

23 May 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the deposit services provided by Shandong Finance to the Group under the New Financial Services Agreement and the relevant proposed New Caps, particulars of which are set out in the letter from the Board of Directors (the “**Letter from the Board**”) of the supplemental circular to the Shareholders dated 23 May 2025 (the “**Supplemental Circular**”), of which this letter forms a part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Supplemental Circular.

The Group entered into the New Financial Services Agreement on 27 March 2025, pursuant to which Shandong Finance has conditionally agreed to provide, inter alia, certain deposit services to the Company in accordance with the terms and conditions set out in the New Financial Services Agreement. The Group shall utilise the services of Shandong Finance on a voluntary, non-exclusive basis and is not under any obligations to engage Shandong Finance for any particular service.

Shandong Heavy Industry is a substantial shareholder of the Company holding approximately 16.32% of the issued share capital of the Company. As Shandong Heavy Industry holds 37.5% equity interest in Shandong Finance, Shandong Finance is an associate of Shandong Heavy Industry and therefore a connected person of the Company under the Listing Rules. Accordingly, the New Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the New Financial Services Agreement exceed 25% but all of which are less than 100%, the provision of the deposit services by Shandong Finance to the Group constitutes a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Further, as all of the applicable percentage ratios calculated in accordance with the Listing Rules for the deposit services under the New Financial Services Agreement for the three years ending 29 June 2028 exceed the 5% Threshold, the provision of the deposit services by Shandong Finance to the Group and the proposed New Caps for the relevant periods will be subject to the reporting, annual review, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors, namely Ms. Jiang Yan, Mr. Chi Deqiang, Mr. Zhao Fuquan, Mr. Xu Bing and Mr. Tao Huaan, has been formed by the Company to consider, and to advise the Independent Shareholders on the terms of the deposit services under the New Financial Services Agreement and the relevant New Caps. We, Octal Capital Limited, have been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders on whether the terms of the deposit services under the New Financial Services Agreement and the relevant New Caps are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms, and whether the entering into of the New Financial Services Agreement and the relevant New Caps are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group.

As at the Latest Practicable Date, we were not connected with the Group, Shandong Heavy Industry and Shandong Finance, or, where applicable, any of their respective substantial shareholders, directors or chief executives, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, there has been no other engagement entered into between the Company and us. We are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the provision of deposit services by Shandong Finance to the Group under the New Financial Services Agreement and the relevant proposed New Caps.

Apart from normal professional fees paid or payable to us by the Company in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, the Group, Shandong Heavy Industry, Shandong Finance or any of their respective subsidiaries, associates or controlling shareholders that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Supplemental Circular and have assumed that all information and representations made or referred to in the Supplemental Circular as provided by the management of the Company were true at the time they were made and continue to be true as at

the Latest Practicable Date. We have also relied on our discussion with the management of the Company regarding the New Financial Services Agreement including the information and representations contained in the Supplemental Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the management of the Company respectively in the Supplemental Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Supplemental Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Supplemental Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Shandong Heavy Industry, Shandong Finance or and any of their respective subsidiaries, associates or controlling shareholder(s), nor have we carried out any independent verification of the information supplied to us.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the New Financial Services Agreement, we have taken the following factors and reasons into consideration:

1. Background information of the Company and Shandong Finance

1.1. Information of the Group

The Company is principally engaged in the research and development, manufacture and sale of high-speed heavy-duty diesel engines and engine parts.

Set out below is the financial information of the Company for the three years ended 31 December 2022 ("FY2022"), 2023 ("FY2023") and 2024 ("FY2024") extracted from the annual report of the Company for the year ended 31 December 2023 (the "2023 Annual Report") and 31 December 2024 ("2024 Annual Report") respectively:

	FY2022	FY2023	FY2024
	RMB million	RMB million	RMB million
	(audited)	(audited)	(audited)
Revenue	175,158	213,958	215,691
Gross profit	32,147	45,116	48,386
Net profit	5,683	11,212	14,278

Comparison between FY2022 and FY2023

As illustrated in the above table, revenue of the Group increased by approximately 22.2% from approximately RMB175,158 million for FY2022 to approximately RMB213,958 million for FY2023, primarily due to the Group seizing the opportunity of structural growth in the heavy-duty truck industry, actively deepening structural adjustments and making strong breakthroughs in strategic markets, resulting in rapid growth in the sales volume of the Group's related products. The gross profit of the Group increased by approximately 40.3% from approximately RMB32,147 million for FY2022 to approximately RMB45,116 million for FY2023. The increase was mainly due to the rebound in overall sales revenue, the dilution of fixed production costs and the increasing profitability of products.

