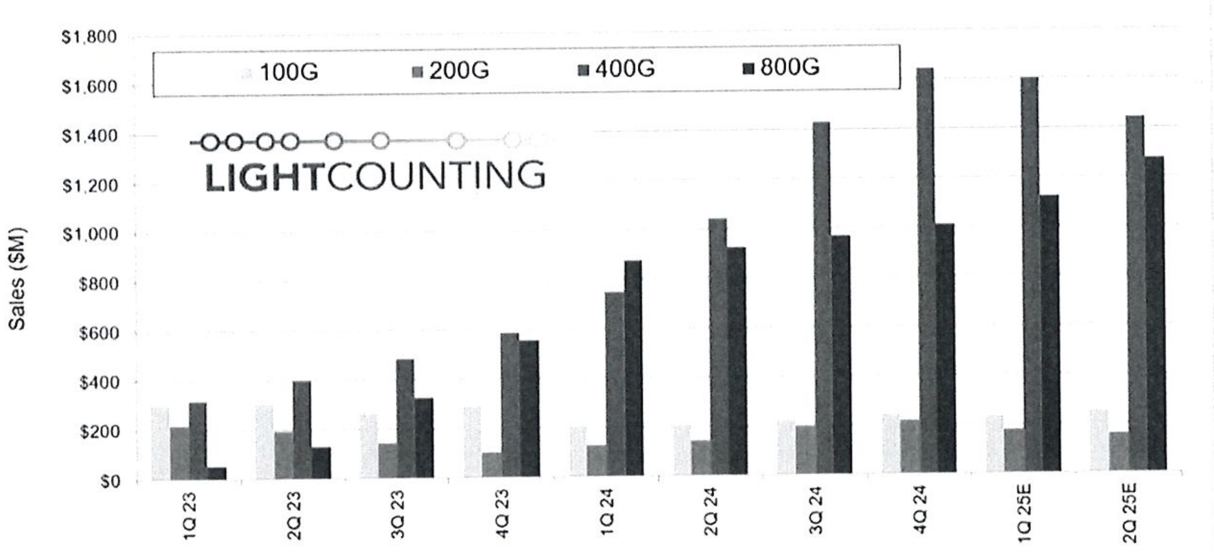
It is considered that the administration of US governance may have a significant impact on the global economy. On one hand, the administration might adopt domestic measures such as tax cuts, regulatory relaxation, and large-scale fiscal stimulus, potentially stimulating the continued expansion of the U.S. economy temporarily. On the other hand, it may impose tariffs on global trade, hindering trade recovery, undermining multilateral trade rules, potentially triggering a global 'trade war,' and exacerbating the fragmentation of global trade, thereby posing risks of further division in the world economy.

Given the current international economic and political environment and the global economic outlook, the world economy is expected to continue on a moderate to low growth trajectory in 2025, with a projected growth rate of approximately 3.0%. The growth rates of emerging markets and developing economies are likely to significantly outpace those of developed economies. However, there remains a possibility that significant geopolitical turmoil or escalating trade frictions could lead to a notable slowdown in global economic growth.

INDUSTRY OVERVIEW

With the rise of generative artificial intelligence, the era of ultra-high computing power represented by ChatGPT has begun, driving the demand for optical transmission. The need for 400G and higher-speed optical modules in cloud networks is increasing, and AI-driven optical modules are advancing towards high-speed technologies such as 400G/800G/1.6T, thereby boosting the demand for optical modules and related device products. The optical module industry is anticipated to undergo rapid development.

Chart 3 – Global sales of optical module



Source: LightCounting proprietary vendor survey and estimates

In 2024, the industry's activity and profitability reached new levels. According to the "Quarterly Market Update: June 2025" from LightCounting, global optical module sales are projected to grow by approximately 10% in the second quarter of 2025, following flat sales in the first quarter. This growth is mainly due to strong sales of 800G Ethernet transceivers. Additionally, 1.6T transceivers are expected to ship for the first time this quarter but are forecasted to have only a moderate impact on overall market growth. As hyperscale cloud providers like Amazon and Meta gradually transition to higher-speed modules, demand for 400G Ethernet modules is decreasing. Nonetheless, sales of 400G and 800G active optical cables (AOCs) are predicted to remain stable. Moreover, the market for transceivers related to DWDM (dense wavelength division multiplexing), FTTH (fibre to the home), and WFH (work from home) scenarios rebounded this quarter after experiencing a seasonal dip in the first quarter, adding new energy to the overall market.

