

22 May 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

**(1) CONTINUING CONNECTED TRANSACTIONS; AND
(2) MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to (i) the sale of goods (the “**Agreed Sales**”) under the 2026-2028 Master Sales Agreement; (ii) the deposit services (the “**Deposit Services**”) under the 2026-2028 Group Financial Services Framework Agreement; and (iii) the loan services (the “**Loan Services**”, together with the Agreed Sales and the Deposit Services, the “**Continuing Connected Transactions**”) under the 2026-2028 Parent Group Financial Services Framework Agreement and the respective transactions contemplated thereunder (including their relevant proposed annual caps for the three years ending 31 December 2028 (the “**Proposed Annual Caps**”), details of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 22 May 2025 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 7 April 2022, the Company entered into the Existing Master Sales Agreement, pursuant to which the Group agreed to sell materials, components, accessories or raw materials, finished goods and other relevant or similar items, power generation equipment and parts (including certain products such as control valves, parts for steering systems, gears, clutch, the BV series of electric cables) and other products, to the Parent Group. As the Existing Master Sales Agreement will expire on 31 December 2025, the Company renewed the Existing Master Sales Agreement with the Parent Company under the similar terms by entering into the 2026-2028 Master Sales Agreement on 23 April 2025.

As the Existing Group Financial Services Framework Agreement will expire on 31 December 2025, on 23 April 2025, the Company and the Finance Company entered into the 2026-2028 Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Group, including loan services, non-financing guarantee letter services and other financial services. Subject to the approval of the Independent Shareholders, the Finance Company will provide deposit services to the Group. The Group is not under any obligation to obtain any or all of the financial services from the Finance Company and may obtain relevant financial services based on its business needs.

As the Existing Parent Group Financial Services Framework Agreement will expire on 31 December 2025, on 23 April 2025, the Parent Company and the Finance Company entered into the 2026-2028 Parent Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Parent Group, including deposit services, non-financing guarantee letter services and other financial services. Subject to the approval of the Independent Shareholders, the Finance Company will provide loan services to the Group. The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may provide relevant financial services based on its business needs.

As the Parent Company is the Controlling Shareholder of the Company, holding 54.74% equity interest in the Company, accordingly, the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is held as to 30% by the Parent Company and 70% by the Company, is an associate of the Parent Company and a subsidiary of the Company, respectively. Therefore, the transactions contemplated under the 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As the highest applicable percentage ratios calculated in accordance with Chapter 14A of the Listing Rules in respect of the annual caps under the 2026-2028 Master Sales Agreement exceed 5% and such annual caps exceed HK\$10,000,000, accordingly, the 2026-2028 Master Sales Agreement constitutes Non-exempted Continuing Connected Transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of (i) the Deposit Services; and (ii) the Loan Services exceed 5% and their respective annual caps exceed HK\$10,000,000, accordingly, the Deposit Services and Loan Services are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily deposit amount and the maximum daily loan amount exceed 25%, accordingly, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

The AGM will be convened by the Company at which resolutions will be proposed to seek consideration and (if thought fit), among other, approval from the Independent Shareholders for the 2026-2028 Master Sales Agreement and the transactions contemplated thereunder, the deposit services under the 2026-2028 Group Financial Services Framework Agreement and the loan services under the 2026-2028 Parent Group Financial Services Framework Agreement as well as the adoption of relevant proposed annual caps. As the Parent Company is a Controlling Shareholder of the Company, and Yufu Holding is the direct Controlling Shareholder of the Parent Company, both of which are materially interested in the Non-exempted Continuing Connected Transactions, accordingly, Parent Company and its associates, as well as Director appointed by Yufu Holding, will respectively abstain from voting on the relevant resolutions to be proposed at the AGM.

Given the sound corporate governance practices, Mr. Fu Yihong (a non-executive Director of the Company) currently holds a management position in the Parent Company (the deputy director of the Strategy and Technology Department in the Parent Company), and he is deemed to have material interests in the Non-exempted Continuing Connected Transactions, and has abstained from voting on the relevant Board resolutions to approve the Non-exempted Continuing Connected Transactions. Save as disclosed above, none of the other Directors has any material interest in the Non-exempted Continuing Connected Transactions, and none of them is required to abstain from voting on the relevant resolutions. Save as disclosed above, none of the other Directors has any material interest in the Non-exempted Continuing Connected Transactions, and none of them is required to abstain from voting.

The Independent Board Committee, composed of independent non-executive Directors of the Company, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Liu Wei and Mr. Ke Rui, has been established to advise the Independent Shareholders as to (i) whether the 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement (the "CCT Agreements") have been entered into in the ordinary and usual course of business of the Group based on normal commercial terms; and (ii) whether the terms of the CCT Agreements and the respective transactions contemplated thereunder, as well as the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolutions to be proposed at the AGM to approve the CCT Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps). As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance. In the last two years, there was no engagement between the Group and Lego Corporate Finance. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we consider that we are eligible to give independent advice on the CCT Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps).

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the “**Management**”); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the AGM.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Finance Company, the Parent Company or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Continuing Connected Transactions and the Proposed Annual Caps, we have taken into consideration of the following principal factors and reasons.

1. Background of the parties involved

a) *Information on the Group*

The Group is principally engaged in designing, manufacturing and sales of clean energy equipment, high-end smart manufacturing equipment and industrial services.

b) *Information on the Parent Group*

The Parent Group is principally engaged in sales of automobiles and component parts, electrical machinery and equipment, electronic products, construction materials, electrical supplies, electromechanical products, metallurgy, and environmental technology consulting services.

c) *Information on the Finance Company*

The Finance Company is a non-bank financial institution established in January 2013 under the PRC laws and with the approval of the NFRA (formerly known as the CBIRC). It is subject to the regulation of the PBOC and the NFRA. Its principal business is provision of financial services (including but not limited to deposit services, loan services, non-financing guarantee letter services and other financial services) to the Group and the Parent Group.

d) *Information on Chongqing Yufu Holding Group Co., Ltd.* (重慶渝富控股集團有限公司) (“Yufu Holding”, together with its subsidiaries but excluding the Group, “Yufu Group”)*

Yufu Group is principally engaged in new energy and intelligent connected vehicles business, electronic information business, artificial intelligence business and other business.

