八方金融有限公司
OCTAL Capital Limited

6 June 2025

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**CONNECTED TRANSACTION
RECEIPT OF FINANCIAL ASSISTANCE FROM SUBSTANTIAL SHAREHOLDER
AND
PROVISION OF ASSET COLLATERAL**

**INTRODUCTION**

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Supplemental Loan Agreement (including the provision of the Asset Collateral in the form of the Share Pledge), particulars of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular to the Shareholders dated 6 June 2025 (the "**Circular**") and in which this letter is reproduced. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, the Company announced:

(i) on 21 February 2025 (after trading hours), the Company entered into the Loan Agreement with Shenzhen Metro Group, the substantial Shareholder of the Company, pursuant to which Shenzhen Metro Group agreed to provide the Loan to the Company in an aggregate amount of up to RMB4,200,000,000, and the Group shall provide the Credit Guarantee not exceeding RMB4,200,000,000 in favour of Shenzhen Metro Group; and

(ii) on 21 May 2025 (after trading hours), the Company entered into the Supplemental Loan Agreement with Shenzhen Metro Group, pursuant to which the Company shall provide the Asset Collateral (in the form of stock) to Shenzhen Metro Group at a no less than 70% loan-to-value ratio, i.e., with a value not exceeding RMB6,000,000,000, to serve as security under the Supplemental Loan Agreement.

As at the Latest Practicable Date, Shenzhen Metro Group is a substantial Shareholder holding approximately 27.18% of the total issued share capital of the Company, and hence a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore,

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the Supplemental Loan Agreement and transactions contemplated thereunder (including the provision of the Asset Collateral in the form of the Share Pledge) constitute a connected transaction of the Company.

An Independent Board Committee comprising all of the independent non-executive Directors namely Mr. LIU Tsz Bun Bennett, Mr. LIM Ming Yan, Dr. SHUM Heung Yeung Harry and Mr. ZHANG Yichen has been formed to advise the Independent Shareholders in respect of the Supplemental Loan Agreement and the transactions contemplated thereunder (including the provision of the Asset Collateral in the form of the Share Pledge). We, Octal Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we are not connected with the Group or Shenzhen Metro Group or where applicable, any of their respective substantial shareholders, directors or chief executives, or any of their respective subsidiaries or associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. 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.

Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or Shenzhen Metro Group or any of their respective subsidiaries or associates 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 Circular and have assumed that all information and representations made or referred to in the Circular 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 Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the 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 Circular and to provide a reasonable basis for our advice, among other things, (i) the Loan Agreement, the Supplemental Loan Agreement and the Share Pledge; (ii) the overseas regulatory announcement of the Company dated 21 February 2025 in respect of the Loan Agreement; (iii) the annual report of the Company for the two years ended 31 December 2023 and 2024 (the "**2023 Annual Report**" and the "**2024 Annual Report**", respectively); (iv) the financial information of Onewo Inc.; and (v) our review of the relevant public information. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group or Shenzhen Metro Group or Onewo Inc. and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

**PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion regarding the Supplemental Loan Agreement (including the provision of the Asset Collateral in the form of the Share Pledge), we have considered the following principal factors and reasons:

**1. Background of the transactions**

On 10 February 2025 (after trading hours), the Company entered into the loan agreement with Shenzhen Metro Group, pursuant to which Shenzhen Metro Group agreed to provide a loan to the Company in an aggregate amount of up to RMB2,800,000,000, and the Company shall provide an asset collateral with a value not exceeding RMB4,000,000,000 in favor of Shenzhen Metro Group, serving as security. On the same day (after trading hours), both parties further entered into a share pledge in respect of a total of 211,530,417 Onewo Shares held by the Company.

On 21 February 2025 (after trading hours), the Company entered into the Loan Agreement with Shenzhen Metro Group, the substantial Shareholder of the Company, pursuant to which Shenzhen Metro Group agreed to provide the Loan to the Company in an aggregate amount of up to RMB4,200,000,000, and the Group shall provide the Credit Guarantee not exceeding RMB4,200,000,000 in favour of Shenzhen Metro Group. Any drawdown of the Loan shall not be later than 14 March 2025.

On 29 April 2025 (after trading hours), the Company entered into another loan agreement with Shenzhen Metro Group, pursuant to which Shenzhen Metro Group agreed to provide a loan to the Company in an aggregate amount of up to RMB3,300,000,000, at a floating interest rate of the one-year LPR minus 76 basis points (being 2.34% as in the announcement), and with maturity of three years subject to extension as agreed between the parties.