In summary, propelled by insatiable AI-driven demands for ultra-high-speed data transmission, the optical module industry is experiencing robust growth and rapid technological advancement towards 800G and 1.6T speeds. While the transition cycle sees 400G demand moderating, the immediate strength in 800G shipments and the nascent emergence of 1.6T, coupled with stable AOC sales and a rebound in key adjacent markets (DWDM, FTTH), paint a picture of a dynamic and expanding market well-positioned for sustained development. This positive trajectory underscores the strategic importance and growth potential within the optical components sector.

VALUATION METHODOLOGY AND BASIS

We have conducted the Valuation in accordance with the International Valuation Standard. The valuation procedures employed include an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the Target Company. All the matters we consider essential to the proper understanding of the Valuation are disclosed in our valuation report. In arriving at our assessed value, we have considered three accepted approaches, namely, income approach, cost approach and market approach.

Income approach: provides an indication of value by converting future cash flows to a single current asset value and is commonly applied to an aggregation of assets consisting of all assets of a business enterprise, including working capital and tangible and intangible assets. Value is derived based upon the present worth of economic benefits of ownership of asset.

Cost approach: provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. Value is established based on cost of reproducing or replacing the asset, less depreciation or amortization from functional and economic obsolescence, if present and measurable.

Market approach: provides an indication of value by comparing a business, business ownership interest, security, or intangible asset with identical or comparable subjects for which the pricing information is available. Value is established based on the principle of comparison, meaning that if one thing is similar to another and could be used for the other, then they must be similar. Furthermore, the price of two alike and similar items should be approximate to one another.

The guideline public company method (GPCM) is one of the methods under the market approach. This method estimates the value of a business by reference to the valuation multiples of publicly listed comparable companies with similar business models, capital structure, risk profiles and growth aspects. This is one of the most commonly used methods for the valuations of private companies.

<u>Selection of the Valuation Approach for the Target Company – Market Approach:</u>

In this valuation, the cost approach is considered not appropriate as it ignores the economic benefits of ownership of the business. The income approach is not adopted in this exercise as the cash flow projections for the business of the Target Company would require numerous assumptions on projected growth/changes in revenue streams, cost of revenue, operating expenses, administrative expenses, projected movements in working capital balances, and expected capital expenditure. Such assumptions and estimations are therefore not easily verifiable, supportable or reliably measured. As the market approach is a common valuation method for operating companies like the Target Company, we have therefore adopted the market approach in this exercise.

We have adopted the GPCM under the market approach, and the multiples applicable to the Target Company are derived with reference to the valuation multiples of the comparable companies ("Comparable Companies") of the Target Company.

For the purpose of our valuation, we have also derived the Fair Value of the Equity based on the available information and presently prevailing as well as prospective operating conditions of the business and by taking into consideration other pertinent factors which basically include the followings:

- the market and the business risks;
- the general economic outlook as well as specific investment environment;
- the nature and current financial status;
- the historical performance; and
- the assumptions as stated in the section of Assumptions in this report.

In assessing the relationship of a company's valuation with its fundamentals, the following valuation multiples are commonly considered: the price-to-sales ratio ("P/S"), the price-to-earnings ratio ("P/E"), the enterprise value-to-earnings before interest, tax, depreciation and amortization ("EV/EBITDA"), and the price-to-book ratio ("P/B"). These multiples serve as standard benchmarks since their inputs are readily available from public sources and reflect market participants' perspectives on comparable businesses.

EV/EBITDA requires adjustments to the Target Company's enterprise value for debt, cash, and minority interests to derive equity value, introducing additional layers of subjectivity. We sought to minimize such complexity and subjectivity. Conversely, price multiples (P/B, P/S, and P/E) provide a more direct benchmark against observed equity market prices of guideline public companies and are thus preferred.

P/B focuses primarily on tangible assets and does not adequately capture the Target Company's significant intangible value drivers; it was therefore excluded. P/S is inappropriate as it focuses on revenue without accounting for profitability, a key value determinant for profitable businesses such as the Target Company.

Consequently, P/E is deemed the most appropriate multiple. It directly values earnings attributable to common shareholders, aligning with equity investors' perspective. P/E inherently incorporates both the Target Company's profitability and future earnings expectations, providing a clear benchmark against peers. Normalizing net profit attributable to shareholders offers a suitable earnings base for this multiple.