We have reviewed the announcements of the Company dated 26 February 2025 and 29 April 2025 in relation to the change in shareholding structure of the Controlling Shareholder of the Company, and noted that (i) Yufu Holding will make a capital increase to the Parent Company with a consideration of RMB5,000 million through cash and non-cash contribution methods. Upon completion of the capital increase, Yufu Holding will hold approximately 44.58% equity interest in the Parent Company (the “**Capital Increase**”); and (ii) Chongqing State-owned Assets Supervision and Administration Commission (“**CQSASAC**”) agrees to gratuitously transfer its 35.42% equity interest in the Parent Company to Yufu Holding (the “**Gratuitous Transfer**”) (together with the Capital Increase, collectively referred to as the “**Internal Restructuring**”). On 29 April 2025, the Company received a notification from the Parent Company that the Industrial and Commercial Administration procedures related to the Internal Restructuring had been completed. Upon completion of these procedures, Yufu Holding has become the direct Controlling Shareholder of the Parent Company, while the Parent Company remains the direct Controlling Shareholder of the Company, and the CQSASAC continues to be the ultimate Controlling Shareholder of the Company.

e) *Information on Chongqing Light Textile Holdings (Group) Company (“Light Textile Group”)*

The Light Textile Group is principally engaged in paper machinery business, enterprise digitalized production line transformation, structural parts and other businesses.

We have reviewed the announcement of the Light Textile Group dated 28 February 2025 in relation to the termination of the escrow agreement, and noted that CQSASAC and Yufu Holding will transfer their 20% and 80% equity interests in the Light Textile Group to the Parent Company, respectively. Accordingly, the Parent Company will hold 100% equity interests in the Light Textile Group.

2. *2026-2028 Master Sales Agreement*

a) *Reasons for and benefits of entering into the 2026-2028 Master Sales Agreement*

The Group is principally engaged in designing, manufacturing and sales of clean energy equipment, high-end smart manufacturing equipment and industrial services. As disclosed in the annual report of the Company for the year ended 31 December 2024 (the “**2024 Annual Report**”), the clean energy equipment business included the sales of, among others, wind power blades, electrical wires and cables and materials, industrial pumps, industry blowers, and hydroelectric generation equipment. We have discussed with the Management and were given to understand that the Group has been supplying these products to the Parent Group since 2008.

As disclosed in the Letter from the Board, from the perspective of the Group, the sale of the products to the Parent Group would provide a reliable customer base, a stable income and timely payment for the products sold.

Taking into consideration that (i) the products procured by the Parent Group are the same or similar products that the Group manufactures and sells to other customers, which are the Group’s principal business and the Group has been selling the products to the Parent Group historically; (ii) the Group is familiar with the Parent Group’s product specifications and has been able to respond quickly and in a cost-efficient manner to any new requirements that the Parent Group may request; (iii) the mutual beneficial relationship between the Group and the Parent Group, which the Agreed Sales provides a reliable customer base and stable income to the Group; and (iv) the Parent Group has proven to have a good track record in settling the trade payables to the Group in a timely manner, we concur with the Management’s view that the entering into of the 2026-2028 Master Sales Agreement was within the ambit of the businesses currently run by the Group and is therefore conducted in the ordinary and usual course of the business of the Company and is in the interests of the Company and the Shareholders as a whole.

b) *Principal terms of the 2026-2028 Master Sales Agreement*

We have reviewed the 2026-2028 Master Sales Agreement and did not note any abnormal terms or material difference between the terms of the Existing Master Sales Agreement and the terms of the 2026-2028 Master Sales Agreement, save for the change in annual caps.

Pricing Basis for the 2026-2028 Master Sales Agreement

As disclosed in the Letter from the Board, the 2026-2028 Master Sales Agreement was entered into in the ordinary and usual course of business of the Group. The relevant terms of the agreement were negotiated on arm's length basis and on normal commercial terms. The pricing or consideration under the 2026-2028 Master Sales Agreement will be determined with reference to:

- (i) the market price obtained through prices quoted on the industry websites (including website of Alibaba at www.1688.com) or by inquiring in the market from at least two independent third parties (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Company and its subsidiaries in the same region during the ordinary course of business on normal commercial terms);
- (ii) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party; and
- (iii) if none of the above prices are applicable, the price (taxed price) is determined by the cost plus method, that is, $\text{price} = \text{cost} \times (1 + \text{percentage mark-up})$, where the cost profit margin is not less than 20%, and the cost profit margin of 20% is determined based on the average gross margin of the Group in the past three years.

As disclosed in the Letter from the Board, all the products sold by the Group to the Parent Group are fully competitive products that are open to the market. Therefore, the pricing basis (i) and (ii) were and will be generally adopted in the Existing Master Sales Agreement and the 2026-2028 Master Sales Agreement, except that pricing basis (iii) was and will be adopted for the price of software (since they are customised and designed according to the needs of different customers).

We have discussed with the Management and were given to understand that the pricing basis of cost plus a percentage mark-up (tax inclusive) applies to all connected persons, members of the Group as well as independent third parties. We noted from the annual report of the Company for the year ended 31 December 2023 (the "2023 Annual Report") and the 2024 Annual Report that (1) the Group's gross profit margins amounted to approximately 19.8%, 18.4% and 17.4%, with an average of approximately 18.5%.

Having considered that (i) the software are customized and designed according to the needs of different customers; (ii) the percentage mark-up (tax inclusive) of not less than 20% applies to all customers of the Group; and (iii) the 20% mark-up is above the range of and the average of the gross profit margin of the Group for each of the three years ended 31 December 2024, we are of the view that the percentage mark-up (tax inclusive) of not less than 20% (including using the average gross margin of the Group in the past three years in the basis of the percentage mark-up (tax inclusive)) is fairly and reasonably determined.

We have conducted below works to assess the pricing basis of the Agreed Sales according to the three main categories of products.

- (a) for wires and cables and the BV series of electric cables, we have randomly selected and reviewed three invoices between the Group and the Parent Group for each of the three years ended 31 December 2024. We have compared with the market prices of the products with similar product specifications from two independent third parties obtained through prices quoted on websites for the industry. The selected items are principally the copper strips, copper wires and cables and fire resistant cables. We noted that the prices of the selected items sold to the Parent Group were higher than market prices of independent third parties;
- (b) for refrigeration machines, copper plates and raw materials such as steel and gears, we have randomly selected and reviewed three invoices between the Group and the Parent Group for each of the three years ended 31 December 2024. We have compared with the market prices of the products with similar product specifications from two independent third parties obtained through prices quoted on websites for the industry. The selected items are principally the steel products. We noted that the prices of the selected items sold to the Parent Group were higher than market prices of independent third parties or the products sold to independent third parties; and
- (c) for software, which are customised in compliance with the need of different customers, there are no directly comparable sample contracts entered into with other customers. As such, we have randomly selected and reviewed three contracts associated with the cost breakdowns between the Group and the Parent Group for each of the three years ended 31 December 2024. We noted that the cost structure for software project was principally determined with reference to (i) the hardware procurement cost; (ii) the research and development cost; and (iii) other related costs and expenses incurred during the project period, including but not limited to the logistic cost, the labour cost and the travelling expense. As advised by the Management, the percentage mark-up (tax inclusive) for the selected projects was not less than 20%, which is in line with the pricing basis of the Existing Master Sales Agreement.

