OVERVIEW

As of the Latest Practicable Date, (i) Shandong Heavy Industry, which was ultimately owned as to 90.00% by Shandong SASAC and 10.00% by Shandong Provincial Department of Finance, directly held approximately 24.29% of our A Shares, and (ii) Weichai Power, which was an indirect non-wholly owned subsidiary of Shandong Heavy Industry through its wholly-owned subsidiary, Weichai Holdings, directly held approximately 15.78% of our A Shares.

Pursuant to the Hong Kong Listing Rules and Chapter 1.1C of the Guide for New Listing Applicants, Shandong Heavy Industry, Weichai Holdings, and Weichai Power constitute our Controlling Shareholders, holding in aggregate approximately 40.07% of our total issued Shares as of the Latest Practicable Date. Immediately following completion of the [**REDACTED**], our Controlling Shareholders will in aggregate hold approximately [**REDACTED**]% of our Shares (assuming the [**REDACTED**] is not exercised and there are no other changes made to the issued share capital of our Company between the Latest Practicable Date and the [**REDACTED**]). Therefore, upon [**REDACTED**], Shandong Heavy Industry, Weichai Holdings, and Weichai Power will continue to be our Controlling Shareholders as defined under the Hong Kong Listing Rules.

For a simplified corporate structure chart of our Group, see "History, Development and Corporate Structure—Our Shareholding and Corporate Structure" in this Document.

BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Established in June 2009, Shandong Heavy Industry is one of the leading integrated industrial equipment group in the PRC with global layout and significant influence in the world. The principal businesses of Shandong Heavy Industry cover seven major sectors of powertrain systems, commercial vehicles, construction machinery, agriculture equipment, intelligent logistics, marine transportation equipment and power and energy.

As of the Latest Practicable Date, apart from our Company, Shandong Heavy Industry controlled or was the single largest shareholder of 10 publicly listed companies, and the particulars of such publicly listed companies are as follows:

Name	Listing Venue and Stock Code	Principal Business	Ultimate Shareholding of Shandong Heavy Industry
Weichai Power	Hong Kong Stock Exchange (stock code: 2338) Shenzhen Stock Exchange (stock code: 000338)	one of the vehicle and equipment manufacturing conglomerates in the PRC with the best comprehensive strengths	16.33%[1]
Weichai Heavy Machinery Co., Ltd.	Shenzhen Stock Exchange (stock code: 000880)	Developing, manufacturing and sale of medium and high speed diesel engines, generating units and power integration systems for ship power and power generation equipment, as well as the operation of diesel engine parts and marine gear box	30.59%
Ferretti S.p.A.	Hong Kong Stock Exchange (stock code: 9638) Euronext Milan (stock symbol: YACHI.MI)	design, construction and marketing of yachts and recreational boats, and design, development and manufacturing of coastal patrol vessels	38.02%
Kion Group AG	Frankfurt Stock Exchange (stock symbol: KGX)	one of the world's leading providers of forklift trucks and warehouse equipment as well as supply chain solutions	46.52%
Power Solutions International, Inc.	NASDAQ (stock symbol: PSIX)	design, engineering, and manufacture of a broad range of advanced, emission-certified engines, power systems, and accessories	46.00%

Name	Listing Venue and Stock Code	Principal Business	Ultimate Shareholding of Shandong Heavy Industry
Sinotruk (Hong Kong) Limited	Hong Kong Stock Exchange (stock code: 3808)	research, development and manufacturing of heavy duty trucks, light duty trucks, and related key assemblies, parts and components	51.00%
Sinotruk Jinan Truck Co., Ltd. (中國重汽集團濟南卡車股份有限公司)	Shenzhen Stock Exchange (stock code: 000951)	manufacturing and sale of trucks and spare parts	51.61%
Zhongtong Bus Holding Co., Ltd. (中通客車股份有限公司)	Shenzhen Stock Exchange (stock code: 000957)	bus manufacturers	21.07%
Ballard Power Systems Inc.	NASDAQ (stock symbol: BLDP) Toronto Stock Exchange (stock symbol: BLDP)	design, development, manufacture, sale and service of proton exchange membrane fuel cell products	15.34%
Ceres Power Holdings plc	London Stock Exchange (stock symbol: CWR)	a leading developer of clean energy technology, fuel cells for power generation and electrolysers for green hydrogen	19.50%

Note: based on public information, as of December 31, 2025, Weichai Holdings directly held 16.33% of the total issued shares of Weichai Power.

Weichai Holdings is a core wholly-owned subsidiary of Shandong Heavy Industry. Its main business covers seven major business segments, including powertrain systems, commercial vehicles, agricultural equipment, construction machinery, intelligent logistics, marine mobility and power and energy.

EXCLUDED BUSINESSES OF OUR CONTROLLING SHAREHOLDERS

We offer a comprehensive portfolio of construction machinery, spare parts and smart construction solutions. Our construction machinery includes dozers, excavators, loaders, road machinery, mining trucks and concrete machinery. As of the Latest Practicable Date, apart from our Group, our Controlling Shareholders are also engaged in excavator, loader and wide-body mining truck related business (the "**Excluded Businesses**") through two subsidiaries, namely Lovol Heavy Industry and Weichai Qingdao (together with Lovol Heavy Industry, the "**Excluded Companies**").