IDENTIFICATION OF SUITABLE COMPARABLE COMPANIES

We have identified relevant comparable companies based on multiple sets of selection criteria in order to sort out particular companies that are comparable to the subject companies in terms of risks and business nature.

We have adopted the following screening process in arriving at our initial shortlist of companies to further sort out appropriate Comparable Companies for the Target Company:

- The shortlisted companies should be publicly traded with primary listings on either the Hong Kong Stock Exchange (HKEX) or the mainland China stock exchanges (Shanghai Stock Exchange / SSE or Shenzhen Stock Exchange / SZSE).
- The shortlisted companies should be classified under the communication equipment industry according to the Bloomberg Industry Classification System (BICS).

The Target Company generates revenue primarily from the business of manufacturing optical assemblies, modules and transmission components. We aim to identify Comparable Companies with similar revenue sources as the Target Company. We calculated their latest annual revenue attribution percentages to verify if these companies have been principally operating optical assemblies, modules and transmission component manufacturing business. The Comparable Companies should also demonstrate sufficient trading activities before the Valuation Date.

To ensure relevance and consistency, the selected Comparable Companies should meet the following criteria:

- According to their latest published annual reports and company websites, the revenue from the optical assemblies, modules and transmission components manufacturing business for the Comparable Companies should account for over 50% of total revenue in 2024.
- The financial information of the Comparable Companies must be publicly available.
- The Comparable Companies' historical trading data must be sufficient and available.
- The public trading of the Comparable Companies' shares should have been suspended for no more than 30 days within one year before the Valuation Date.

Following the above process, 7 listed companies, namely Eoptolink Technology Inc Ltd, Zhongji Innolight Co Ltd, Accelink Technologies Co Ltd, Suzhou TFC Optical Communication Co Ltd, Yangtze Optical Fibre & Cable Joint Stock Ltd Co, Wuxi Taclink Optoelectronics Technology Co Ltd, and Shenzhen SDG Information Co Ltd, fit the above selection criteria.

They are considered appropriate Comparable Companies due to similar business nature, similar revenue segmentation and having sufficient public financial information and trading data for this valuation. The list of selected Comparable Companies is exhaustive in terms of the above criteria.

Details of these Comparable Companies, including their company names, stock code, percentage of revenue attributable to optical assemblies, modules and transmission components ("Attribute Revenue %") and their company descriptions are summarized in the following table.

Name	Stock Code	Attributable Revenue %	Company Description
Eoptolink Technology Inc Ltd ("Eoptolink")	300502 CH	99.45%	Eoptolink Technology Inc., Ltd. designs and manufactures communication components. Eoptolink Technology produces optical transceiver modules, and sells products around the world.
Zhongji Innolight Co Ltd ("Zhongji Innolight")	300308 CH	96.8%	Zhongji Innolight Co., Ltd. researches, develops, manufactures, and distributes optical communications modules and devices. Zhongji Innolight produces optical communication transceiver modules and optical devices. Zhongji Innolight serves domestic and overseas customers.
Accelink Technologies Co Ltd ("Accelink")	002281 CH	99.17%	Accelink Technologies Co., Ltd. manufactures passive optical components, optical instruments, and integrated photo-electronic devices. Accelink also provides technical service and solution consultation.
Suzhou TFC Optical Communication Co Ltd ("Suzhou TFC Optical")	300394 CH	99.38%	Suzhou TFC Optical Communication Co., Ltd. researches, develops, and distributes fiber and optical components.
Yangtze Optical Fibre & Cable Joint Stock Ltd Co ("Yangtze OFC")	6869 HK	80.98%	Yangtze Optical Fibre and Cable Joint Stock Limited Company manufactures optical transmission component products. Yangtze OFC markets its products domestically and internationally.
Wuxi Taclink Optoelectronics Technology Co Ltd ("Wuxi Taclink")	688205 CH	99.6%	Wuxi Taclink Optoelectronics Technology Co., Ltd. manufactures and distributes communications equipment. Wuxi Taclink produces and sells optical transceiver module, optical amplifier, optical transmission subsystem, optical components, and other related products. Wuxi Taclink markets its products throughout China.