On 14 May 2025 (after trading hours), the Company entered into another loan agreement with Shenzhen Metro Group, pursuant to which Shenzhen Metro Group agreed to provide a loan to the Company in an aggregate amount of up to RMB1,522,000,000, at a floating interest rate of the one-year LPR minus 76 basis points (being 2.34% as in the announcement), and with maturity of three years subject to extension as agreed between the parties.

As at the Latest Practicable Date, the total loan provided by Shenzhen Metro Group under the above-mentioned agreements amounted to approximately RMB11.8 billion, of which approximately RMB11.7 billion had been drawn down by the Company.

## 2. General information of the parties

*The Company*

The Company is a joint stock limited company incorporated in the PRC on 30 May 1984, and its H shares are listed on the Main Board of Hong Kong Stock Exchange and its A shares are listed on the Shenzhen Stock Exchange. The Company is principally engaged in property development and property investment in the PRC.

*Shenzhen Metro Group*

Shenzhen Metro Group, incorporated on 31 July 1998, is a large-scale state-owned proprietary enterprise under the direct control of the Shenzhen State-owned Assets Supervision and Administration Commission. Shenzhen Metro Group is principally engaged in metro constructions, rail operations, property development, commercial operations, property management, engineering investigations and design, etc.. Shenzhen Metro Group has undertaken the construction of the "Combination of Three Rails into One" ("三鐵合一") project, combining national railways, intercity railways and urban rail transit, and the operation of the "four-in-one" ("四位一體") core value chain consisting of railway construction, railway operation, station-city development and resource management, and is striving to build up an open, innovative and inclusive "Railway+" ecosystem.

*Onewo Inc.*

Onewo Inc., a joint stock company incorporated under the laws of the PRC with limited liability and the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange, is a leading omni-space service provider in the PRC, with a well-established business system across community, commercial and urban spaces. It provides space technology services for a diverse array of properties such as residential communities, workspaces and public premises, and a broad customer base covering property owners, corporate and other institutional clients. Onewo Inc.'s group is principally engaged in the provision of property services in the PRC.

As at the Latest Practicable Date, the Group is entitled to control the voting rights of 660,602,000 Onewo Shares, representing approximately 57.12% of the total issued share capital of Onewo Inc. (excluding 11,560,200 Onewo Shares held as treasury shares and 3,512,200 Onewo Shares repurchased but not yet cancelled), and thus the Company is the Controlling Shareholder of Onewo Inc.

The total assets and net asset value of Onewo Inc. as at 31 December 2022, 31 December 2023 and 31 December 2024 were as follows:

| | As at 31 December 2024 (Audited) *RMB'000* | As at 31 December 2023 (Audited) *RMB'000* | As at 31 December 2022 (Audited) *RMB'000* |
|---|---|---|---|
| Total assets | 38,608,225 | 39,383,117 | 36,962,985 |
| Net asset value | 17,159,751 | 18,220,241 | 17,001,504 |

The net profit (before and after tax) of Onewo Inc. for the three years ended 31 December 2022, 31 December 2023 and 31 December 2024 ("**FY2022**", "**FY2023**" and "**FY2024**", respectively) were as follows:

| | FY2024 (Audited) *RMB'000* | FY2023 (Audited) *RMB'000* | FY2022 (Audited) *RMB'000* |
|---|---|---|---|
| Net profit (before tax) | 1,696,036 | 2,657,821 | 2,020,773 |
| Net profit (after tax) | 1,256,028 | 2,035,829 | 1,587,252 |

The financial performance and position of Onewo Inc. are consolidated into the Company.

***Financial information of the Group***

*Review of financial performance of the Group*

The table below sets out the audited financial information of the Group for FY2022, FY2023 and FY2024 extracted from the 2023 Annual Report and the 2024 Annual Report, respectively.

| | FY2024<br>(Audited)<br>*RMB'000* | FY2023<br>(Audited)<br>*RMB'000* | FY2022<br>(Audited)<br>*RMB'000* |
|---|---|---|---|
| Revenue | 343,176,441 | 465,739,077 | 503,838,367 |
| Gross profit | 27,842,348 | 67,448,208 | 98,053,664 |
| Gross margin | 8.1% | 14.5% | 19.5% |
| Selling and administrative expenses | (20,478,690) | (22,398,842) | (26,471,400) |
| Finance costs | (6,656,518) | (4,843,698) | (4,905,644) |
| Other (expenses) or income, net | (32,165,337) | 4,764,508 | 6,741,206 |
| (Loss)/profit before tax | (31,458,197) | 44,970,176 | 73,417,826 |
| Income tax expense | (17,245,737) | (24,514,618) | (35,805,267) |
| (Loss)/profit for the year | (48,703,934) | 20,455,558 | 37,612,559 |

FY2023 vs FY2022

According to the 2023 Annual Report, the contracted property sales area and property sales amount of the Group declined by approximately 6.2% and 9.8%, respectively, during FY2023. This reduction aligned with the nationwide property market downturn, as evidenced by National Bureau of Statistics data showing that the sales area of commercial housing decreased by 8.5% to 1.12 million square meters, while sales amount declined by 6.5% to RMB11.7 trillion in 2023.