Details of the Excluded Companies are summarized below:

			For the year ended/as of December 31, 2025		
Excluded Companies	Date of establishment	Overlapping products	Total Asset	Revenue	Gross Profit
			(RMB in million)		
Lovol Heavy Industry	November 13, 2013	Excavator products cover 1.5 to 120 tons, loader products range from 2 to 10 tons, wide-body mining trucks cover 70 to 160 tons, and include high-tech products such as pure electric and autonomous driving models	6,690.81	5,682.88	77.37
Weichai Qingdao	November 10, 2022	Excavator products cover 1.5 to 120 tons	1,497.84	1,909.14	126.46

To the best knowledge, information and belief of the Company having made all reasonable enquiries, there was no material or systemic non-compliance with applicable rules and regulations in relation to the Excluded Businesses during the Track Record Period.

In light of the following reasons, the Phased Integration Plans as described below, and the proposed corporate governance measures to be implemented upon [**REDACTED**], our Directors are of the view that the level of competition between our business and the Excluded Business is not material and any conflict of interests can be effectively managed:

I. Long-term independent operation

The overlapping businesses primarily arose as a result of recent acquisitions by us and/or our Controlling Shareholders. In December 2020, Weichai Holdings acquired the controlling interest in Weichai Lovol Intelligent Agricultural Technology Co., Ltd. ("**Weichai Lovol**"), which held 100% equity interest in Lovol Heavy Industry at that time. As a result, both our Group and Lovol Heavy Industry became engaged in the manufacturing and sales of loaders. In December 2024, our Company completed the acquisition of 100% equity interest in Strong Construction Machinery, thereby expanding into the manufacturing and sales of excavators, which also form a core part of the business portfolios of Lovol Heavy Industry and Weichai Qingdao. For the avoidance of doubt, prior to the acquisition of Strong Construction Machinery, our Company did not engage in the manufacturing of excavators. Instead, we only purchased excavators from subsidiaries of Shandong Heavy Industry at market prices and resold them to meet the procurement needs of both domestic and overseas customers.

Notwithstanding the foregoing, the overlapping businesses have historically operated on an independent basis, both prior to and following the aforementioned acquisitions. Each of our Group (including Strong Construction Machinery) and the Excluded Companies has consistently maintained its own management structure, operational resources, sales channels, and customer base. There has been no integration of day-to-day operations between our Group and the Excluded Companies, and both our Group and the Excluded Companies have conducted their respective businesses autonomously.

In particular, customer overlap has remained limited. To the best knowledge of our Company, in respect of the excavator, loader and mining truck business, the number of overlapping customers between our Company and the Excluded Companies and the percentage of revenue attributable to such overlapping customers during the Track Record Period are as follows:

Financial year/Period	Number of Overlapping Customers	Percentage of Revenue Attributable to Overlapping Customers – Our Group	Percentage of Revenue Attributable to Overlapping Customers – Excluded Companies
2023	7	0.63%	20%
2024	12	1.66%	36%
2025	19	2.28%	2%

As shown in the above table, the number of the overlapping customers were limited during the Track Record Period, representing a negligible portion when compared to the thousands of customers served by the Company. Moreover, the minimal revenue contribution to our revenue further demonstrates the distinct commercial operations and customer relationships maintained by the respective entities.

II. Size and diversity of the market

According to Frost & Sullivan, the domestic and global construction machinery market segments relevant to the Excluded Businesses are expected to maintain steady growth through 2030:

- The domestic and global excavator market is projected to reach RMB160.9 billion and RMB693.5 billion by 2030, respectively, with a CAGR of 15.9% and 6.6% from 2025 to 2030, respectively; and

- The domestic and global loader market is expected to grow to RMB34.3 billion and RMB348.9 billion by 2030, respectively, with a CAGR of 3.9% and 3.0% over the same period, respectively.

These figures reflect a robust and expanding market landscape, underscoring the continued demand for such equipment.

Furthermore, Frost & Sullivan reports that the global excavator and loader market alone comprises several hundred market players. In 2025, each of our Company and the Excluded Companies held a market share of less than 5% in terms of sales volume. As such, we face competition from a broad and diverse group of industry peers, far beyond just the Excluded Companies. This competitive dynamic further supports that the Excluded Businesses operate in an open and dynamic market environment.

III. Diversified Business Portfolio of Our Group

Our Group offers a diverse range of products and maintains a broad business layout. In addition to the overlapping product lines of excavators, loaders, and wide-body mining trucks, our Group also covers a full spectrum of construction machinery such as dozers, road machinery, and concrete equipment, and the core components, as well as the R&D, manufacturing, sales and service thereof. These overlapping products account for only a relatively limited portion of our Group's overall revenue, highlighting our Group's extensive product coverage and differentiated development strategy. In contrast, as illustrated in the table below, for the year ended December 31, 2025, such overlapping products constitute a significantly higher proportion of the revenue of Lovol Heavy Industry and Weichai Qingdao, reflecting their more concentrated business focus on the Excluded Businesses.

