HALCYON 鎧盛

HALCYON CAPITAL LIMITED
鎧盛資本有限公司
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23 July 2025

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF 45% EQUITY INTERESTS IN THE DISPOSAL COMPANY AND SHAREHOLDER'S LOANS OWING BY THE DISPOSAL GROUP; AND (2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROVISION OF FINANCIAL ASSISTANCE TO THE DISPOSAL GROUP

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the entering into the agreement dated 23 May 2025 (as supplemented by a supplemental agreement dated 22 July 2025) (the "**Agreement**") with EGL as purchaser and Mr. Feng as purchaser's guarantor, pursuant to which, among other things, the Company has conditionally agreed to dispose of, and EGL has conditionally agreed to acquire, (i) the Sale Shares, representing 45% of the Restructured Capital of the Disposal Company, at the Sale Shares Consideration of RMB250,000,000; and (ii) the Sale Loan, representing 45% of the Convertible Notes issued by the Disposal Company, at the Sale Loan Consideration of RMB80,000,000. The Consideration of RMB330,000,000 shall be fully set-off against the outstanding principal amount of the CS Loans of RMB330,000,000 owing by the Company to EGL as at Disposal Completion on a dollar-for-dollar basis (the "**Disposal**"). Details of the Agreement and transactions contemplated thereunder (including the Disposal and the Preferred Loans) (the "**Transactions**") are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 23 July 2025 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meaning as those defined in the Circular.

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As at the Latest Practicable Date, Mr. Feng, the Chairman of the Board and executive Director, through his associate, Eagle Seeker Company Limited, was interested or deemed to be interested in aggregate interests of 708,364,660 Shares, representing approximately 46.50% of the total issued share capital of the Company. Accordingly, EGL, being wholly-owned by Mr. Feng, is a connected person of the Company pursuant to the Listing Rules. As EGL is a connected person of the Company, the transactions contemplated under the Agreement (including the Disposal and the Preferred Loans) constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

Furthermore, as one of the applicable percentage ratios of certain transactions contemplated under the Agreement exceeds 25% but all are less than 75%, as such apart from being a connected transaction, certain transactions contemplated under the Agreement also constitute major transaction of the Company, and therefore the Transactions are subject to the reporting, announcement, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. EGL and its associates and any Shareholders who are materially interested in the Transactions shall abstain from voting on the ordinary resolution in relation to the Transactions.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wang Nengguang, Mr. Lau Kwok Fan and Mr. Sung Ka Woon has been established to advise the Independent Shareholders as to whether the terms of the Agreement, the Disposal and the Preferred Loans are fair and reasonable, on normal comercial terms so far as the Independent Shareholders are concerned and is in the interest of the Company and the Independent Shareholders as a whole and as to voting thereof. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In the last two years from the date of our appointment, we have no other relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid or payable to us in connection with our appointment, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions that could reasonably be regarded as relevant to our independence. We are therefore independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Transactions.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or the management of the Company and have assumed that all such information, financial information and facts and any representations made to us or referred to in the announcements of the Company dated 23 May

2025 and 22 July 2025 and the Circular, for which they are fully responsible, are true, accurate and complete as at the time they were made and as at the date hereof and made after due and careful inquiry by the Directors and/or management of the Company. We have been advised by the Directors and/or the management of the Company that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Company including the Agreement and certain published information from the public domain. We have also discussed with the Directors and/or the management of the Company with respect to the terms of and reasons for the transactions contemplated under the Agreement (including the Disposal and the Preferred Loans) and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, legal position, financial position or prospects of the Group, the Disposal Company, any members of the Disposal Group, EGL, Mr. Feng and each of their respective associates, and the parties involved in the transactions contemplated under the Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations in respect of the transactions contemplated under the Agreement, we have considered the following principal factors and reasons:

1. Background to and reasons for the entering into of the Transactions

The Company is a company incorporated under in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the sale of automobiles and provision of after-sales services.

Since 2005, the Group has been operating 4S automobile dealership outlets in the PRC, specialising in luxury and ultra-luxury automobile brands as an authorised dealer. However, in recent years, the operating environment for luxury and ultra-luxury automobile dealerships in the PRC has become increasingly challenging driven by the global economic downturn, weakening consumer purchasing power and intensified market competition. On the other hand, the rapid advancement in the vehicle electrification, supported by favorable environmental policies and shifting consumer preferences, has led to strong growth in the NEV sector. Chinese NEV brands, in particular, have made significant improvements in product quality, technology advancement and competitive pricing. As a result, these brands, have not only increased their domestic market share but have also expanded aggressively into overseas markets. Given this industry shift, the Group sees strategic merit in diversifying its traditional luxury dealership business and capitalising on the long-term growth potential of the NEV sector, particularly in international markets where Chinese NEV brands are gaining momentum and recognition.

As stated in the "Letter from the Board" of the Circular, in recent years, the PRC government has introduced a series of supportive policies to foster the development and overseas expansion of the NEV sector. For instance, in 2020, the National Development and Reform Commission issued the 新能源汽車產業發展規劃 (2021-2035年) (New Energy Vehicle Industry Development Plan (2021-2035)*)", which laid down the overall direction of the PRC government to accelerate the internationalisation of Chinese NEVs and encourage companies to explore overseas markets. Further reinforcing this commitment, a CCTV News article titled "遏制盲目投資、堅持走出去中國汽車產業發展關注這些事 (The Main Focus of China's Automotive Industry Development: Curbing Blind Investment and Adhering to Going Global*)" dated 1 September 2024 highlighted the PRC government's continued support for NEV enterprises expanding internationally. Additionally, the PRC government has implemented various tax incentives to boost NEV adoption. Notably, in 2023, it extended the NEV tax exemption policy through 2027.

According to the statistics released by the China Association of Automobile Manufacturers (the "**CAAM**") on 13 January 2025, China's NEV brands experienced significant growth in 2024, with total sales exceeding 12.866 million units, representing a year-on-year increase of around 35.5%, and accounting for approximately 40.9% of the total car sales in the Mainland China. Among these sales, 1.284 million units of China's NEV brands were exported, representing a year-on-year increase of approximately 6.7%. These figures demonstrate the substantial growth opportunities presented by the export markets for Chinese NEVs, which the Company considers itself well-positioned for further expansion.

The rapid growth of overseas NEV markets presents significant business opportunities, but also requires substantial working capital and upfront investment for market entry, including the establishment of distribution and after-sales networks. To address these requirements, the Company entered into discussions with Mr. Feng in 2023 regarding a proposed joint investment to develop the overseas NEV business through the Disposal Group. The parties shared the intention that the joint investment would be contributed as to 55% by the Company and 45% by Mr. Feng. To facilitate an early market entry and capture first-mover advantage, Mr. Feng initially provided funding in the form of the CS Loans to strengthen the Group's working capital position and support the rapid commencement of the operations of the Disposal Group. The formal joint investment structure was intended to be implemented at a later stage.

After over a full financial year of operations, it became apparent that the long-term growth and expansion of the Disposal Group's overseas NEV business would require continuous and substantial working capital and investment, particularly for procurement of NEV inventory and the establishment of distribution outlets and service centres across multiple overseas locations and markets. In light of these funding requirements, the Company and Mr. Feng have agreed to proceed with finalising the joint investment structure, establishing a clear framework for future funding, operational responsibilities, and sharing of profits and losses.

While the Company remains confident in the long-term prospects and competitive positioning of Chinese NEV brands in international markets, it also acknowledges the challenges posed by the intense competition and capital-intensive nature of the global automotive industry. The industry challenges include substantial upfront costs, such as market research and dealership outlets setup costs, and working capital strained by inventory financing and manufacturer prepayment policies. As the Disposal Group is still in its organic growth phase and may require time to achieve profitability due to upfront operational and market penetration costs for further expansion, the Company considers it is prudent to diversify and mitigate the Group's financial exposure by reducing its equity interest in the Disposal Group. This strategic partnership is expected to enable the financial flexibility and operational resilience of the Disposal Group, enabling it to better navigate market challenges and pursue long-term growth.

The Disposal Group had 51 4S centres, 43 showrooms and 6 service centres spanning across Hong Kong, Cambodia, the Philippines, Singapore, Japan, Indonesia, Thailand, Malaysia, Australia, the United Kingdom, France, Poland, etc, of which majority of the overseas sales location have been loss making for the year ended 31 December 2024 with an aggregate loss of RMB194.9 million. We understand from the management of the Group that, most of the sales network overseas were newly established and have not yet become profitable as of 31 December 2024. As discussed with the management of the Company and noted from the Group's business plan, the Disposal Group planned to among other things, (i) continue its organic growth and reach a sales network of over 150 showrooms, services centers, 4S Centers by the end of this year; and (ii) expand its footprint to European countries such as Italy and Hungary, as well as certain countries in Middle East and Africa by the end of 2025, which in the upfront investment required to execute this business plan in 2025 is estimated to be approximately RMB577.8 million, which is expected to be funded by the Disposal Group's internal resources and/or external equity financing. The working capital needs for the Group's existing business operation could be supported by its internal resources, while the extra working capital required for the aforesaid expansion, which is estimated to be approximately RMB1.2 billion, would be covered by the Disposal Group's internal resources and/or external debt financing, scaling in line with its expanding sales network.

Considering the liquidity balance of the Group (with the Group recording negative operating cashflow in 2024, cash and cash equivalent balance of only HK$1.1 billion while current bank loans and other borrowings balances repayable within one year amounted to RMB3.4 billion), the loss-making condition of the Disposal Group during the development stage of operations together with the additional capital required referring to the business plan of the Disposal Group as mentioned above, such liquidity requirement would be considered burdensome to the Group as pursuant to the "Letter from the Board" of the Circular, the upfront investment required to execute this business plan in 2025 is estimated to be approximately RMB577.8 million and the extra working capital required for the Disposal Group's expansion, which is estimated to be approximately RMB1.2 billion, both of which is expected to be funded by the Disposal Group's internal resources and/or external equity financing.