The Group's revenue decreased by approximately 7.6% from approximately RMB503.8 billion for FY2022 to approximately RMB465.7 billion for FY2023. The decrease was mainly due to the decrease in revenue from the sales of properties and related services by approximately 9.2% for FY2023.

The Group's gross profit decreased from approximately RMB98.1 billion for FY2022 to approximately RMB67.4 billion for FY2023. Overall gross profit margin decreased from approximately 19.5% for FY2022 to approximately 14.5% for FY2023. The decrease was mainly due to the higher land costs in relation to the revenue from the sales of properties recognised during FY2023.

Selling and administrative expenses of the Group decreased by approximately 15.4% from approximately RMB26.5 billion for FY2022 to approximately RMB22.4 billion for FY2023. The decrease was mainly due to reduced administrative expenses under the implementation of cost control measures and improved operational efficiency during FY2023.

Finance costs of the Group remained stable at approximately RMB4.8 billion for FY2023, as compared to approximately RMB4.9 billion for FY2022.

Other net income of the Group decreased by approximately 29.3% from approximately RMB6.7 billion for FY2022 to approximately RMB4.8 billion for FY2023. The decrease was mainly due to (i) reduction in net gain on disposals of subsidiaries, joint ventures and associates by approximately RMB2.5 billion as compared to FY2022; and (ii) the decrease in interest income from approximately RMB3.6 billion for FY2022 to approximately RMB3.0 billion for FY2023.

Based on the above discussion, the Group's profit for the year decreased by approximately 45.6% from approximately RMB37.6 billion for FY2022 to approximately RMB20.5 billion for FY2023.

FY2024 vs FY2023

According to the 2024 Annual Report, the sales area of residential housing declined across the PRC. According to data from National Bureau of Statistics, the sales area of residential housing in the PRC for the year 2024 was approximately 974 million square meters, representing a decrease of approximately 12.9% as compared to that for the last year, while the sales amount was approximately RMB9.68 trillion, representing a decrease of 17.1% as compared to that for the last year.

The Group's revenue decreased by approximately 26.3% from approximately RMB465.7 billion for FY2023 to approximately RMB343.2 billion for FY2024. The decrease was due to the significant decrease in the settlement scale and gross profit margin of the development business.

The Group's gross profit decreased from approximately RMB67.4 billion for FY2023 to approximately RMB27.8 billion for FY2024. Overall gross profit margin decreased from approximately 14.5% for FY2023 to approximately 8.1% for FY2024. The decrease was due to higher land costs in relation to the revenue from the sales of properties recognised during FY2024.

Selling and administrative expenses of the Group decreased by approximately 8.6% from approximately RMB22.4 billion for FY2023 to approximately RMB20.5 billion for FY2024. The decrease was mainly due to the Group's continued cost optimisation initiatives and streamlined operations during FY2024.

Finance costs of the Group increased by approximately 37.4% to approximately RMB6.7 billion for FY2024 (FY2023: RMB4.8 billion). The increase was primarily attributable to the decrease in interest expenses that can be capitalized as a result of the decrease in the property development scale of the Group.

The Group recorded other net expenses of approximately RMB32.2 billion for FY2024, as compared to other net income of approximately RMB4.8 billion for FY2023. The decrease was mainly due to (i) significant increase in impairment loss on other receivables by approximately RMB25.7 billion; and (ii) reduce in net gains from the disposal of certain assets by approximately RMB2.5 billion.

Based on the above discussion, the Group recorded a loss for the year of approximately RMB48.7 billion for FY2024, compared to a profit for the year of approximately RMB20.5 billion for FY2023.

*Review of financial position of the Group*

Major items of the audited consolidated financial position of the Group as at 31 December 2023 and 31 December 2024 extracted from the 2024 Annual Report are summarised in the following table:

