INDEPENDENT ADVISOR'S REPORT TO THE BOARD OF DIRECTORS OF SIERRA CABLES PLC ON THE MANDATORY OFFER DATED 11TH SEPTEMBER 2024, MADE BY ICONIC TRUST (PRIVATE) LIMITED

Moore possesses the resources with necessary skills and competencies to perform an independent evaluation of a company listed in the Colombo Stock Exchange and make an appropriate recommendation to the Board of the offeree entity.

Moore Consulting (Private) Limited

MOORE

Moore Consulting (Pvt) Ltd
"Havelock Central"
No.104-4/1, Havelock Road,
Colombo 05,
Sri Lanka.
T +94-11-2559516
F +94-11-2505518
E consulting@moorestephens.lk
www.moorestephens.lk

12th December 2024

The Board of Directors,
Sierra Cables PLC,
No. 39/1A, Galvarusa Road,
Korathota, Kaduwela,
Sri Lanka.

Dear Board Members,

INDEPENDENT ADVISOR'S REPORT TO THE BOARD OF DIRECTORS OF SIERRA CABLES PLC ON THE MANDATORY OFFER DATED 11TH SEPTEMBER 2024, MADE BY ICONIC TRUST (PRIVATE) LIMITED

In accordance with the "Letter of Engagement" ("LOE") dated 24th October 2024 signed by Sierra Cables PLC and Moore Consulting (Private) Limited, and subsequent approval received from Securities Exchange Commission of Sri Lanka on 12th December 2024, we hereby forward our independent advice to the Board of Directors of Sierra Cables PLC to as specified in the section 12 (1) of the Takeovers and Mergers Code of 1995 as amended in 2003 (Code), on the mandatory offer made by Iconic Trust (Private) Limited.

Our work has been carried out up to 06th December 2024, and the information contains in the report is up to 06th December 2024.

The procedures we performed were limited by the information made available to us by the management, which may be incomprehensive and/or unaudited. Under the circumstances, you should not rely on our work as being comprehensive as we may not become aware of all facts or information that you may regard as relevant. In completing our work, we relied upon the integrity of the information, and the valuation has been carried out on that basis.
We acknowledge that this report may to be circulated to the shareholders of Sierra Cables PLC in relation to the offer made by Iconic Trust (Private) Limited and therefore shall not be used for any other purposes without the prior written consent of Moore Consulting (Private) Limited.

Yours Sincerely,

Managing Director
Moore Consulting (Private) Limited

MOORE Recommendation

Based on the independent analysis, the offer price is within the range of LKR 6.52 to LKR 10.87 where our valuations were concluded. The values derived from all the methodologies are higher than the offer price of LKR 8.00 except the value derived from P/B Multiple which is the lowest value at LKR 6.52.

In light of this information, we recommend that shareholders consider the following actions:

- Sell Shares in the Market: If the market price remains above LKR 8.00, shareholders are encouraged to sell their shares in the market to realize a better return.

- Accept the Offer: If the market price falls below LKR 8.00, shareholders may consider accepting the mandatory offer. It is also noteworthy to mention that the historical average share price till the date of incurring the obligation to make the mandatory offer (01st September 2023 – 11th September 2024) is LKR 10.91.

Please refer page number 7 – the Executive Summary.

We acknowledge that this report may to be circulated to the shareholders of Sierra Cables PLC in relation to the offer made by Iconic Trust (Private) Limited and therefore shall not be used for any other purposes without the prior written consent of Moore Consulting (Private) Limited.

This Report is subject to the qualifications and disclaimers set out in the body of the Report.

GLOSSARY OF TERMS

Abbreviation	Meaning
ASPI	All Share Price Index
CBSL	Central Bank of Sri Lanka
CODE	Takeovers and Mergers Code of 1995 as amended in 2003
CSE	Colombo Stock Exchange
DCF	Discounted Cash Flows
FY	Financial Year
ITPL	Iconic Trust (Private) Limited
Ke	Cost of Equity
Kd	Cost of Debt
LKR	Sri Lankan Rupees
MOORE	Moore Consulting (Private) Limited
NAV	Net Asset Value
NCI	Non-Controlling Interest
PBV	Price to Book Value
PE	Price to Earnings
ROE	Return on Equity
SEC	Securities and Exchange Commission
SIRA	Sierra Cables PLC

LEGAL NOTICE

This Report has been prepared by Moore Consulting (Private) Limited (Here in after referred to as "MOORE") to provide an independent advice to the Board of Directors of Sierra Cables PLC (Here in after referred to as "SIRA") on the offer made by Iconic Trust (Private) Limited (Here in after referred to as offeror or "ITPL") as specified in the section 12 (1) of the Takeovers and Mergers Code of 1995 as amended in 2003 (Code). MOORE acknowledges that this report may to be circulated to the shareholders of SIRA in relation to the offer made by ITPL and therefore shall not be used for any other purposes without the prior written consent of MOORE.

This Report relies upon discussions with the management of SIRA, information and documents compiled by and provided to MOORE by the management of SIRA and its representatives. MOORE has also relied on reported information such as annual reports and provisional financial statements published in the Colombo Stock Exchange. This information was adequate to facilitate an informed view of the offer and to form a reasonable basis for the opinion.

This Report is provided subject to the following assumptions and qualifications:

1. SIRA has made available to MOORE all material & public information in its possession or known to it in relation to the business operations of SIRA, and that all information so provided is up to date and that SIRA has not withheld any material public information;

2. All reports and financial documentation and records of assets, governmental consents and licenses provided by SIRA are correct and accurate in all material respects.

MOORE has not undertaken any independent inquiries or audits to verify that the information provided is correct and has not carried out any type of audit of SIRA's records to verify that all material documentation has been provided. However, a reasonable analysis has been carried out by MOORE on such information provided to us.

A draft of this Report was provided to the Board of Directors of SIRA along with a request to confirm that there are no material factual errors or omissions in the Report and that the assumptions and information in the Report are factually appropriate in so far as they relate to matters that are privy to the Directors in their capacity as members of the Board of the Company. Confirmation of these terms and ratification of the Report by the Board have been provided in writing and has been relied on by MOORE.

This Report is not intended as an offer document or solicitation for the sale of shares. The recipients of this Report must make their own independent decisions regarding the offers made. MOORE assumes no responsibility for any investment decisions made by investors purely based on information contained in this report. The value recommendations in this report are valid till the expiration of the offer.

LEGAL NOTICE (Contd.)

Neither MOORE nor those involved in the preparation of this Report has any material interest in SIRA. MOORE is not in the same group as the financial advisor to the offeror and does not have any significant interest in or financial connection with either the offeror or the offeree. MOORE is remunerated for this Report by way of a professional fee determined in accordance with MOORE's standard schedule of rates which is not contingent on the outcome of this Report. MOORE hereby affirms that it has given and not withdrawn its consent to the use of this report by the Board of Directors of SIRA in advising the Shareholders of SIRA with regard to the acceptance or rejection of the offer made by ITPL.

EXECUTIVE SUMMARY

For the purpose of arriving at the valuation of shares of SIRA, MOORE has used below fundamental Share Valuation approaches:

1. Income Approach
2. Adjusted Net Asset Approach
3. Market Approach

We have also analyzed the historical market prices for the period from 01st September 2023 to 11th September 2024, and subsequent market prices up to 06th December 2024 in order to provide a base line comparative to the shareholders.

The offer price of SIRA is at a premium compared to the share value derived from P/B Multiple method. The offer price of SIRA is at a discount compared to the share values derived from all the other valuation methodologies.

Based on our analysis, the historical average share price till the date of incurring the obligation to make the mandatory offer (01st September 2023 – 11th September 2024) is LKR 10.91.

Subsequent to the acquisition by ITPL, the market price of the shares has been gradually increasing and during the period up to 06th December 2024 it has record a highest price of LKR 11.30 (06.12.2024) and closed at LKR 11.30 on 06th December 2024 with an average share price of LKR 10.31. Compared to this behavior, the offer price appears to be significantly lower than the market price for which a specific reason is not known.

This market price is subject to risk factors outlined in section 7 of the report and future strategies of the acquirer.

Per Share Value Range Summary

Based on the independent analysis, the offer price is within the range of LKR 6.52 - LKR 10.87.

EXECUTIVE SUMMARY (Contd.)