Name	Stock Code	Attributable Revenue %	Company Description
Shenzhen SDG Information Co Ltd ("SZ SDG")	000070 CH	66.46%	Shenzhen SDG Information Co., Ltd. manufactures and markets optical transmission components, communication equipment, electrolytic condensers, and electronic components.

In view of the exhaustive screening process, all Comparable Companies meeting the selection criteria have been adopted to ensure a representative peer set. The products of these Comparable Companies are substantially similar to the Target Company's optical modules and transmission components, serving high-speed connectivity applications in data centers and telecommunications networks. This is supported by: (i) the high Attributable Revenue % threshold (all 7 comps >50%, with 5 exceeding 90% and the sixth at 80.98%), ensuring comparable business model exposure; (ii) functional equivalence in core product capabilities (i.e. optical modules and components for high-speed networks); and (iii) alignment with the same end-markets.

The share price, adjusted earnings per shares ("EPS") and the P/E of the Comparable Companies included in our valuation were as follows:

As at 30 April 2025

Name	Original EPS (RMB)*	Post-tax non -recurring income per share**	Post-tax non -recurring expense per share**	Adjusted EPS (RMB)*	Share Price (RMB)*	Original P/E
	(A)	(B)	(C)	(D) = (A) – (B) + (C)	(E)	(F) = (E) ÷ (D)
Eoptolink	4.12	0.12	0.00	**4.00**	63.88	15.97
Zhongji Innolight	5.16	0.09	0.03	**5.10**	83.49	16.37
Accelink	0.97	0.01	0.04	**1.00**	42.46	42.46
Suzhou TFC Optical	1.81	0.03	0.00	**1.78**	48.71	27.37
Yangtze OFC	1.02	0.32	0.46	**1.16**	12.75***	10.99
Wuxi Taclink	0.59	0.16	0.01	**0.44**	45.74	103.95
SZ SDG	(0.48)	0.02	0.25	**(0.25)**	6.05	N/A****

** The original EPS (post-tax) are based on data sourced from Bloomberg and the Comparable Companies' latest financial statements up to the Valuation Date. The adjusted EPS is derived from the original EPS adding back post-tax non-recurring expense per share and deducting post-tax non-recurring income per share.*

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*** The post-tax non-recurring income and expenses are sourced from Bloomberg. They generally include one-off items such as litigation settlements, one-off gain or loss on investments or disposal of assets, one-off impairments, and other non-recurring financial items, as categorized by Bloomberg.*
**** Share price of Yangtze OFC was HKD13.60 as of 30 April 2025, and was converted from HKD to RMB at the exchange rate: 1 HKD to 0.9376 RMB.*
***** As SZ SDG has negative earnings, it is considered not comparable to the profitable companies like the Target Company. P/E of SZ SDG is derived to be negative and is therefore excluded.*

In valuations, the Z-score method is commonly used to identify outliers in peer group multiples, defining them as data points where |Z| > 1, i.e., beyond one standard deviation ("SD") above or below the mean. This threshold was applied to (1) ensure peer group comparability to the subject business of the Target Company; (2) exclude multiples fundamentally disconnected from the core peer group; and (3) align with common valuation practice for small datasets of valuation multiples.

The Z-score method is a common statistical methodology that is taught in professional finance programs, and is recommended in foundational valuation texts, such as Investment Valuation and other texts published by Aswath Damodaran, a professor of finance at the Stern School at New York University, for identifying outliers. For small datasets (with less than 10 peers), 1 SD is pragmatically preferred over stricter statistical thresholds to avoid over-exclusion while still filtering extreme outliers. Using 1 SD effectively balances the need to retain the core majority of data points representing central market tendencies while significantly reducing the risk of distortion from extreme values, which is critical for deriving a reliable median multiple.

The mean and SD of the P/E multiples (from the seven companies after excluding the negative earnings company) were 36.19 and 35.06, respectively. The range of one SD is approximately -96.9% below the mean to +96.8% above the mean, corresponding to real figures of 1.13 and 71.24 respectively. The P/E for Wuxi Taclink of 103.95 exceeded the upper bound and was therefore excluded as an outlier.

The impact of excluding Wuxi Taclink is significant: including its P/E multiple would increase the implied valuation of the Target Company from approximately USD 25 million to USD 33 million, after accounting for valuation adjustments detailed in subsequent sections of the report. This 32% increase is solely attributable to a single extreme multiple that is 145% higher than the next highest peer (42.46). Such a disproportionate impact demonstrates that Wuxi Taclink's P/E is not representative of the peer group and would distort the valuation.