Considering the above-mentioned operating conditions, the Directors are of the view that the entering into of the Agreement and the transactions as contemplated thereunder will allow the Group to diversify and mitigate the Group's financial exposure by reducing its equity interest in the Disposal Group given the Disposal Group is still in its growth phrase while allowing the Group to continue to enjoy the expected long-term growth prospects and competitive positioning of Chinese NEV brands in international markets. In view of such, the Directors are of the view that the terms of the Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

2. Information of the Group

The Group is principally engaged in the sales of automobiles and provision of after-sales services. Since 2005, the Group has been operating 4S automobile dealership outlets in the PRC, specializing in luxury and ultra-luxury automobile brands as an authorized dealer. Taking into account the global economic downturn, causing a challenging operating environment for ultra-luxury automobile dealerships, coupled with the favourable environmental policies and a shift in consumer preference, the Group expanded into NEV sector since late 2023.

2.1 Financial performance of the Group

Set out below is a summary of the audited consolidated financial information of the Group for the financial years ended 31 December 2022 ("**FY2022**"), 31 December 2023 ("**FY2023**") and 31 December 2024 ("**FY2024**"), as extracted from the 2022 Annual Report, 2023 Annual Report and 2024 Annual Report:

	FY2022 *RMB'000* (audited)	**FY2023** *RMB'000* (audited)	**FY2024** *RMB'000* (audited)
Revenue	16,321,659	16,579,232	15,617,447
— Revenue from the sale of automobiles and others	14,324,782	14,209,334	13,373,660
— Provision of after-sales services	1,936,818	2,319,816	2,200,713
— Revenue from other sources	60,059	50,082	43,074
Cost of sales and services	(15,241,990)	(15,615,198)	(14,917,715)
Gross Profit	1,079,669	964,034	699,732
Other income and gains, net *(note)*	(1,232,990)	193,747	432,589
Loss before income tax	(1,507,285)	(178,379)	(314,147)
Loss for the year	(1,622,804)	(241,524)	(285,735)
Loss attributable to owners of the equity	(1,627,762)	(252,194)	(291,070)

*Note: The other income and gains, net includes impairment loss on advance to and interest receivables from Independent Aftersales Company ("**IAC**") amounting to RMB354.6 million, RMB218.2 million and RMB139.6 million for each of the FY2022, FY2023 and FY2024.*

For FY2022 and FY2023

Revenue of the Group increased slightly by approximately 1.6% from RMB16,321.70 million in FY2022 to RMB16,579.2 million for FY2023. Revenue from sales of automobiles and others is the largest contributor, which accounted for about 85.7% of total revenue, while the provision of after-sales services segment contributed approximately 14.0% of the revenue of the Group. The sales of automobiles and others segment recorded a 0.8% decrease in FY2023 compared to its corresponding period in FY2022 and the revenue from the provision of after-sales services segment grew 19.8% from RMB1,936.8 million in FY2022 to RMB2,319.8 million in FY2023 as a result of the increase in provision of after sales services during the year. In line with the increase in revenue, the Group's cost of sales and services rose by 2.5% from RMB15,242.0 million in FY2022 to RMB15,615.2 million in FY2023.

Owing to the impact of weak consumption spending caused by the macro economy and the decline in NEV prices, the gross profit from sales of automobiles and others recorded a decrease of 86.6% from RMB234.9 million generated in FY2022 to RMB31.4 million in FY2023. The drop was partly offset by the growth in gross profit from the provision of after-sales services of approximately 12.5% from RMB784.7 million recorded in FY2022 to RMB882.5 million for FY2023. Overall, the gross profit for FY2022 was RMB1,079.7 million compared to RMB964.0 million in FY2023 representing a decrease of 10.7% and the gross profit margin decreased from 6.6% in FY2022 to 5.8% in FY2023 primarily due to a reduction in NEV prices.

In addition, the Group also recorded other income and gains, net, of RMB193.7 million in FY2023 compared to an other loss, net, of RMB1,233.0 million in FY2022. The other income and gains, net, mainly comprised commission income, interest income, and sponsorship fees received from automobile manufacturers and amounting to RMB522.2 million which was partially offset by certain non-recurring losses of RMB413.1 million resulting from the writing off of property, plant and equipment due to store closures and relocation, expected credit losses on the advances to and interest receivable from IAC (a company in which the Group has a 19.8% equity interest), and impairment loss made on the prepayments, other receivables and other assets made to an independent third party provider of corporate management advisory and investment services during the year. The reversal to recording other income and gains for FY2023 as compared to the other loss in FY2022 was mainly due to the decrease in certain non-recurring losses in FY2023.

The Group also recorded additional finance costs of approximately 8.9% from RMB121.3 million in FY2022 to RMB132.0 million in FY2023 as a result of an increase in average balance of borrowings, which was slightly offset by a decrease of approximately 2.7% in the Group's selling and administrative expenses, from RMB1,229.0 million in FY2022 to RMB1,195.4 million in FY2023.

As a result of the above factors, during FY2023, an improvement in loss for the year of RMB241.5 million was recorded as compared to a loss of RMB1,622.8 million in FY2022 mainly attributable to the decrease in non-recurring losses.

For FY2023 and FY2024

The revenue of the Group in FY2024 decreased by 5.8% from RMB16,579.2 million to RMB15,617.4 million. Revenue from sales of automobiles and others remained to be the largest contributor accounting for 85.6% of the total revenue, while revenue from provision of after-sales services accounted for approximately 14.1% of the total revenue. The revenue from sales of automobiles and others was RMB13,373.7 million in FY2024, representing a reduction of approximately 5.9% from RMB14,209.3 million recorded in the corresponding period in FY2023 and revenue from the provision of after-sales services amounted to RMB2,200.7 million, representing a decrease of 5.1% as compared with RMB2,319.8 million in FY2023. The decrease was mainly attributable to the decrease in relevant services provided by the Disposal Group.

In line with the lessened revenue, the Group recorded a reduction of approximately 4.5% in the cost of sales and services from RMB15,615.2 million in FY2023 to RMB14,917.7 million in FY2024. The gross profit of the Group for FY2024 was RMB699.7 million representing a decrease of 27.4% compared to RMB964.0 million in FY2023. The gross profit margin of the Group for FY2024 also decreased to 4.5% compared to 5.8% for FY2023. The reduced gross profit was mainly due to the Group recording a gross loss of RMB82.3 million for FY2024 from sales of automobiles mainly brought on by the impact of weak consumer spending and subdued economic growth. The gross profit from provision of after sales services also dropped from RMB882.5 million in 2023 to RMB739.0 million in 2024.

The Group also recorded other income and gains, net of RMB432.6 million in FY2024 compared to other income and gains, net of RMB193.7 million in FY2023, primarily due to receiving more commission income, and a decrease in the written off of property, plant and equipment and no impairment loss on prepayment recorded in FY2024 and less impairment loss recorded on advances to and interest receivables from IAC. However, there was a 10.4% increase in administrative expenses from RMB337.6 million in FY2023 to RMB372.6 million in FY2024 driven by the Group's international expansion strategy and a 32.3% increase in finance costs from RMB132.0 million in FY2023 to RMB174.6 million in FY2024 due to increase in borrowing interests resulting from the expansion of international distribution outlets and average outstanding of bank borrowings.

As a result of the above, the Group recorded a deterioration in loss for the year of RMB285.7 million in FY2024 as compared to the loss of RMB241.5 million recorded in FY2023.

2.2 *Financial position of the Group*

The table below summarises the assets and liabilities of the Group as at 31 December 2022, 31 December 2023 and 2024 as extracted from the 2023 Annual Report and 2024 Annual Report:

	As at 31 December		
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Non-current assets	4,860,204	4,498,947	5,223,830
Current assets	5,942,353	6,336,219	7,023,475
Total assets	10,802,557	10,835,166	12,247,305
Non-current liabilities	876,323	861,877	1,190,312
Current liabilities	3,899,527	4,308,122	5,803,757
Total liabilities	4,775,850	5,169,999	6,994,069
Net assets	6,026,707	5,665,167	5,253,236
Equity attributable to the owners of the Company	5,946,823	5,572,299	5,173,726
Non-controlling interests	79,884	92,868	79,510
Total equity	6,026,707	5,665,167	5,253,236
Pledged and restricted bank deposit	220,347	498,791	313,845
Cash in transit	24,070	17,256	12,715
Cash and cash equivalent	1,161,992	1,048,193	1,107,974
Cash and bank balance	1,406,409	1,564,240	1,434,534
Bank loans and other borrowings	2,083,023	2,181,545	3,418,985
Gearing Ratio *(note)*	44.2%	47.7%	57.1%

Note: The gearing ratio of the Group is calculated by the total liabilities divided by the total assets

As at 31 December 2023

Total assets

As at 31 December 2023, the total assets of the Group mainly comprising (i) property, plant and equipment of RMB2,858.2 million; (ii) right of use assets of RMB839.1 million; (iii) inventories of RMB1,479.7 million; (iv) prepayments, other receivables and other assets of

RMB2,971.8 million; and (v) cash and bank balances of RMB1,048.2 million. The total assets of the Group as at 31 December 2023 was RMB10,835.2 million, which was comparable to that of RMB10,802.6 million as at 31 December 2022.

Total liabilities

The total liabilities of the Group as at 31 December 2023 was approximately RMB5,170.0 million mainly consisting of (i) total borrowings of RMB2,181.5 million; (ii) trade and bill payables of RMB1,030.0 million; (iii) contract liabilities of RMB504.5 million; (iv) other payables and accruals of 384.7 million; and (v) lease liabilities amounting to RMB931.8 million. The total liabilities of the Group increased approximately 8.3% compared to RMB4,775.9 million as at 31 December 2022. The increase was largely attributable to increased total borrowings and trade and bill payables.