| | **As at** | |
|---|---|---|
| | **31 December 2024** | **31 December 2023** |
| | (Audited) | (Audited) |
| | *RMB'000* | *RMB'000* |
| **Non-current assets** | **368,747,782** | **354,590,110** |
| Cash and cash equivalents | 84,009,392 | 96,942,577 |
| Other current assets | 833,502,686 | 1,053,339,477 |
| **Current assets** | **917,512,078** | **1,150,282,054** |
| Bank loans, borrowings from financial institutions and bonds payables | 202,999,341 | 257,635,159 |
| Other non-current liabilities | 25,344,039 | 22,518,216 |
| **Non-current liabilities** | **228,343,380** | **280,153,375** |
| Bank loans, borrowings from financial institutions and bonds payables | 160,130,688 | 64,030,858 |
| Other current liabilities | 558,931,129 | 757,754,400 |
| **Current liabilities** | **719,061,817** | **821,785,258** |
| Total assets | **1,286,259,860** | **1,504,872,164** |
| Total liabilities | **947,405,197** | **1,101,938,633** |
| Total equity | **338,854,663** | **402,933,531** |
| Total bank loans, borrowings from financial institutions and bonds payables | **363,130,029** | **321,666,017** |
| Gearing ratio *Note 1* | **28.2%** | **21.4%** |

*Notes:*

*1: Gearing ratio represents total bank loans, borrowings from financial institutions and bonds payables divided by total assets.*

The total assets of the Group decreased from approximately RMB1,504.9 billion as at 31 December 2023 to approximately RMB1,286.3 billion as at 31 December 2024. The decrease in total assets of approximately RMB218.6 billion was primarily attributable to reduction in inventories and other contract costs by approximately RMB183.8 billion.

Cash and cash equivalents of the Group decreased from approximately RMB96.9 billion as at 31 December 2023 to RMB84.0 billion as at 31 December 2024, representing a decrease of approximately RMB12.9 billion. The reduction in cash and cash equivalents was mainly due to the net cash used in financing activities amounting to approximately RMB27.7 billion during FY2024.

The total liabilities of the Group decreased from approximately RMB1,101.9 billion as at 31 December 2023 to approximately RMB947.4 billion as at 31 December 2024. The decrease in total liabilities was mainly attributable to the reduction in trade and other payables and contract liabilities during FY2024.

The Group's total loans and borrowings amounted to approximately RMB363.1 billion as at 31 December 2024, representing an increase of approximately RMB41.4 billion as compared to approximately RMB321.7 billion as at 31 December 2023. The Group's current portion of bank loans, borrowings from financial institutions and bonds payables increased from RMB64.0 billion as at 31 December 2023 to RMB160.1 billion as at 31 December 2024, representing an increase of RMB96.1 billion.

The Group's net assets position was approximately RMB338.9 billion as at 31 December 2024, representing a decrease of approximately RMB64.0 billion from RMB402.9 billion as at 31 December 2023. The gearing ratio of the Group increased from approximately 21.4% as at 31 December 2023 to approximately 28.2% as at 31 December 2024.

**3. Reasons for and benefits of the Supplemental Loan Agreement and transactions to be contemplated thereunder**

As discussed before, the Group's total loans and borrowings increased by approximately RMB41.4 billion to approximately RMB363.1 billion as at 31 December 2024, of which, approximately RMB118.3 billion will be due within one year from 31 December 2024. Since the Group has approximately RMB84.0 billion of cash and cash equivalents as at 31 December 2024, the increase in short term loans and borrowings have increased the cashflow pressure of the Group. As disclosed in the Letter from the Board, the public bonds issued by the Company in the aggregate amount of RMB10.26 billion were or will be due for repayment shortly as at the date of entering into the Loan Agreement. Thus, we are of the view that the Group has an urgent need for new funding in the open market and the Loan provided by Shenzhen Metro Group, being the substantial Shareholder, could demonstrate its continuous support to the Group, and the Loan could be transitory if a more favourable market for alternative financing arises. The Company considered that obtaining the Loan by entering into the Loan Agreement and the Supplemental Loan Agreement would be the most effective way to raise funds for the Group. In addition, the interest rate of the Loan and the initial loan-to-value ratio of the Asset Collateral were determined through amicable negotiations between the parties at a level acceptable and mutually beneficial to both the Company and Shenzhen Metro Group, taking into account the prevailing market rates and standards as detailed in the section headed "BASIS FOR DETERMINING THE INTEREST RATE OF THE LOAN AND THE LOAN-TO-VALUE RATIO OF THE ASSET COLLATERAL, AND REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL LOAN AGREEMENT AND TRANSACTIONS CONTEMPLATED THEREUNDER" in the Letter from the Board.

Currently, the Company has provided the Credit Guarantee for the Loan as a security measure. To ensure that the Loan is adequately secured by asset and to reduce its financial risk, Shenzhen Metro Group has entered into the Supplemental Loan Agreement with the Company to replace the Credit Guarantee with the Asset Collateral after the Company obtains the requisite approval from Independent Shareholders for the Supplemental Loan Agreement and the transactions contemplated thereunder, including the provision of Asset Collateral in the form of the Share Pledge. Pursuant to the Supplemental Loan Agreement, in the event that the General Meeting is not convened or the approval of General Meeting cannot be obtained within two months from the date of the Supplemental Loan Agreement, the Company shall provide other qualified guarantee acceptable to Shenzhen Metro Group within five business days, or Shenzhen Metro Group may opt for immediate repayment of the principal and accrued interests of the Loan by the Company.