Beyond statistical deviation, a review of financial fundamentals confirms Wuxi Taclink's incompatibility with the peer group. Its latest trailing-twelve-months EPS year-on-year growth rate (10%) was the lowest in the peer group (after excluding SZ SDG for its negative P/E), starkly contrasting with the group's mean (97%) and median (44%) growth. This creates a fundamental disconnect: while Wuxi Taclink's P/E multiple implies aggressive growth expectations (103.95x), its actual growth trajectory (10%) is the weakest among peers. Including a company with such contradictory signals, i.e. having high valuation multiple but low growth, would misrepresent the peer group's economic reality and artificially inflate the Target Company's valuation.

We consider the exclusion fair and reasonable because the distortionary effect of the outlier is evident in the significant valuation increase, and the resulting median P/E is based on a cohesive peer group that better reflects the subject company's operational and financial characteristics.

When calculating valuation multiples, adjustments for differences in company size are often considered. Larger companies typically have lower expected returns, which translate into higher values. In contrast, smaller companies are perceived as having higher risks associated with their business operations and financial performance, resulting in higher expected returns and lower valuation multiples. In this exercise, the size premia for the companies were referenced from the CRSP Deciles Size Premium Studies ("CRSP Studies") by Kroll Inc. (formerly Duff & Phelps).

To account for the impact of varying market capitalizations between the comparable companies and the Target Company, the common proposed adjustment to the P/E ratio reflecting the size difference is outlined below:

$$Adjusted\ \frac{P}{E}\ Multiple = \frac{1}{\frac{1}{\frac{P}{E}\ Multiple} + Size\ Premium\ \Delta}$$

Size Premium Δ ("SP Δ") = Size premium of the Target Company ("TCSP") – Size premium of each of the Comparable Companies ("CCSP")

In accordance with the CRSP Studies, distinct size premiums are assigned based on market capitalization categories: 0.66% for Mid Cap, 1.24% for Low Cap, and 2.91% for Micro Cap companies, as outlined in the below table. This methodology has been applied to both the Target Company and the Comparable Companies, with the appropriate premium selected according to their respective market capitalizations.

Size category	**Range of market capitalization (USD million)**	**Size premium**
Mid Cap	3,011 – 14,820	0.66%
Low Cap	556 – 3,011	1.24%
Micro Cap	1.6 – 555	2.91%

The following table shows the details of the original and adjusted P/E multiples of each of the selected Comparable Companies:

Name	**Market capitalization (USD million)***	**Original P/E (A)**	**TCSP (B)**	**CCSP (C)**	**SP Δ (D) =(B)–(C)**	**Adjusted P/E 1/[1/(A)+(D)]**
Eoptolink	8,716.13	15.97	1.24%	0.66%	0.58%	14.62
Zhongji Innolight	12,681.82	16.37	1.24%	0.66%	0.58%	14.95

Name	Market capitalization (USD million)*	Original P/E	TCSP	CCSP	SP Δ	Adjusted P/E
		(A)	(B)	(C)	(D) =(B)–(C)	1/[1/(A)+(D)]
Accelink	4,633.19	42.46	1.24%	0.66%	0.58%	34.07
Suzhou TFC Optical	5,194.42	27.37	1.24%	0.66%	0.58%	23.62
Yangtze OFC	1,328.84**	10.99	1.24%	1.24%	0.00%	10.99
Mean						19.65
Median						**14.95**

** The market capitalizations of the Comparable Companies were calculated as the product of their respective share prices and their respective numbers of share outstanding as at the Valuation Date. The share prices were converted from their local currency (i.e. RMB and HKD) to USD at the exchange rates of USD 0.1375 per RMB and USD 0.1289 per HKD. All data used here are sourced from Bloomberg.*

*** This is based on H-share metrics.*

The mean and median size-adjusted P/E multiples of the selected comparable companies (after excluding outliers) are 19.65 and 14.95, respectively. This significant disparity (mean 32% higher than median) confirms upward skewness in the dataset, where higher multiples disproportionately influence the average. Foundational valuation texts (e.g., Damodaran's Investment Valuation) consistently recommend using median multiples over means for comparable company analysis when (1) datasets are small (n=5 companies here), (2) distributions are skewed, or (3) sector dynamics naturally produce skewed multiple distributions (common in technology-intensive industries, like the optical module, component and assemblies industry, where a wide dispersion in growth prospects and profitability stages leads to a non-symmetric spread of multiples). Therefore, the median size-adjusted P/E multiple of 14.95 is adopted in this valuation.