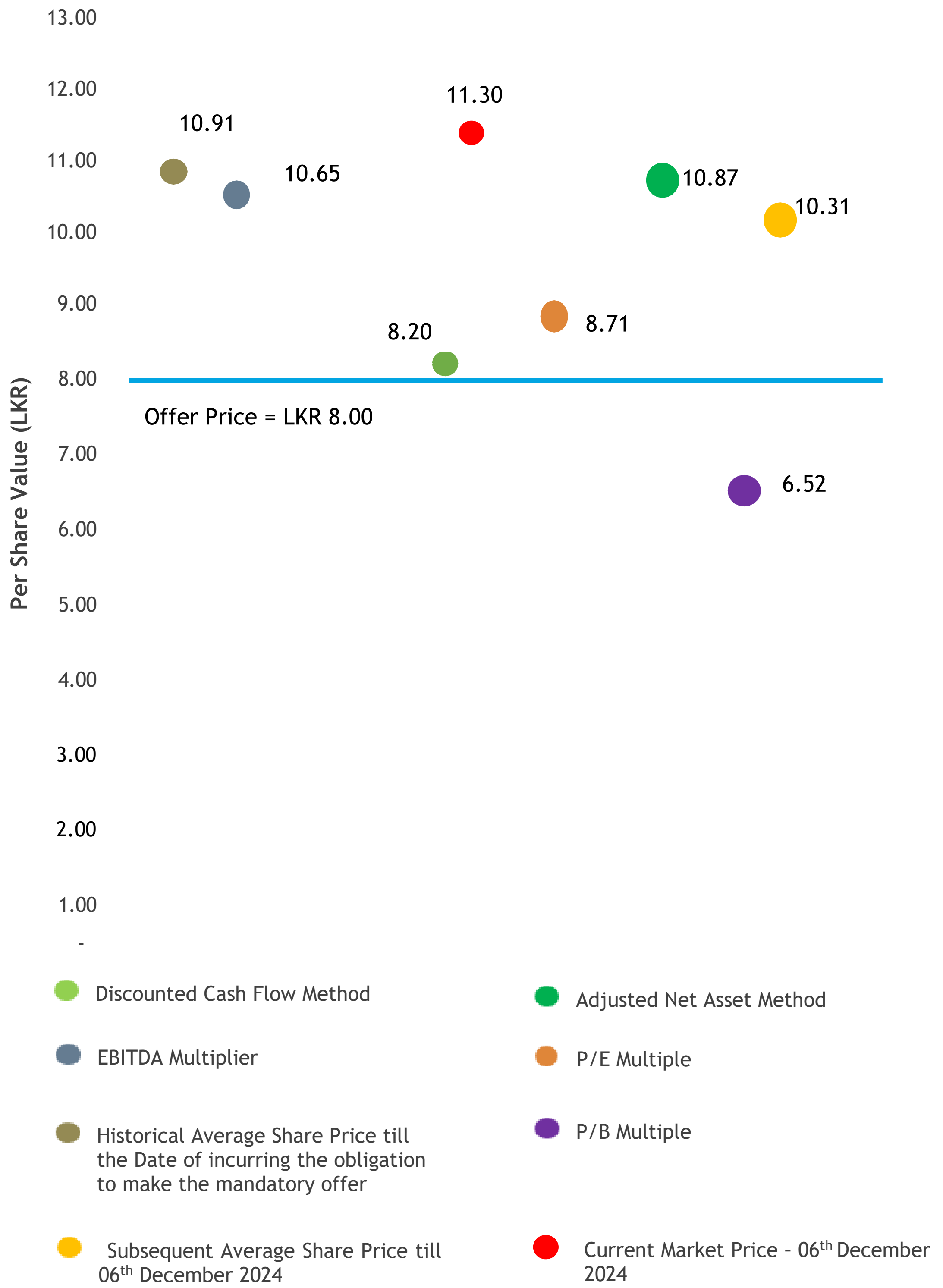
Summary of Valuation

Valuation Methodology	Per Share Value (LKR)	Premium/ (Discount) to the offer price as a percentage	Reference Page Number
Discounted Cash Flow Method	8.20	-2%	25
P/B Multiple	6.52	23%	27
P/E Multiple	8.71	-8%	28
EBITDA Multiplier	10.65	-25%	29
Adjusted Net Asset Method	10.87	-26%	31

	LKR	Reference Page Number
Historical Yearly Average Share Price till the Date of incurring the obligation to make the mandatory offer	10.91	32
Subsequent Average Share Price till 06th December 2024	10.31	33

Current Market Price as of 06th December 2024 = LKR 11.30

EXECUTIVE SUMMARY (Contd.)



EXECUTIVE SUMMARY (Contd.)

MOORE Recommendation

Based on the independent analysis, the offer price is within the range of LKR 6.52 to LKR 10.87 where our valuations were concluded. The values derived from all the methodologies are higher than the offer price of LKR 8.00 except the value derived from P/B Multiple which is the lowest value at LKR 6.52.

In light of this information, we recommend that shareholders consider the following actions:

- Sell Shares in the Market: If the market price remains above LKR 8.00, shareholders are encouraged to sell their shares in the market to realize a better return.

- Accept the Offer: If the market price falls below LKR 8.00, shareholders may consider accepting the mandatory offer. It is also noteworthy to mention that the historical average share price till the date of incurring the obligation to make the mandatory offer (01^{st} September 2023 – 11^{th} September 2024) is LKR 10.91.

Information Sources

Our assessment was based on the information provided by the management of SIRA, published accounts of SIRA, the Offer document and publicly available information including the CSE information.

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1 PREMABLE

Listed Public companies are required to comply, inter-alia with the Companies Act No. 07 of 2007, Securities and Exchange Commission (SEC) Act No. 36 of 1987 (as amended) and the Listing Rules of the Colombo Stock Exchange (CSE) which set out rules and regulations in respect of the maintenance of an adequate capital requirement, code of corporate governance, corporate disclosures, insider dealing etc.

The Takeovers and Mergers Code of 1995 as amended in 2003 (the Code), applies to takeovers and mergers where the offeree is a listed public company. In Sri Lankan context where a person acquires 30% or more of the ordinary shares of a Public Listed Company (PLC), such person shall make mandatory offer to the remaining shareholders of the PLC in terms of Rule 31 of the Code. The code seeks to ensure equal treatment of all shareholders of the same class in the company sought to be taken over. The rules of the Code are aimed at ensuring dissemination of sufficient information and advice with adequate time to the shareholders of the target company in order for them to arrive at an informed decision relating to the takeover.

1.1 BACKGROUND TO THE OFFER

Consequent to ICONIC TRUST (PRIVATE) LIMITED (Fully owned subsidiary of Browns Investments PLC) bearing Company Registration No. PV 00232531 and having its Registered Office at No.100/1, Sri Jayewardenepura Mawatha, Rajagiriya (hereinafter referred to as the Offeror) acquiring on 11th September 2024, on the Trading Floor of the Colombo Stock Exchange (CSE), 6,654,899 Voting ordinary shares in Sierra Cables PLC (hereinafter referred to as the Offeree), constituting approximately 1.24% of the total number of shares in issue in Offeree at a price of LKR 8.00 per share; which together with the existing 156,866,167 shares (29.18% of the total number of shares in Offeree) constituting a total holding of 30.42% shares of the Offeree (a total of 163,521,066 shares); the Offeror triggered the threshold limits placed by the Code, published under the Rules made by the Securities and Exchange Commission of Sri Lanka under Section 53 of the Securities and Exchange Commission of Sri Lanka, Act No. 36 of 1987 as amended, and in terms of Rule 31(1)(a) of the Code (as stated be-low), is obliged to make a Mandatory Offer.

Mr. M A P N Weerasinghe, a Director of the Offeror (also a Director of the Offeree) holds 60,000 shares constituting approximately 0.01% of the Offeree, acquired by him in December 2020 and January 2021, before he became a Director of the Offeror on 25th January 2021 and a Director of the Offeree on 11th February 2022. Accordingly, the Offeror and the party acting in concert with the Offeror hold 163,581,066 shares, constituting 30.43% shares in issue of Offeree.

Rule 31(1)(a) of the Code states as follows:

"Where any person acquires, whether by a series of transactions over a period of time or otherwise, shares which taken together with shares held or acquired by persons acting in concert with such person, carry thirty per centum or more of the voting rights of a company".

"such person shall extend within thirty-five days, an offer in accordance with this rule to the holders of any class of equity shares which carrying voting rights and in which such person or persons acting in concert with him hold shares".

1 PREMABLE (Contd.)

Accordingly, the Offeror is obligated to purchase the balance 373,931,364 Voting Ordinary shares constituting approximately 69.57% of the Offeree held by the remaining holders of Voting Ordinary Shares, at a price of LKR 8.00 per share.

Rs. 8.00 is the highest price paid by the Offeror and the Party acting in concert with the Offeror for an Ordinary Voting Share of the Offeree during the period of one year immediately before 11th September 2024. *(Source: Offer Document)*.

1.2 LIMITATIONS

1.2.1 In carrying out this assignment, MOORE performed a reasonable analysis and assessments that were possible and practical with the information provided and within the available time frame.

1.2.2 The value recommendations in this report are valid till the expiration of the offer.

1.2.3 MOORE has relied solely on reported information such as Annual Reports, Quarterly Reports and Management Reports, and the Cash flow projections.

1.2.4 Valuations based on the above prescribed methods are subject to the availability of information and appropriateness of the methods in the given circumstances.

1.2.5 No reviews on the titles of the properties have been made and the claims to those properties have been assumed to be valid. No consideration has been given to liens or encumbrances, which may be against the properties. Therefore, no responsibility is assumed for matters of a legal nature.

1.3 SCOPE OF WORK

We performed following activities under this engagement in order to determine an indicative valuation for the ordinary shares of SIRA to form a basis for our advice to the Board of Directors of SIRA.

- Study to form an insight about the offeror.
- Assessment of Liquidity of SIRA shares based on historical movements and premium to pre-acquisition trading price.
- Assessment of intention of the Offeror and other considerations that will affect the remaining shareholders of SIRA.
- Analysis of the matters to be considered by the shareholders who may either accept or decline the offer.
- Performed valuation of equity shares based on the following approaches as of 30th September 2024, as it represents the most recent financial period end with publicly available financial information after triggering of the transaction on 11th September 2024.