In recent years, property developers in the PRC have faced increasing difficulty in obtaining both debt and equity financing due to regulatory tightening (in particular the 3 red line policy), liquidity constraints, and deteriorating market confidence. Many property developers in the PRC, especially those with high leverage, have struggled to refinance their obligations, leading to defaults and financial distress. Additionally, the slowdown in the PRC's real estate market, exacerbated by weak homebuyer sentiment and declining property sales in the past few years has further reduced lenders' willingness to extend credit. Banks and financial institutions have also become more cautious, fearing exposure to bad debts amid a growing number of developer defaults. As a result, property developers in the PRC are finding it increasingly difficult to secure debt financing through traditional channels like bank loans and bond issuances with incurring higher financing costs.

At the same time, equity financing has also become a challenging option due to weak investor confidence and regulatory restrictions. The prolonged downturn in the PRC's real estate market, coupled with a series of high-profile defaults, has significantly reduced the appetite of both domestic and international investors for share issuances by property developers in the PRC.

Despite the fact that the market condition may not be favourable for the Group to raise fund, the management of the Company had considered alternative methods, including but not limited to, borrowings from banks or other financial institutions, placing, rights issue, open offer and subscription of new Shares, for raising sufficient funds before entering into the Loan Agreement.

In respect of the borrowings from banks or other financial institutions, we understand that the benchmark interest rate published by the People's Bank of China for loan period within 1 year and loan period from 1 year to 5 years were 4.35% per annum and 4.75% per annum, respectively which is higher than the effective interest rate of 2.34% per annum under the Loan Agreement.

As regard to the equity fund-raising exercise, such as placing, subscription of new Shares, rights issue and/or open offer and having considered the substantial amount of the principal under the Loan and the market sentiment towards listed securities of property developers in the PRC, we consider that it may not be practical to finance such a significant amount of equity in short term. In addition to market uncertainty, the Company is also required to undergo a relatively lengthy process to prepare, complete and issue requisite compliance and legal documentation (including but not limited to underwriting agreement(s), announcement(s), circular(s) and prospectus(es)).

In view of the above, we concur with the management of the Company that obtaining the Loan by entering into the Loan Agreement and the Supplemental Loan Agreement is commercially justified and would be an effective way to raise funds for the Group.

**4. Major terms of the Loan Agreement and the Supplemental Loan Agreement**

***The Loan Agreement***

*Date:*

21 February 2025

*Parties:*

(a) the Company (as borrower); and

(b) Shenzhen Metro Group (as lender)

*Maximum principal amount:*

RMB4,200,000,000

*Term of the Loan:*

Three years from the date of first drawdown of the Loan, subject to extension as agreed between the parties in accordance with the Loan Agreement. Any drawdown of the Loan shall not be made later than 14 March 2025.

*Interest rates and payment:*

Subject to compliance with the applicable laws and regulations, the floating interest rate of the Loan for each drawdown shall be the one-year LPR minus 76 basis points (i.e., LPR-0.76%), which will be subject to floating adjustments each quarter throughout the term of the Loan, based on the prevailing one-year LPR minus 0.76% at the respective determination dates. As at the final permitted drawdown date of the Loan on 14 March 2025, the applicable interest rate is 2.34%.

Accrued interest shall be payable on a quarterly basis, which is intended to be funded by the Group's internal resources.

***The Supplemental Loan Agreement***

*Date:*

21 May 2025

*Parties:*

(a) the Company (as borrower); and

(b) Shenzhen Metro Group (as lender)

*Subject matter and consideration:*

The Company shall convene General Meeting to consider and approve to provide the Asset Collateral in the form of Share Pledge to serve as security under the Loan Agreement, and after obtaining the Independent Shareholders' approval at the General Meeting within two months after entering into the Supplemental Loan Agreement, the Company shall provide Asset Collateral to Shenzhen Metro Group at a 70% loan-to-value ratio (the "**LTV Ratio**"), i.e., with a value not exceeding RMB6,000,000,000.

The parties shall enter into a pledge agreement in respect of the Asset Collateral, and the power of Credit Guarantee shall be automatically terminated since the pledge agreement becomes effective and the relevant pledge registration procedures are completed.

*Provision of additional security:*

The initial security level of the Asset Collateral is determined based on a LTV Ratio of 70%.