	For the year ended December 31, 2025					
	excavators		loaders		mining trucks[(1)]	
	Revenue	Contribution	Revenue	Contribution	Revenue	Contribution
	RMB million					
Our Group	3,935.70	26.9%	1,647.68	11.3%	89.33	0.6%
Lovol Heavy Industry[(2)]	2,550.67	44.9%	1,485.41	26.1%	907.03	16.0%

Note:

(1) Our mining trucks primarily consist of wide-body mining trucks and rigid mining trucks, while the mining trucks of the Excluded Companies are wide-body mining trucks only. During the Track Record Period, the Group did not engage in the production or manufacturing of wide-body mining trucks. Instead, all such products were procured and sold on a trading basis to meet our customers' overall operational requirements. Beginning in 2025, the Group expanded its business to include the development, manufacturing, and sale of rigid mining trucks. For the year ended 31 December 2023, 2024 and 2025, the revenue generated from wide-body mining trucks were approximately RMB153.15 million, RMB274.68 million and RMB50.09 million, respectively, representing 100%, 100% and approximately 56.07% of our revenue generated from all mining trucks during the Track Record Period.

(2) During the Track Record Period, all products manufactured by Weichai Qingdao were sold exclusively to Lovol Heavy Industry for onward resale, and accordingly, the revenue from product sales of Lovol Heavy Industry as presented above already includes the revenue attributable to products manufactured by Weichai Qingdao. Weichai Qingdao is principally engaged in the manufacture of excavators only and does not manufacture or sell loaders or mining trucks. For the year ended 31 December 2025, revenue generated from excavators amounted to RMB1,859.31 million, representing approximately 97.4% of the total revenue of Weichai Qingdao.

As such, while the Excluded Companies derive a substantial portion of their revenue from the Excluded Businesses, our Group maintains a significantly more diversified business portfolio. The following table sets forth a breakdown of our revenue by product category in absolute amounts and as a percentage of our total revenue for the period indicated:

	Year ended December 31, 2025	
	RMB ('000)	*%*
Construction machinery	10,950,090	74.9
Dozers	3,481,619	23.8
Excavators	3,935,700	26.9
Loaders	1,647,682	11.3
Road machinery	1,059,998	7.3
Mining trucks	89,332	0.6
Concrete machinery	459,700	3.1
Other construction machinery	276,059	1.9
Spare parts	2,667,607	18.2
Others[1]	1,002,473	6.9
TOTAL	**14,620,170**	**100.0**

Note:

(1) Mainly include rental income and income from sales of materials.

IV. Clear Business Delineation in Mining Trucks

The mining truck businesses of the Group and the Excluded Companies are clearly delineated based on product positioning, in particular, the fundamentally different technical routes of rigid mining trucks versus wide-body mining trucks. During the Track Record Period, the Group did not engaged in manufacturing of wide-body mining trucks, and its sales of wide-body mining trucks were limited to trading activities only, where the Group procured wide-body mining trucks from third-party suppliers for onward resale, primarily to satisfy certain customers' integrated procurement needs when purchasing the Group's principal machinery products. Beginning in 2025, the Group expanded its mining truck business to include the research and development, manufacturing and sale of rigid mining trucks, while the Excluded Companies' mining truck business comprises manufacturing and sale of wide-body mining trucks. Rigid mining trucks typically feature rigid frames, higher technical complexity (including advanced suspension and braking systems) and greater durability, and are primarily used in large-scale open-pit mining operations, stripping activities and long-haul transportation scenarios, with relatively higher pricing. Wide-body mining trucks, on the other hand, generally adopt non-rigid or flexible frames, have simpler structures and faster product iteration cycles, and are mainly used in smaller-scale mines and short-distance transportation scenarios, with relatively lower pricing.

From an industry perspective, according to Frost & Sullivan, rigid frame mining trucks and wide body mining trucks are regarded as two distinct product categories with different technical specifications, pricing levels, load capacities and application scenarios, serving different customer needs, and accordingly, the Group's rigid frame mining truck business and the Excluded Companies' wide body mining truck business do not compete with each other. Accordingly, notwithstanding the Group's limited trading sales of wide-body mining trucks during the Track Record Period, the Group and the Excluded Companies are clearly differentiated in their mining truck businesses in terms of technical routes, product characteristics, application scenarios and long-term business focus, and any overlap is transitional, limited and non-intensive.

V. Recent Non-Competition Undertakings Relating to Loader Business and Excavator Business

As a company listed on the Shenzhen Stock Exchange, we are subject to the supervision of domestic securities regulatory authorities, including the Shenzhen Stock Exchange and the CSRC, which places particular emphasis on the identification and resolution of potential competition issues. In light of this regulatory environment, Shandong Heavy Industry, our Controlling Shareholder, has proactively taken steps to address and mitigate any such concerns.

Non-competition undertaking in 2021 and further undertaking in 2026

In connection with the acquisition of equity interest in Weichai Lovol by Weichai Holdings in December 2020, following which both our Group and our Controlling Shareholders became engaged in the manufacturing and sales of loaders, Shandong Heavy Industry issued a non-competition undertaking in favor of our Group on January 26, 2021 (the "**2021 Non-competition Undertaking**"), pursuant to which, Shandong Heavy Industry undertook that within five years from the date of the undertaking, it would carry out relevant decision-making procedures and methods, including but not limited to business adjustments, asset restructuring (including the purchase of assets by cash consideration or issuance of shares or other feasible methods of restructuring, on the condition that such methods were permitted by the relevant laws and regulations and the profitability of the relevant business satisfied the basic income requirements of our Company) to prioritize the integration of competing business with our business under the same conditions, taking into account the actual situation and the characteristics and development of the industry and in a manner recognized by relevant regulatory authorities.