The net profit of the Group increased by approximately 97.3% from approximately RMB5,683 million for FY2022 to approximately RMB11,212 million for FY2023, which was mainly attributable to the aforementioned increase in revenue.

Comparison between FY2023 and FY2024

The revenue of the Group for FY2024 remained at a similar level as compared to that for FY2023, amounted to approximately RMB215,691 million. Among which, the domestic business segments including powertrain and agricultural equipment segments witnessed varying degrees of revenue growth, while revenue from the complete vehicle and automotive parts and components segment declined slightly. For the overseas business segments, the revenue of KION Group AG during the period amounted to EUR11.5 billion, representing a year-on-year increase of 0.6%. The gross profit of the Group increased by approximately 7.2% from approximately RMB45,116 million for FY2023 to approximately RMB48,386 million for FY2024. The increase was mainly due to the product structure optimisation and the implementation of cost reduction and efficiency enhancement measures.

The net profit of the Group increased by approximately 27.3% from approximately RMB11,212 million for FY2023 to approximately RMB14,278 million for FY2024, which was mainly attributable to (i) the aforementioned increase in revenue; and (ii) the Group recorded profit on change of fair value of approximately RMB123 million for FY2024 as compared to loss on change of fair value of approximately RMB363 million for FY2023.

	As at 31 December		
	2022	2023	2024
	RMB million	RMB million	RMB million
	(audited)	(audited)	(audited)
Non-current assets	125,182	136,322	159,129
Cash and cash equivalents	70,842	92,857	72,067
– Incl: Cash deposited in the finance company	23,558	29,076	28,401
Other current assets	97,642	105,068	112,683
Current assets	168,484	197,925	184,750
Long-term borrowings	22,782	17,908	8,517
Other non-current liabilities	47,031	57,438	58,564
Non-current liabilities	69,813	75,346	67,081
Short-term loans	4,609	2,046	1,742
Other current liabilities	115,134	144,169	153,097
Current liabilities	119,743	146,215	154,839
Total assets	293,666	334,247	343,879
Total liabilities	189,556	221,561	221,920
Net current assets	48,741	51,710	117,669
Net assets	104,110	112,686	121,959

As at 31 December 2024, the Group had cash and cash equivalents of approximately RMB72,067 million, among of which, approximately RMB28,401 million was deposited in the finance company. As at 31 December 2024, the loans and borrowing of the Group in aggregate amounted to approximately RMB10,259 million, which accounted for approximately 4.6% of the total liabilities of the Group. The net assets of the Group increased from approximately RMB112,686 million as at 31 December 2023 to approximately RMB121,959 million as at 31 December 2024, representing an increase of approximately 8.2%.

	FY2022 RMB million (audited)	FY2023 RMB million (audited)	FY2024 RMB million (audited)
Net cash (used in)/generated from operating activities	(2,349)	27,471	26,094
Net cash (used in) investing activities	(8,545)	(5,737)	(28,911)
Net cash generated from/(used in) financing activities	4,852	(13,029)	(13,838)
Net (decrease)/increase in cash and cash equivalents	(5,865)	8,859	(16,666)
Cash and cash equivalents at end of the year	62,761	71,620	54,954

Comparison between FY2022 and FY2023

The Group recorded net cash generated from operating activities of approximately RMB27,471 million for FY2023, representing an increase of approximately RMB29,820 million as compared to net cash used in operating activities of approximately RMB2,349 million for FY2022. The increase was primarily due to the increase in cash received from sales of goods or rendering of services.