1 PREMABLE (Contd.)

1.3 SCOPE OF WORK (Contd.)

- **Income Approach (Discounted Cash Flow):** The Income Approach estimates entity value based on the future expected earnings capitalized at a rate commensurate with the underlying risks associated with such earnings.
- **Market Approach:** The Market Approach estimates values based on a comparison of the entity to a comparable publicly traded company and transactions in its industry.
- **Adjusted Net Asset Approach:** The Adjusted Net Asset Approach estimates the value of an entity by adjusting the asset and liability balances of the company.

1.3.1 Sources of Information

For the purpose of this engagement, we have only relied on the information and explanations provided by the management of SIRA and the information available in the public domain.

We have done a reasonable assessment on the accuracy of information made available to us by the management of SIRA conducting any independent review as to the reliability of such information. The assumptions used in this exercise will be contingent on the accuracy of the information derived from the sources mentioned below:

- Published accounts as of 30th September 2024 and Historical financial statements of SIRA.
- Forecasted financial statements for the next five (05) years period (From 2024/2025 To 2028/2029).
- Discussions had with the management of SIRA.
- Other information provided by the management of SIRA.
- Publicly available information including CSE information.

1.3.2 Involvement of MOORE and its interests

We wish to state that:

- Neither MOORE nor any of its employees have any financial interest in SIRA, the entity being appraised or ITPL, the offeror;
- The fee for the preparation of this report is not contingent upon results report.

2 INTRODUCTION TO THE COMPANY

2.1 Legal Formation

SIRA is a public quoted Company with limited liability incorporated under the Provision of the Companies Act No. 07 of 2007.

2.2 Operations

SIRA is a leading player of cable manufacturing industry in Sri Lanka. The principal activity of SIRA are manufacturing, marketing and distribution of power cables to both domestic and international markets. The registered office of the company is located at No. 39/1A, Galvarusa Road, Korathota, Kaduwela. The company has established a stronghold in Sri Lanka and the overseas marketplace as a complete and comprehensive wire and cable supplier for residential, commercial, and industrial sectors during the past decades. SIRA has achieved success in the global wire and cable sector by establishing advanced manufacturing facilities in several overseas locations. The company has expanded its export reach to neighboring Asian nations, Eastern Europe, Australia, North America, and various African regions.
(*Sources: Annual report 2024,https://sierra.lk/*)

2.3 Key Information about SIRA

Company Name	Sierra Cables PLC
Legal Form	Public Quoted Company
Established in	2000
Listed on	22nd November 2005
Company Registration No.	PQ166
Sector	Power Cables
Accounting Year End	31st March
Registered office and Head office	No. 39/1A, Galvarusa Road, Korathota, Kaduwela
External Auditors	KPMG
Company Secretary	L O L C Corporate Services (Private) Limited
Bankers	▪ Bank of Ceylon ▪ Commercial Bank of Ceylon PLC ▪ DFCC Bank ▪ Hatton National Bank ▪ Cargills Bank Limited ▪ Standard Chartered Bank ▪ Habib Bank Limited ▪ Peoples' Bank ▪ Bank of China ▪ Sampath Bank PLC

2 INTRODUCTION TO THE COMPANY (Contd.)

2.4 Board of Directors of SIRA as of 30th September 2024

Name	Designation
Mr. Perera W.A.P.	Chairman/Non-Executive Director
Mr. Jayatunga W.D.C.H.	Chief Executive Officer/Executive Director
Mr. Panditha D.S.	Executive Director
Mr. Rupasinghe B.W.N.	Non-Executive Independent Director
Mr. Jayawardane A.K.W.	Non-Executive Independent Director
Mr. Perera P. E. A. B.	Non-Executive Independent Director
Ms. Kotakadeniya V.G.S.S.	Non-Executive Director
Mr. Weerasingha P.	Non-Executive Director
Mr. Amarasekara D.S.K.	Non-Executive Director
Mr. Jayasena P.D.G	Non-Executive Director

Source: Published Financial Statements as of 30th September 2024

2.5 Top Twenty Shareholders as of 30th September 2024

Name of the Shareholder	No. of Shares	%
01.Iconic Trust (Private) Limited	163,521,066	30.42%
02.Sierra Holdings (Private) Limited	143,354,345	26.67%
03. Hatton National Bank PLC /Almas Holdings (Private) Limited	66,555,945	12.38%
Almas Holdings (Private) Limited	15,361,121	2.86%
Amana Bank PLC/Almas Holdings (Private) Limited	1,536,527	0.29%
04.Hatton National Bank PLC /Almas Capital (Private) Limited	53,851,519	10.02%
05.Tranz Dominion,L.L.C	3,600,000	0.67%
06. Mr. M.M. Sugathapala	2,400,000	0.45%
07.Employees Trust Fund Board	2,294,368	0.43%
08. Access Engineering PLC	2,252,000	0.42%
09. Mrs. F.R. Buhardeen	2,098,247	0.39%
10.Mrs. R.J. Vidanapathirana	1,976,874	0.37%
11. Macksons Holdings (Private) Limited	1,801,486	0.34%
12. Merchant Bank of Sri Lanka & Finance PLC/ R.G Senevirathne and A. Senevirathne	1,728,690	0.32%
13. Mr. M.H. Kaleel	1,398,745	0.26%
14. Corona T Stores (Private) Limited	1,250,000	0.23%
15. Dr. C.C. James	1,000,000	0.19%
16. Commercial Bank of Ceylon PLC/ W. Jinadasa	976,403	0.18%
17. Mr. D.M.P. De Zoysa	975,000	0.18%
18. Hatton National Bank PLC/Dinesh Nagendra Sellamuttu	842,199	0.16%
19. Union Investments (Private) Limited	821,500	0.15%
20. Southasia Economic and Trade Cooperation (Private) Limited	695,599	0.13%
Total	**470,291,634**	**87.51%**

Source: Published Financial Statements as of 30th September 2024

2 INTRODUCTION TO THE COMPANY (Contd.)

2.6 Director's Interest over the Shareholding of the Company as of 30th September 2024

Name	Shareholding as of 30th September 2024
Mr. Perera W.A.P.	598,078
Mr. Panditha D.S.	Nil
Mr. Jayawardane A.K.W.	Nil
Mr. Rupasinghe B.W.N.	Nil
Mr. Perera P. E. A. B.	Nil
Ms. Kotakadeniya V.G.S.S.	Nil
Mr. Amarasekara D.S.K.	Nil
Mr. Weerasingha P.	66,000
Mr. Jayasena P.D.G	1,000
Mr. Jayatunga W.D.C.H.	Nil

Source: Published Financial Statements as of 30th September 2024

3 INTRODUCTION TO THE OFFEROR

3.1 Iconic Trust (Private) Limited

Iconic Trust (Private) Limited (ITPL) was incorporated as a limited liability company on 30th December 2020 under the Companies Act No. 7 of 2007, and is a wholly owned subsidiary of Browns Investment PLC. The registered office of the offeror is located at No. 100/1, Sri Jayewardenepura Mawatha, Rajagiriya. The stated capital of the offeror is Rs 10.00, represented by 01 ordinary voting share. The principal activity of the offeror is to function as a holding company of strategic investments. Apart from the shares held in Sierra Cables PLC, the offeror owns the total shareholding of Browns Development Ltd (formerly known as Sierra Development Ltd) and Sansun Boutique Hotels Ltd.
(Source: Offer Document)

3.2 Board of Directors of Offeror

The board of directors of ITPL as at the date of the Offer document is given below.

Name
Mr. D S K Amarasekara
Mr. K A K P Gunawardena
Mrs. V G S S Kotakadeniya
Mr. M A P N Weerasinghe

Source -Offer Document

4 INTENTIONS OF THE OFFEROR

The intention of the Offeror is to continue operations of the Offeree company as a going concern, with no intention of scaling down or discontinuing any major segments.

The Offeror does not intend to implement any major changes to the business of the Offeree including re- deployment of the fixed assets of the Offeree Company.

The long-term commercial justification for the proposed Offer;

LOLC Holdings PLC effectively owns 53.76% of the Offeror, Iconic Trust (Private) Limited.

Consequently, the proposed mandatory offer to acquire a majority stake in the third-largest cable manufacturer in the country, in terms of Code, which would increase the existing ownership from 30.42%, present several key long-term value creation opportunities for the LOLC Group as a whole.

Increasing the ownership stake in Sierra Cables PLC will create a compelling commercial case for driving growth, enhancing profitability, and positioning the LOLC Group as a market leader in this critical and expanding sector. This acquisition aligns with the group's broader strategic objectives and offers significant long-term financial and operational benefits.

- **Backward integration**
  With the existing construction arm of the LOLC Group, through their substantial shareholding in Browns Engineering & Construction (Pvt) Ltd. (26.88%), recognized as the country's leading provider of telecommunications and electrical engineering solutions with its business presence in the Maldives, Fiji, and the UAE; Sierra Cables PLC could enhance its revenue base and add value to its operations while improving supply chain capabilities and achieving economies of scale to support Browns Engineering & Construction (Pvt) Ltd. Growth plans in these jurisdictions.

- **Growth in Infrastructure and Constructions Sectors**
  The cable manufacturing industry is expected to benefit significantly from ongoing infrastructure projects and increased investments in the energy and construction sectors. Acquiring a more significant stake ensures that LOLC Group is well-positioned to capture value from these growth trends, securing a vital role in the country's development initiatives.

- **Revenue Diversification & Enhanced Profitability**
  Increasing ownership in a well-established cable manufacturing company allows LOLC Group to diversify its revenue streams further. The target company's solid market position and stable cash flows present an opportunity to contribute positively to Group's overall profitability, enhancing long-term shareholder value.