Since the execution of non-competition undertaking in January 2021, Shandong Heavy Industry has accorded paramount priority to the performance of said undertaking, proactively adopting a series of measures and methodically progressing business consolidation efforts to mitigate potential competition issues. As of the Latest Practicable Date, each initiative undertaken has been strategically designed to establish the prerequisites for eventual resolution. The principal measures encompass: (i) Weichai Lovol has effected the transfer of 100% equity interest in Lovol Heavy Industry to Weichai Holdings, thereby divesting the construction machinery segment and establishing a foundational framework for ensuing comprehensive integration; and (ii) Shandong Heavy Industry has consummated the transfer of Shandong Degong and Dezhou Degong to our Group in 2022, thereby achieving initial consolidation of the loader business within Shandong Heavy Industry Group and furnishing the necessary groundwork for the subsequent assimilation of Excluded Companies' loader business.

However, given the relevant Excluded Businesses are currently not ready for integration due to the reasons as set out in the paragraph below headed "REASONS FOR THE EXCLUSION OF THE EXCLUDED BUSINESSES FROM OUR GROUP", Shandong Heavy Industry has issued a further undertaking on January 9, 2026 (the "**2026 Non-competition Undertaking**") to extend the original undertaking period by an additional three years from the expiration of the 2021 Non-competition Undertaking to allow sufficient time for optimization of the relevant Excluded Businesses in order to integrate the competing business with our business. As a part of the overall plan to resolve the competition issues, including the entrusted management and integration proposal as further detailed below, the 2026 Non-competition Undertaking has been approved by the independent Shareholders at the general meeting of the Company held on January 23, 2026 in accordance with the applicable PRC laws and regulations.

Non-Competition Undertaking in 2024

As our Company serves as the key construction machinery platform within Shandong Heavy Industry Group, Shandong Heavy Industry transferred Strong Construction Machinery to our Company in 2024. Following this transfer, our Group expanded our construction machinery business to include the manufacturing and sales of excavators. Consequently, both our Group and our Controlling Shareholders became engaged in the manufacturing and sales of excavators. In response to this, Shandong Heavy Industry further issued a non-competition undertaking in favor of our Group on November 10, 2024 (the "**2024 Non-competition Undertaking**", together with the 2021 Non-competition Undertaking and 2026 Non-competition Undertaking, the "**Non-competition Undertakings**"), pursuant to which, Shandong Heavy Industry undertook that:

(a) within five years from the date of the undertaking, Shandong Heavy Industry shall carry out methods, including but not limited to business adjustments and asset restructuring, to resolve excavator business competition between our Group and the Excluded Companies after completion of the acquisition of Strong Construction Machinery, taking into account the actual situation and the characteristics and development of the industry and requirements by regulatory authorities;

(b) as of the date of the undertaking, except for the Excluded Companies, Shandong Heavy Industry and its directly or indirectly controlled subsidiaries (excluding our Group) did not engage in or carry out, directly or indirectly, any other activities which might be in competition with the products and/or business of our Company and Strong Construction Machinery;

(c) from the date of the undertaking, and until the business competition was further resolved, Shandong Heavy Industry shall ensure the independence of each of the Excluded Companies and our Company with respect to operation and market expanding, not sharing sale channels and market resources with our Company, not utilizing existing procurement, sale channels or customer resources to engage in any businesses or activities which were or might be detrimental to our operation and development, and not engaging in or participating in any other competing behavior, directly or indirectly, that was or might be detrimental to our Company;

(d) from the date of the undertaking, Shandong Heavy Industry and its directly or indirectly controlled subsidiaries (excluding our Group) would no longer engage in any business, other than the Excluded Businesses, that competes with the business of our Group. In the event that Shandong Heavy Industry and its directly or indirectly controlled subsidiaries (excluding our Group) might, as a result of restructuring or mergers and acquisitions and in light of the overall development strategy and actual circumstances, engage in new business that substantially compete with the business of our Group, Shandong Heavy Industry shall proactively coordinate and tack practicable measures to eliminate the business competition, to the extent permitted by the laws and regulations;

(e) from the date of the undertaking, when Shandong Heavy Industry, the Excluded Companies and other subsidiaries were offered new business opportunities which constituted substantial competition with the business of our Group (including, but not limited to, future excavator orders from new and existing customers), Shandong Heavy Industry and its subsidiaries shall give priority to provide such new business opportunities to our Company as requested by our Company; and Shandong Heavy Industry and its subsidiaries could pursue and utilize such new business opportunities when our Company declined such new business opportunities;

(f) Shandong Heavy Industry shall not take advantage of its position as a Shareholder to engage in business activities or enter into transactions or arrangements that would be detrimental to the interest of other Shareholders of our Company;

(g) in the event that the undertaking would not realize in the course of actual implementation, Shandong Heavy Industry shall take the following measures based on actual circumstances: (1) to disclose the circumstances under which the undertaking had not been realized and propose supplementary or substitute undertaking in order to protect our Company's interest; (2) to compensate any losses caused to our Company in accordance with the laws; and (3) to take other measures as may be required in accordance with applicable regulations; and

(h) the undertaking shall become effective upon the completion of registration of the equity transfer of Strong Construction Machinery under the name of our Company. The undertaking shall remain effective during the period in which Shandong Heavy Industry is a Controlling Shareholder of and a related party having control over our Company, until completion of the undertaking.