The Group recorded net cash used in investing activities and financing activities of approximately RMB5,737 million and RMB13,029 million for FY2023, respectively. The Group recorded net increase in cash and cash equivalents of approximately RMB8,859 million for FY2023.

Comparison between FY2023 and FY2024

The Group recorded net cash generated from operating activities of approximately RMB26,094 million for FY2024, representing a decrease of approximately RMB1,377 million as compared to that for FY2023. The decrease was primarily due to the increase in cash paid for salary and tax.

The Group recorded net cash used in investing activities of approximately RMB28,911 million for FY2024, representing an increase of approximately RMB23,174 million as compared to that for FY2023. The increase in net cash used in investing activities was mainly due to the investment cost increased from approximately RMB40,100 million for FY2023 to approximately RMB93,938 million for FY2024. The Group recorded net cash used in financing activities of approximately RMB13,838 million for FY2024, similar to that for FY2023. The Group recorded net decrease in cash and cash equivalents of approximately RMB16,666 million for FY2024 mainly due to the increase in net cash used in investment activities.

1.2. Information of Shandong Finance

Shandong Finance is principally engaged in the provision of enterprise group finance company services.

As at the Latest Practicable Date, Shandong Finance is held as to 37.5%, 31.25%, 12.5%, 12.5% and 6.25% by Shandong Heavy Industry, the Company, 潍柴重機股份有限公司 (Weichai Heavy-duty Machinery Co., Ltd.*), 山推工程機械股份有限公司 (Shantui Engineering Machinery Co., Ltd.*) and 陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co., Ltd.*, a 51% subsidiary of the Company), respectively^(note).

To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, Shandong Heavy Industry, and hence Shandong Finance, are ultimately governed and controlled by the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government (山東省人民政府國有資產監督管理委員會).

2. Principal terms of the New Financial Services Agreement

Principal terms of the New Financial Services Agreement are as follows:

Date	:	27 March 2025
Parties	:	(1) the Company (2) Shandong Finance
Effective date and term	:	The New Financial Services Agreement shall become effective on the execution date of the New Financial Services Agreement and has a term of three years ending 29 June 2028, subject to the approval at a Shareholders' meeting of the transactions contemplated under the New Financial Services Agreement and the New Caps.

* For identification purposes only

Note: Reference is made to the Company's announcement dated 11 November 2024 (the "Capital Contribution Announcement") in respect of certain capital contributions to be made to Shandong Finance (the "Capital Contribution"). Insofar as the Company is aware, as at the Latest Practicable Date, all relevant capital contributions have already been paid by the respective parties, and the Capital Contribution will be completed upon completion of the necessary filing and registration procedures with the relevant authorities. Please refer to the Capital Contribution Announcement for further details of the equity holding of Shandong Finance following completion of the Capital Contribution.

Deposit services : Shandong Finance shall provide certain deposit services to the Group, the principal terms of which are as follows:

- (a) the interest rate for the deposit of the Group's funds with Shandong Finance shall be determined with reference to the relevant requirements of the People's Bank of China, and the actual interest rate shall be no less than the interest rate for the same type of deposit offered by other financial institutions in the PRC to members of the Group for the same period; and
- (b) the maximum daily balance (including interests) of the Group's deposit with Shandong Finance shall not exceed the following caps for each of the three years ending 29 June 2028:

	From 30 June 2025 to 29 June 2026 (RMB billion)	From 30 June 2026 to 29 June 2027 (RMB billion)	From 30 June 2027 to 29 June 2028 (RMB billion)
New Caps	40	40	40

From our examination of both the Existing Financial Services Agreement and the New Financial Services Agreement, we noted that (i) the terms of the deposit services contemplated under the New Financial Services Agreement do not have material difference in comparison with the Existing Financial Services Agreement; (ii) the Group shall utilise the services of Shandong Finance on a voluntary, non-exclusive basis and is not under any obligations to engage Shandong Finance for any particular service; and (iii) the transactions under the New Financial Services Agreement are non-exclusive and the Group has the right to decide whether it requires and accepts the financial services to be provided by Shandong Finance, and to have the discretion to engage other financial institutions to provide financial services with reference to its own business needs.