Subsequently, in the event that the ratio of value of pledged shares to balance of Loan is lower than 130% for three consecutive trading days, the Company shall provide additional pledge of same type of stock, other qualified guarantees as agreed by the parties, or repay all or part of the outstanding loan within five (5) business days to address the security shortfall.

*Early release:*

If the Company makes an early repayment of the Loan in advance of the repayment schedule, the parties may partially release the Asset Collateral of corresponding value, to ensure that the LTV Ratio remains no less than 70%. Shenzhen Metro Group should actively cooperate with the relevant release procedures, if applicable. Where the principal and accrued interest under the Loan are fully repaid, the pledge registration for the Asset Collateral should be terminated and released within five (5) business days from the date of full repayment.

***The Asset Collateral***

The Company shall provide Asset Collateral to Shenzhen Metro Group at a 70% LTV Ratio, i.e., with a value not exceeding RMB6,000,000,000. The pledged collateral shall be Onewo Shares. The Company (as pledgor) and Shenzhen Metro Group (as pledgee) intend to enter into the Share Pledge, upon obtaining the approval of Independent Shareholders, in favour of Shenzhen Metro Group to secure due performance of the Company's obligations as the Asset Collateral.

Assuming the lower of (i) the closing price of Onewo Shares on the Hong Kong Stock Exchange as at the Latest Practicable Date which was HK$20.05 (or equivalent to RMB18.37 based on the exchange rate published by the People's Bank of China as at the Latest Practicable Date); and (ii) the average market price of Onewo Shares traded on the Hong Kong Stock Exchange over the last 30 trading days prior to the Latest Practicable Date, which was HK$21.20 (or equivalent to RMB19.43 based on the exchange rate published by the People's Bank of China as at the previous trading day before the Latest Practicable Date), i.e. HK$20.05 or RMB18.37, was adopted for illustration purposes, and considering the Asset Collateral valued at RMB6,000,000,000, the Company shall pledge 326,633,562 Onewo Shares, which accounts for approximately 28.24% of the total issued share capital of Onewo Inc. (excluding 11,560,200 Onewo Shares held as treasury shares and 3,512,200 Onewo Shares repurchased but not yet cancelled) as at the Latest Practicable Date.

Detail of the Loan Agreement and the Supplemental Loan Agreement, please refer to the Letter from the Board.

**5. Analysis of major terms of the Loan Agreement and the Supplemental Loan Agreement**

***Interest rates***

Under the Loan Agreement, the floating interest rate of the Loan for each drawdown shall be the one-year LPR minus 76 basis points. As at the final permitted drawdown date of the Loan on 14 March 2025, the one-year LPR was 3.1% per annum. Hence, the applicable interest rate is 2.34% per annum, which will be subject to floating adjustments each quarter throughout the term of the Loan, based on the prevailing one-year LPR minus 0.76% at the respective determination dates.

According to the 2024 Annual Report, the Group's bank loan interest rates varied between 2.28% per annum and a floating contracted SORA rate. The interest rates of the Group's bonds ranged from 2.90% to 4.11% per annum, while the interest rates of other borrowings fell within the range of 2.80% to 5.80% per annum. The said effective interest rate of the Loan is comparatively lower than that of Group's bonds and other borrowings and is close to the low end of the Group's bank loan. The Group's overall cost of new financing and refinancing in 2024 was reported at an average rate of 3.54% per annum which is higher than the interest rate of the Loan.

Furthermore, we have reviewed, on an exhaustive basis, the announcement of the Hong Kong listed companies published during the period from 1 March 2024 to the Latest Practicable Date in relation to the provision of secured loan by connected parties to the listed company and/or its subsidiaries. We chose the said period due to its recency before signing of the Loan Agreement and the Supplemental Loan Agreement. We identified nine connected transactions announcements (the "**Comparable Transactions**"). Shareholders should note that the businesses, operations, prospects and the type and terms of the debt of the Company are not the same as the underlying companies of the Comparable Transactions, the information of the Comparable Transactions demonstrate a general market practice of borrowing by listed issuers. The table below summarized the major terms of the Comparable Transactions.