We have selected all kinds of items under the 2026-2028 Master Sales Agreement, and have randomly selected and reviewed three invoices between the Group and the Parent Group (the “Selected Sales Samples”) for each of the three years ended 31 December 2024. We have also reviewed the cost schedules of the Selected Sales Samples provided by the Company, and noted that the percentage mark-up of the Selected Sales Samples were not less than 20% for the three years ended 31 December 2024. We also noted that the prices of the Selected Sales Samples were higher than market prices of the products with similar product specifications of independent third parties quoted from the website of Alibaba at www.1688.com. We consider such review covering the historical period under the Existing Master Sales Agreement on a random sampling basis on all main categories of products of the Group to be sufficient from the independent financial adviser’s perspective and nothing has come to our attention that causes us to believe that such invoices did not follow the internal control measures.

In respect of the samples selected in categories (a), (b) and (c) above, we have compared the market prices with similar product specification quoted on the website of Alibaba at www.1688.com, which is a reputable e-commerce platform operated by Alibaba Group Holding Limited. Alibaba Group Holding Limited is a company incorporated in the Cayman Islands with its American depositary shares listed on the New York Stock Exchange (Stock Symbol: BABA) and ordinary shares listed on the Main Board of the Stock Exchange (stock code: 9988). As such, we considered the price quotes from the website of Alibaba can provide a reliable reference for prevailing market prices of products, and is fair and representable.

Given that (i) the above selected items follow the pricing basis of the Existing Master Sales Agreement and the pricing basis of 2026-2028 Master Sales Agreement are in line with the pricing basis of the Existing Master Sales Agreement; and (ii) various internal control measures will be put in place within the Group to ensure it complies with the terms under the 2026-2028 Master Sales Agreement (as further discussed in the section headed “5. Internal Control Measures” below), we are of the view that the terms offered to the Parent Group under the 2026-2028 Master Sales Agreement are entered into on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

c) Proposed Annual Caps of the Agreed Sales

The table below illustrates the historical transaction amount for the sale of products to the Parent Group by the Group for the three years ended 31 December 2024 and the year ending 31 December 2025.

	For the year ended/ending 31 December			
	2022	2023	2024	2025
The annual cap (RMB in million)	336.2	227.0	220.0	250.0
The actual transaction amount (RMB in million)	77.8	22.9	46.3	15.0 ^(Note)
Utilisation rate/annualised utilisation rate (%)	23.1%	10.1%	21.0%	24.0% ^(Note)

Note: For the three months ended 31 March 2025

As illustrated in the above table, the actual transaction amount of the sale of products by the Group to the Parent Group were approximately RMB77.8 million, RMB22.9 million, RMB46.3 million and RMB15.0 million for the three years ended 31 December 2024 and the three months ended 31 March 2025, respectively. We have discussed with the Management and were given to understand that the low utilisation rates of the annual caps of the sale of products to the Parent Group by the Group for the three years ended 31 December 2024 and the three months ended 31 March 2025 was mainly because the corporate structure of the Parent Group has been restructured in the past two years, and several affiliated enterprises have been withdrawn from the Parent Group, so such entities are no longer connected persons and transactions with them are excluded from the Agreed Sales.

The table below illustrates the proposed annual caps of the Agreed Sales for the three years ending 31 December 2028.

	For the year ending 31 December		
	2026	2027	2028
The proposed annual cap <i>(RMB in million)</i>	280.0	300.0	320.0

We have discussed with the Management and were given to understand that the proposed annual caps of the Agreed Sales are determined mainly based on, among others, the below factors:

- (i) *The opportunities from the existing and potential railway and infrastructure projects for the sale of products to the Parent Group*

According to the 14th Five-Year Plan of Chongqing Rail Transit, it is estimated that by 2025, Chongqing will have a rail transit operation network of about 600 kilometers. Pursuant to the Chongqing Central Urban Area Urban Rail Transit Network Plan (2021-2035) * (《重慶市中心城區城市軌道交通線網規劃(2021年至2035年)》), by 2035, the core metropolitan area of Chongqing will establish a multi-tiered rail transit network, comprising a total of 24 urban rail lines with an overall length of approximately 1,312 kilometers. We have discussed with the Management and were given to understand that, the Parent Group's subsidiary, the Engineering Company, has undertaken the general contracting projects for Line 15 and the post-station works of Chongqing East Station. In the future, it is expected to secure additional relevant rail transit projects in Chongqing. As advised by the Management, several subsidiaries of the Group are expected to participate in rail transit projects during the period from 2026 and 2028, contributing to significant business growth.

We have obtained and reviewed the documents provided by the Company, including the contracts entered into between (a) Chongqing General Industry Group and the Parent Group dated 3 June 2024 in relation to the engineering projects related to station ventilation and air conditioning, with an estimated contract value of approximately RMB73.7 million, which is expected to commence in first half of 2025; (b) Chongqing Pump Company and the Parent Group dated 6 September 2024 in relation to the supply of structural components and related products, with an estimated contract value of approximately RMB71.8 million, which has commenced in October 2024; and (c) Chongqing Pump Company and the Parent Group dated 18 April 2024 in relation to the post-construction works of Chongqing East Station with an estimated contract value of approximately RMB9.5 million, which has commenced in April 2024. We noted that the total estimated contract sum of the abovementioned projects amounts to approximately RMB155.0 million and as advised by the Management, the expected contract sum shall be apportioned over 3 to 5 years, depending on the capital of the county and the actual work recognised each year.

(ii) The restructuring and integration of the Light Textile Group

As disclosed in the Letter from the Board and the section headed “1. Background of the parties involved”, in accordance with the reform and restructuring requirements for key municipal state-owned enterprises set forth by the Chongqing Municipal Government and the CQSASAC, the restructuring and integration of the Light Textile Group with the Parent Group is scheduled for completion within 2025. The Group will have the opportunity to participate in Light Textile Group’s paper machinery business, enterprise digitalized production line transformation, structural parts and other businesses. We have reviewed the financial statement of the Light Textile Group for the year ended 31 December 2023 and the six months ended 30 June 2024 and noted that the operating income of the Light Textile Group amounted to approximately RMB10,025.4 million and RMB5,318.5 million, for the year ended 31 December 2023 and the six months ended 30 June 2024, respectively, which implied a significant business growth potential for the Group. Accordingly, we consider the Group is well-positioned to seize the opportunities and benefit from the restructuring and integration of the Light Textile Group.