As a result of the above, the Group recorded net asset value of RMB5,665.2 million as at 31 December 2023 and the gearing ratio representing the total liabilities divided by total assets was 47.7% as at 31 December 2023 compared to 44.2% as at 31 December 2022.

As at 31 December 2024

Total assets

As at 31 December 2024, the total assets of the Group was approximately RMB12,247.3 million, mainly composed of (i) property, plant and equipment of RMB3,266.3 million; (ii) right of use assets of RMB1,265.1 million; (iii) inventories of RMB1,921.9 million; (iv) prepayments, other receivables and other assets of RMB3,211.2 million; and (v) cash and bank balances of RMB1,108.0 million. The total assets of the Group increased by approximately 13.0% from RMB10,835.2 million as at 31 December 2023. The increase was largely attributable to increase in the abovesaid key components.

Total liabilities

The total liabilities of the Group as at 31 December 2024 was approximately RMB6,994.1 million mainly consisting of (i) total borrowings of RMB3,419.0 million; (ii) trade and bill payables of RMB855.2 million; (iii) contract liabilities of RMB879.3 million; (iv) other payables and accruals of RMB444.6 million; and (v) lease liabilities amounting to RMB1,323.8 million. The total liabilities of the Group increased approximately 35.3% compared to RMB5,170.0 million as at 31 December 2023. The increase was largely attributable to increased bank loans and other borrowings and lease liabilities.

As a result of the above, the Group recorded net asset value of RMB5,253.2 million as at 31 December 2024 and the gearing ratio was 57.1% as at 31 December 2024 compared to 47.7% recorded as at 31 December 2023.

3. Information on the EGL and Mr. Feng

EGL is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Feng and as at the Latest Practicable Date, there were no investments held by the EGL. As at the Latest Practicable Date, Mr. Feng is the Chairman of the Board, an executive Director and a controlling Shareholder who is interested in 708,364,660 Shares, representing approximately 46.50% of the total issued share capital of the Company. Accordingly, EGL is a connected person of the Company pursuant to the Listing Rules.

Mr. Feng was appointed as an executive Director of the Company on 24 September 2012 and is responsible for the overall strategic and overseas business direction of the Group. He is the founder of the Group, and has been in the automobile industry since 2005.

4. Principal terms of the Agreement

The principal terms of the Agreement are set out as follows:

(a) The Agreement

Date:	23 May 2025 (as supplemented by a supplemental agreement dated 22 July 2025)
Parties:	(i) The Company, as vendor; (ii) EGL, as purchaser; and (iii) Mr. Feng, as purchaser's guarantor.
Assets to be disposed of	The assets to be disposed of by the Company are the Sale Shares and the Sale Loan.

The Sale Shares represent 45% of the Restructured Capital of the Disposal Company, which shall amount to RMB250 million, and shall be transferred free from all encumbrances as at the Disposal Completion together with all rights attaching or accruing thereto including but not limited to all rights to any dividends paid, declared or made in respect thereof after the Disposal Completion.

The Sale Loan represents 45% of the Convertible Notes issued by the Disposal Company to the Company, the principal amount of which shall be RMB80 million, and shall be transferred free from all encumbrances as at Disposal Completion together with all rights, benefits and interests of any nature whatsoever attaching or accruing to it. The Convertible Notes can be converted into new shares of the Disposal Company to be allotted and issued upon the exercising of the conversion rights attaching thereto. Further details of the Convertible Notes are set out in the section headed "The Capital Restructuring — The Convertible Notes" below.

Consideration	The aggregate Consideration for the Sale Shares and the Sale Loan shall be the sum of RMB330,000,000, comprising the Sale Shares Consideration and the Sale Loan Consideration.
The Sale Shares Consideration	The Sale Shares Consideration is RMB250,000,000, which shall be payable by way of the Set-Off, and was determined upon arm's length negotiations between the Company and EGL with reference to the loss-making financial results of the Disposal Group, the financial position of the Disposal Group, the Restructured Capital of the Disposal Group of approximately RMB555.6 million and the independent valuation of the equity interests of the Disposal Company as at 31 December 2024 as assessed by the Valuer.

For the two years ended 31 December 2023 and 2024, the Disposal Group recorded combined net loss of approximately RMB13.5 million and RMB194.9 million, respectively. From a financial position perspective, as at 31 December 2024, the Disposal Group had total assets of approximately RMB2,717.3 million, while it recorded net liabilities attributable to owners of the Disposal Company in the amount of approximately RMB202.0 million.

On the basis that completion of the Capital Restructuring had taken place on 31 December 2024, and part of the Shareholder's Loans of approximately RMB555.5 million had been capitalised as share capital of the Disposal Company, the Disposal Group would have recorded net assets attributable to owners of the Disposal Company of approximately RMB353.5 million (i.e. the Adjusted NAV). In light of the above, the Sale Share Consideration of RMB250 million exceeds 45% of the Adjusted NAV of approximately RMB159.1 million by an amount of approximately RMB90.9 million.

The Sale Loan Consideration

The Sale Loan Consideration is RMB80,000,000, which was determined upon arm's length negotiations between the Company and EGL after taking into account the principal amount of the Sale Loan of RMB80 million. The Sale Loan Consideration is the dollar-for-dollar equivalent of the amount representing 45% of the Convertible Notes, and shall be payable by way of the Set-Off.

The Set-Off

The Consideration shall be payable by EGL by way of set-off against the outstanding principal amount of the CS Loans of RMB330 million on a dollar-for-dollar basis.

The CS Loans comprised four loans with aggregate principal amount of RMB330 million granted by HICL to Henan Hexie, which are unsecured, bearing interest of 4.2% per annum and repayable by March, May and June 2026, respectively. As at the date of the Agreement, the aggregate outstanding amount of the CS Loans is approximately RMB343.5 million, comprising the principal amount of RMB330 million and the accrued interest of approximately RMB13.5 million. The CS Loans were granted by Mr. Feng to the Group for the purpose of funding the Group's overseas business development and expansion. Pursuant to the Agreement, as a condition precedent to Disposal Completion, a debt restructuring for the novation and assignment of the CS Loans shall be conducted such that the CS Loans shall be owing by the Company to EGL immediately following completion of the CS Loans Assignment and Novation to facilitate the Set-Off.

The Set-Off shall be in full and final settlement of all the outstanding principal amounts under the CS Loans (save and except the interest accrued or accruing thereon up to Disposal Completion). For the avoidance of doubt, pursuant to the Agreement, the interest of the CS Loans shall be accrued or accruing only up to the date of Disposal Completion. Such accrued interest shall be payable on demand and shall be settled by cash. As at the Latest Practicable Date, the accrued interest of the CS Loans was approximately RMB15.6 million.

Conditions precedent

Disposal Completion is conditional upon the fulfilment or waiver (as the case may be) of the following Conditions:

(i) the Capital Restructuring having been completed;

(ii) the CS Loans Assignment and Novation having been completed;

(iii) the Shareholder's Loans Assignment having been completed;

(iv) the Independent Shareholders passing at the EGM an ordinary resolution approving among others, the entering into, execution, delivery and performance of the Agreement and the transactions and arrangements contemplated thereunder, including without limitation the Disposal and the Capital Restructuring comprising the Preferred Loans;

(v) the Company having obtained all necessary consents in relation to the transactions contemplated under the Agreement including but not limited to the consents (if required) of the Stock Exchange and the SFC and any relevant government or regulatory authorities and other relevant third parties;

(vi) all representations and warranties of the Company under the Agreement being true and correct in all material respects and remaining so from the date of the Agreement up to immediately before Disposal Completion; and

(vii) all representations and warranties of EGL under the Agreement being true and correct in all material respects and remaining so from the date of the Agreement up to immediately before Disposal Completion.

Save for Condition (vi) which may be waived by EGL and Condition (vii) which may be waived by the Company, all other Conditions are not capable of being waived.

As at the Latest Practicable Date, none of the above conditions had been fulfilled. Regarding condition precedent (v), pursuant to certain distributorship agreements entered into between the Group and the manufacturers, the Group is required to obtain consents from the manufacturers regarding the shareholding change contemplated under the Agreement. The Company is optimistic that all necessary consent from the manufacturers will be obtained prior to the Disposal Completion. Up to the Latest Practicable Date, save for the consent required from the Group's manufacturers, no other consent is required from any relevant government, regulatory authorities or other relevant third parties in relation to the Agreement and the transactions contemplated thereunder.

If any of the Conditions is not fulfilled or waived (as the case may be) at or before 5:00 p.m. on 23 November 2025 or such other date as may be agreed between the Company and EGL in writing, the Agreement shall lapse and upon which the rights and obligations of the Company and EGL under the Agreement shall be null and void and of no further effect save for any antecedent breach.

Disposal Completion

Disposal Completion shall take place on the 3rd Business Day after the date of which the above Conditions are fulfilled or waived (as the case may be) or such other date as may be agreed between the Company and EGL in writing.

Undertakings in relation to the Convertible Notes

Pursuant to the Agreement, each of the Company and EGL has irrevocably and unconditionally undertaken that, following Disposal Completion, in the event that each of them exercises any part of its conversion rights attaching to their respective Convertible Notes, the other one must exercise its conversion rights attaching to its respective Convertible Notes to the same extent, such that upon exercise of the conversion rights by each of the Company and EGL under their respective Convertible Notes, the respective equity interests of the Company and EGL in the Disposal Company shall remain as 55% and 45%, respectively.

Purchaser's guarantor

Mr. Feng is the sole shareholder of EGL and as such has agreed under the Agreement to provide certain guarantees and indemnities to the Company, including the guarantee of the due and punctual performance and observance by EGL of all of its obligations, commitments, undertakings, agreements, warranties, indemnities and covenants under or pursuant to the Agreement.

Pursuant to the Agreement, subject to (a) completion of the Capital Restructuring; and (b) the Disposal Completion having taken place, Mr. Feng has also irrevocably and unconditionally agreed and undertaken that he shall (i) not participate in, intervene with, or otherwise seek to influence the Company's decision to exercise the whole or any part of its conversion right under the Convertible Notes in the principal amount of RMB97,777,777 to be held by the Company; and (ii) provide all necessary assistance as may be reasonably requested by the Board from time to time in connection with the implementation of and giving effect to the conversion of such Convertible Notes.