REASONS FOR THE EXCLUSION OF THE EXCLUDED BUSINESSES FROM OUR GROUP

Having considered, among other things, the following reasons, our Directors are of the view that it is not in the best interest of our Group or its Shareholders to acquire the Excluded Businesses from our Controlling Shareholders at this stage:

- As an A-share company listed on the Shenzhen Stock Exchange, any asset injection from a connected person would be subject to strict regulatory scrutiny. Premature integration may not be conducive to protecting the interests of our public shareholders;

- Lovol Heavy Industry was brought under the control of Shandong Heavy Industry in December 2020 and was subsequently strategically integrated into Weichai Holdings by Shandong Heavy Industry. The exclusion of Lovol Heavy Industry from our Group at this stage is primarily due to several ongoing challenges that require further resolution to ensure alignment with regulatory requirements for listed companies. As of 31 December 2025, its net assets remained negative at approximately RMB708 million. Second, Lovol Heavy Industry maintains substantial related-party transactions and fund transactions with entities under our Controlling Shareholders, necessitating time for gradual unwinding. Third, compliance and filing procedures for certain production facilities are still in progress, further supporting the need for optimization prior to potential integration.

- Weichai Qingdao was only incorporated in November 2022, its product promotion and market channel development are still in the transitional phase, while its sales channels are still in the development stage, thereby as a part of the overall operation related to Lovol Heavy Industry, it currently has not yet met the conditions for integration with our Group. Moreover, the proposed integration of Weichai Qingdao is subject to obtaining consents from the local government under the relevant investment cooperation agreements entered into between the local government and Weichai Qingdao and/or its shareholders, which will require additional time. In parallel, the filing and compliance procedures for certain production facilities of Weichai Qingdao are still in progress.

PHASED INTEGRATION PLAN

As the Excluded Companies are currently not ready for full integration given the reasons as elaborated above, in order to safeguard the interests of our Company and the Shareholders and to continue actively addressing the issue of competition, a phrased integration plan has been formulated (the "**Phased Integration Plan**") as follow:

- **Phase 1: Advancing asset optimisation and profitability enhancement of the Excluded Companies under the entrusted management arrangement, with continuous assessment**

We entered into the Entrusted Management Agreements with the relevant shareholders of the Excluded Companies, pursuant to which we will provide certain entrusted management services and can exercise various management and operation rights over the Excluded Companies and their respective subsidiaries including, but not limited to, procurement, production, sales, finance, human resources, investment, equipment and technological upgrades, warehousing, logistics, and other operational management matters of the relevant Excluded Companies and their respective subsidiaries. In addition, we have also been granted the right of first refusal under each of the Entrusted Management Agreements to acquire the respective equity interests in the Excluded Companies, and during the term of the Entrusted Management Agreement, none of the shareholders of the Excluded Companies can transfer the equity interests in the Excluded Companies without prior written consent of our Company.

Our Company will not share any profit/loss from the Excluded Companies except for receiving a entrusted management fee in accordance with terms of the Entrusted Management Agreements.

For more details about the Entrusted Management Agreements, please refer to "Connected Transactions – Exempt Continuing Connected Transactions – 2. Lovol Heavy Industry Entrusted Management Agreement and 3. Weichai Qingdao Entrusted Management Agreement."

During the term of the Entrusted Management Agreements, we will be focusing on optimizing the operations, management, and profitability of the Excluded Companies under the entrusted management arrangement. We will provide entrusted management services to carry out comprehensive initiatives with a view to standardize business processes, strengthen compliance systems, improve internal controls, and enhance financial management of the Excluded Companies. Key areas such as sales, procurement, legal compliance, and finance will be systematically reviewed and improved, with ongoing assessments to identify and address risks. The goal is to ensure that the Excluded Companies achieve operational efficiency, robust compliance and readiness for further evaluation by our Company and potential integration by the end of 2028.

(i) Transitional competition control measures during the entrusted management period

During the entrusted management period and prior to full integration, the Company manages and mitigates potential competition with the Excluded Companies through an overarching entrusted management framework. Under this framework, the Company will use reasonable endeavours to promote coordinated sales arrangements in respect of overlapping products, with a view to reducing the risk of competition. New business opportunities involving overlapping products are subject to internal coordination mechanisms, under which the Company is given priority to evaluate and decide whether to pursue such opportunities. In addition, the Excluded Companies are subject to periodic internal reporting and monitoring arrangements, enabling the Company to identify and address any potential competitive friction in a timely manner. The implementation and effectiveness of these measures are further overseen through robust governance and internal control mechanisms, including supervision by independent non-executive Directors, who review key matters, oversee conflict management and ensure that the entrusted management arrangements are operated in a transparent and disciplined manner, thereby keeping any transitional competition limited, manageable and non-intensive.