(iii) Capital injection by Yufu Group to drive strategic growth of the Parent Group

As disclosed in the section headed “1. Background of the parties involved”, Yufu Group will inject capital into the Parent group with a consideration of RMB5,000 million in 2025, laying a solid foundation for the future business development of the Parent Group. We have reviewed the financial statement of the Yufu Group for the year ended 31 December 2023 and the six months ended 30 June 2024 and noted that the operating income of the Yufu Group amounted to approximately RMB32,379.2 million and RMB15,856.6 million, for the year ended 31 December 2023 and the six months ended 30 June 2024, respectively, which indicated a sound basis for a strategic growth of the Parent Group, and hence the proposed annual caps of the Agreed Sales are not excessive.

Based on the aforesaid, we are of the view that the proposed annual caps of the Agreed Sales for the three years ending 31 December 2028 are determined based on reasonable estimation after due and careful consideration and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Shareholders should note that the proposed annual caps of the Agreed Sales are relating to future events and were estimated based on the assumptions as discussed above which may or may not remain valid for the entire three years ending 31 December 2028, and they do not represent the forecasts of the sales by the Group to the Parent Group, we express no opinion as to how closely the amount of Agreed Sales will correspond with the proposed annual caps of the Agreed Sales.

3. 2026-2028 Group Financial Services Framework Agreement

a) Reasons for and benefits of entering into the 2026-2028 Group Financial Services Framework Agreement

As disclosed in the Letter from the Board, (a) by capitalizing on the treasury management system of the Parent Company, the Finance Company will gradually become the capital settlement center, capital management center, financing support center, capital operation center and information service center of the Group, which will be able to enhance the financial management and control practices, reduce operational risk and consolidate internal resources of the Group; (b) the Finance Company is regulated by the PBOC and the NFRA and is required to provide its services in accordance with the rules and requirements of these regulatory authorities. In addition, capital risk can be reduced through the risk management measures; (c) the existing funds deposited by the Group with the Finance Company will receive interest at a rate not lower than the interest rates for deposits of similar type and similar period provided by other independent commercial banks in the PRC to the Group. Such an arrangement will enable the Group to increase its interest income more effectively; and (d) the Group is able to obtain loans from the Finance Company at an interest rate not higher than the interest rates for loans of similar type and similar period being charged on the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs.

We have discussed with the Management and were given to understand that the Group requires Deposit Services from time to time for the depository of cash to earn interest for the facilitation of its business operations. Having considered that (i) the provision of the Deposit Services by the Finance Company to the Group provides the stability and reliability to the Group in view of the long established business relationship between the Group and the Finance Company; (ii) the terms offered by the Finance Company to the Group shall be no less favourable than those offered by independent third party financial services providers; (iii) the Finance Company is regulated by the PBOC and the NFRA, which is required to comply with relevant rules and regulations; (iv) the 2026-2028 Group Financial Services Framework Agreement does not preclude the Group from choosing other financial services providers; (v) the mutual beneficial relationship between the Group and the Finance Company; and (vi) the Group may continue to regulate current and future transactions contemplated under a clear framework agreement, we are of the view that the entering into of the 2026-2028 Group Financial Services Framework Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

b) Principal terms of the 2026-2028 Group Financial Services Framework Agreement

We have reviewed the 2026-2028 Group Financial Services Framework Agreement and did not note any abnormal terms or material difference between the terms of the Existing Group Financial Services Framework Agreement and the terms of the 2026-2028 Group Financial Services Framework Agreement, save for the change in annual caps.

Pricing standards

The interest rates of deposits provided by the Finance Company will not be lower than the interest rates for deposits of similar type and under same period provided to the Group by other independent commercial banks (at least two) in the PRC.

The Company will obtain the interest rates for deposits of similar type and similar period from at least two banks among the national commercial banks in China or local commercial banks in Chongqing that have business relations with the Company, and compare it with the interest rates provided by the Finance Company to the Group for deposits of such type to ensure that the interests the Group will receive on its deposits are in consistent with the above pricing standards for deposit services.

In order to assess the pricing standard of the Deposit Services provided by the Finance Company to the Group, we have obtained and reviewed three deposit contracts/records with highest deposit amount between the Group and the Finance Company for each of the three years ended 31 December 2024. All nine deposit contracts/records obtained covered all types of deposits that the Group had during the three years ended 31 December 2024, being the seven-day call deposits, three-month time deposits, six-month time deposit, twelve-month time deposit and three-year time deposit, and compared against the then deposit rates with at least two independent commercial banks in the PRC. We consider such review covering the historical period under the Existing Group Financial Services Framework Agreement on a typical case sampling basis on all kinds of deposits of the Group to be sufficient from the independent financial adviser's perspective and nothing has come to our attention that causes us to believe that such contracts/records did not follow the internal control measures.

We have also reviewed the standard deposit rates promulgated by PBOC, which are set out below:

	Standard deposit rates of PBOC <i>% per annum</i>
Call deposits	
7-day	1.35
Time deposits	
3-month	1.10
6-month	1.30
12-month	1.50
3-year	2.75

We noted that the interest rates offered by the Finance Company for the deposits placed by the Group were no less favourable than the then interest rates provided to the Group by other independent commercial banks in the PRC and the standard deposit rates promulgated by PBOC for deposits of similar type and similar period.

Given that (i) the interest rates offered by the Finance Company for the selected deposits placed by the Group for the three years ended 31 December 2024 were no less favourable than the then interest rates provided to the Group by other independent commercial banks in the PRC and the Deposit Services under the 2026-2028 Group Financial Services Framework Agreement follows the above pricing standard; and (ii) various internal control measures will be put in place within the Group to ensure it complies with the terms under the 2026-2028 Group Financial Services Framework Agreement (as further discussed in the section headed “5. Internal Control Measures” below), we consider that the terms of the Deposit Services under the 2026-2028 Group Financial Service Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

c) Proposed Annual Caps of the Deposit Services

The table below illustrates (i) the actual historical maximum daily balance of the Group's deposits placed at the Finance Company for the three years ended 31 December 2024 and the year ending 31 December 2025; and (ii) the proposed annual caps of the Deposit Services for the three years ending 31 December 2028 under the 2026-2028 Group Financial Services Framework Agreement.

	For the year ended/ending 31 December			
	2022	2024	2025	2025
The annual cap (<i>RMB in million</i>)	3,479.0	3,320.0	3,433.0	3,552.0
Maximum daily deposit balance (including corresponding interest) (<i>RMB in million</i>)	2,034.3	2,382.9	2,223.6	2,059.1 ^(Note)
Utilisation rate (%)	58.5%	71.8%	64.8%	57.97% ^(Note)

Note: For the three months ended 31 March 2025

	For the year ending 31 December		
	2026	2027	2028
The proposed annual cap (<i>RMB in million</i>)	7,993.0	10,836.0	11,920

As disclosed in the Letter from the Board, amid a complex and volatile international environment, the domestic economy has achieved overall balance, steady progress, and improved quality and efficiency through intensified macroeconomic regulation, deepened reforms, expanded domestic demand, and optimized economic structures. Against this backdrop, the Group has diligently advanced its strategic development plan, actively expanded its business, further optimized asset allocation efficiency, and significantly enhanced operational quality and operating cash flow, which lays a solid foundation for stable development over the next three years (from 2026 to 2028).