3. Reasons for and benefits of entering into the New Financial Services Agreement

According to the Letter from the Board, the reasons for the Company to enter into the New Financial Services Agreement with Shandong Finance are as follows:

1. the interest rates offered by Shandong Finance for the deposit services, and the rates and fees charged by Shandong Finance for the loan services and miscellaneous financial services to be provided to the Company shall be equal to or more favourable than those offered or charged by other financial institutions in the PRC for the same type of financial services provided to the Company;

2. the activities of Shandong Finance are regulated by the NFRA and Shandong Finance provides services within its approved scope in accordance with its operational requirement; and
3. the Company currently directly holds 31.25%, and, through its 51% subsidiary, 陝西法士特齒輪有限責任公司 (Shaanxi Fast Gear Co., Ltd.*) ("Shaanxi Fast Gear"), is interested in 6.25%, equity interest in Shandong Finance, and upon completion of the Capital Contribution, the Company will directly hold 19.53%, and, through its 51% subsidiary, Shaanxi Fast Gear Co., Ltd., be interested in 3.91%, equity interest in Shandong Finance, hence, the Company will be able to continue to benefit from the profits of Shandong Finance.

The Directors consider that the transactions under the New Financial Services Agreement shall facilitate the Group to increase the efficiency of fund utilisation and reduce the cost of financing, while it will also not be detrimental to the interests of the Company and will not affect the independency of the Company.

As mentioned in the section headed "2. Principal Terms of the New Financial Services Agreement" above, the interest rate for the deposit of the Group's funds with Shandong Finance shall be determined with reference to the relevant requirements of the People's Bank of China, and the actual interest rate shall be no less than the interest rate for the same type of deposit offered by other financial institutions in the PRC to members of the Group for the same period. Based on our enquiry with the management of the Company, the Group made numerous term deposits with Shandong Finance of small balances in FY2024 and the three months ended 31 March 2025 (the "Relevant Period") with fixed interest rate while the remaining balances of the deposits previously placed with Shandong Finance are current deposits with no change in interest rate. In view of the above, we have obtained and reviewed two samples of term deposit records of the Group with amount of over RMB200 million placed with Shandong Finance during the Relevant Period and confirmed that the interest rates of such deposits were no less than the prevailing highest interest rate for the same type of deposit offered by commercial banks in the PRC during the same period. As the selected samples represent the largest amount of term deposits placed by the Group with Shandong Finance during the Relevant Period, we are of the view that the selected samples are fair and representative to assess the fairness and reasonableness of the pricing policy of deposit services under the New Financial Services Agreement. In view of the interest rates offered by Shandong Finance are no less favourable than other commercial banks in the PRC, the Group was able to earn a higher interest income for the same type of deposit during the same period. In addition, as the Group is able to utilise the deposit service provided by Shandong Finance on a voluntary basis and is not under any obligations to place any deposit with Shandong Finance under the New Financial Services Agreement, the entering into of the New Financial Services Agreement could provide additional flexibility to the Group in managing its idle cash to earn higher interest income should Shandong Finance offer a more favorable interest rate than other financial institutions in the market.

Shandong Finance has been providing the deposit service to the Group historically, thus it has developed a deep understanding of the capital needs and business operations of the Group.

In view of the stability and reliability of the deposit services in previous years, Shandong Finance is well-positioned to serve the financial needs of the Group and it is expected that it will be cost-efficient, expedient and beneficial for the Group to use the deposit services provided by Shandong Finance. As advised by the management of the Group, the Group expects that given the Group's historical business arrangement with Shandong Finance, the Group would generally have more efficient communication channels with Shandong Finance as compared with other domestic commercial banks or financial institutions.