4 INTENTIONS OF THE OFFEROR (Contd.)

- **Potential for Regional Expansion**
  The acquisition presents an opportunity to explore regional market expansions by leveraging the manufacturer's production capabilities to capitalization on export opportunities and growing demand in neighboring countries such as Maldives, Pakistan, India, and Bangladesh. This potential will be further enhanced by the Group's extensive experience in these regions, as well as development opportunities in Africa. Together, these factors will provide a solid platform from cross-border growth, supporting LOLC Growth's broader intentional expansion strategy.

The Offeror will continue with the current employment contracts of the employees of the offeree company and its subsidiaries.

The employments of the Offeror's Directors will not be affected by the acquisition of the offeree company.

(Source – Extracted from Offer Document)

5 VALUATION METHODOLOGY AND APPROACH

This section of the report highlights the detailed valuation of shares of SIRA.

5.1 Valuation Methodology

Our valuation of equity shares is based on the following approaches,

1. **Income Approach (Discounted Cash Flow)**
2. **Market Approach**
3. **Adjusted Net Asset Approach**

5.2 Income Approach

Discounted Cash Flow Method

The theoretical framework of applying the Discounted Cash Flow (DCF) method of valuation can be summarized as follows:

❖ The business value attributable to the equity holders of the company consists of the present value of Free Cash Flows available to the providers of equity capital of the company, namely investors in convertible stock and common equity.

❖ The strategic value of the company could be ascertained by considering the business value attributable to the equity holders adjusting for any non-operational assets / liabilities of the entity.

In the DCF approach, the following formula is used to determine the business value attributable to the shareholders:

Business Value to Shareholders = $\left[\sum \frac{\boldsymbol{FCFF}}{\mathbf{1+(1+}\boldsymbol{r})^{\boldsymbol{n}}} + \frac{\boldsymbol{TV_T}}{\mathbf{(1+}\boldsymbol{r})^{\boldsymbol{T}}}\right] - \boldsymbol{Net\ Debts}$

FCFF	= Free Cash Flow to the Firm
r	= Weighted Average Cost of Capital
n	= Time Periods, time = 1 to T
TVT	= The Terminal Value at Time Period T

❖ The FCFF is defined as

- Profits Before Interest and Tax
- Add/(Less): Adjustments for items not involving any cash movements
- Less: Taxes
- Add/(Less): Decrease/(Increase) in working capital
- Less: Capital expenditure

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

- The Terminal Value at time period T (TVT) has been calculated using the following standard formula.

$$TVT = \frac{FCFF_T\,(1+g)}{r-g}$$

$FCFF_T$ = Free Cash Flow to the Firm in period T
R = Weighted Average Cost of Capital
g = Terminal growth rate
T = The last time period of the explicit forecast

- Using these inputs, the Business Value attributable to the company is determined by the discounted value of the Free Cash Flows to Firm during the explicit forecast period plus the discounted terminal value.

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

Key Assumptions used in DCF Valuation

❖ Weight Average Cost of Capital:

Weighted Average Cost of Capital was determined using the actual weights of the Debt Capital and Equity Capital of the Company. Accordingly, the weighted average cost of capital was estimated at 14.09% and 14.53% for the period from 2024/2025 to 2028/2029 and for the terminal period respectively.

❖ Cost of Equity:

The cost of equity is the return a company requires to decide if an investment meets capital return requirements. This is determined by using the buildup method by adding a risk premium to the risk-free rate.

Cost of Equity = Risk-Free Rate of Return + Beta * (Market Rate of Return - Risk-Free Rate of Return)

The risk-free rates were extracted from the prevailing Government Treasury bond rates at 12.13% and 12.94% for the period from 2024/2025 to 2028/2029 and for the terminal period respectively.
(Source:https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/statistics/wei/WEI_20241018_e.pdf)

The Market Risk Premium was calculated by comparing the risk free rate with the expected market return. Accordingly, the Market Risk Premium was estimated as 10.07%.

The existing beta value of the company, 0.73, was used as the beta factor.
(Sources: https://cse.lk/pages/company-profile/company-profile.component.html?symbol=SIRA.N0000)

❖ Cost of Debt:

The company's Cost of Debt was determined using the Average Weighted Prime Lending Rate (AWPLR) +1.5% , and adjusting the taxes thereafter. Accordingly, the Cost of Debt was determined as 7.57%.
(Sources: https://www.cbsl.lk/eResearch/Modules/RD/SearchPages/CMB_LendingAndDeposit.aspx)

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

❖ Terminal Growth Rate:

The terminal growth rate for SIRA has been estimated at 2.5%. SIRA holds approximately 20% of the market share, making it the third-largest player, while the ACL Group, including Kelani Cables, collectively controls over 70% of the market. The market is intensely competitive, with minimal differentiation in products among the leading players.

ACL and Kelani dominate the dealer and retail segments, leveraging robust distribution networks and significant marketing efforts, which give them an edge in reaching a broader customer base. In contrast, SIRA has a stronger foothold in the project market but remains a lesser-known brand overall. This limited brand recognition, coupled with SIRA's relatively niche market position, makes it challenging to expand significantly within the market.

Given these factors, the 2.5% terminal growth rate reflects a realistic projection, aligning with the company's market limitations and the overall competitive landscape in the cable manufacturing sector.

❖ Tax Rate:

The existing tax rate of 30% will be constant for the next five (05) years.

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

Discounted Cash Flow (DCF) Method

Total Value of SIRA based on DCF method is as follows,

	Year 1	Year 2	Year 3	Year 4	Year 5
	2024/2025 (For 06 Months) (LKR)	2025/2026 (LKR)	2026/2027 (LKR)	2027/2028 (LKR)	2028/2029 (LKR)
Free Cash Flow to Firm(FCFF)	358,773,245	850,748,220	888,204,993	896,338,362	904,046,501
Terminal Value					7,702,405,914
Total Cash Flows	358,773,245	850,748,220	888,204,993	896,338,362	8,606,452,415
DCF@ 14.09%	0.934	0.819	0.718	0.629	0.551
PV of Free Cash Flow (FCF)	335,161,308	696,606,788	637,459,631	563,850,909	4,745,361,440
NPV	6,978,440,076				
Add:					
Cash & cash equivalents as at 30/09/2024	240,986,437				
Other non-operational Assets	2,602,751,153				
Deduct:					
Loans Payable	(4,588,706,560)				
Other non-operational liabilities	(827,058,758)				
Business Value	**4,406,412,348**				
No. of Shares	**537,512,430**				
Business Value Per Share	**8.20**				

The business value per share of Sierra Cables PLC is LKR 8.20 based on the DCF method.

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

5.3 Market Approach

Peer Company Analysis

We have selected comparable companies related to the manufacture of power cables, listed in the Colombo Stock Exchange to arrive at the value according to Market Approach . We have considered the following factors to check the comparability of the selected sample of companies.

1. Nature of the operations
2. Market Segment
3. Risk Profile
4. Size
5. Profitability
6. Growth

Market Data has used the financial data of Colombo Stock Exchange. Also used Annual Reports for extraction of data.

Selected sample of the comparable companies:

1. ACL Cables PLC (ACL.N0000)
2. Kelani Cables PLC (KCAB.N0000)
3. Central Industries PLC (CIND.N0000)

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

Peer Based Price to Book Value Multiplier (P/B Ratio)

Peer average P/B Ratio is given in the table below:

	ACL Cables PLC	Kelani Cables PLC	Central Industries PLC
Market Price Per Share (LKR)	84.00	308.00	116.50
Net Assets (LKR)	33,443,784,000	12,062,690,000	4,097,613,000
No. of Shares	239,574,720	21,800,000	24,195,193
Book Value Per Share (LKR)	139.60	553.33	169.36
P/B Ratio	0.60	0.56	0.69

Industry Average P/B Ratio	**0.62**

Source: Details were extracted from the Quarterly Financial Reports as of 30th September 2024 as the latest available published financials of the peer companies (https://cse.lk/) .

Accordingly, the market value of the company is as follows,

	Sierra Cables PLC
Growth Rate	2.5%
Industry Average P/B Ratio	0.62
Forward P/B Ratio	0.63
Net Assets (LKR)	5,551,938,604
Business Value (LKR)	3,502,189,448
No. of Shares	537,512,430
Business Value Per Share (LKR)	6.52

The business value per share of Sierra Cables PLC is LKR 6.52 based on the P/B multiple method.

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

Peer Based Price Earnings Multiples (P/E Ratio)

Peer average P/E Ratio is given in the table below:

	ACL Cables PLC	Kelani Cables PLC	Central Industries PLC
Market Price Per Share (LKR)	84.00	308.00	116.50
Earnings Per Share (LKR)	18.64	90.38	24.30
P/E Ratio	**4.51**	**3.41**	**4.80**

Industry Average P/E Ratio	**4.24**

Source: Details were extracted from the Quarterly Financial Reports as of 30th September 2024 as the latest available published financials of the peer companies (https://cse.lk/) .

Accordingly, the market value of the company is as follows,

	Sierra Cables PLC
Growth Rate	**2.5%**
Trailing Industry Average P/E Ratio	**4.24**
Forward P/E Ratio	**4.34**
Profit After Tax (LKR)	**1,077,863,984**
Business Value (LKR)	**4,680,749,581**
No. of Shares	**537,512,430**
Business Value Per Share (LKR)	**8.71**

The business value per share of Sierra Cables PLC is LKR 8.71 based on the P/E multiple method.