We have obtained and reviewed the schedule in respect of the calculation of the Deposit Services for the three years ending 31 December 2028 under the 2026-2028 Group Financial Services Framework Agreement (the “Schedule”), and the analysis is set out below.

		For the year ended/ending 31 December						
		2022	2023	2024	2025	2026	2027	2028
		RMB'	RMB'	RMB'	RMB'	RMB'	RMB'	RMB'
		million	million	million	million	million	million	million
		(actual)	(actual)	(actual)	(forecast)	(forecast)	(forecast)	(forecast)
Operating revenue of the Group	A	7,205	8,058	8,919	10,000	11,000	12,100	13,310
Cash and cash equivalents of the Group as at year end date	B	2,597	2,318	2,744	3,050	3,355	3,691	4,060
Cash to revenue ratio (%)	C = B/A	36.0	28.8	30.8	30.5	30.5	30.5	30.5
Peak deposit balance	D	2,034	2,383	2,224	3,050	3,355	3,691	4,060
Peak deposit balance to cash ratio (%)	E = D/B	78.3	103.2	81.0	100	100	100	100
Revolving loans	F					1,804	1,984	2,183
Aggregate peak deposit balance	G = D + F					5,159	5,675	6,243

According to the Group’s strategic development plan for the next three years, and with reference to the increase in the Group’s operating revenue in 2024 compared with 2023, it is expected that the annual growth rate of operating revenue from 2026 to 2028 will be approximately 10%. We have reviewed the 2024 Annual Report and noted that the revenue of the Group increased from approximately RMB7,205 million for the year ended 31 December 2022 to approximately RMB8,058 million for the year ended 31 December 2023 and further increased to approximately RMB8,919 million for the year ended 31 December 2024, representing a year-on-year growth of approximately 11.9% and 10.6%, respectively.

We further noted from the 2023 Annual Report and the 2024 Annual Report that the cash and cash equivalents of the Group amounted to approximately RMB2,597 million, RMB2,318 million and RMB2,744 million for the three years ended 31 December 2024, respectively, representing approximately 36.0%, 28.8% and 30.8% of the operating revenue of the Group for the corresponding years, with an average of approximately 31.8%.

Based on the growth rate of operating revenue of 10% and the cash to revenue ratio of 30.5%, which are prudently assumed to be similar to that for the year ended 31 December 2024, the cash and cash equivalents of the Group is expected to be approximately RMB3,355 million, RMB3,691 million and RMB4,060 million respectively from 2026 to the end of 2028.

Based on our review of the records of the Finance Company in respect of the peak amount and balance of the connected transactions, we noted that the daily peak deposit balance of the Group amounted to approximately RMB2,034 million, RMB2,383 million and RMB2,224 million for the three years ended 31 December 2024, respectively, representing approximately 78.3%, 103.2% and 81.0% relative to the year-end cash and cash equivalents of the Group for the corresponding years.

Moreover, the Group expects the bank loans of approximately RMB1,804 million, RMB1,984 million and RMB2,183 million will mature annually from 2026 to 2028, respectively. To address loan repayments, the Group may need to prepare and deposit cash in advance with the Finance Company to ensure robust liquidity. We have discussed with the Management and were given to understand that the Group will renew the existing revolving loans and deposit the repayment amount into the Finance Company for repayment before the existing loan matures.

With reference to the historical highest peak deposit balance of approximately 103.2%, the Group assumes all the cash and cash equivalents of the Group of approximately RMB3,355 million, RMB3,691 million and RMB4,060 million respectively from 2026 to the end of 2028 will be fully deposited into the Finance Company. The aggregate peak deposit balance is expected to reach approximately RMB6,243 million in 2028 (the “**Aggregate Peak Deposit Balance**”).

Based on our review of the 2024 Annual Report and the strategic development plan of the Company provided by the Management, we noted that the Group will strengthen resource integration and focus on overall synergy. The Group will enhance strategic cooperation, amplify strategic coordination with major customers such as listed companies and centralized state-owned enterprises, and accelerate project implementation and order conversion. Leveraging on the restructuring of the Parent Group, comprising the aforementioned integration of the Light Textile Group and the capital injection by Yufu Group, it is expected that the sales to Parent Group will substantially improve, which in turn will result in further growth in revenue of the Group for the three years ending 31 December 2028.

As disclosed in the Letter from the Board, the Group will continue to focus on major national strategies such as green and low-carbon transformation and innovation-driven development and the “33618” modern manufacturing cluster system in Chongqing City, and in conjunction with the Group’s strategic development plan for the next three years, actively participate in upstream and downstream mergers and acquisitions of high-end clean energy equipment and intelligent manufacturing industry chains, which are expected to bring a large increase to the Group’s operating revenue from 2026 to 2028. We have reviewed the official release dated 6 June 2023 issued by the Chongqing Municipal People’s Government (<https://www.cq.gov.cn/>) and noted that such national strategies is one of the main national strategic development plans in the next five year. The “33618” Modern Manufacturing Centralised System refers to the modern manufacturing system that Chongqing City is focused on building. It specifically includes three leading industries, three pillar industries, six characteristic advantage industries, and eighteen “new star” industry clusters. We further noted that these encompass the Group’s main business segments, such as intelligent equipment and intelligent manufacturing, software information services, and high-end equipment manufacturing. Fixed asset investments and potential projects refer to the Group’s strategic plan for 2025 to 2027, which involves seeking suitable target companies for mergers and acquisitions in business areas such as wire and cable, high-precision copper processing, industrial automation control, wind-solar-hydrogen storage resource development and operation, carbon fiber and other materials, and forming machine tools. In view of the above, we consider the Group is well-positioned to seize the opportunities and benefit from the national strategic development plan.

In addition, the proposed annual caps of the Deposit Services provide the Group with the flexibility instead of an obligation to deposit its cash with the Finance Company on terms no less favourable than those offered by the other independent commercial banks in the PRC given that the Group has its sole discretion to decide whether or not to require Deposit Services from the Finance Company. We are of the view that it is fair and reasonable to set the proposed annual caps of the Deposit Services according to the Group’s sales target, so as not to limit the development of the Group’s business in the event that it is able to meet its sales target.