With reference to the announcement of the Company dated 27 March 2025, the Company had set out the guideline in relation to monitoring the deposit risks with Shandong Finance (the **"Deposit Risks Guideline"**). According to the Deposit Risks Guideline, the Company should set up a deposit risk prevention leading group (the **"Risk Prevention Leading Group"**) which should be led by the chairman of the Board. The Risk Prevention Leading Group is responsible for collecting and reviewing the financial information of Shandong Finance to prepare a risk assessment report on a semi-annual basis. The risk assessment report for the year 2024 has been published by the Company on 27 March 2025 (the **"2024 Risk Assessment Report"**). We have reviewed the 2024 Risk Assessment Report and noted that the Company has reviewed the background and the internal control structure of Shandong Finance. The 2024 Risk Assessment Report also highlighted that (i) Shandong Finance is a non-bank financial institution approved by the NFRA and obtained its financial license in 2012; (ii) Shandong Finance has established a risk governance framework in accordance with the Guidelines for Comprehensive Risk Management of Banking Financial Institutions published by China Banking and Insurance Regulatory Commission, which features a clear organisational structure with well-defined roles and responsibilities for risk management and internal control; (iii) Shandong Finance adhered to prudent operating principles, strictly complying with the Company Law of the PRC, the Banking Supervision Law of the PRC, the Enterprise Accounting Standards, the Measures for the Administration of Financial Companies of Enterprise Groups, relevant national financial laws and regulations, and its Articles of Association; (iv) Shandong Finance has fulfilled capital adequacy ratio and investment ratio which are the financial ratio requirements as listed out in the Measures for the Administration of Financial Companies of Enterprise Groups published by China Banking and Insurance Regulatory Commission; and (v) Shandong Finance has not experienced any major incidents, including deposit runs, inability to pay due debts, overdue large-scale loans, guarantee advances, severe information system failures, robberies or fraud, or serious disciplinary or criminal cases involving directors or senior management since its establishment. Furthermore, Shandong Finance's auditor has not identified any material deficiencies in its internal control. Therefore, having considered that Shandong Finance has a good standing in terms of its risk profile and financial position, we concur with the management of the Company that the liquidity risks to the Group in placing deposit with Shandong Finance is considered to be low.

According to the Letter from the Board, on 17 April 2025, Shandong Finance issued a letter to the Company, confirming its commitments under the New Financial Services Agreement. Shandong Finance agreed to use its best efforts to ensure that deposits placed by the Group would be primarily used to facilitate fund transfer services for the Group. Any unused funds deposited by the Group to Shandong Finance would be deposited with organisations such as major state-owned commercial banks and listed national joint stock limited commercial banks. Additionally, Shandong Finance undertook to bear any losses arising from its failure to fulfill its obligations under the New Financial Services Agreement.

Further, as the Group has an equity investment in Shaanxi Fast Gear which indirectly holds 6.25% (3.91% upon completion of the Capital Contribution) equity interests in Shandong Finance, the availability of the idle cash from the Group for the deposit services would be beneficial to Shandong Finance, the Group could in turn be benefited from the potential increase in net profit and the value appreciation of Shandong Finance from the Group's equity investment.

Accordingly, we consider that the deposit services under the New Financial Services Agreement are on normal commercial terms or better and are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

4. The New Caps

4.1. The existing annual caps

The table below sets forth the existing annual caps for each of the twelve months ended 29 June 2023 and 29 June 2024, and for the twelve months ending 29 June 2025 and the highest historical deposit balances placed by the Company with Shandong Finance for each of the twelve months ended 29 June 2023 and 29 June 2024, and for the eight months ended 28 February 2025 (the "Review Period") under the Existing Financial Services Agreement:

	For the twelve months ended 29 June 2023 (RMB billion)	For the twelve months ended 29 June 2024 (RMB billion)	For the twelve months ending 29 June 2025 (RMB billion)
Existing annual caps	34.0	37.0	40.0
	For the twelve months ended 29 June 2023	For the twelve months ended 29 June 2024	For the eight months ended 28 February 2025
The highest historical deposit balances placed by the Company with Shandong Finance	30.0	31.0	33.4 ¹
Utilisation rate	88.2%	83.8%	83.5%

Note 1: The amount representing the highest historical deposit balances placed by the Company with Shandong Finance during the 8 months ending 28 February 2025.