(ii) Measures to optimise assets and enhance profitability of the Excluded Companies

In parallel with the above competition control measures, the Company will focus on advancing the operational optimisation and profitability enhancement of the Excluded Companies, as key preconditions for integration. Such measures include:

(a) *Profitability improvement measures*: measures aimed at improving profitability, including debt restructuring, optimisation of asset and liability structures, disposal or isolation of non-core or loss-making assets, cost control and operational efficiency enhancement;

(b) *Training and management enhancement mechanisms*: the introduction of management, compliance and operational training mechanisms to strengthen internal controls, financial discipline and operational capabilities of the Excluded Companies;

(c) *Procurement and supply chain coordination*: enhanced coordination in procurement and supply chain management to reduce costs, improve economies of scale and strengthen margin performance, where appropriate; and

(d) *Performance assessment and incentives*: the establishment of performance assessment mechanisms aligned with operational improvement, compliance and profitability objectives, to support sustainable development of the Excluded Companies during the transitional period.

The above measures are designed to support the Excluded Companies in achieving stable profitability and improved asset quality. During the entrusted management period, the Excluded Companies will continue to operate independently, with product ownership, transaction arrangements, fund flows and profits and losses remaining with the respective operating entities.

(iii) Assessment criteria for integration

During Phase 1, the Company will continuously assess whether the Excluded Companies have met the conditions for integration, including:

(a) *Profitability metrics*: the Excluded Businesses have achieved stable profitability, as evidenced by the Excluded Companies recording profits for two consecutive financial years;

(b) *Asset condition metrics*: through asset optimisation measures such as the separation and retention of quality assets and the isolation or restructuring of liabilities, the asset condition of the Excluded Companies has been optimised such that Lovol Heavy Industry has achieved a positive net asset position;

(c) *Strategic Synergy and Business Compatibility*: (i) the alignment of the Excluded Companies' strategic development direction with that of the Company; (ii) whether capacity layout and product structure create complementary effects with the Company; (iii) the contribution of R&D capabilities to improving the Company's technological level and product competitiveness; and (iv) the integration potential of sales channels and the synergistic benefits of market coverage;

(d) *Compliance Review of the Excluded Companies*: (i) confirmation on no material non-compliance issues associated with the Excluded Businesses; and (ii) the Excluded Companies have established a sound compliance management system and internal control mechanism;

(e) *Related-Party Transactions*: undertake a comprehensive review of all historical borrowings, payables, and other fund transactions between the Excluded Companies and other related parties, for the purpose of ascertaining the non-existence of any related-party transactions that would prevent them from being injected into a listed company, whilst vigilantly effectuating and operationalizing the apposite internal control protocols governing related-party transactions; and

(f) *Other regulatory requirements*: the fulfilment of other basic requirements imposed by the CSRC, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange in relation to independence, asset integrity, financial standardisation and independent profitability.

Upon the Excluded Companies simultaneously satisfying the criteria set out in paragraphs (a) and (b) above, the Company will consider that the Excluded Companies have met the basic conditions for integration (although this does not necessarily mean that all integration conditions have been fully satisfied), and, after taking into account the factors set out in paragraphs (c) to (f) above on a holistic basis, will proceed to initiate the subsequent integration-related work.

- **Phase 2: Completion of integration of the Excluded Companies**

Subject to the Excluded Companies meeting the above assessment criteria, the Company will initiate the integration process and complete the integration by the end of 2028, in full compliance with applicable laws, regulations and listing rules.

We believe that the Phased Integration Plan will effectively mitigate competition arising from the Excluded Businesses. Furthermore, the Phased Integration Plan serves as a mechanism for Shandong Heavy Industry to fulfill its obligations under the Non-competition Undertakings. In the event that, due to unforeseen circumstances, the integration cannot be completed within the expected timeframe, the Controlling Shareholder will implement one or more ultimate solutions to conclusively resolve any potential competition with the Group, including disposing of or transferring the relevant competing businesses or assets, deregistering or otherwise ceasing the relevant competing businesses, or other measures permitted under applicable laws and regulations, with appropriate disclosure and independent Shareholders' approval where required.

Save as disclosed above in this section, our Controlling Shareholders and our Directors do not have any interests in any businesses which directly or indirectly compete or may compete with the principal business of our Group which are required to be disclosed under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are of the view that our Group is capable of carrying on our businesses independently from our Controlling Shareholders following completion of the [**REDACTED**], details of which are set out below:

Operational independence

Our Directors are of the view that we can continue operating independently from our Controlling Shareholders after the [**REDACTED**]. We hold and enjoy the benefit of all relevant permits and licenses necessary for carrying out our business in all material respect, and we have sufficient capital, facilities, equipment and employees to operate our businesses independently from our Controlling Shareholders. We also have full powers to make all decisions regarding, and to carry out, our own business operations independently from our Controlling Shareholders. In addition, our access to, and relationship with, most of our key customers and suppliers are independent from our Controlling Shareholders.