In view of the above and having considered (i) the Aggregate Peak Deposit Balance of approximately RMB5,159 million, RMB5,764 million and RMB6,243 million represents approximately 64.5%, 53.2% and 52.4% of the proposed annual caps of the Deposit Services for the threes year ending 31 December 2028, respectively; (ii) the potential sales growth derived from the restructuring of the Parent Group; (iii) the revenue and cash and cash equivalents of the Group are highly correlated to the peak deposit balance, where the revenue growth and cash to revenue ratio in the Schedule are currently estimated on a prudent and reasonable basis; (iv) the potential mergers and acquisitions of the Group which are expected to increase the revenue of the Group; and (v) it is fair and reasonable to set the proposed annual caps of the Deposit Services according to the Group’s sales target, so as not to limit the development of the Group’s business in the event that it is able to meet its sales target, we consider that the proposed annual caps of the Deposit Services for the three years ending 31 December 2028 are not excessive.

Shareholders should note that the proposed annual caps of the Deposit Services are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire three years ending 31 December 2028, and they do not represent forecasts of balance of the Deposit Services. Consequently, we express no opinion as to how closely the actual balance of the Deposit Services will correspond with proposed annual caps of the Deposit Services.

4. 2026-2028 Parent Group Financial Services Framework Agreement

a) Reasons for and benefits of entering into the 2026-2028 Parent Group Financial Services Framework Agreement

As disclosed in the Letter from the Board, (a) the entering into of the 2026-2028 Parent Group Financial Services Framework Agreement will expand the business scale of the Finance Company, thus benefiting the development of the Finance Company; (b) it will consolidate cash resources, enhance the capital utilisation efficiency and lower the finance costs; (c) it will enlarge the operation scale of the Group, thus enhancing the profitability of the Group; and (d) the Company through its direct 70% equity interest in the Finance Company will be able to share the profits of the Finance Company obtained from the provision of Loan Services and non-financing guarantee letter services under the 2026-2028 Parent Group Financial Services Framework Agreement.

Having considered that (i) the provision of the Loan Services by the Finance Company to the Parent Group provides the revenue stream to the Group; (ii) the terms offered by the Finance Company to the Parent Group shall be no less favourable than those offered by independent third party financial services providers; and (iii) the mutual beneficial relationship between the Parent Group and the Finance Company as well as the Group, we are of the view that the entering into of the 2026-2028 Parent Group Financial Services Framework Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

b) Principal terms of the 2026-2028 Parent Group Financial Services Framework Agreement

We have reviewed the 2026-2028 Parent Group Financial Services Framework Agreement and did not note any abnormal terms or material difference between the terms of the Existing Parent Group Financial Services Framework Agreement and the terms of the 2026-2028 Parent Group Financial Services Framework Agreement, save for the change in annual caps.

Pricing standards

The interest rates for loans provided to the Parent Group by the Finance Company will not be lower than the interest rates for loans of similar type and similar period being charged on the Parent Group by other independent commercial banks (at least two) in the PRC.

The Company will make inquiries to at least two banks among the national commercial banks in the PRC and the local commercial banks in Chongqing that have business relations with the Company in respect of loan services of similar type and similar period for the Parent Group (where banks apply a unified credit policy, i.e., the credit ratings of enterprises within the Parent Group are identical), and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final service pricing (i.e., interest rates) provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and other factors, so as to ensure that the interests on loans provided by the Finance Company to the Parent Group are consistent with the above pricing standards for loan services.

In order to assess the pricing standard of the loan services provided to the Parent Group by the Finance Company, we have obtained and reviewed three loan contracts with highest loan amount between the Parent Group and the Finance Company for each of the three years ended 31 December 2024. All nine loan contracts obtained covered all major and typical types of loans that the Group had during the three years ended 31 December 2024, being the three-month loan, twelve-month loan and three-year loan, and compared against the quotations with two independent commercial banks in the PRC for each loan of similar type. We consider such review covering the historical period under the Existing Parent Group Financial Services Framework Agreement on a typical case sampling basis on the major kinds of loan of the Group to be sufficient from the independent financial adviser's perspective and nothing has come to our attention that causes us to believe that such contracts/records did not follow the internal control measures. We noted that the interests charged for the loan services provided to the Parent Group by the Finance Company were set at such rates equal or not less than the rates offered by the independent third parties.

Given that (i) the interests charged for the selected loans by the Finance Company to the Parent Group for the three years ended 31 December 2024 were set at such rates not less than the rates offered by the independent third parties and the Loan Services under the 2026-2028 Parent Group Financial Services Framework Agreement follows the above pricing standard; and (ii) various internal control measures will be put in place within the Group to ensure it complies with the terms under the 2026-2028 Parent Group Financial Services Framework Agreement (as further discussed in the section headed "5. Internal Control Measures" below), we consider that the terms of the Loan Services under the 2026-2028 Parent Group Financial Service Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

c) Proposed Annual Caps of the Loan Services

The table below illustrates (i) the actual historical maximum daily balance for the Loan Services provided by the Finance Company for the three years ended 31 December 2024 and the year ending 31 December 2025; and (ii) the proposed annual caps of the Loan Services for the three years ending 31 December 2028 under the 2026-2028 Parent Group Financial Services Framework Agreement.

	For the year ended/ending 31 December			
	2022	2023	2024	2025
The annual cap (<i>RMB in million</i>)	2,754.0	2,842.0	2,946.0	3,056.0
Maximum daily loan balance (including corresponding interest) (<i>RMB in million</i>)	879.7	769.8	812.4	801.1 ^(Note)
Utilisation rate (%)	31.9%	27.1%	27.6%	26.21% ^(Note)

Note: For the three months ended March 2025

	For the year ending 31 December		
	2026	2027	2028
The proposed annual cap (<i>RMB in million</i>)	6,200.0	6,460.0	6,720.0

We have discussed with the Management and were given to understand that according to the Finance Company's planning, the total loan size for 2026-2028 is expected to be approximately RMB2,580 million, RMB3,130 million and RMB3,693 million, respectively, and the corresponding interest is expected to be approximately RMB60.9 million, RMB66.4 million and RMB69.7 million, respectively. Considering that historically, loans issued by the Finance Company to the Parent Group and the corresponding interest have accounted for approximately 35% and 36% (being the average for the three years ended 31 December 2024) of the total loan scale and total interest scale, respectively, it is expected that the Finance Company is expected to provide loan services (including corresponding interest) to the Parent Group amounting to approximately RMB924.9 million in 2026, RMB1,119.4 million in 2027, and RMB1,317.6 million in 2028 (the "Loan Planning Amount").