DISCOUNT FOR LACK OF MARKETABILITY ("DLOM")

Privately held companies are not readily marketable and would face more difficulty in converting its shares into cash as compared with publicly held companies. DLOM is commonly considered in the valuations of privately held companies to reflect difference in the marketability of the shares of the subject private companies and that of the selected publicly traded comparable companies.

We generally select the appropriate DLOM based on the 2024 Stout Restricted Stock Study on Determining Discount for Lack of Marketability (latest available to date), which incorporated an examination of 779 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through March 2024. The discount of 20.4% implied by these 779 private placement transactions in comparison with the corresponding publicly traded common stocks and is generally considered an appropriate proxy for DLOM for closed held private businesses.

As detailed in the Financial Review section of this report, in order to derive the normalized net income used in the P/E multiple calculation, the CS Attributable NPAT (sourced from the audited 2024 financial statements) was adjusted. Specifically, post-tax amounts for non-recurring income and expenses were reversed, as these items are not representative of the Target Company's sustainable core earnings. This normalized net income is then multiplied by the adjusted P/E multiple to calculate the underlying equity value.

Since the above equity value only reflects the value attributable solely to the core optical assemblies, modules, and transmission component manufacturing operations, non-operating assets were added to and non-operating liabilities deducted from this equity value in order to reflect a value incorporating holdings of such non-operating net assets. This includes items such as financial assets and liabilities held for trading. Finally, the DLOM was applied to the adjusted equity value to arrive at the fair value of equity of Source Photonics.

Table: The Fair Value of the equity of the Target Company as of Valuation Date*

CS Attributable NPAT (RMB million)	(A)	388.46
Add back: Post-tax other expenses (RMB million)**	(B)	28.74
Deduct: Post-tax other income (RMB million)**	(C)	13.38
Normalized net profit (RMB million)	(A) + (B) – (C) = (D)	403.82
Normalized net profit (USD million, converted at the exchange rate of USD 0.1375 per RMB)	(D) x 0.1375 = (E)	55.53
Adjusted P/E	(F)	14.95
Equity Value before adjustment for non-operating assets and liabilities (USD million)	(E) x (F) = (G)	830.17
Add: Non-operating assets (USD million)***	(H)	1.93
Deduct: Non-operating liabilities (USD million)***	(I)	51.49
Equity Value before marketability discount adjustment (USD million)	(G) + (H) – (I) = (J)	780.61
DLOM	(K)	20.4%
Equity Value after marketability discount (USD million)	(J) x [1 - (K)] = (L)	621.37
Shareholding (%)	(M)	4.0%
Fair Value of the 4.0% equity of Source Photonics (USD million) (rounded to the nearest million)	(L) x (M) = (N)	25.00****

** With reference to the Financial Review section of this report, all financial data used in this table is sourced from the 2024 audited financial statements of the Target Company issued on 23 April 2025.*
*** Refer to page 2.*
**** Refer to page 4.*
***** Figures may not exactly add up due to rounding.*

SOURCE OF INFORMATION AND CAVEATS

We have been provided with extracts of copies of relevant documents and financial information relating to the Target Company. We have relied upon the aforesaid information in forming our opinion of the Fair Value. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the said information which is material to the valuation. We have also been advised by the Target Company that no material facts have been omitted from the information provided. We have also made relevant inquiries and obtained further information as considered necessary for the purpose of this valuation.

While we have exercised our professional knowledge and cautions in adopting assumptions and other relevant key factors in our valuation, those factors and assumptions are still vulnerable to the change of the business, economic environment, competitive uncertainties or any other abrupt alternations of external factors.

ASSUMPTIONS

In the course of valuation, the following specific assumptions and caveats have been made. We have based on the following to arrive at the Fair Value of the Target Company.