According to the above table, we noted that the relevant utilisation rates of the existing annual caps under the Existing Financial Services Agreement were approximately 88.2%, 83.8% and 83.5% for the Review Period, respectively, which were relatively stable and substantially utilised over the Review Period.

4.2. *The Pricing Policy of the New Caps*

As set out in the Letter from the Board, the interest rates for the deposit of the Group's funds with Shandong Finance shall be determined with reference to the relevant requirements of the People's Bank of China (the "PBOC"), and the actual interest rate shall be no less than the interest rate for the same type of deposit offered by other financial institutions in the PRC to members of the Group for the same period. Moreover, we understand that the deposit interest rates offered by Shandong Finance to the Group shall comply with benchmark deposit interest rates promulgated by the PBOC from time to time (if any) for financial institutions such as Shandong Finance.

We understand that the PBOC has promulgated the benchmark deposit interest rates (the "PBOC Rates") to serve as a benchmark for commercial banks in the PRC to make reference to when determining their deposit interest rates to offer to their customers. As such, we are of the view that it is fair and reasonable to refer to the PBOC Rates as the benchmark when comparing deposit interest rates offered by Shandong Finance. Set out below is a summary of our research of the PBOC Rates currently in effect and the deposit interest rates currently offered by Shandong Finance.

	Current PBOC Rates (per annum)	Current Rates offered by Shandong Finance (per annum)	Deposit Rates quoted by other two commercial banks (per annum)
Current Deposits	0.35%	0.20%	0.10%
Term Deposits			
3 months	1.10%	1.35%	0.80% – 0.85%
6 months	1.30%	1.55%	1.00% – 1.10%
1 year	1.50%	1.65%	1.10% – 1.30%
2 years	2.10%	1.70%	1.20% – 1.35%
3 years	2.75%	2.15%	1.50% – 1.55%

We noted that the interest rates currently offered by Shandong Finance for 3-months, 6-months and 1-year term deposits are higher than the standard deposit rates promulgated by the PBOC, while the interest rates offered by Shandong Finance for current deposits, 2-year and 3-year term deposits are lower than that promulgated by the PBOC. We were advised by the management of the Company that since the PBOC Rates were announced on 24 October 2015 and no further update has been announced, the PBOC Rates serve as a reference for financial institutions such as Shandong Finance in setting the deposit rates with adjustment subject to the commercial decision of the financial institutions.

For our due diligence purposes, we have further obtained from the Company the quotations of the deposit interest rates obtained by the Company from two independent commercial banks in the PRC. We noted that the two independent commercial banks included a principal bank of the Group which is a state-owned bank of the PRC and a commercial bank with its shares listed on the Shanghai Stock Exchange. In view that the two quotations were obtained from (i) a bank with state-owned background which the Group principally maintained its banking relationship with; and (ii) a commercial bank with considerable size, we considered that the two quotations are fair and representative. Upon comparison, we noted that the current interest rates offered by Shandong Finance to the Group during the same period for deposits of the same type and same deposit period are higher than those quoted by the other two independent commercial banks.

Moreover, we noted that the Company will review the pricing terms of the deposit services and will only use the deposit services if the terms quoted by Shandong Finance are no less favourable than the terms quoted by such two other independent commercial banks.

Based on the above factors, we are of the view that the deposit interest rates to be offered by Shandong Finance will be in line with or higher than the deposit interest rates offered by independent financial institutions for comparable deposits of comparable periods pursuant to the New Financial Services Agreement.

4.3. *Basis and assumptions in determining the New Caps*

As set out in the Letter from the Board, the New Caps for each of the three years ending 29 June 2028 are as follow:

	From 30 June 2025 to 29 June 2026 (RMB billion)	From 30 June 2026 to 29 June 2027 (RMB billion)	From 30 June 2027 to 29 June 2028 (RMB billion)
New Caps	40	40	40

We have discussed with the management of the Company regarding the bases and assumptions in determining the New Caps, and we understand that the New Caps are determined with reference to (i) the historical cash position of the Group; (ii) the expected growth of the business operations of the Group; and (iii) the expected amount of interest income from Shandong Finance.