Notwithstanding that our Group and Shandong Heavy Industry Group have business cooperation and will continue to have business cooperation, the details of which are set out in the section headed "Connected Transactions" in this Document, these transactions have been and will continue to be conducted on arm's length basis and on normal commercial terms in the ordinary and usual course of our businesses. During the Track Record Period, our revenue generated from Shandong Heavy Industry Group representing approximately 4.4%, 6.2% and 7.3% of our total revenue, respectively, for the year 2023, 2024 and 2025, and purchases from Shandong Heavy Industry Group representing approximately 15.4%, 19.7% and 19.5% of our total purchases, respectively, for the year 2023, 2024 and 2025. Considering our access to independent sources and the presence of a sufficiently competitive market, our Directors are of the view that, even in the event of termination of such transactions, our Company would be able to identify alternative suitable partners through fair and market-based negotiation on comparable terms and conditions, thereby continuing to meet our business and operational needs without incurring any material or undue delay. Therefore, our Directors believe that these connected transactions with Shandong Heavy Industry Group do not affect our operational independence.

In light of the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their close respective associates during the Track Record Period and will continue to be able to operate independently upon [**REDACTED**].

Management independence

Our business has been managed and conducted by our Board and senior management. Our Board consists of ten Directors, comprising four executive Directors, two non-executive Directors and four independent non-executive Directors, and we also have six senior management members (of which two are executive Directors). Each of our executive Directors and senior management possesses relevant management, financial or industry-related experience to contribute to the day-to-day management of our businesses. For further information on the qualifications and experience of our Directors and senior management, see "Directors and Senior Management" in this Document.

Save as disclosed below, none of our Directors or members of senior management holds a directorship or other management position in our Controlling Shareholders:

Name	Directorship in our Company	Position in our Controlling Shareholders
Mr. Zhang Min	Executive Director	Director of Weichai Holdings
Ms. Qu Hongkun	Executive Director	Director of Shandong Heavy Industry Finance Company and Tongxin Digital Technology Co., Ltd. (同心數字科技有限公司, "**Tongxin Technology**") (being a close associates of Shandong Heavy Industry)
Ms. Wang Cuiping . . .	Non-executive Director	Member of the Party committee of Weichai Holdings and Weichai Power, chief financial officer of Weichai Power
Mr. Xiao Qisheng	Non-executive Director	Assistant to the general manger, and deputy general manager of global marketing center of Weichai Power, chairman of the board of directors and general manager of Weichai (Shandong) Powertrain Co., Ltd.

Notwithstanding the fact that the aforementioned two executive Directors and two non-executive Directors (collectively, the "**Overlapping Directors**"), hold overlapping directorship or other management positions in our Controlling Shareholders, we are of the view that our Group and our Controlling Shareholders can be managed independently for the following reasons:

(i) our senior management have a well-established track record of carrying on our daily management and operations. Save for Mr. Zhang Min, Ms. Qu Hongkun, Ms. Wang Cuiping and Mr. Xiao Qisheng, all of our Directors and senior management do not hold any position in our Controlling Shareholders or their respective close associates. Despite the overlapping roles as detailed above, all our Directors and senior management are capable to contribute sufficient time and efforts to discharge their responsibilities in our Group effectively. Ms. Wang Cuiping and Mr. Xiao Qisheng act as non-executive Directors of our Company, who are mainly responsible for providing guidance for the overall management and development of our Company, and are not involved in the day-to-day operation and management of our Company. Further, Mr. Zhang Min's directorships in Weichai Holdings and Ms. Qu Hongkun's directorship in Shandong Heavy Industry Finance Company and Tongxin Technology are non-executive in nature and they are not involved in the day-to-day management and operations of business of each of Weichai Holdings, Shandong Heavy Industry Finance Company and Tongxin Technology. Each of Mr. Zhang Min and Ms. Qu Hongkun is only involved in decision-makings as member of the board of directors of such companies. Therefore, neither Mr. Zhang Min nor Ms. Qu Hongkun expects that his/her directorships in our Controlling Shareholders and their respective close associates will take up a substantial amount of their time, and each of Ms. Wang Cuiping and Mr. Xiao Qisheng will be able to devote sufficient time to the management of our Company;

(ii) we have established four Board special committees and appointed 4 independent non-executive Directors, who have sufficient knowledge, experience and competence, so that there is a balanced composition of executive, non-executive and independent non-executive Directors to ensure the independence of the Board in making decisions affecting our Company and to promote the interests of our Company and the Shareholders as a whole;

(iii) as an A-share listed company, we have adopted sufficient corporate governance measures and comprehensive internal control and risk management systems in compliance with the relevant requirements of the rules of the Shenzhen Stock Exchange. Besides, the Articles of Association has included relevant provisions to manage conflict of interest, pursuant to which our Directors are prohibited from voting in any Board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her close associates has a material interest, and shall not be counted in the quorum present at the particular Board meeting;

(iv) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she must act for the benefit and in the interest of our Company and the Shareholders as a whole, and not allow any conflict between his/her duties as a Director and his/her personal interests; and

(v) we have adopted a series of corporate governance measures to manage potential conflicts of interest, if any, between our Group and our Controlling Shareholders, which would enhance our independent management. For further information, see "—Corporate Governance Measures" below in this section.

In light of the above, our Directors are of the view that our Company has our own management team which is capable of maintaining the independence of our Company from our Controlling Shareholders and supporting the independent operation of our Group.