- It was assumed that the financial and operational information and information on the capital structure of the Target Company provided by the Company are accurate and truthful. We relied to a considerable extent on such information in arriving at their opinion of value.
- As the financial statements of the Target Company after 31 December 2024 are not available to us, we have principally relied upon the 2024 audited report of the Target Company issued on 23 April 2025 to conduct the valuation. It is assumed that the annual net profits of the Target Company did not change materially from 31 December 2024 to the Valuation Date.
- According to the Company, the terms of the previous financing round investment agreements set December 2025 as the original exit date for the Target Company's shares. As discussions with management indicate a prospective purchaser will acquire over 90% of the shares and treat all shares equally, we have also treated all shares of the Target Company equally in this Valuation.
- It was assumed that the Target Company will continue to operate the business of optical assemblies, modules and transmission component manufacturing in the foreseeable future.
- The Target Company recognized a net loss attributable to minority interests for 2024. When normalizing net income by adjusting for non-recurring other income and expenses, the minority interest loss is assumed to be non-recurring. Consequently, the full amount of these adjustments is allocated to the CS Attributable NPAT.
- It was assumed that there were no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value.
- There would be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business was in operation.
- There would be no major changes in the current taxation law in the areas in which the Target Company carried on its business, that the rate of tax payable remains unchanged and that all applicable laws and regulations would be complied with.

- The inflation, interest rates and currency exchange rates would not differ materially from those presently prevailing.
- The Target Company would retain their management and technical personnel to maintain their ongoing operations.
- There would be no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions that would affect the existing business.
- The Target Company would remain free from claims and litigation against the business or its customers that would have a material impact on the valuation.
- The Target Company were unaffected by any statutory notice and the operation of the business would not give rise to any contravention of any statutory requirements.
- The optical assemblies, modules and transmission component manufacturing business was not subject to any unusual or onerous restrictions or encumbrances.

LIMITING CONDITIONS

We have to a considerable extent relied on the financial data and other related information provided by the Target Company. We are not in a position to comment on the lawfulness of the business.

To the best of our knowledge, the statements of facts contained in this document, upon which the analysis and conclusions expressed are based, are true and correct. Information, estimates and opinions furnished to us and contained in this document or utilized in the formation of the Valuation were obtained from sources considered reliable and believed to be true and correct. However, no representation, liability or warranty for the accuracy of such items is assumed by or imposed on us.

To the extent that any of the adopted assumptions or facts provided to us are changed, the result of the Valuation would be different. It should be noted that the financial information regarding the Target Company provided to us has been represented by management and was assumed for the purposes of this opinion that such information was reasonably prepared with diligence and based on best efforts of management as to the current results of the operations and financial conditions of the Target Company.

Neither the whole, nor any part of this report and valuation, nor any reference thereto may be included in any documents, circular or statement without our written approval of the form and context in which it will appear.

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MANAGEMENT CONFIRMATION OF FACTS

A draft of this report and our calculations have been sent to management of the Company. They have reviewed and orally confirmed to us that the facts, as stated in this report and calculations, are accurate in all material respects. Management confirms that they have performed the necessary due diligence on the information provided and understands that any material changes or errors in such information could lead to a substantial change in our valuation result. As of the date of this report, they are not aware of any material matters relevant to our engagement that were excluded.

Management should also acknowledge that the valuation was carried out using theoretical valuation approaches and thus could be different from any potential transaction prices. The valuation result should therefore be used for the Company's circular reference purpose only. It is noted that Management has reviewed all valuation results and agreed with all relevant valuation inputs and calculations.

REMARKS

Unless otherwise stated, all money amounts are stated in United States dollars ("USD").

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Company and their respective holding companies, subsidiaries and associated companies, or the value reported herein.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company, the Company and us.

OPINION OF THE VALUE

Based on the investigation and analysis stated above and the valuation method employed, we are of the opinion that as at the Valuation Date, the Fair Value of the 4.0% Equity of the Target Company was reasonably stated as approximately **USD 25 million**.

Yours faithfully,
For and on behalf of
APAC Asset Valuation and Consulting Limited

Jasper Chan
CFA, FRM
Director

Notes:

Jasper Chan, CFA, FRM

Mr. Jasper Chan is a CFA® charterholder and a certified FRM® with over 10 years of experience in handling valuations and financial modelling for financial reporting, merger and acquisition, financial derivatives, intangible assets, biological assets, mine valuations, etc. He also has extensive experience in providing valuation advisory services to private equity funds and providing litigation support in relation to commercial and matrimonial disputes. His work has covered a range of different industries including manufacturing, financial services, mineral resources, forestry, IT, pharmaceutical, casinos & gaming, etc.