| | Date of announcement | Company (stock code) | Terms | Interest rate | Collateral | Collateral Ratio[1] |
|---|---|---|---|---|---|---|
| 1 | 7 March 2024 | Hengxin Technology Ltd. (1085) | 1 year[2] | Fixed, 4.9% | Share of a subsidiary | 58.9% |
| 2 | 26 April 2024 | China Jinmao Holdings Group Limited (817) | 12 years | Five-year LPR, 2.4% | Properties | 48.4% |
| 3 | 17 May 2024 | Beijing Enterprises Water Group Limited (371) | 13 years | Five-year LPR minus 1%, 2.95% | Earning rights of a project | 61.2% |
| 4 | 26 June 2024 | Beijing Enterprises Water Group Limited (371) | 17 years | Five-year LPR minus 0.45%, 3.5% | Earning rights of a project | 100.0% |
| 5 | 8 August 2024 | Yanchang Petroleum International Limited (346) | 3 years[2] | Fixed, 5.2% | Share of a subsidiary | 70.0% |
| 6 | 3 September 2024 | Cosmopolitan International Holdings Limited (120) | 3 years[2] | 1 month HIBOR plus 1.95%, 5.85% | Share of the subsidiaries | 43.6% |
| 7 | 30 September 2024 | Seazen Group Limited (1030) | 3 years | Higher of one to five years LPR or 6.05% | Property | 60.0% |
| 8 | 8 October 2024 | Yunnan Water Investment Co., Limited (6839) | 3 years[2] | Fixed, 2.70% | Listed shares hold by the company | 176.0% |

| | Date of announcement | Company (stock code) | Terms | Interest rate | Collateral | Collateral Ratio[1] |
|---|---|---|---|---|---|---|
| 9 | 14 October 2024 | BII Railway Transportation Technology Holdings Company Limited (1522) | 3 years | 1-month HIBOR plus 0.70%, 5.07% | Share of a subsidiary | 83.3% |
| | | The Loan | 3 years | One year LPR minus 0.76%, 2.34% | Onewo Shares | 70.0% |

*Notes:*

1. Being the total loan amount divided by the value of the collateral as disclosed in the announcement or circular of the transactions.

2. Being extension or renewal of loan.

Based on the table above, the interest rates of the Comparable Transactions were determined on various basis, including fixed-rate, LPR or HIBOR. We consider the interest rates of the RMB denominated Comparable Transactions are applicable for us to analyse on the interest rate of the Loan on the basis that (i) the Loan is denominated in RMB; and (ii) the interest rate of the Loan is based on LPR. We noted that the interest rates of the RMB denominated Comparable Transactions were either based on LPR, the higher of one to five years LPR or 6.05%, or LPR minus a percentage of 1%, or LPR minus a percentage of 0.45%.

Furthermore, we noted that Comparable Transactions no. 2, 3 and 4 have terms longer than 10 years, which are significantly longer than the Loan. If we exclude these Comparable Transactions when compare the interest rate of the Loan, the effective interest rate of the Loan, being 2.34% is still lower than the rest of the Comparable Transactions.

Based on the above, we consider the determination basis of the interest rate of the Loan is in line with those of the RMB denominated Comparable Transactions and the interest rate of the Loan is fair and reasonable and comparable to the market and was determined on normal commercial terms or better, after arm's length negotiations.

***Asset Collateral***

Under the Supplemental Loan Agreement, the Company shall provide the Asset Collateral (in the form of stock) to Shenzhen Metro Group at a 70% LTV Ratio. The Company (as pledgor) intends to pledge the Onewo Shares to Shenzhen Metro Group (as pledgee) as the Asset Collateral.

According to the Letter from the Board, the prevailing market LTV Ratio is generally in the range of 30% to 60%. As part of our due diligence, we have calculated the collateral ratios for the Comparable Transactions for comparison. As shown above, Comparable Transaction no. 8 has an extremely high collateral ratio (i.e. 176.0%), thus we have excluded Comparable Transaction no. 8 in our analysis (the "**Streamlined**

**Comparable Transactions**"). The collateral ratios of the Streamlined Comparable Transactions ranged from approximately 43.6% to 100.0%. The LTV Ratio under the Supplemental Loan Agreement is within the range of the Streamlined Comparable Transactions and higher than 5 out of 8 of the Streamlined Comparable Transactions. A higher LTV Ratio under the Supplemental Loan Agreement than those of the Streamlined Comparable Transactions indicates that the level of the Asset Collateral under the Loan is relatively lower than market practice.

Furthermore, with reference to the "Administrative Measures for Share Pledged Loans of Securities Companies" issued by the People's Bank of China, the China Banking Regulatory Commission and the China Securities Regulatory Commission on 2 November 2004 (the "**Measures**"), which primarily regulates transactions where securities companies pledge shares to commercial banks for loans. The Measures set out that (i) the period of the shares pledged loans should not be more than 6 months and not allow for extensions; (ii) the LTV Ratio should not be over 60%; and (iii) a commercial bank accepting shares for pledging from a listed company should not exceed 10% of the total outstanding shares of that listed company. Although the Company is not a securities company and are not governed by the Measures, these provisions can still serve as general considerations for commercial banks regarding shares pledged loans.