Save as disclosed above, no other undertakings were provided by Mr. Feng to the Company in relation to the Disposal.

Capped amount of the Additional Shareholder's Loans

Pursuant to the Agreement, from the date of the Agreement until Disposal Completion, except with the prior written consent of EGL, the Company warrants and undertakes that it shall procure that the Disposal Group shall not borrow or raise any further money from the Company and/or other fellow subsidiaries of the Disposal Company to such an extent so as to increase the existing Shareholder's Loans by more than RMB20.0 million in aggregate for the Disposal Group taken as a whole and any such further advances to be made by the Company and/or other fellow subsidiaries of the Disposal Company to the Disposal Group, whether directly or indirectly, shall be converted and form part of the Preferred Loans at Disposal Completion (and shall bear no interest from the respective dates of their advances up to their conversion into the Preferred Loans). As at the Latest Practicable Date, the Company and/or other fellow subsidiaries of the Disposal Company provided the Additional Shareholder's Loans of approximately RMB8 million to the Disposal Group. The Group would consider to provide further Additional Shareholder's Loans prior to Disposal Completion should the Disposal Group require additional funding during this period.

Taking into account that (i) the Disposal Company is the wholly-owned subsidiary of the Company before Disposal Completion; (ii) the Additional Shareholder's Loans serves as a buffer to address the unforeseen financial needs of the Disposal Group during such period; and (iii) even if an interest rate of 4.0% per annum (equivalent to the interest rate of the Preferred Loans) is assumed on the Additional Shareholder's Loans, the interest income on the Additional Shareholder's Loans during such period is expected to be minimal and would be eliminated during consolidation, the Board considers and we concur that the interest free arrangement of the Additional Shareholder's Loans is acceptable in the circumstances.

Proportional contribution

Subject to Disposal Completion having taken place, each of the Company and EGL has unconditionally and irrevocably agreed and undertaken that all future financial assistance required by and provided to the Disposal Group by the Disposal Company's shareholders shall be conducted in accordance with the proportion of their respective equity interests directly held in the Company for the time being.

(b) The Capital Restructuring

As at the date of the Agreement, the Disposal Company has issued share capital of US$10,000 divided into 10,000 shares, and Shareholder's Loans owing to the Company and six other fellow subsidiaries of the Disposal Company of approximately RMB1,118.7 million. The Shareholder's Loans are unsecured, interest bearing at rates determined with reference to the prevailing market rates, and have no fixed term of repayment, and were contributed by the Group to the Disposal Group for its development of the overseas NEV business.

To facilitate the Disposal and to segregate the obligations and liabilities of the Disposal Group in respect of the Preferred Loans following Disposal Completion, the Company proposes to implement the Capital Restructuring to restructure the Shareholder's Loans into the Restructured Capital, the Preferred Loans and the Convertible Notes.

(c) The Restructured Capital

The Shareholder's Loans in the amount of approximately RMB555.5 million will be capitalised as share capital of the Disposal Company through the issue and allotment of 77,150,493 new shares of the Disposal Company to the Company. Upon completion of the Capital Restructuring, the total amount of the issued share capital of the Disposal Company will be increased from US$10,000 to approximately RMB555.6 million (equivalent to approximately US$77.2 million calculated based on the exchange rate of US$1/RMB7.2).

(d) The Preferred Loans

The Shareholder's Loans in the amount of approximately RMB385.4 million (primarily consist of shareholder loan extended by the Company to the Disposal Group for business development and working capital purposes,) together with such amount of the Additional Shareholder's Loans (if any), will be converted into the Preferred Loans repayable in two years from the date of completion of the Capital Restructuring. The Preferred Loans shall bear interest of 4.0% per annum, and the repayment thereof by the Disposal Group shall be preferred over the repayment of the Convertible Notes and any dividend distribution by the Disposal Company. The interest rate of Preferred Loans was determined with reference to the prevailing market interest rates offered by the Group's primary lending banks in the PRC and Hong Kong for the bank loans of the Group (excluding those of the Disposal Group). As the Preferred Loans were original Shareholder's Loans granted to the Disposal Group, and that the Disposal Group will continue to be managed by the same management who are also senior management of the Company, no security is required for the Preferred Loans. When determining the term of the Preferred Loan, the Company took into consideration the Disposal Group's ongoing development and financial stability and in order not to trigger immediate repayment of a substantial loan amount which will provide the Disposal Group with sufficient time to stabilise operations, generate revenue, and improve liquidity, thereby avoiding undue strain on its working capital and ensuring continued operational flexibility and therefore the Company considers that it is reasonable to allow an appropriate repayment period of two years.

For the purpose of the Capital Restructuring, it is contemplated that each fellow subsidiary of the Disposal Company granting the Shareholder's Loans shall assign all its benefits and interests in respect of the relevant portion of the Shareholder's Loans owing by the Disposal Group to such fellow subsidiary to the Company (the "**Shareholder's Loans Assignment**") such that the amount of the Shareholder's Loans which will be converted into the Preferred Loans shall be owing by the Disposal Group to the Company only immediately following completion of the Shareholder's Loans Assignment.

For the avoidance of doubt, the Preferred Loans will not affect the rights of other creditors of the Disposal Group.

(e) The Convertible Notes

The remaining Shareholder's Loans in the amount of approximately RMB177.8 million will be converted into the two Convertible Notes upon completion of the Capital Restructuring, 45% of which in the principal amount of RMB80 million is the subject of the Sale Loan which will be sold to EGL pursuant to the Agreement. Principal terms of the Convertible Notes are set out as follows:

Issuer:	The Disposal Company
Subscriber:	The Company
Principal amount:	The principal amount of one of the Convertible Notes shall be RMB97,777,777 and the other one shall be RMB80,000,000

Issue price:	100% of the principal amount
Interest:	4.0% per annum
Security:	Nil
Maturity date:	The date falling on the second anniversary of the issue date
Conversion price:	US$1 per conversion share, which is determined based on the Restructured Capital of the Disposal Group of approximately RMB555.6 million (equivalent to approximately US$77.2 million calculated based on the exchange rate of US$1/RMB7.2) and 77,160,493 shares of the Disposal Company in issue upon completion of the Capital Restructuring.
Conversion shares:	24,691,357 new shares (calculated by the principal amount of all Convertible Notes of RMB177,777,777 divided by the exchange rate of RMB7.2/US$1, and then divided by US$1 per conversion share) of the Disposal Company, representing approximately 24.2% of the enlarged issued share capital of the Disposal Company upon full conversion of the Convertible Notes, of which 13,580,246 new shares to be allotted and issued by the Disposal Company upon the exercise of the conversion rights attaching to the Convertible Notes in the principal amount of RMB97,777,777 and 11,111,111 new shares to be allotted and issued by the Disposal Company upon the exercise of the conversion rights attaching to the Convertible Notes in the principal amount of RMB80,000,000.
Conversion right:	The holder of the Convertible Notes shall have the right to convert the Convertible Notes into shares of the Disposal Company at any time during the period commencing from and including the date falling six months of the issue date up to the close of business on the maturity date.

Redemption:	The Disposal Company shall redeem all or such part of the outstanding amount of the Convertible Notes on the maturity date.
Transferability:	Save and except the transfer of the Convertible Notes to EGL pursuant to the Agreement, the Convertible Notes or any rights and obligations thereunder may not be transferred or assigned by the holder thereof to any third party without the written consent of the Disposal Company and all other holder(s) of the Convertible Notes.

Upon Disposal Completion, the Convertible Notes will be held by the Company and EGL in proportion to their respective shareholdings in the Disposal Company, reflecting their proportional investment. As such, no security is required for the Convertible Notes. The interest rate, the term of two years and no security for the Convertible Notes were determined on the same basis for the Preferred Loans as mentioned above.

Pursuant to the Agreement, each of the Company and EGL has irrevocably and unconditionally undertaken that, following Disposal Completion, in the event that each of them exercises any part of its conversion rights attaching to their respective Convertible Notes, the other one must exercise its conversion rights attaching to its respective Convertible Notes to the same extent, such that upon exercise of the conversion rights by each of the Company and EGL under their respective Convertible Notes, the respective equity interests of the Company and EGL in the Disposal Company shall remain as 55% and 45%, respectively. As at the Latest Practicable Date, the Company and EGL had no intention to exercise the conversion rights attaching to the Convertible Notes.

As mentioned above, pursuant to the Agreement, Mr. Feng has irrevocably and unconditionally agreed and undertaken that, among other things, he shall not participate in or intervene with the Company's decision of exercising the whole or any part of its conversion right under the Convertible Notes in the principal amount of RMB97,777,777 held by the Company. The decision of whether to exercise the conversion rights attaching to such Convertible Notes shall be determined solely by the Company itself. The Directors other than Mr. Feng and his associates will assess the matter objectively, taking into account the prevailing conditions and strategic considerations including but not limited to the market conditions in the NEV sector, relevant government policies, business development and financial performance of the Disposal Group and other pertinent factors at the time of making the decision of exercising the conversion rights attaching to such Convertible Notes.

We have discussed with the management of the Company and noted that apart from the above factors, when considering exercising the conversion rights, the relevant Directors will also consider the maturity, the then liquidity and alternative investment options of the Group. We consider the above factors to be considered by the Directors to be appropriate factors for considering exercising conversion rights in general.

5. Information of the Disposal Group

The Disposal Company was incorporated in the Cayman Islands on 13 June 2024 with limited liability. Following its incorporation, the Company implemented a reorganisation such that the Disposal Company became the holding company of the Group's overseas NEV business. As at the Latest Practicable Date, the Disposal Group has 42 subsidiaries engaging in the distribution of NEV and provision of after-sales services in overseas markets under the Disposal Company. Save for the acquisition of the 80% interests in the subsidiary engaging in the Cambodia business in December 2023 at the original acquisition costs of approximately RMB25.5 million and the acquisition of the 100% interest in the subsidiary engaging in the Thailand business in April 2025 at the original acquisition costs of approximately RMB14.0 million, all other entities were established by the Group.