Trailing Twelve Months (TTM) Earnings: Since the SIRA's year-end is 31st March, and we value it as of 30th September, we adjusted the earnings to reflect the most recent 12 months (from 1st October of the previous year to 30th September of the current year).

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

Peer Based Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) Multiplier

Peer average EBITDA Multiplier is given in the table below:

	ACL Cables PLC	Kelani Cables PLC	Central Industries PLC
Market Capitalization (LKR)	20,124,276,480	6,714,400,000	2,818,739,985
Add:			
Value of Debt (LKR)	2,279,184,000	87,002,000	509,384,000
Deduct:			
Cash and Cash Equivalents (LKR)	(7,219,128,000)	(533,003,000)	(61,095,000)
Enterprise Value (LKR)	**15,184,332,480**	**6,268,399,000**	**3,267,028,985**

	ACL Cables PLC	Kelani Cables PLC	Central Industries PLC
Earnings Before Tax (LKR)	6,215,264,500	2,748,930,895	818,923,500
Add:			
Interest (LKR)	506,718,000	15,015,865	21,224,500
Depreciation and Amortization (LKR)	351,012,500	88,184,782	81,428,000
EBITDA	**7,072,995,000**	**2,852,131,541**	**921,576,000**

	ACL Cables PLC	Kelani Cables PLC	Central Industries PLC
EBITDA Multiplier	**2.15**	**2.20**	**3.55**

Industry Average EBITDA Multiplier	**2.63**

Source: Details were extracted from the Quarterly Financial Reports as of 30th September 2024 as the latest available published financials of the peer companies (https://cse.lk/).

Accordingly, the market value of the company is as follows,

	Sierra Cables PLC
EBITDA (LKR)	2,123,025,444
Growth Rate	2.5%
Trailing Industry Average EBITDA	2.63
Forward EBITDA	2.70
Business Value (LKR)	5,722,887,559
No. of Shares	537,512,430
Business Value Per Share (LKR)	10.65

The business value per share of Sierra Cables PLC is LKR 10.65 based on the EBITDA multiplier method.

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

Trailing Twelve Months (TTM) EBITDA: Since the SIRA's year-end is 31st March, and we value it as of 30th September, we adjusted the EBITDA to reflect the most recent 12 months (from 1st October of the previous year to 30th September of the current year).

5 VALUATION METHODOLOGY AND APPROACH (Contd.)

5.4 Adjusted Net Asset Value (ANAV) Approach

The Net Asset Value Approach estimates the value of an entity by adjusting the asset and liability balances of the company at their Book Values. The net asset value entails calculating the current value attributable to existing shareholders after settlement of all debt holders.

The Adjusted Net Asset Approach includes the key adjustment of revaluing the investment in associates to their fair market value, ensuring that the valuation of these entities aligns with their underlying business performance and market conditions. Therefore, the Adjusted Net Asset approach gives a clearer view of the SIRA's intrinsic value, considering the potential unrealized gains or losses in its investments in associates.

ANAV computation of SIRA as of 30th September 2024 is given below.

		As at 30.09.2024 (LKR)
Assets		
Total Non-Current Assets		2,747,158,519
(-) Carrying value of Investment in Associate		(264,652,649)
(+) Value of Associates		
Average Value of T & G Lanka (Pvt) Ltd	879,087,236	
22% holding by Sierra Cables PLC	193,399,192	193,399,192
Average Value Cables PTE Ltd (Fiji)	1,464,026,212	
30% holding by Sierra Cables PLC	439,207,864	439,207,864
Total Current Assets		8,883,010,855
Adjusted Total Asset		**11,998,123,781**
Liabilities		
Total Non-Current Liabilities	(2,305,160,361)	
Total Current Liabilities	(3,849,132,216)	(6,154,292,577)
Adjusted Net Asset Value		**5,843,831,204**
No. of Shares		**537,512,430**
Business Valuer Per Share		**10.87**

Source: Published Financial Statements of SIRA as of 30th September 2024, Management Accounts of associate companies as of 30th September 2024, and management's information

The business value per share of Sierra Cables PLC is Rs. 10.87 based on the ANAV method.

6 HISTORICAL AND SUBSEQUENT TRADE SUMMARIES

Historical Trade Summaries

To validate the offer price, MOORE obtained the historical trade summaries from 01st September 2023 to 11th September 2024 (the date of incurring the obligation to make the mandatory offer). In this analysis, we are comparing the market prices of the Offeree's shares over the past twelve (12) months(from 01st September 2023 to 31st August 2024), and till the date of incurring the obligation to make the mandatory offer, taking into account the highest and lowest prices, to determine whether the Offeror's proposed price of LKR 8.00 per share is compliant with the regulations and whether it represents a fair valuation relative to the market conditions.

Trade summaries from 01st September 2023 to 31st August 2024 is as follows,

No	Trade Period	High		Low		Close (LKR)	Trade Volume	Share Volume	Turnover (LKR)
		Date	LKR	Date	LKR				
01	8-1-24	23-8-24	11.00	30-8-24	9.90	10.00	428	2810548	29,479,238
02	7-1-24	10-7-24	11.20	31-7-24	10.40	10.50	382	813249	8,889,524
03	6-1-24	4-6-24	11.70	28-6-24	10.90	11.20	498	1114992	12,521,839
04	5-1-24	7-5-24	12.30	31-5-24	11.20	11.60	1221	8484845	103,095,619
05	4-1-24	2-4-24	12.20	3-4-24	10.50	11.20	2481	19322046	213,600,067
06	3-1-24	18-3-24	13.00	27-3-24	11.70	11.90	864	2699621	33,337,061
07	2-1-24	6-2-24	12.80	29-2-24	12.00	12.50	266	1676619	21,074,361
08	1-1-24	9-1-24	13.10	3-1-24	11.90	12.40	656	2354749	29,634,980
09	12-1-23	1-12-23	12.10	28-12-23	11.30	12.00	261	772209	9,130,075
10	11-1-23	30-11-23	12.00	24-11-23	10.90	11.90	359	1417886	16,527,627
11	10-1-23	30-10-23	12.10	19-10-23	10.70	11.80	409	678199	7,635,193
12	9-1-23	19-9-23	12.50	1-9-23	11.00	12.00	738	3422770	40,765,402

Source: https://cse.lk/

6 HISTORICAL AND SUBSEQUENT TRADE SUMMARIES (Contd.)

Daily trade summaries from 01st September 2024 to 11th September 2024 (the date of incurring the obligation to make the mandatory offer) is as follows,

No	Trade Date	High (LKR)	Low (LKR)	Close (LKR)	Trade Volume	Share Volume	Turnover (LKR)
01	2-9-24	10.00	9.70	9.80	64	63202	617,481
02	3-9-24	10.00	9.80	10.00	9	13930	138,446
03	4-9-24	10.00	9.90	10.00	17	25550	255,380
04	5-9-24	10.00	9.90	10.00	11	75540	755,359
05	6-9-24	10.00	9.80	9.90	26	42681	422,158
06	9-9-24	9.90	9.80	9.90	20	9275	91,523
07	10-9-24	9.90	9.50	9.90	54	80487	776,316
08	11-9-24	10.00	8.00	9.80	64	6787532	54,441,122

Source: https://cse.lk/

Average price from 01st September 2023 to 11th September 2024	**LKR 10.91**

Accordingly, the historical average trade price from 01st September 2023 to the date of incurring the obligation to make the mandatory offer (11th September 2024) is LKR 10.91.

- Highest Market Price (LKR 13.10): The highest price was recorded on 9th January 2024, with shares trading at LKR 13.10. This indicates a relatively high valuation earlier in the year.
- Proposed Offer Price (LKR 8.00): The offer price of LKR 8.00 is at the lowest recorded price in the given period but is well below the average trading prices for most of the period reviewed.

The offer price of LKR 8.00 represents the lowest recorded price within the reviewed period of one year (01st September 2023 to 11th September 2024). It remains significantly below the average trading prices observed for the majority of the period under consideration.

Subsequent Trade Summaries

To validate the offer price, MOORE obtained the subsequent market prices from 12th September 2024 (the date after the acquisition of the shares which created the requirement of the mandatory offer) in addition to the historical trade summaries. In this analysis, we are comparing the market prices of the Offeree's shares starting from 12th September 2024, taking into account the highest and lowest prices, to determine whether the Offeror's proposed price of LKR 8.00 per share is compliant with the regulations and whether it represents a fair valuation relative to the market conditions.