Financial independence

We have adopted our own independent internal control, accounting, funding, reporting and financial management systems, and we also have an independent accounting and finance department responsible for discharging relevant financial and treasury function with relevant finance personnel. Moreover, our Board has established the Audit Committee to provide independent oversight to, among other things, our accounting and financial reporting processes. We open and manage our bank accounts independently, and have never shared any bank account with any of our Controlling Shareholders. We are also capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders in view of our Group's strong financial position, steady cash flow generation and level of liquid assets as well as our ability to raise funds on a standalone basis.

Guarantee

Except for the guarantee provided by us to Shanzhong Finance Leasing Company under the Finance Lease Business Cooperation Framework Agreement (details of which are set out in the section headed "Connected Transactions" in this Document), no guarantee has been provided by, or granted to, our Controlling Shareholders or their respective close associates during the Track Record Period and as of the Latest Practicable Date.

Financial services

Notwithstanding that Shandong Heavy Industry Finance Company, a subsidiary of Shandong Heavy Industry, has provided financial services to our Group during the Track Record Period, and will continue to provide financial services to our Group after the [**REDACTED**], the details of which are set out in the section headed "Connected Transactions" in this Document, our Directors are of the view that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates for the following reasons:

(i) although we have been irrevocably granted with the credit facilities by Shandong Heavy Industry Finance Company under the Financial Services Agreement, we are not dependent on such credit facilities and would only partially utilize as necessary to our financial needs. The total amount and unutilized amount of the credit facilities granted as of December 31, 2023, 2024 and 2025, respectively, are set out below:

As of December 31	Total amount of credit facilities granted	Unutilized amount of credit facilities granted	Percentage of unutilized amount
	(approx. RMB million)	*(approx. RMB million)*	*(approx.)*
2023	4,821.97	3,322.91	68.91%
2024	3,850.00	2,149.73	55.84%
2025	4,420.00	2,278.96	51.56%

As of the Latest Practicable Date, the outstanding balance of such credit facilities was approximately RMB2,260.49 million, of which the last maturity date of such outstanding credit facilities will be June 30, 2026;

(ii) we have obtained credit facilities from a number of independent financial institutions and banks without any financial assistance provided by Shandong Heavy Industry Group. As of December 31, 2025, the total amount of the credit facilities granted by independent financial institutions and banks without any financial assistance provided by Shandong Heavy Industry Group was approximately RMB24,681.90 million, and the total unutilized amount of such credit facilities was approximately RMB18,880.65 million; and

(iii) as an A-share listed company, we have strong and independent financial position in the market. For example, we have obtained SAA+ credit rating, by which we will proactively raise funds from capital markets and expanded direct financing channels in the PRC.

CORPORATE GOVERNANCE MEASURES

Our Directors acknowledge the importance of good corporate governance in protection of our Shareholders' interests. In order to further manage any potential conflicts of interest with our Controlling Shareholders and their respective close associates, we have adopted the following measures:

(i) our independent non-executive Directors will review the effective non-competition undertakings and compliance situation on an annual basis, and the Controlling Shareholders will provide all information necessary for the independent non- executive Directors' annual review of the compliance with the non-competition undertakings;

(ii) our Company will disclose the decision made and/or matter reviewed by our independent non-executive Directors relating to compliance and enforcement of the aforementioned non-competition undertakings, and the reason(s) for not taking up the business opportunities referred to it by the Controlling Shareholders (if applicable), in our annual reports and/or by way of an announcement;

(iii) we are committed that our Board should include a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors. We have appointed independent non-executive Directors who possess sufficient experience and are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders;

(iv) in the event of a conflict of interest, such as resolutions regarding transactions with our Controlling Shareholders and/or their close associates, the relevant Director(s) who are connected with our Controlling Shareholders shall abstain from voting on such matters and shall not be counted toward the quorum at the relevant Board meeting. Further, when considering connected transactions and competing business, the independent non-executive Directors will review the relevant transactions, and where needed, we will engage additional independent consultants to provide advice to the independent non-executive Directors;

(v) in the event that any potential conflict of interest in connection with our Controlling Shareholders arises at the shareholders' level, our Controlling Shareholders and their close associates shall abstain from voting at the general meeting of our Company with respect to the relevant resolution(s);

(vi) our Directors, including our independent non-executive Directors, will be entitled to seek independent professional advice from external parties in appropriate circumstances at our Company's expense;

(vii) our Company will monitor potential or proposed transaction between our Group and our connected persons, and ensure compliance with Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting, annual review and independent Shareholders' approval requirements;

(viii) as required by the Hong Kong Listing Rules, our independent non-executive Directors shall review any connected transactions (including continuing connected transactions) annually and confirm in our annual report that such transactions have been entered into in our ordinary and usual course of business, are either on normal commercial terms or on terms no less favorable to us than those available to or from Independent Third Parties and on terms that are fair and reasonable and in the interests of our Shareholders as a whole;

(ix) we have appointed Rainbow Capital (HK) Limited as our compliance advisor to provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to directors' duties and internal control;

(x) our Audit Committee will conduct a review on the effectiveness of the above internal control measures on an annual basis and conduct research and provide advice to the Board in relation to our legal compliance and risk management; and

(xi) our Nomination Committee will from time to time review the independence of our Directors in terms of performing their duties as our Directors to ensure effective management of conflict of interest.