The Group commenced its overseas NEV business in 2023. The Disposal Group has successfully partnered with BYD Company, a leading automobile manufacturer in the PRC, to distribute and provide after-sales services for two new automobiles brands, namely BYD and DENZA, through establishment of distribution outlets and services centres, across various locations outside Mainland China. As at the Latest Practicable Date, the Disposal Group had 51 4S centres, 43 showrooms and 6 service centres spanning across Hong Kong, Cambodia, the Philippines, Singapore, Japan, Indonesia, Thailand, Malaysia, Australia, the United Kingdom, France, Poland etc. As at the Latest Practicable Date, the Disposal Group is the sole Tier-1 authorised dealer for BYD NEVs in Hong Kong, and the authorised national dealer for BYD NEVs in Cambodia.

Set out below is the unaudited combined financial information of the Disposal Group extracted from the audited accounts of the Group for the two years ended 31 December 2023 and 2024:

	For the year ended December 2024 *RMB million*	For the year ended December 2023 *RMB'000*
Revenue	1,788.5 *(Note)*	16.4
Loss before taxation	(192.9)	(13.5)
Loss after taxation	(194.9)	(13.5)

Note: The intra-group balances of the Disposal Group in the amount of approximately RMB146.7 million were excluded.

Revenue from Hong Kong and overseas operations amounted to approximately RMB1,788.5 million, representing an increase of around 108.7 times as compared with the revenue for the same period in 2023. As the Group only recently launched its overseas NEV business in 2023, no substantial revenue was recorded by the Group in 2023. With the acquisition of the Cambodia business in December 2023 and the Thailand business in April 2025 together with the improvement in operation of other overseas entities established by the Group, revenue in 2024 increase accordingly.

	As at 31 December 2024 *RMB million*	As at 31 December 2023 *RMB million*
Current assets	**1,465.10**	**290.1**
Cash and cash equivalent	242.5	38.3
Accounts receivables	93.6	2.9
Prepayments	375.1	104.5
Other receivables	223.4	20.3
Inventories	530.5	124.1
Non-current assets	**1,252.15**	**140.8**
Fixed assets	429.4	25.8
Construction in progress	167.7	35.8
Right-of-use assets	580.5	78.36
Other non-current assets	74.4	0.84
Current liabilities	**1,279.48**	**79.3**
Short-term loans	489.7	2.8
Trade payable	160.6	0.004
Receipt in advance	519.9	74.9
Other current liabilities	109.3	1.6
Non-current liabilities	**1,635.26**	**343.3**
Long-term loans	33.7	—
Lease liabilities	578.1	80.4
Amounts due to related parties	1,017.4	262.9
Other non-current liabilities	6.0	—
Net (liabilities)/assets	(197.49)	8.2
Net (liabilities)/assets attributable to holding company	(202.0)	8.2

Assets of the Disposal Group mainly comprised of finance lease receivables for vehicles leased out under finance leases, property, plant and equipment, right-of-use assets, inventories for the Disposal Group's sales of NEVs operation and prepayment.

Liabilities of the Disposal Group comprise mainly of short-term borrowings (including shareholder's loan), receipt in advance and lease liabilities.

As disclosed in the "Letter from the Board" of the Circular, to facilitate the Disposal and to segregate the obligations and liabilities of the Disposal Group in respect of the Preferred Loans following Disposal Completion, the Company proposes to implement the Capital Restructuring to restructure the Shareholder's Loans into the Restructured Capital, the Preferred Loans and the

Convertible Notes. Assuming the completion of Capital Restructuring had taken place on 31 December 2024, the adjusted net assets attributable to owners of the Disposal Company would be amounted to RMB353.5 million as part of the Shareholder's Loans of approximately RMB555.5 million would be capitalised as share capital of the Disposal Company.

6. Prospects of the Disposal Group

According to the data published by the CAAM, China's NEV sector has reached a penetration rate of over 40.9% in China in 2024. The total sales of new energy vehicles in China in 2024 exceeded 12 million units, representing a year-on-year increase of more than 35%. The sales in the first quarter of 2025 reached 3.07 million units, representing a 47% growth from the corresponding period in 2024. The upward trend is attributable to favourable policies rolled out by the PRC government, especially on extension of tax exemptions for NEV up to December 2027, providing a stable and predictable environment for consumers and manufacturer thus encouraging the investment in the industry. As the Chinese NEV market matures, Chinese car manufacturers have gained a deeper understanding of consumer needs and developed new NEV technologies and varieties while maintaining affordability, hence enhancing the popularity of Chinese NEV models in overseas markets.

Source: CAAM

China remains the largest NEV exporter in 2024. Based on data released by the CAAM, the total export of NEVs by China in 2024 exceeded 1.2 million units, representing a year-on-year growth of 6.7%. In the first quarter of 2025, China's exports of NEVs recorded a year-on-year increase by 43.9% to 441,000 units, continuing the upward momentum and global influence despite the uncertainty of the tariff implications.

As per a report published by the International Energy Agency the ("**IEA**"), the sales of electric cars has recorded a rising trend since 2016 with electric car sales reaching 17 million units globally in 2024, increasing by more than 25% compared to the previous year. In the first quarter of 2025, 4 million electric cars were sold and sales grew by 35% compared to the corresponding period in 2024, which was higher than the growth rate observed in the first quarters of the previous 2 years.

Emerging markets in Asia are becoming new centres of growth. According to the IEA, Asia (excluding China) recorded a significant increase in electric car sales, reaching almost 400,000 units in 2024, representing an increase of 40% from 2023. In Southeast Asia, sales rose by nearly 50% to represent 9% of all car sales in the region, in particular stronger sale shares in Thailand and Vietnam. Favourable policies such as subsidies and tax incentives to promote demand for NEVs and relatively affordable NEV imports from China mainly due to lower labour and manufacturing costs and supply chain advantages driven by research investment and infrastructure support was crucial for boosting sales in certain emerging electric vehicle markets. Across all emerging economies outside of China, Chinese imports made up 75% of increase in electric car sales during 2024.

In relation to the European market, the sales stagnated in 2024 primarily due to subsidies being phased out in some larger markets, such as France limiting the subsidized amount on NEVs for high-income car buyers and Germany cutting its subsidies on NEV in the end of 2023 and that there was no change in the target for CO2 emissions. Nonetheless, the electric vehicle sales share increased in 2024 in 14 out of 27 EU member states and around 20% of new cars sold in 2024 in the European market were electric vehicles.

Although the global tariff implications may bring uncertainty to the demand on China's NEV exports, the long-term expectation to lower CO2 emission and the shift in consumer demand coupled with policy support in certain emerging markets and the competitiveness of Chinese brand NEVs are expected to maintain a stable demand for NEVs in overseas markets in the near future and Chinese brands with its increasing presence abroad will continue to be an attractive option for consumers.

Taking into account the long-term prospects and competitiveness of Chinese NEV brands in overseas markets on one hand, but on the other hand considering the fact that the Disposal Group is still in an early stage of development and may require time to achieve profitability while requiring extensive amount of capital to fund its overseas development plan, the Company considers it is appropriate to reduce the Group's financial exposure by reducing its equity interest in the Disposal Group whilst maintaining control.

7. Analysis of the Convertible Notes and the Preferred Loan

As part of the Capital Restructuring which is a condition precedent to the Agreement, the Shareholder's Loan will be restructured into the Restructured Capital, the Preferred Loans and the Convertible Notes.

The Preferred Loan

As set out in the "Letter from the Board" to the Circular, the Shareholder's Loans in the amount of approximately RMB385.4 million together with any Additional Shareholder's Loans (being any additional Shareholder's Loan which were or may be granted by the Company to the Disposal Group from the date of the Agreement up to the date of Disposal Completion) shall be converted into the Preferred Loans which will be repayable in two years from the date of completion of the Capital Restructuring. The Preferred Loans shall bear interest of 4.0% per annum, and the repayment by the Disposal Group to the Company shall be preferred over the repayment of the Convertible Notes and any dividend distribution by the Disposal Company.

We have discussed with the management of the Company and understand that the interest rate was determined with reference to the prevailing market interest rates offered by the Group's primary lending banks in the PRC and Hong Kong for the bank loans of the Group (excluding those of the Disposal Group). We have noted from drawdown notes of recent bank borrowings that the interest rates offered were ranged from 3.6% to 3.8% which were comparable to the interest rate of the Preferred Loan of 4%.

In order to assess the fairness and reasonableness of the interest rate for the Preferred Loans, we have conducted independent research from the public domain on comparable loan transactions (the "**Comparable Loan Transactions**") which (i) were announced by companies listed on the Main Board of the Stock Exchange from 1 January 2025 to the Latest Practicable Date disclosing terms of the loan transaction (including interest rate, maturity term and security (if any)); (ii) involved provision of financial assistance by way of loans by companies listed in Hong Kong (or their subsidiaries) to its connected persons governed by agreements first entered into during the said period; (iii) with a principal amount of over HK$20 million to identify loans which were relatively more comparable in size to that of the Preferred Loans; and (iv) with a maturity period of more than 1 year (i.e. non-current in nature) as the Preferred Loans with a maturity of 2 years is of non-current in nature, which in our opinion are suitable criteria for selecting the Comparable Loan Transactions.

As we identified only 3 comparable companies based on the above criteria, in order to select a sufficient number of Comparable Loan Transactions to reflect the prevailing market practice in respect of the provision of financial assistances, we have prolonged the review period to covering 1 January 2024 to the Latest Practicable Date (the "**Review Period**"), which in our view represents a suitable timeframe.