In assessing the fairness and reasonableness of the New Caps, we have taken into account the following factors:

- (i) For the twelve months ended 29 June 2023 and 2024 and the eight months ended 28 February 2025, the highest daily closing balances of deposits (including interests accrued on such balances) of the Group with Shandong Finance were approximately RMB30.0 billion, RMB31.0 billion and RMB33.4 billion, respectively, which represented approximately 75%, 77.5% and 83.5% of the New Caps set at the amount of RMB40 billion, respectively. Therefore, the New Caps are comparable to the historical highest closing balances during the Review Period;
- (ii) the existing annual caps of RMB34.0 billion, RMB37.0 billion and RMB40.0 billion for the twelve months ended 29 June 2023 and 2024 and the twelve months ending 29 June 2025 under the Existing Financial Services Agreement were utilised as to approximately 88.2%, 83.8% and 83.5% respectively for the Review Period, the New Caps set at the amount of RMB40 billion would provide more flexibility to the Group in managing its idle cash;
- (iii) as mentioned in the 2024 Annual Report, by strengthening technological innovation, proactively capturing market opportunities, and maximising operational potential to effectively overcome the pressure from the industry's low-growth environment, the Company's revenue in FY2024 increased by 0.8% as compared with that in FY2023 to approximately RMB215,691 million while the net profit attributable to the shareholders of the Company in FY2024 amounted to approximately RMB11,403 million, representing an increase of approximately 26.5% as compared with that in FY2023. Such key performance indicators demonstrated comprehensive improvement which sustained the momentum of high-quality and stable development. The continuing expansion of the Group's business would lead to larger operational cash inflows to the Group, hence driving up the needs for the Group's deposit services with Shandong Finance. Based on our discussion with the management of the Company, the Group expected the New Caps of RMB40 billion would be sufficient to meet such requirement; and
- (iv) as the latest deposit interest rates offered by Shandong Finance (i.e. 0.20% to 2.15%) was higher than those offered by other two independent commercial banks (i.e. ranged from 0.10% to 1.55%), with the New Caps being set at RMB40 billion, this increased the flexibility of the Group to allocate more idle cash to be deposited with Shandong Finance and earn more interest income from it.

The New Caps are set at RMB40 billion for each of the three years ending 29 June 2028, which is the same as the existing annual caps for the twelve months ending 29 June 2025. According to the 2024 Annual Report, the net profit of the Group for FY2024 increased by approximately 27.3% as compared with that in FY2023 to approximately RMB14,278 million. Although we noted the cash and cash equivalents of the Group

decreased to approximately RMB72,067 million as at 31 December 2024, such decrease was mainly due to the repayment of the loans and borrowings. Taking into account the increase in the Group's profit and the decrease in the amount of loans and borrowings in FY2024, the cashflow pressure of the Group in the future may be reduced. Hence, the increase in the cash reserves of the Group in the future could be deposited in financial institutions including Shandong Finance to earn more interest income which is in the interests of the Company and the Shareholders as a whole. Further, according to the New Financial Services Agreement, the Group is not obligated to accept the financial services to be provided by Shandong Finance. Therefore, the entering into of the New Financial Services Agreement and the New Caps could provide the Group with an extra platform to deposit its idle funds with more flexibility while the Group could earn more interest income from it.

Having considered the above, we are of the view that the New Caps under the New Financial Services Agreement are fair and reasonable so far as the Company and Independent Shareholders are concerned.