Following the aforementioned completion of the restructuring and integration of the Light Textile Group and the Yufu Group, whereby multiple subsidiaries will be incorporated into the Parent Group, it is expected that the funding demand will be significantly increased. From the discussion with the Management, we noted that the centralisation of the debt financing provided by the Finance Company to the Parent Group may offer more favourable terms than the individual loan from several banks due to the size of the loan, the Parent Group may need the loan from the Finance Company to satisfy the capital needs in view of the restructuring and expansion, it is anticipated the funding demand will be increased and hence the estimated loan increment will be RMB2,500 million for the three years ending 31 December 2028. Taking into account of the estimated corresponding interest of approximately RMB59.0 million, RMB53.1 million and RMB47.2 million, the expected loan increment (including corresponding interest) will be approximately RMB2,559.0 million, RMB2,553.1 million and RMB2,547.2 million for the three years ending 31 December 2028, respectively (the "Loan Increment").

Having considered that (i) the peak loan balance of the Parent Group and its subsidiaries was 1.35 times their average daily loan value from 2022 to 2024; and (ii) the aggregate of (a) the Loan Planning Amount of approximately RMB924.9 million, RMB1,119.4 million and RMB1,317.6 million for the three years ending 31 December 2028, respectively; and (b) the Loan Increment of approximately RMB2,559.0 million, RMB2,553.1 million and RMB2,547.2 million for the three years ending 31 December 2028, respectively, it is expected that the daily balance of loans (including the corresponding interest) will be approximately RMB4,703.3 million, RMB4,957.9 million and RMB5,217.5 million for the three years ending 31 December 2028, respectively (“Expected Daily Loan Balance”).

Taking into consideration (i) that it is expected that approximately RMB1,500 million in external bank loans will be refinanced annually from 2026 to 2028; and (ii) of the Expected Daily Loan Balance of approximately RMB4,703.3 million, RMB4,957.9 million and RMB5,217.5 million for the three years ending 31 December 2028, respectively, the maximum daily balance of loans (including the corresponding interest) is expected to be approximately RMB6,203.3 million, RMB6,457.9 million and RMB6,717.5 million for the three years ending 31 December 2028, respectively. Accordingly, we are of the view that the proposed annual caps of the Loan Services for the three years ending 31 December 2028 are justifiable.

Shareholders should note that the proposed annual caps for Loan Services under the 2026-2028 Parent Group Financial Services Framework Agreement are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire three years ending 31 December 2028, and they do not represent forecasts of balance of the Loan Services. Consequently, we express no opinion as to how closely the actual balance of the Loan Services will correspond with proposed annual caps of the Loan Services.

5. Internal Control Measures

(A) Internal Control of the 2026-2028 Master Sales Agreement

As disclosed in the Letter from the Board, the Company has implemented the following measures regarding its internal control system for the connected transactions to ensure the prices of products sold to the Parent Group by the Group are fair and reasonable:

1. the Company has established a special department with dedicated personnel in place to monitor and manage the connected transactions. The dedicated personnels are Company’s Audit and Risk Management Committee, which comprises of three Independent Non-executive Directors (Mr. Lo Wah Wai, Mr. Liu Wei and Mr. Ke Rui) and non-executive Director, (Mr. Dou Bo), each of them possesses sufficient knowledge and experience in the Listing Rules and the Company’s operations to monitor and manage the connected transaction;
2. the Audit and Risk Management Committee of the Company department will review the implementation of annual caps and pricing terms for connected transactions on a quarterly basis to ensure full compliance with annual caps and pricing benchmarks; and

3. the Audit and Risk Management Committee of the Company will check the relevant connected transactions amount occurred with the third-party auditors at the half year and at the end of the year, respectively, to ensure that the data is accurate and do not exceed the annual caps.

In this connection, we have obtained and reviewed the relevant records of the special department and the Audit and Risk Management Committee of the Company, which ensured the prices of products sold to the Parent Group by the Group are fair and reasonable, and complied with the annual caps. We have further reviewed the 2023 Annual Report and the 2024 Annual Report and noted that (i) the independent non-executive Directors had reviewed the continuing connected transactions of the Company, including the transactions contemplated under the Existing Master Sales Agreement, and confirmed, among other things, such transactions were conducted on normal commercial terms; and (ii) the independent auditors of the Company had also reported on such transactions. Accordingly, we understand the Group has a positive track record in respect of compliance with the Listing Rules.

In view of the above, and the aforementioned internal control procedures will continue to be reviewed by the audit committee of the Company and the auditors of the Group to ensure full compliance with the Listing Rules, we concur with the Management's view that there are adequate internal control procedures and external supervision measures to ensure that the connected transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

(B) Internal Control and Risk Management of 2026-2028 Group Financial Services Framework Agreement and 2026-2028 Parent Group Financial Services Framework Agreement

As disclosed in the Letter from the Board, in order to safeguard the interests of the Shareholders, the Group and the Finance Company provide for the following risk management measures:

General measures on pricing terms

The Audit and Risk Management Committee of the Company will review the implementation of connected transactions under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement semi-annually. The special department of the Company and other subsidiaries in the Group will ensure that the pricing terms under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement are complied with in every individual agreement entered into thereunder.

Measures specific to 2026-2028 Group Financial Services Framework Agreement and 2026-2028 Parent Group Financial Services Framework Agreement

(a) Capital requirement of the Finance Company

Pursuant to the relevant regulations set by the NFRA (formerly known as the CBIRC), financial institutions in the PRC have to comply with certain requirements, which include, among other things, the minimum total capital requirement of a capital adequacy ratio of not less than 8.5% as set out by the NFRA. Based on the registered capital of RMB1,000,000,000 of the Finance Company and that the Finance Company shall provide the financial services not exceeding the proposed annual caps, the Finance Company sets its capital adequacy ratio for the period of 2026 to 2028 at not less than 15%, which is in compliance with relevant provisions of the NFRA.

(b) Internal control of the Finance Company

The establishment of the Finance Company as a non-bank financial institution was authorized by the NFRA (formerly known as the CBIRC), which carries out on-going stringent supervision over the businesses of the Finance Company. The Finance Company is also required to provide regulatory reports to the NFRA on a monthly basis.

The Finance Company has established its own credit policies and credit approval procedures for the loan services, bills discounting services and bills acceptance services, which are designed in accordance with the relevant PBOC and NFRA regulations. Such measures are able to ensure that the various financial services provided by the Finance Company shall not exceed the proposed annual caps approved.

The Group has adopted the internal control procedures and corporate governance procedures to monitor the status of the financial conditions of the Finance Company (in the case of deposit services, loan services, non-financing guarantee letter services and other financial services). The vice chairman, the chairman of the supervisory board of the Finance Company are appointed by the Company to effectively oversee and manage the daily operations of the Finance Company. The Finance Company is a non-bank financial institution approved by the NFRA (formerly known as the CBIRC) and the PBOC. It is also subject to centralized supervision and guidance from the Company's Board of Directors Office, Risk Control Department, Legal and Audit Department, Planning Department, Marketing Department, and Finance Department to ensure its stable operation. In the event of any deficiencies, the Finance Company shall be urged to take rectification measures to comply with relevant standards.