To the best of our knowledge and on a best-effort basis, we have identified a list of 15 Comparable Loan Transactions which fulfill the abovementioned selection criteria. We considered the list identified to be exhaustive based on the selection criteria and provides a general understanding on the provision of financial assistance by way of loans by companies listed in Hong Kong to its connected persons during the Review Period, illustrating that transactions of such nature are not uncommon. A summary of the Comparable Loan Transactions conducted during the Review Period is set out below:

Date of announcement/ agreement	Stock code	Company name	Loan amount	Term to maturity	Security	Annual interest rate
30 May 2025	1171	Yankuang Energy Group Company Limited ("**Yankuang**")	RMB1 billion	3 years	Secured *(note 1)*	3.1%
6 May 2025	6098	Country Garden Services Holdings Company Limited ("**Country Garden**")	RMB1 billion	5 years	Secured *(note 2)*	5%
17 Apr 2025	230	Minmetals Land Limited	RMB27,262,329.67 and RMB26,193,218.73	4 years	Unsecured	Nil
9 Dec 2024 *(note 3)*	6862	Haidilao International Holding Ltd ("**Haidilao**")	Up to RMB500 million	3 years	Unsecured	3.3% *(note 3)*
29 Nov 24	1065	Tianjin Capital Environmental Protection Group Company Limited ("**Tianjin Capital**")	RMB40,000,000	3 years *(note 4)*	Unsecured	5.00%
11 Nov 24	767	Zhong Ji Longevity Science Group Limited ("**Zhong Ji**")	HK$30,000,000	3 years	Secured *(note 5)*	10.00%

Date of announcement/ agreement	Stock code	Company name	Loan amount	Term to maturity	Security	Annual interest rate
1 Nov 24	1853	Jilin Province Chuncheng Heating Company Limited ("**Jilin**")	RMB300 million	5 years *(note 6)*	Unsecured	4.50%
30 Sep 24	1755	S-Enjoy Service Group Co., Limited ("**S-Enjoy**")	RMB120 million	3 years	Secured *(note 7)*	6.05%
12 Sep 24	2559	Dida Inc. ("**Dida**")	US$7,500,000	1.5 years	Secured *(note 8)*	5.35%
17 Jun 2024	1935	JH Educational Technology INC ("**JH**")	RMB55 million	2 years	Secured *(note 9)*	3.1%
29 May 2024 *(note 3)*	6862	Haidilao International Holding Ltd ("**Haidilao**")	Up to RMB20.0 million	1.58 years	Unsecured	3.1% *(note 3)*
22 Mar 2024	2377	China Boqi Environmental (Holding) Co., Ltd.	RMB22,000,000	8 years	Unsecured	3%
18 Mar 2024 *(note 10)*	658	China High Speed Transmission Equipment Group Co., Ltd ("**China High Speed**")	RMB250 million	5 years	Secured *(note 10)*	3%
17 Jan 24 *(note 11)*	6698	Star CM Holdings Limited ("**Star**")	HK$28,000,000	1.7 years	Unsecured	5% *(note 11)*
15 Jan 24	139	Central Wealth Group Holdings Limited ("**Central Wealth**")	HK$66,000,000	3 years	Secured *(note 12)*	7%

Date of announcement/ agreement	Stock code	Company name	Loan amount	Term to maturity	Security	Annual interest rate
			Maximum	8 years		10%
			Average	3.5 year		4.4%
			Median	3 years		4.5%
			Minimum	1.5 year		Nil
			2025 Maximum	5 years		5%
			2025 Average	4 years		2.7%
			2025 Median	4 years		3.1%
			2025 Min	3 years		Nil
	3836	The Company		2 years	Unsecured	4%

Source: the website of the Stock Exchange

Notes:

(1) As disclosed in the announcement of Yankuang, the loan is secured with assets of net value no less than the loan amount.

(2) As disclosed in the announcement of Country Garden, the loan is secured by 543,695,233 shares of Country Garden held by the borrowers, representing 16.26% of the total issued shares of Country Garden.

(3) As disclosed in the announcement of Haidilao, on May 29 2024, a subsidiary of Haidilao as lender and entered into a loan agreement with its connected person regarding a loan facility with a principal amount of up to RMB20.0 million at an interest rate equivalent to the one-year LPR announced in January yearly (i.e. 3.1%). Subsequently on December 9, 2024, the same parties entered into another loan agreement regarding a loan facility in a principal amount of up to RMB500.0 million, at an interest rate equivalent to the one-year LPR plus 20 bps. The initial one year LPR refers to the one-year LPR at the time of the first withdrawal and if there is a change in the one-year LPR, the interest rate will be correspondingly adjusted from the first day of the next month following the effective date of the adjustment. For reference sake, we have adopted the LPR rate published on 20 November 2024 of 3.1%.

(4) As disclosed in the announcement of Tianjian Capital, RMB24,350,000 of the loan amount will mature in three years while the remaining amount of RMB15,650,000 will mature in one year. Considering that the majority of the loan will have a maturity of 3 years, we have adopted a maturity of 3 years for the purpose of the analysis.

(5) As disclosed in the announcement of Zhong Ji, the owner of the borrowers, a director of Zhong Ji, is the guarantor of the loans.

(6) As disclosed in the announcement in Jilin, the loan period is from the date of obtaining the independent shareholders' approval to 31 December 2029. For reference's sake, we adopted 5 years as the maturity term.

(7) As disclosed in the announcement of S-Enjoy, the loan is secured by a mortgage of a property provided by the borrower. The interest rate shall be the higher of the LPR for loans of more than one year and less than five years published by the PBRC on date of drawdown or the fixed lending rate of 6.05%. For reference's sake, we have adopted the interest rate of 6.05%.

(8) As disclosed in the announcement of Dida, the loan is secured by a guarantee provided by a fellow subsidiary.

(9) As disclosed in the announcement of JH, the borrower, being a director and the controlling shareholder of JH, has made an undertaking to authorize JH to deduct the dividends payable to a company wholly owned by the borrower, and/or the remuneration payable to the borrower as a director to repay outstanding loan and accrued interests in the event that the borrower does not repay any loan and/or accrued interests.

(10) As disclosed in the announcement of China High Speed dated 26 May 2025, the loan agreement is entered into on 18 March 2024. The loan is secured by an undertaking given by one of the co-borrowers to use the dividends distributed to it as security.

(11) As disclosed in the announcement of Star dated 31 March 2025, a wholly owned subsidiary of Star entered into a series of loan agreements with the borrower, given that only one of the loan agreements exceeds HK$20 million (entered into on 17 January 2024), we have included the said agreement for our analysis. The interest rate for the said loan agreement is interest free from 18 January 2024 to 29 February 2024, and 5% from 1 March 2024 to 1 October 2025. As such, for prudence's sake, we have adopted 5% interest rate for our analysis.

(12) As disclosed in the announcement Central Wealth, the loan is secured by 25% of the issued shares of a company owned by the borrower.

As shown in the above table, the interest rates of the Comparable Loan Transactions ranged from nil to approximately 10% and the average and median interest rates of the Comparable Loan Transactions is 4.4% and 4.5%, respectively. Despite the 4% interest rates of the Preferred Loans is slightly below the average and median interest rates of the Comparable Loan Transactions, nonetheless the interest rates of the Preferred Loan falls within the range of the interest rates of the Comparable Loan Transactions and is above the average and median interest rates of the Comparable Loan Transactions announced in 2025 of 2.7% and 3.1%, respectively.

With regards to the maturity of the Comparable Loan Transactions, we note that the loans shall be repaid from within 1.5 year to 8 years, while the Preferred Loans are to be repaid in 2 years. The maturity of the Preferred Loans is within the range of the Comparable Loan Transactions and is closer to the lower end of the range. In addition, given the Disposal Group shall be owned as to 55% by the Company after the Disposal, and the fact that the repayment of the Preferred Loans by the Disposal Group shall be preferred over the repayment of the Convertible Notes and any dividend distribution by the Disposal Company, the Company did not view it necessary to require security for the Preferred Loans, furthermore, seven of the Comparable Loan Transactions were also unsecured, implying that it is not uncommon that loans advanced to connected persons are unsecured.

Furthermore, we also noted from the annual reports of the Company for the past three financial years ended 31 December 2022, 2023 and 2024 that the effective interest rates per annum of bank borrowings of the Group was in the range of 3.5% to 6.0% while the average interest rate on interest income earned by the Group by taking into consideration the average cash and bank balances (cash and bank balances at the beginning of the year and at the end of the year divided by two) and the total interest income of 2024 was only amounted to 1.35%.

Despite the interest rate of the Preferred Loans of 4% is at the lower end of the range of the effective interest rates per annum of the bank borrowings of the Group, having considered the Disposal would, among other things, allow the Group to reduce its financial commitment in the Disposal Group and the interest rate of the Preferred Loans (i) falls within the range of the interest rates of the Comparable Loan Transactions and is above the average and median interest rate for Comparable Loan Transactions announced in 2025 of 2.7% and 3.1% respectively; (ii) is in the range of the effective interest rates per annum of the bank borrowings of the Group in the past three financial years; and (iii) the average cash and bank balances of the Group only earn an average interest rate of 1.35% per annum in which the interest income from the Preferred Loan would be higher, we are of the view that the interest rate of the Preferred Loans is fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms.

The Convertible Notes

The remaining Shareholders' Loan in the amount of approximately RMB177.8 million will be converted into two Convertible Notes upon completion of the Capital Restructuring with respective principal amounts of RMB97,777,777 and RMB80,000,000. The Sale Loan Consideration for the sales of 45% of the Convertible Notes to EGL of RMB80 million will be settled by EGL to the Company by way of the Set-Off. Details of the Convertible Notes are set out in the section "Principal terms of the Agreement" above.