Having considered that the LTV Ratio of 70% under the Supplemental Loan Agreement reflects that the level of the Asset Collateral under the Loan is relatively lower when compared to those of the Streamlined Comparable Transactions and the maximum LTV Ratio of 60% under the Measures, we are of the view that the provision of the Asset Collateral is commercially justifiable.

***Share Pledge***

As disclosed in the Letter from the Board, in the event that Shenzhen Metro Group enforces the Share Pledge, which may result in a partial or complete transfer or disposal of the Onewo Shares pledged under the Previous Loan and/or the Loan, to an extent that Onewo Inc. ceasing to be a subsidiary of the Group, the financial results of Onewo Inc. may no longer be consolidated into the financial statements of the Group.

We have reviewed the annual report of Onewo Inc. for FY2024. The revenue of Onewo Inc. was approximately RMB36.2 billion for FY2024, which accounted for approximately 10.6% of the total revenue of the Group for FY2024. The total assets of Onewo Inc. as at 31 December 2024 was approximately RMB38.6 billion, representing approximately 3.0% of the total assets of the Group as at 31 December 2024, indicating the scale of Onewo Inc. is insignificant to the Group in terms of its revenue and total assets.

Furthermore, under the "Early release" term of the Supplemental Loan Agreement, the parties may partially release the Asset Collateral of corresponding value, to ensure that the LTV Ratio remains no less than 70%, if the Company makes an early repayment of the Loan in advance of the repayment schedule (i.e. 0.5% of the Loan drawn for every half year). Such arrangement would provide the Company with the flexibility to progressively release the Share Pledge.

Having considered (i) the revenue and the total assets of Onewo Inc. accounted for a minimal part of the Group's total revenue and total assets; (ii) as advised by the management of the Company, the Company will on its best effort to ensure the timely and full repayment of the Loan; (iii) the Company could opt to repay the Loan in advance of the repayment schedule to progressively release the Share Pledge pursuant to the Loan Agreement; and (iv) the Company may negotiate for a renewal or an extension of the Loan with Shenzhen Metro Group, if necessary, we concur with the Directors that the operational and financial impact of the Group for the enforcement of the Share Pledge would be limited and the Asset Collateral in the form of Share Pledge is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

***Covenants***

As disclosed in the Letter from the Board, the covenants under the Loan Agreement generally required (i) the Company to notify Shenzhen Metro Group upon the occurrence of any event that may affect its ability to repay the Loan; and (ii) the Company must accept and cooperate with Shenzhen Metro Group in inspecting and supervising the use of the Loan, including providing all necessary information for their analysis. In particular, the Company shall provide publicly available financial information which as disclosed in the Letter from the Board, are equally accessible to all Shareholders to Shenzhen Metro Group. Hence, there will be no additional information which will be shared with Shenzhen Metro Group in advance for their analysis and in compliance with the Inside Information Provision under part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

We have further reviewed the Comparable Transactions and noted that two out of nine Comparable Transactions have disclosed the covenants of their borrowings. These covenants generally involved requirements for the borrower to notify the lender of significant events occurred, restrictions on actions that could impact the borrower's repayment ability, and cooperation with the lender's review process. In view of the above, we considered the essence of covenants under the Loan Agreement are similar to the two Comparable Transactions with covenants disclosed and are fair and reasonable.

## RECOMMENDATION

Having considered the above principal factors, in particular, (i) the Loan demonstrates the firm support of Shenzhen Metro Group to the Company; (ii) the Loan can provide an immediate funding of a sizeable amount, which may not be easily obtained by other alternative means, for the Company to serve its immediate funding needs due to the upcoming maturity of interest bearing debts falling due within 2025; (iii) the Loan has been fully drawn down; (iv) the determination basis of the interest rate of the Loan is in line with those of the RMB denominated Comparable Transactions and the interest rate of the Loan is comparable to the market; and (v) the level of the Asset Collateral are relatively lower when compared to those of the Streamlined Comparable Transactions, we are of the opinion that the terms of the Supplemental Loan Agreement and the transactions contemplated thereunder (including the provision of the Asset Collateral in the form of the Share Pledge) are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole although the transactions contemplated under the Supplemental Loan Agreement are not conducted in the ordinary and usual course of business of the Company. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favor of the ordinary resolutions to be proposed at the AGM for approving the Supplemental Loan Agreement and the transactions contemplated thereunder (including the provision of the Asset Collateral in the form of the Share Pledge).

Yours faithfully,
For and on behalf of
**Octal Capital Limited**

**Wong Wai Leung**
*Executive Director*

**Celina Yuen**
*Associate Director*

*Note:* Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer of Type 9 (asset management) regulated activities. Mr. Wong has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code. Ms. Celina Yuen is a licensed person and a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Ms. Yuen has over 12 years of experience in corporate finance industry and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.