6 HISTORICAL AND SUBSEQUENT TRADE SUMMARIES (Contd.)

Daily trade summaries from 12th September 2024 to 06th December 2024 is as follows,

No	Trade Date	High (LKR)	Low (LKR)	Close (LKR)	Trade Volume	Share Volume	Turnover (LKR)
01	12-9-24	9.80	9.60	9.70	8	3750	36,524.90
02	13-9-24	9.80	9.70	9.80	13	53727	521,403.40
03	18-9-24	9.80	9.80	9.80	9	7421	72,725.80
04	19-9-24	9.80	9.60	9.70	38	33461	324,568.10
05	20-9-24	10.00	9.70	9.80	33	41245	402,706.00
06	23-9-24	10.40	9.80	9.80	25	31021	305,176.70
07	24-9-24	10.20	9.70	10.20	63	89458	878,758.00
08	25-9-24	10.40	10.00	10.40	70	313263	3,229,153.30
09	26-9-24	10.90	10.20	10.50	71	41926	445,767.30
10	27-9-24	10.80	10.30	10.60	31	34809	367,302.00
11	30-9-24	10.80	9.70	10.00	118	453856	4,540,783.10
12	1-10-24	10.60	10.20	10.30	55	1806719	18,590,059.40
13	2-10-24	10.40	9.90	10.00	76	290119	2,903,408.40
14	3-10-24	10.10	9.90	10.10	11	5050	50,515.00
15	4-10-24	10.00	9.80	10.00	74	234074	2,321,776.40
16	7-10-24	10.10	9.80	9.90	69	213143	2,124,783.90
17	8-10-24	10.10	9.80	10.00	26	27873	276,884.30
18	9-10-24	10.00	9.70	9.80	73	164310	1,610,175.00
19	10-10-24	9.90	9.70	9.90	45	218426	2,149,898.60
20	11-10-24	10.00	9.80	9.90	26	94827	939,625.10
21	14-10-24	10.00	9.80	9.90	43	95258	935,680.10
22	15-10-24	10.00	9.80	9.90	39	160675	1,591,035.50
23	16-10-24	10.00	9.80	10.00	39	246475	2,433,104.90
24	18-10-24	10.40	9.90	10.00	72	149824	1,509,339.70
25	21-10-24	10.50	10.00	10.40	109	434846	4,463,238.30
26	22-10-24	10.50	10.20	10.30	30	39906	409,990.70
27	23-10-24	10.40	10.10	10.10	32	199757	2,034,322.20
28	24-10-24	10.30	9.90	10.00	73	377780	3,783,359.90
29	25-10-24	10.20	10.00	10.10	33	76554	767,045.40

6 HISTORICAL AND SUBSEQUENT TRADE SUMMARIES (Contd.)

No	Trade Date	High (LKR)	Low (LKR)	Close (LKR)	Trade Volume	Share Volume	Turnover (LKR)
30	28-10-24	10.10	9.90	10.00	76	178786	1,781,005.00
31	29-10-24	10.20	9.90	10.00	69	134785	1,342,319.70
32	30-10-24	10.20	9.90	10.00	54	129857	1,292,431.00
33	01-11-24	10.20	9.90	10.10	66	246420	2,456,102.10
34	04-11-24	10.10	9.90	10.00	33	75394	750,706.40
35	05-11-24	10.00	9.80	10.00	25	53028	524,732.50
36	06-11-24	10.00	9.70	10.00	57	101245	1,005,030.60
37	07-11-24	10.20	10.20	10.00	32	179459	1,822,418.00
38	08-11-24	11.10	10.30	11.00	488	2098340	22,679,208.50
39	11-11-24	11.10	10.30	10.60	184	586675	6,319,087.70
40	12-11-24	10.90	10.50	10.90	68	164740	1,766,729.00
41	13-11-24	10.90	10.70	10.90	75	496540	5,407,535.00
42	14-11-24	11.00	10.70	10.90	37	112964	1,218,248.50
43	18-11-24	11.00	10.80	10.90	79	364156	3,970,042.50
44	19-11-24	11.00	10.70	10.70	69	193069	2,075,466.70
45	20-11-24	10.90	10.50	10.70	51	87532	931,443.50
46	21-11-24	10.70	10.40	10.60	112	609201	6,440,895.10
47	22-11-24	10.80	10.60	10.60	36	42604	453,711.40
48	25-11-24	10.80	10.30	10.60	48	122087	1,271,344.80
49	26-11-24	10.70	10.50	10.60	50	79706	842,817.40
50	27-11-24	10.70	10.50	10.70	31	109171	1,148,809.00
51	28-11-24	10.70	10.60	10.70	29	55179	588,302.70
52	29-11-24	10.80	10.70	10.80	14	5105	55,129.00
53	02-12-24	10.90	10.60	10.70	50	254640	2,737,157.50
54	03-12-24	11.20	10.60	11.00	143	781843	8,583,037.10
55	04-12-24	11.50	11.20	11.20	123	570443	6,467,377.80
56	05-12-24	11.30	10.90	11.00	86	239940	2,651,916.50
57	06-12-24	11.30	11.00	11.30	103	547930	6,156,911.30

Source: [*https://cse.lk/*](https://cse.lk/)

Average price from 12th September 2024 to 06th December 2024	**LKR 10.31**

6 HISTORICAL AND SUBSEQUENT TRADE SUMMARIES (Contd.)

The post-event prices initially recovered to LKR 9.80 from the transaction price and then gradually increased to LKR 11.30, suggesting that the LKR 8.00 dip was a one-off event.

7 MATTERS TO BE CONSIDERED BY THE SHAREHOLDERS

7.1 Risk factors for shareholders who accept the offer

Shareholders who decide to accept the offer will face the risk of increasing of SIRA share price post acceptance. An increase in share price could occur due to several reasons of which some are listed below.

- Improved performance of SIRA due to new initiatives of the new management under ITPL.
- Improvement of equity market conditions leading to a bull market (an increase in share prices across the market).
- There is a risk that the offer price may not fully reflect the intrinsic value of the company. Shareholders could accept an undervalued price, particularly if the offer is made under challenging market conditions or with limited growth prospects visible at the time.
- The broader macroeconomic environment could affect the financial health of SIRA and the overall industry. Accepting the offer during an economic downturn could shield shareholders from future volatility, but if the economy improves, SIRA might perform better, and shareholders will miss out on potential recovery-driven gains.
- Industrial Risk
    - Loss of Stake in Growing Industry: If the cable manufacturing industry or related sectors experience significant growth or technological advancements, shareholders who accept the offer might miss out on participating in that growth. The electrical cable industry could see increased demand due to infrastructure development, which could drive future profits for Sierra Cables.
    - Changes in Corporate Strategy: By accepting the offer, shareholders lose their voting rights and potential influence over the future direction of the company. They may miss the opportunity to benefit from strategic shifts like diversification, expansion, or mergers that might positively impact Sierra Cables in the long run.

7 MATTERS TO BE CONSIDERED BY THE SHAREHOLDERS (Contd.)

7.2 Risk factors for shareholders who do not accept the offer

Shareholders who decide not to accept the offer will face the risk of decreasing of SIRA share price post acceptance. A decrease in share price could occur due to several reasons of which some are listed below.

- Unfavorable equity market conditions leading to a bear market (a decrease in share prices across the market).
- By not accepting the offer, remaining shareholders may see their voting power diminished if the offeror acquires a significant controlling stake. This could reduce their ability to influence key corporate decisions, including dividends, strategic investments, or asset sales.
- Shareholders who retain their shares might face significant risk if the economy worsens, leading to a decline in Sierra Cables' revenues and profitability. The infrastructure industry is highly sensitive to macroeconomic conditions, and a slowdown could affect orders and demand for cables, leading to potential financial losses for non-accepting shareholders.
- Industrial Risk
    - Changes in Market Position: If ITPL successfully acquires a significant stake and introduces new management strategies that are not aligned with shareholder interests or the best practices of the industry, the company’s market position could weaken. This could lead to lower competitiveness and a loss of key customers in the cable manufacturing sector.
    - Shift in Business Strategy: ITPL might push for changes in Sierra Cables’ business strategy post-acquisition, such as a shift in product focus, cost-cutting measures, or mergers with less favorable companies. Shareholders who do not accept the offer risk being part of a company undergoing a potentially risky transformation.

The decision to accept or reject the mandatory offer made by ITPL depends on the individual shareholder’s risk tolerance, investment strategy, and outlook on SIRA’s future. Accepting the offer may provide immediate financial liquidity, but with the potential risk of losing long-term upside, while rejecting the offer allows shareholders to remain involved but exposes them to operational, financial, and governance risks under new majority control.

8 LIMITATIONS

MOORE's analyses are based on information obtained from the audited, non-audited, and Published financial accounts, and cash flow projections provided by SIRA. MOORE accepted all such information as accurate and acted with due care, due diligence and consideration in preparing this report. Nothing has come to the attention of MOORE to believe that the facts and data set forth in the report are incorrect. However, MOORE assumes no responsibility for errors or omissions in information furnished in the audited and published financial statements of SIRA.

MOORE did not investigate either property's titles or the directors' claims of SIRA ownership of said properties. Neither has MOORE explored the possibility of liens or encumbrances lodged against the properties.

We performed the Discounted cash flow valuation methods with the below limitations:

- The cash flow projections provided by the SIRA underwent a reasonable assessment on MOORE part; however, a comprehensive evaluation to validate the accuracy and reliability of these projections was not feasible due to time constraints in accordance with the Takeovers and Mergers Code 1995 (amended 2003).

- Furthermore, SIRA has not accounted for potential amendments to the company's operations and policies that may arise following the occurrence of the mandatory offer.

- This report is intended solely for the use of the Board of Directors of SIRA for the purposes outlined in Section 1 of this report and should not be utilized for any other purpose.

In carrying out this assignment, analyses deemed to be appropriate and assessments that were possible and practical within the time available have been carried out. Financial information and market data from the CSE have also been used for this assignment.

The value recommendations in this report are valid till the expiration of the offer.