In assessing the fairness and reasonableness of the terms of the Convertible Notes, including the interest rate, term to maturity, security and conversion price, we have conducted independent search for the issue and subscription of new notes/bonds, which (i) are announced by companies that are listed on the Main Board of the Stock Exchange during the period from 1 January 2024 to the Latest Practicable Date; and (ii) involved convertible notes/bonds with convertible rights issued by private companies (including subsidiaries of listed issuers) to listed issuers or their subsidiaries. As we identified only 2 comparable companies based on the above criteria, in order to select a sufficient number of comparable transactions to reflect the prevailing market practice, we have prolonged the review period to covering 23 May 2023 (being two years prior to the date of the announcement of the Company dated 23 May 2025) to the Latest Practicable Date (the "**Comparable Period**").

Based on these criteria and the public information available on the Stock Exchange's website, to the best of our endeavours, we have identified an exhaustive list of a total of 3 comparable transactions that involved issue and subscription of convertible notes/bonds (the **"Comparable Issues"**) which provide a general understanding on market transactions for issuance of convertible notes/bonds by private companies during the Comparable Period.

We consider that the Comparable Period is an appropriate timeframe to reflect the prevailing market conditions and sentiments in the Hong Kong capital market, to provide a general reference of the recent issue and subscription of new notes/bonds being conducted by private companies and to generate a reasonable and meaningful number of samples of the most recent transactions for the purpose of our analysis. We also are of the view that as convertible securities of private companies are of less liquidity as compared to those issued by listed companies, our selection criteria can identify suitable comparable transactions for our analysis.

Set out below are the details of the Comparable Issues:

Date of announcement	Stock code	Company name	Principal amount	Security	Interest rate	Term to maturity (years)	Adjusted NAV per share	Conversion price per share	Premium/ (Discount)
13 Dec 2024	1323	Huasheng International Holding Limited ("**Huasheng**")	HK$40,000,000	Secured (*note 1*)	8%	4 years	NA (*note 2*)	NA (*note 2*)	NA (*note 2*)
9 May 2024	1368	Xtep International Holdings Limited ("**Xtep**")	USD 154,000,000	Secured (*note 3*)	3.5%	8 years	USD2,399 (*note 4*)	USD5,988.95	149.6%
29 Nov 2023	3860	EPS Creative Health Technology Group Limited ("**EPS**")	JPY150,000,000	Unsecured	Nil	3 years	JYP256,333 (*note 5*)	JYP215,575	(15.9%)
			Maximum		8%	8 years			149.6%
			Average		3.8%	5 years			66.9%
			Median		3.5%	4 years			66.9%
			Minimum		Nil	3 years			(15.9%)
	3836	The Company		Unsecured	4.0%	2 years	RMB4.6	RMB7.2	56.4%

Source: the website of the Stock Exchange

Notes:

1. As disclosed in the announcement of Huasheng, the convertible bonds are secured by a personal guarantee provided by the sole shareholder of the issuing company and a debenture by way of a floating charge over inventory, cash, receivables and bank accounts of the issuing company.

2. As disclosed in the announcement of Huasheng, the number of conversion shares to be issued will be determined after taking into account the valuation of the issuing company with a valuation date within 3 months prior to the date of conversion, as such the valuation is not disclosed in the announcement.

3. As disclosed in the announcement of Xtep, the convertible bonds are secured by a floating charge over all the property, assets and rights of the issuing company and its subsidiaries created by the issuing company in favour of the holder of the convertible bond.

4. As disclosed in the circular of Xtep dated 2 August 2024, the valuation of the issuing company of the convertible bonds was USD143,958,000 as at the valuation date adopting market approach. The adjusted NAV per share of USD2,399 per share was based on the total issued share capital of the issuing company of 60,000 shares as at the date of the circular.

5. As disclosed in the announcement of EPS, the valuation of the issuing company of the convertible bonds was JPY1,538,000,000 as at the valuation date adopting the income approach. The adjusted NAV per share was JPY256,333 per share based on the total issued share capital of the issuing company of 6,000 shares as at the date of the announcement.

According to the information above, the interest rates of the Comparable Issues ranged from nil to 8%, with an average of approximately 3.8% and a median of 3.5%. The term to maturity of the Comparable Issues ranged from 3 years to 8 years.

As such, the interest rate of the Convertible Notes falls within the range of the interest rates of the Comparable Issue and is higher than the average and median interest rate of the Comparable Issues. Furthermore, the maturity of the Convertible Notes is shorter than those of the Comparable Issues.

Having considered that the Company will hold 55% interest in the Disposal Company and continue to exert control over business operation and finances of the Disposal Company upon Completion, the Company was of the view that a security was not required to be attached to the Convertible Notes. In addition, we note that one out of the three Comparable Issues did not have any security attached, indicating that it is not uncommon for Convertible Notes to be unsecured.

In assessing the fairness and reasonableness of the conversion price of the Convertible Notes, we have reviewed the Comparable Issues as set out above, and note that two Comparable Issues have disclosed information regarding the valuation of the issuer. We have assessed the adjusted net asset value ("**NAV**") per share of the Comparable Issues which have taken into account the valuation in adjusting the net asset value of the issuer and noted that the conversion price of the Comparable Issues ranged from a discount of 15.9% to a premium of 149.6% over the adjusted NAV per share.

In comparison, based on the adjusted net assets attributable to owners of the Disposal Company of approximately RMB355.1 million (as adjusted by the valuation of the Disposal Company of a net liabilities position of RMB200.4 million and on the basis that completion of the Capital Restructuring had taken place on 31 December 2024, and part of the Shareholder's Loans of approximately RMB555.5 million would be capitalised as share capital of the Disposal Company) and the number of 77,160,493 shares of the Disposal Company in issue upon completion of the Capital Restructuring, the adjusted NAV per share is approximately RMB4.6 per share. The conversion price of the Convertible Notes of US$1 (equivalent to RMB7.2) per share of the Disposal Company, represents a premium of approximately 56.4% over the adjusted NAV per share of RMB4.6 per share. The said premium represented by the Conversion Price is within the range of the Comparable Issues and is thus considered fair and reasonable.

It is worth noting that the Comparable Issues may or may not be identical to the Disposal Company in terms of principal activities, geographical location, profitability and financial positions, and different underlying reasons leading to the issuance of convertible securities of the Comparable Issues may differ from that of the Convertible Notes.

Having considered the above, we are of the view that the terms of the Convertible Notes are comparable to those of the Comparable Issues and are fair and reasonable.

8. Analysis of the Sale Shares Consideration and Sale Loan Consideration

Pursuant to the Agreement, the Company has conditionally agreed to dispose of, and EGL has conditionally agreed to acquire, (i) the Sale Shares, representing 45% of the Restructured Capital of the Disposal Company, at the Sale Shares Consideration of RMB250,000,000 and (ii) the Sale Loan, representing 45% of the Convertible Notes issued by the Disposal Company, at the Sale Loan Consideration of RMB80,000,000. While the consideration of the Sale Loan was determined on a dollar-to-dollar basis, the Sale Shares Consideration took into consideration, among other things, the Valuation of the equity value of the Disposal Company as at 31 December 2024 using asset-based approach.

The Sale Shares Consideration is RMB250,000,000, which shall be payable by way of the Set-Off, and was determined upon arm's length negotiations between the Company and EGL with reference to the loss-making financial results of the Disposal Group, the financial position of the Disposal Group, the Restructured Capital of the Disposal Group of approximately RMB555.6 million and the independent valuation of the equity interests of the Disposal Company as at 31 December 2024 as assessed by the Valuer of RMB200.4 million.

For the two years ended 31 December 2023 and 2024, the Disposal Group recorded combined net loss of approximately RMB13.5 million and RMB194.9 million, respectively. From a financial position perspective, as at 31 December 2024, the Disposal Group had total assets of approximately RMB2,717.3 million, while it recorded net liabilities attributable to owners of the Disposal Company in the amount of approximately RMB202.0 million.

On the basis that completion of the Capital Restructuring had taken place on 31 December 2024, and part of the Shareholder's Loans of approximately RMB555.5 million had been capitalised as share capital of the Disposal Company, the Disposal Group would have recorded net assets attributable to owners of the Disposal Company of approximately RMB353.5 million (i.e. the Adjusted NAV). In light of the above, the Sale Share Consideration of RMB250 million exceeds 45% of the Adjusted NAV of approximately RMB159.1 million by an amount of RMB90.9 million.

The Company has engaged the Valuer to conduct the Valuation of the equity value of the Disposal Company as at 31 December 2024 using asset-based approach. The Valuer has preliminarily appraised that, as at 31 December 2024, the total assets of the Disposal Group would be approximately RMB2,718.9 million and total liabilities would be approximately HK$2,914.7 million, with net liabilities attributable to equity owners of the Disposal Company of approximately RMB200.4 million.

Further details of the Valuation, including the methodology and assumptions adopted, are set out in the valuation report in Appendix II to this circular.

(i) Expertise and independence of the Valuer

To assess the expertise and independence of the Valuer, we have (i) reviewed the engagement letter of the Valuer; and (ii) discussed with member of the valuation team engaged in the valuation of the Disposal Group to understand their experience and relationship with the Company as well as the valuation methodology adopted.

Based on our discussion with the Valuer and from public domain, the Valuer, Valplus Consulting Limited, provided valuation services to public and private companies for various purposes, including investment, litigation support, taxation, financial reporting, M&A or IPO in compliance with relevant rules and requirements of regulators and professional bodies. The valuation team lead by Mr. Damon S.T. Wan ("**Mr. Wan**"), is a charterholder of Chartered Financial Analyst, a Certified FRM and a member of Royal Institution of Chartered Surveyors, who has been working in the professional valuation field since 2008 with working team including (i) Mr. Willy T.Y. Yu ("**Mr. Yu**"), who has been working in the banking and financial industry since 2014. Mr. Yu possesses experience in the aspects of corporate credit risk, cash trading, business valuation and ESG analysis; and (ii) Mr. Alfred Y.M. Wong ("**Mr. Wong**"), who is a member of CPA Australia and has been working in the corporate finance industry since 2015. Mr. Wong possesses experience in the aspects of corporate finance advisory, corporate credit risk and business valuation.