5. Internal control procedures

To secure the Shareholders' interests, Shandong Finance has given certain undertakings under the New Financial Services Agreement and the Company has adopted certain internal control procedures. The Company has formulated the Deposit Risks Guidelines, under which the Company has set up the Risk Prevention Leading Group with the Chairman of the Board as group leader, the general manager and chief financial officer of the Company as vice group leaders, and the Board secretary and relevant personnel of the Financial Management Department of the Company as group members. The Risk Prevention Leading Group carries out deposit risks prevention and handling work, and is responsible for collecting and reviewing the financial information of Shandong Finance to prepare a risk assessment report on a semi-annual basis. Pursuant to the relevant internal control procedures:

- (i) Shandong Finance shall ensure that it is in strict compliance with the requirements of the relevant PRC financial laws and regulations;
- (ii) prior to the Group depositing funds with Shandong Finance, it shall obtain the latest audited reports of Shandong Finance for the three preceding years as well as the financial statements of Shandong Finance for the latest period;
- (iii) the monthly report or financial statements of Shandong Finance for each month will be provided to the Group;
- (iv) during the period when deposits were made by the Group with Shandong Finance, the Company shall regularly obtain and review Shandong Finance's monthly reports and audit reports on a monthly basis, and further obtain and review Shandong Finance's audited annual report on an annual basis, in order to assess the business of Shandong Finance and its financial risk and position;

- (v) specific responsibilities have been assigned to finance settlement department and finance management department of the Company in performing daily review and cross-checking on the daily balance of the Group's deposits with Shandong Finance in order to avoid the deposits balance with Shandong Finance exceeding the New Caps and to make sure that the deposits made by the Group are conducted on normal commercial terms and in accordance with the New Financial Services Agreement; and
- (vi) the Company shall be notified within three business days upon the occurrence of circumstances that may cause harm to the security of the Group's deposits or on the occurrence of any other circumstances that may jeopardise the security of the Group's deposits and Shandong Finance undertakes to take proactive measures to resolve such circumstances or prevent the diffusion and spread of such risks. Circumstances that may cause harm to the security of the Group's deposits or may jeopardise the security of the Group's deposits include the bankruptcy or winding-up of Shandong Finance, the occurrence of bank runs, failure to repay debts as they fall due, loans of large amount falling overdue, advances on guarantees, serious failure of information systems, occurrence of robbery or fraud, directors or senior management of Shandong Finance being involved in serious disciplinary or criminal cases, or the occurrence of other force majeure events such as natural disaster.

As advised by the management of the Company, the Company has adopted a set of internal control measures which includes assigning specific responsibilities to finance settlement department and finance management department of the Company in performing daily review and cross-checking on the daily balance of the Group's deposits with Shandong Finance in order to avoid the deposits balance with Shandong Finance exceeding the New Caps and to make sure that the deposits made by the Group are conducted on normal commercial terms and in accordance with the New Financial Services Agreement.

The management of the Company further advised that, the auditors of the Company will conduct annual review on the transactions contemplated under the New Financial Services Agreement and the New Caps in respect of the deposit services in accordance with the Listing Rules. The independent non-executive Directors will also provide annual confirmations in the annual reports of the Company in respect of the transactions contemplated under the New Financial Services Agreement to ensure that such transactions are entered into on normal commercial terms, fair and reasonable, and carried out pursuant to its contractual terms.

For our due diligence purpose, we have obtained and reviewed the auditors' review report and the annual confirmation of the independent non-executive Directors for the year ended 31 December 2024 and no irregularities were noted.

In view of the above, in particular, (i) there are sufficient internal control and risk management measures in place to ensure that the deposits to be placed with Shandong Finance will not exceed the New Caps in accordance with the New Financial Services Agreement; (ii) the auditors of the Company and the independent non-executive Directors had not identify any issue in relation to the deposit services under the Existing Financial Services Agreement; and (iii) there had not been any record of non-compliance on the relevant laws and regulations of the PRC by Shandong Finance as advised by the management of the Company, we are of the view that there are sufficient internal control and risk management measures in place to govern and monitor the proposed continuing connected transactions under the New Financial Services Agreement and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we considered that the terms of the deposit services provided by Shandong Finance to the Group under New Financial Services Agreement and the relevant proposed New Caps are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Company so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend to the Independent Shareholders, to vote in favor of the ordinary resolution to be proposed at the AGM to approve the provision of deposit services by Shandong Finance to the Group under the New Financial Services Agreement and the relevant New Caps.

Yours faithfully
For and on behalf of
Octal Capital Limited



Alan Fung
Managing Director



Louis Chan
Director

Note:

Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 30 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.