9 APPENDIX

Annexure 01 - Historical Income Statement- Sierra Cables PLC - Group

Description	All amounts in LKR				
	31.03.2020	31.03.2021	31.03.2022	31.03.2023	31.03.2024
Revenue	5,563,252,957	5,498,555,123	8,257,835,280	7,069,360,002	8,150,443,782
Cost of Sales	(4,616,571,793)	(4,617,597,229)	(6,713,699,940)	(4,504,573,516)	(6,322,574,589)
Gross Profit	946,681,164	880,957,894	1,544,135,340	2,564,786,486	1,827,869,193
Other Income	31,059,166	79,604,614	40,245,489	37,290,715	99,769,568
Gain on disposal of Subsidiaries	-	-	-	-	-
Selling and distribution expenses	(296,574,720)	(243,070,422)	(276,627,599)	(319,215,356)	(142,921,311)
Administrative Expenses	(162,170,189)	(167,034,372)	(176,179,023)	(347,159,496)	(556,756,610)
Other Expenses	(43,396,881)	(55,053,596)	(52,634,009)	(210,166,151)	-
Profit from Operations	475,598,540	495,404,118	1,078,940,198	1,725,536,198	1,227,960,840
Finance Income	1,728,275	944,690	15,250,984	52,368,765	92,969,393
Finance costs	(221,356,155)	(173,853,259)	(531,244,267)	(926,645,818)	(502,197,351)
Net Finance Income	(219,627,880)	(172,908,569)	(515,993,283)	(874,277,053)	(409,227,958)
Share of Profit of Equity - Accounted Investees, (Net of Tax)	8,328,570	15,101,345	20,690,955	87,231,621	104,219,380
Profit before taxation	264,299,230	337,596,894	583,637,870	938,490,766	922,952,262
Income tax expense/ Reversal	(35,540,544)	(17,635,739)	(111,956,885)	(235,138,439)	(195,224,045)
Profit from continuing operations	228,758,686	319,961,155	471,680,985	-	-
Discontinued operations - Loss/Profit from discontinued operations net of tax	-	-	-	-	-
Profit for the Year	228,758,686	319,961,155	471,680,985	703,352,327	727,728,217
Profit Attributable to : Owners of the Company	229,621,599	323,018,593	465,548,034	707,411,449	764,722,463
Non - Controlling Interests	(862,913)	(3,057,438)	6,132,951	(4,059,121)	(36,994,246)
Profit for the year	228,758,686	319,961,155	471,680,985	703,352,327	727,728,217

9 APPENDIX (Contd.)

Annexure 01 (Contd.)- Historical Financial Position - Sierra Cables PLC - Group

	All amounts in LKR				
Statement of Financial Position	31.03.2020	31.03.2021	31.03.2022	31.03.2023	31.12.2024
ASSETS					
Non-current assets					
Property, plant and equipment	1,464,116,282	1,942,237,591	2,799,890,735	2,719,004,672	2,569,460,629
Intangible assets	4,563,257	2,555,545	571,586	47,738,492	5,950,000
Right -of- use asset	3,695,474	2,528,281	123,677	-	-
Investment Property	-	-	-	-	-
Investment in subsidiaries	-	-	-	-	-
Equity-Accounted Investees	17,474,607	32,575,952	53,266,907	131,985,788	207,852,172
Other Non-Current Assets	20,402,447	29,017,194	29,344,528	29,545,511	105,758,174
Total Non-Current Assets	**1,510,252,067**	**2,008,914,563**	**2,883,197,433**	**2,928,274,463**	**2,889,020,975**
Current assets					
Inventories	1,417,054,711	1,742,847,403	2,032,132,009	2,289,819,575	2,316,836,578
Trade and other receivables	1,816,116,446	2,651,711,150	2,742,021,334	1,684,490,090	1,699,741,894
Derivative Financial Assets	2,479,949	24,909,645	-	-	-
Income Tax Recoverable	1,681,791	-	-	-	-
Amounts due from Related Companies	109,133,981	96,053,049	87,064,544	387,059,884	1,843,403,596
Short Term Investment				137,725,637	691,909
Cash and cash equivalents	41,471,530	125,559,042	326,240,025	264,094,509	215,327,120
Total Current Assets	**3,387,938,408**	**4,641,080,289**	**5,187,457,912**	**4,763,189,695**	**6,076,001,097**
Assets Classified as Held for Sale					
Total assets	**4,898,190,475**	**6,649,994,852**	**8,070,655,345**	**7,691,464,158**	**8,965,022,072**
EQUITY AND LIABILITIES					
Equity					
Stated capital	894,565,898	894,565,898	894,565,898	894,565,898	894,565,898
Revaluation reserve	538,687,705	1,012,847,327	1,614,753,772	1,333,893,935	1,333,893,935
Fair Value Reserve	8,912,507	17,377,668	17,705,002	17,887,163	30,099,826
Foreign Currency Translation Reserve	12,621,670	9,024,997	9,213,333	80,369,805	76,144,340
Retained Earnings	557,715,206	771,663,652	1,233,047,112	1,958,401,475	2,695,671,204
Total Equity Attributable to Equity Holders of the Company	**2,012,502,986**	**2,705,479,542**	**3,769,285,117**	**4,285,118,276**	**5,030,375,203**
Non-Controlling Interest	9,478,637	12,900,437	27,135,487	25,100,535	190,949
Total Equity	**2,021,981,623**	**2,718,379,979**	**3,796,420,604**	**4,310,218,811**	**5,030,566,152**
Non-Current Liabilities			-		
Retirement Benefit Obligations	54,057,974	64,392,757	80,106,867	80,893,996	89,470,580
Deferred Tax Liabilities	207,704,606	204,657,526	293,977,241	512,602,346	515,441,102
Long Term Loans	113,244,086	142,094,560	301,965,253	379,635,225	95,540,774
Long Term Lease Liability	1,478,290	485,415	-		
Total Non-Current Liabilities	**376,484,956**	**411,630,258**	**676,049,361**	**973,131,567**	**700,452,456**

9 APPENDIX (Contd.)

Current liabilities					
Trade and other payables	1,435,904,330	2,049,390,480	1,372,248,737	528,021,033	519,609,296
Current Portion of Long Term Loans	210,561,719	74,612,460	132,670,133	922,323,595	1,334,094,452
Current Portion of Lease Liability	2,223,230	1,508,430	360,782	-	-
Amount due to related companies	52,777	1,205,467	1,243,932	280,865,607	358,352,526
Import Demand Loans	650,751,568	1,222,117,705	1,682,392,479	349,016,655	897,620,054
Income Tax Payable	13,807,189	38,450,141	84,732,265	255,136,942	121,918,029
Bank Overdraft	186,423,083	132,699,932	324,537,052	72,749,948	2,409,107
Total Current Liabilities	2,499,723,896	3,519,984,615	3,598,185,380	2,408,113,780	3,234,003,464
Total liabilities	2,876,208,852	3,931,614,873	4,274,234,741	3,381,245,347	3,934,455,920
Total equity and liabilities	4,898,190,475	6,649,994,852	8,070,655,345	7,691,464,158	8,965,022,072

Source: Details were extracted from the Published Annual Reports (https://cse.lk/).

9 APPENDIX (Contd.)

Annexure 02 - Forecasted Income Statement - Sierra Cables PLC - Company

Description	All amounts in LKR				
	31.03.2025	31.03.2026	31.03.2027	31.03.2028	31.03.2029
Revenue	8,274,386,853	8,439,874,590	8,608,672,082	8,780,845,524	8,956,462,434
Cost of Sales	(6,619,509,483)	(6,751,899,672)	(6,886,937,666)	(7,024,676,419)	(7,165,169,947)
Gross Profit	1,654,877,371	1,687,974,918	1,721,734,416	1,756,169,105	1,791,292,487
Other Income	39,576,439	30,000,000	30,000,000	30,000,000	30,000,000
Selling and distribution expenses	(255,637,169)	(268,419,027)	(281,839,979)	(295,931,978)	(310,728,576)
Administrative Expenses	(325,557,222)	(341,835,084)	(358,926,838)	(376,873,180)	(395,716,839)
Profit from Operations	1,113,259,419	1,107,720,807	1,110,967,600	1,113,363,948	1,114,847,072
Net Finance Income/Cost	(187,295,175)	(191,041,078)	(194,861,900)	(198,759,138)	(202,734,321)
Profit before taxation	925,964,244	916,679,729	916,105,700	914,604,810	912,112,751
Income tax expense/ Reversal	(382,545,256)	(390,196,161)	(398,000,084)	(405,960,086)	(414,079,287)
Profit for the year	543,418,988	526,483,568	518,105,616	508,644,724	498,033,464

Source: Management's Information

9 APPENDIX (Contd.)

Annexure 02 (Contd.) - Forecasted Financial Position - Sierra Cables PLC - Company