(c) Professional qualifications of the Finance Company

The management of the Finance Company has extensive experience in the financial industry where the Group operates and/or financial management. The Finance Company has certain key committees and departments in maintaining the internal control environment and the risk management functions, including the risk management committee, the loan approval committee and the supervisory committee. The risk management committee of the Finance Company has established the risk management and control strategies and policies, and monitors the implementation of the relevant policies of the Finance Company while the supervisory committee of the Finance Company will ensure the Finance Company's compliance with the relevant rules and regulations, and monitor its operational activities. The supervisory committee of the Finance Company shall ensure that the Finance Company complies with relevant regulations and rules while overseeing its operating activities. The credit review committee of the Finance Company adopts a collective decision-making process to provide decision-making recommendations regarding the development of the Finance Company's credit business. The primary function of the credit review committee is to review the opinions of the business department on corporate credit plans and the assessments of the risk review department. The committee, consisting of five members with expertise in finance, risk control and compliance, accounting, and law, shall independently provide their opinions, comprehensively evaluate the operational condition, default risks, reasonableness of capital requirements, and the adequacy of the Finance Company's risk management and control measures. All plans must be submitted to the General Manager for approval.

The Audit and Risk Management Committee of the Company will review the implementation of connected transactions under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement semi-annually. Save for the risk control measures mentioned above, the 2026-2028 Group Financial Services Framework Agreement has also stipulated following internal control and risk management measures.

Internal Control and Risk Management under the 2026-2028 Group Financial Services Framework Agreement

- (a) The Finance Company and the Company shall establish and enhance their respective risk assessment, risk management, and internal control systems to ensure lawful and compliant operations. They shall implement appropriate risk management measures to prevent the spread of their respective operational risks to the other party.
- (b) The Finance Company undertakes to strictly adhere to the risk monitoring indicator standards for finance companies as promulgated by the NFRA. Key regulatory indicators, including capital adequacy ratio, liquidity ratio, and loan balance, shall meet the requirements of the "Administrative Measures for Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》)" and other relevant laws and regulations. The Finance Company shall not engage in businesses not approved by the NFRA or conduct any illegal activities.

- (c) The Finance Company shall formulate relevant risk control measures and internal control systems for each financial service and product, ensuring the secure operation of the funds settlement network and safeguarding the fund security and payment needs of the Group and its associates within Finance Company.
- (d) The Company shall have the right to periodically obtain and review the semi-annual and annual financial reports, risk indicators, and other necessary information of the Finance Company. The Finance Company shall cooperate by providing such financial reports, risk indicators, and other requisite information.
- (e) The Finance Company shall promptly inform the Company of its own risk status, actively cooperate with the Company in addressing risks and fulfill corresponding information disclosure obligations, so as to ensure the safety of the Company's funds.

In respect of the internal control measures for the transactions contemplated under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement, we noted that the Group has the right, but not an obligation, to use the services of the Finance Company, and the Group has full discretion to use the financial services provided by other financial institutions.

We have also obtained and reviewed the relevant internal control policies which stipulate the procedures to be complied with in conducting connected transactions. We considered that there are adequate internal control measures in place to monitor and ensure that (i) the interest rate for the Group's deposits shall not be lower than the interest rate offered by other independent commercial banks for comparable deposits in the PRC; and (ii) the interest rates for the Parent Group's loans to be charged by the Finance Company shall not be lower than those charged by other independent commercial banks for providing comparable services in the PRC.

Furthermore, we noted that the external auditors of the Group will conduct an annual review on the pricing and the annual caps of the financial services transactions under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement. The independent non-executive Directors will also conduct an annual review of the implementation and enforcement of the financial services transactions under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement.

According to the Administrative Measures for Enterprise Group Finance Companies, finance companies operating business shall comply with the following requirements for the ratio of assets to liabilities (the "Requirements"):

- (1) The capital adequacy ratio shall not be lower than 8.5%;
- (2) The liquidity ratio shall not be lower than 25%;
- (3) The loan ratio shall not be higher than 80% of the total capital;

- (4) The off-balance sheet liabilities to net equity shall not exceed the net capital;
- (5) The balance of bill acceptance shall not exceed 15% of the total assets;
- (6) The balance of bill acceptance shall not exceed three times the balance of interbank deposits;
- (7) The total amount of bill acceptance and rediscounting shall not exceed the net capital;
- (8) The balance of margin deposits for accepted bills shall not exceed 10% of the total deposits;
- (9) The total investment shall not exceed 70% of the net capital; and
- (10) The net value of fixed assets shall not exceed 20% of the net capital.

For our due diligence purpose, we have obtained and reviewed the financial statements of the Finance Company as at 31 December 2022, 2023 and 2024 provided by the Management, and noted that the financial ratios of the Finance Company were in compliance to the Requirements as follows.

	As at 31 December		
	2022	2023	2024
Capital adequacy ratio	30.18%	34.63%	37.08%
Liquidity ratio	48.95%	56.36%	81.47%
Loan ratio	75.29%	53.85%	57.62%
Off-balance sheet liabilities to net equity	Nil	Nil	Nil
Bill acceptance balance/total assets	11.36%	10.90%	11.04%
Bill acceptance balance/deposits with other banks	39.29%	44.39%	52.44%
Total amount of bills accepted and rediscounted/ net capital	44.26%	48.90%	30.44%
Acceptance bill deposit/total deposit amount	Nil	Nil	Nil
Total investment/net capital	10.10%	17.45%	43.10%
Net fixed assets/net capital	0.22%	0.16%	0.14%

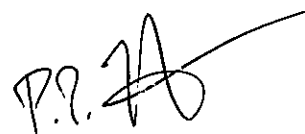
Taking into consideration that the Finance Company has historically complied with the Requirements and risk monitoring indicators prescribed by the NFRA, we are of the view that the aforementioned internal control measures can jointly and effectively safeguard the interests of the Company, ensure recoverability of the deposits to be placed with the Finance Company.

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we consider that (i) the 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement have been entered into in the ordinary and usual course of business of the Group based on normal commercial terms; and (ii) the terms of the 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement and the transactions contemplated thereunder, as well as the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the AGM to approve the 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited

A handwritten signature in black ink, appearing to read 'P.P. Ng', with a long horizontal stroke extending to the right.

Stanley Ng
Managing Director

Mr. Stanley Ng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 20 years of experience in the accounting and investment banking industries.