Statement of Financial Position	All amounts in LKR				
	31.03.2025	31.03.2026	31.03.2027	31.03.2028	31.12.2029
ASSETS					
Non-current assets					
Property, plant and equipment	2,641,757,129	2,470,571,247	2,299,385,365	2,128,199,483	1,957,013,601
Intangible assets	4,550,000	3,150,000	1,750,000	350,000	-
Investment in Associates	31,610,163	31,610,163	31,610,163	31,610,163	31,610,163
Financial Investments - Available for Sale	59,010,093	59,010,093	59,010,093	59,010,093	59,010,093
Total Non-Current Assets	**2,736,927,385**	**2,564,341,503**	**2,391,755,621**	**2,219,169,739**	**2,047,633,857**
Current assets					
Inventories	2,569,882,748	2,589,769,737	2,547,223,520	2,501,939,546	2,453,825,324
Trade and other receivables	3,383,241,758	3,237,212,172	3,184,029,400	3,127,424,433	3,067,281,656
Amounts due from Related Companies	2,890,708,771	2,890,708,771	2,890,708,771	2,890,708,771	2,890,708,771
Short Term Investment	691,909	691,909	691,909	691,909	691,909
Cash and cash equivalents	217,939,401	217,939,401	217,939,401	217,939,401	217,939,401
Total Current Assets	**9,062,464,587**	**8,936,321,990**	**8,840,593,001**	**8,738,704,061**	**8,630,447,061**
Total assets	**11,799,391,972**	**11,500,663,493**	**11,232,348,622**	**10,957,873,800**	**10,678,080,918**
EQUITY AND LIABILITIES					
Equity					
Stated capital	894,565,898	894,565,898	894,565,898	894,565,898	894,565,898
Revaluation reserve	1,178,018,232	1,178,018,232	1,178,018,232	1,178,018,232	1,178,018,232
Fair Value Reserve	23,351,745	23,351,745	23,351,745	23,351,745	23,351,745
Merger Reserve	(237,775,033)	(237,775,033)	(237,775,033)	(237,775,033)	(237,775,033)
Retained Earnings	3,689,403,816	4,215,887,384	4,733,993,001	5,242,637,725	5,740,671,189
Total Equity	**5,547,564,658**	**6,074,048,226**	**6,592,153,843**	**7,100,798,567**	**7,598,832,031**
Non-Current Liabilities					
Retirement Benefit Obligations	94,178,485	94,178,485	94,178,485	94,178,485	94,178,485
Deferred Tax Liabilities	515,441,102	515,441,102	515,441,102	515,441,102	515,441,102
Long Term Loans	43,947,350	43,947,350	43,947,350	43,947,350	43,947,350
Total Non-Current Liabilities	**653,566,937**	**653,566,937**	**653,566,937**	**653,566,937**	**653,566,937**
Current liabilities					
Trade and other payables	395,767,798	344,968,856	359,767,540	374,862,198	390,258,749
Current Portion of Long Term Loans	1,934,760,095	1,934,760,095	1,125,737,000	1,125,737,000	1,125,737,000
Amount due to related companies	394,965,355	394,965,355	394,965,355	394,965,355	394,965,355
Import Demand Loans	2,487,809,766	1,705,745,757	1,705,745,757	899,571,550	98,229,452
Income Tax Payable	382,545,256	390,196,160	398,000,084	405,960,086	414,079,287
Bank Overdraft	2,412,107	2,412,107	2,412,107	2,412,107	2,412,107
Total Current Liabilities	**5,598,260,377**	**4,773,048,330**	**3,986,627,843**	**3,203,508,296**	**2,425,681,950**
Total liabilities	**6,251,827,314**	**5,426,615,267**	**4,640,194,780**	**3,857,075,233**	**3,079,248,887**
Total equity and liabilities	**11,799,391,972**	**11,500,663,493**	**11,232,348,622**	**10,957,873,800**	**10,678,080,918**

Source: Management's Information

9 APPENDIX (Contd.)

Annexure 03 – Key Assumptions

1. **Revenue**

Over the past five years, Sierra Cables PLC has experienced fluctuating revenue growth. The company's revenue was significantly impacted by the COVID-19 pandemic and the economic instability within the country, leading to a volatile revenue pattern. Between the financial years ending March 31st, 2020, and March 31st, 2024, revenue grew from Rs. 4.93 billion to Rs. 8.09 billion, with the highest revenue recorded in 2023/2024 at Rs. 8.09 billion.

Export sales had benefited from higher exchange rates in previous periods, but with the currency stabilizing, the company expects a marginal decline in revenue for the 2024/2025 financial year. Accordingly, the company's revenue is expected to increase only from 2% in the year 2024/2025 compared to the revenue in 2023/2024.

Moving forward, the company assumes a constant 2% growth rate, reflecting a steady recovery after the volatile conditions of recent years. This assumption is based on the stabilization of the exchange rate and expectations for consistent domestic demand, alongside moderate export growth as global economic conditions improve.

2. **Cost of Sales**:

The cost of sales (COS) primarily includes expenses related to raw material purchases, import charges, export expenses, and factory overheads. An analysis of the past five years reveals that, on average, the cost of sales accounted for 77% of the net revenue.

During the first six months of the financial year 2024/2025, the company's COS% is 72%. However, based on historical trends of trade volumes and management's expectations, the COS% is projected to increase in the latter half of the year, reaching 88% for the final six months. Despite this anticipated decrease, the overall average GP margin for the entire financial year 2024/2025 is expected to be 80%.

For projecting future performance, the company has adopted a forecasted average cost of sales ratio of 80% from 2025/2026 to 2028/2029. This projection is based on the management's expectation that while raw material costs will remain stable, rising operational expenses and market conditions will result in a slightly higher COS ratio compared to historical levels. This assumption reflects a cautious approach, allowing for flexibility in case of changes in the market or supply chain conditions.

9 APPENDIX (Contd.)

Annexure 03 (Contd.) – Key Assumptions

3. Gross Profit (GP) Rate:

Sierra Cables PLC has maintained a GP ratio reflecting strong operational efficiency, with a historical average of approximately 23% over the past five years.

During the first six months of the financial year 2024/2025, the company achieved a GP margin of 28%. However, based on historical trends of the trade volumes and management's expectations, the GP margin is projected to decline in the latter half of the year, reaching only 12% for the final six months. Despite this anticipated decrease, the overall average GP margin for the entire financial year 2024/2025 is expected to be 20%.

For the upcoming forecast periods from 2025/2026 to 2028/2029, the company anticipates a GP ratio of 20% due to an expected increase in the cost of sales ratio to 80%. This projection considers factors such as anticipated fluctuations in pricing strategies, competitive market dynamics, and potential cost increases associated with raw materials and operational expenses. This conservative estimate accounts for the need to remain competitive while ensuring sustainable profitability in a challenging economic environment.

4. Other Operating Income:

Other income is based on anticipated revenue from solar energy and scrap sales, reflecting stable sales volumes. The significant increase in Other income during the last financial year was primarily due to dividend income from an associate company. However, the company's other income has not been a stable figure and has varied over the years. For the next six months of the current financial year 2024/2025, the company expects other income to be Rs. 10,000,000. Looking ahead, the company projects other income of Rs. 30,000,000 annually for each financial year up to 2028/2029, driven by ongoing contributions from solar energy and scrap sales.

5. Administration Expenses

Administrative costs anticipate a 5% annual increase, reflecting both historical trends, coupled with a consideration of the average inflation rate, which stands at 5% for the next 05 years as per the CBSL (Central Bank Annual Report 2023). Historically, administrative costs have varied, peaking significantly in the 2022/23 financial year due to factors such as inflation, rising operational expenses, and increased staffing costs. The recent economic challenges faced by Sri Lanka, including high inflation rates and cost-of-living increases, have contributed to the upward trend in administrative expenses. The 5% projected increase aligns with the company's strategy to manage expenses while accounting for anticipated inflationary pressures and the need to maintain operational efficiency.

9 APPENDIX (Contd.)

Annexure 03 (Contd.) – Key Assumptions

6. Sales and Distribution Expenses.

The projections for Sierra Cables PLC's sales and distribution expenses reflect a 5% annual growth rate, aligned with the client's expectation of no major expansions in the near future. This moderate growth rate considers the current economic situation in Sri Lanka (Central Bank Annual Report 2023), where stability is prioritized amidst ongoing challenges. The projections aim to ensure that expenses remain manageable while supporting the company's operational needs in the coming years.

7. Working Capital:

Working capital changes have been determined by taking into account historical balances of trade receivables, Inventory, and trade payables and considering future projections of revenue, cost of sales, and other factors influencing working capital requirements.

8. Property, Plant and Equipment (PPE):

No capital expenditure has been assumed to occur in the upcoming future.

9. Taxation:

The existing tax rate of 30% will be constant for the next five (05) years.

9 APPENDIX (Contd.)

Annexure 04 -Individuals Participated in the Assignment

Tishan Subasinghe (FCA, FCMA, CISA (USA), MBA (Fin.) Col.), LL.B (Hons), Attorney – at -Law) - Managing Director, Moore Consulting (Pvt) Ltd

Nishani Perera (FCA, ACMA, LL.M (Cardiff), B.SC. (Business Administration) Special (USJ)) – Director, Moore Consulting (Pvt) Ltd

Nadeesha Dissanayake – B.SC. (Accounting) Special (USJ), CA (Reading) - Assistant Manager-Corporate Finance, Moore Consulting (Pvt) Ltd

Sugeesha Chandraweera – B.SC. (Accounting) Special (USJ), CMA (SL), IABF, CA (Reading) – Executive - Corporate Finance, Moore Consulting (Pvt) Ltd

LIST OF CONTACT PERSONS

Tishan Subasinghe Managing Director Moore Consulting (Pvt) Ltd	Tel Fax e-mail	+94-773-351-905 +94-11-2505518 tishan@moorestephens.lk
Nishani Perera Director Moore Consulting (Pvt) Ltd	Tel Fax e-mail	+94-773-571-893 +94-11-2505518 nishani@moorestephens.lk

Head office:
Moore Consulting (Pvt) Ltd
“Havelock Central”
No 104- 4 /1
Havelock Road
Colombo 05
Sri Lanka