We also understand that the scope of work of the Valuer is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the preparation of the valuation report issued by the Valuer.

The Valuer has confirmed that they are an independent third party of the Company, the EGL, Mr. Feng, the Disposal Group and their respective associates. Furthermore, the Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the issuance of the Valuation Report, no arrangements exist whereby it will receive any fee or benefit from the Group, EGL and its respective associates.

Based on our discussion with the Valuer and our review of their scope of work, we are not aware of any matters that could cause us to have doubts on the expertise and independence of the Valuer.

(ii) The Valuation

In assessing the fairness and reasonableness of the valuation of the Disposal Group, we have reviewed the Valuation Report, the basis and assumptions made, and the methodology adopted by the Valuer in preparing the Valuation. Details of the assumptions are set out in the valuation report as contained in Appendix II to the Circular (the "**Valuation Report**").

a) Valuation methodology

As discussed with the Valuer, the Valuation has been prepared in accordance with the International Valuation Standards published by the International Valuation Standards Council. We noted that the Valuer, after considering various valuation methods (including income approach, market approach and asset approach), has adopted asset approach as the primary valuation method.

Pursuant to the discussion with the Valuer, the market approach is not considered applicable to the Valuation, as the value of the subject company is compared to assets, equity interests, or securities that are similar to the Disposal Group with available market transaction data.

The use of market approach requires an active public market with sufficient comparable companies or transactions, however, the valuer is unable to identify sufficient samples of comparable companies or comparable transaction to form a reliable basis for opinion on value given the uniqueness of the Disposal Group's business, thus market approach is not applicable for the Valuation. Furthermore, given the short operating track records of the Disposal Group, the market approach based on latest financial metrices is not reasonable and applicable after considering the development status, business scale and operating losses of the Disposal Group.

For income approach, the value of the subject company is estimated based on the present value of future expected cash flows. It reflects the subject asset's earning potential and risks associated with the specific operation. As the Disposal Goup was still in an early stage of development with operating track record less than two years from the Valuation Date. Therefore, the use of historical data is not sufficient to form a reliable basis of projections. Also, the use of projections would involve a high level of uncertain, long-term forecast estimates and underlying assumptions. Given the limited basis, qualifications and explanations, the income approach is therefore considered to be not appropriate for the Valuation.

While under the asset approach all of the subject's individual asset and liability account categories are analysed and valued separately. The value of the individual assets (both tangible and intangible) less the value of the liabilities (both recorded and contingent) represents the subject business value. The Valuer considered such asset approach by considering adjusted net asset value valuation to be a sound method for estimating the value of start-up business which is not mature but still under development.

We concur with the valuation methodology of asset approach adopted by the Valuer to be an appropriate valuation approach for the Disposal Group. As for market approach, the representative industry multiples ignore the capital structures and other non-operating items of the individual companies such as development stage and business nature of a company and we have also from public domain try to identify comparable transactions in the past two years, however we were also unable to identified market transactions which are comparable to the Disposal. For income approach, as the Disposal Group is in an early stage of development with operating track record less than one to two years from the Valuation Date, the use of historical data is not sufficient to form a reliable basis of projections, it would not be ideal for valuations of start-up business which is not mature but still under development as it involves high level of uncertain, long-term forecast estimates and underlying assumptions.

Based on the aforesaid, we concur with the Valuer on the inapplicability of market approach and income approach for the Valuation and we are of the view that the use of asset approach to conclude the Valuation to be appropriate.

b) Application of asset-based approach

Set out below is the comparison of book value and appraised value of the assets and liabilities of the Disposal Group as at 31 December 2024:

RMB'000	**Book value**	**Revaluation**
Assets		
Cash and bank balances	242,522	242,522
Trade receivables	93,595	93,595
Prepayments	375,058	374,316
Other receivables	223,423	222,938
Inventory	530,503	530,503
Fixed assets, net	429,237	432,124
Construction in progress	167,695	167,695
Intangible assets	409	409
Goodwill	53,987	53,987
Long-term deferred expenses	3,020	3,020
Deferred tax assets	17,294	17,294
Right of use assets	580,507	580,507
TOTAL ASSETS:	**2,717,250**	**2,718,910**
Liabilities		
Short-term loans	489,716	489,716
Trade payables	160,564	160,564
Receipt in advance	519,914	519,914
Wage payables	23,694	23,694
Tax payables	(2,330)	(2,330)
Other payables	87,921	87,921
Long-term loans	33,724	33,724
Deferred tax liabilities	6,030	6,030
Lease liabilities	578,112	578,112
Amounts due to related parties	1,017,395	1,017,395
TOTAL LIABILITES:	**2,914,740**	**2,914,740**
NET (LIABILITIES):	**(197,490)**	**(195,830)**
Less: Non-controlling interests:	4,536[1]	4,536[1]
NET (LIABILITIES) TO EQUITY OWNERS	**(202,026)**	**(200,366)**

1) The non-controlling interests ("**NCI**") refer to the carrying amount of the minority interests on the financial statement of the Disposal Group as at the Valuation Date.

Assets

As noted from the Valuation Report, the Disposal Group's assets primarily consist of cash and bank balances, trade receivable, prepayment, other receivables inventories, fixed assets, net, construction in progress, right of use assets. Out of the above-mentioned assets, adjustments on valuation have been made on prepayments, other receivables and fixed assets, net.

In arriving at the appraised value of the adjusted assets of the Disposal Group, the Valuer had among other things; (a) for trade receivables, reviewed aging schedule and settlement record of the receivables as well as carried out expected credit loss analysis based on (i) historical settlement track records; and (ii) market default and recovery rates have been performed; (b) for prepayments and other receivables, carried out expected credit loss analysis as mentioned above; and (c) for fixed assets, after considering the nature and usage of the fixed assets, adopted the reproduction cost new method to estimate the value of the fixed assets. When using the reproduction cost new method, the Valuer referred to appropriate price or cost indices to the historical costs of the fixed assets in their estimation of cost of reproduction new as of the Valuation Date. Depreciation for physical deterioration from wear and tear of the fixed assets was further deducted to reflect the usage conditions and outstanding economic benefits of the fixed assets.

Liabilities

As discussed with the Valuer, for liabilities they have considered that the fair value of liabilities shall be approximated to their respective carrying amount on the financial statements of the Disposal Group and after enquiring with the management of the Disposal Group, no material contingent liabilities were noted thus no valuation adjustment was made on the Disposal Group's liabilities.

We noted that the book value of assets being assessed in the Valuation Report were extracted from the management account of the Disposal Group and that the appreciation of assets primarily attributable to the appreciation in value of fixed assets, net and the depreciation of assets were attributable to prepayments and other receivables.

For our due diligence purpose, we have obtained calculation from the Valuer and noted the appraised value of certain fixed assets was arrived at after taking into account among other things, (i) the replacement cost considering the upward trend of the consumer price index of where the asset is located in; and (ii) the re-assessment of useful life of certain fixed assets by applying weighted average useful life for the relevant assets, while for deprecation of prepayments and other receivables we have obtained expected credit loss analysis from the Valuer and noted the impaired value was mainly attributable to a general credit loss factored in by making reference to global default rate published by Moody's. No adjustment was made regarding trade receivables as after discussing with the Valuer and as confirmed by the management of the Disposal Group, that the Valuer, after checking the aging schedule and payment history none of the outstanding trade receivables as at 31 December 2024 were overdue and relevant trade receivables from insurance companies and automobile manufacturers are considered with low default risk given their solid standing and good credit rating.

We understand from the Valuer and noted from market precedents applying asset approach in valuation, the application of such valuation method in valuing the underlying assets and liabilities are consistent with market practice.

Furthermore, as discussed with the Valuer, comparable formulas have been applied in carrying out the valuation of the Disposal Group as compared to other asset approach valuation they have carried out previously.

The executive Directors (but excluding the abstained Directors) has reviewed the Valuation Report and as advised by the Valuer that (a) the adjusted net assets method is a sound method for estimating the value of start-up business; and (b) the key assumptions adopted by the Valuer in the Valuation are general assumptions commonly used for transactions of similar nature, the executive Directors (but excluding the abstained Directors) are of view that the valuation method and the key assumptions adopted by the Valuer are fair and reasonable.

Based on our understanding on the Valuation and during our discussion with the Valuer, in particular (i) our review of the relevant documents and our discussions with the Valuer in respect of their qualification and independence to perform the Valuation; (ii) our enquiry to the Valuer as to the applicability of each fundamental valuation approaches and their underlying rationale that it is not uncommon to apply cost approach for start-up business; (iii) our enquiry on the due diligence steps performed by the Valuer in ascertaining the scope of assets and liabilities; and (iv) our understanding on the valuation procedures on relevant category of assets and liabilities, we consider the methodology, principal bases, assumptions and parameters adopted for the Valuation Report to be appropriate.

9. The Set-Off

The Consideration shall be payable by EGL by way of set-off against the outstanding principal amount of the CS Loans of RMB330 million owing by the Company to EGL as at Disposal Completion on a dollar-for-dollar basis.

The CS Loans comprised four loans with aggregate principal amount of RMB330 million granted by HICL to Henan Hexie, which are unsecured, bearing interest of 4.2% per annum and repayable by March, May and June 2026, respectively. As at the date of the Agreement, the aggregate outstanding amount of the CS Loans is approximately RMB343.5 million, comprising the principal amount of RMB330 million and the accrued interest of approximately RMB13.5 million. The CS Loans were granted by Mr. Feng to the Group for the purpose of funding the Group's overseas business development and expansion. Pursuant to the Agreement, as a condition precedent to Disposal Completion, a debt restructuring for the novation and assignment of the CS Loans shall be conducted such that the CS Loans shall be owing by the Company to EGL immediately following completion of the CS Loans Assignment and Novation to facilitate the Set-Off.

10. Financial effect

Upon Disposal Completion, the Disposal Company will be owned as to 55% and 45% by the Company and EGL, respectively. Accordingly, members of the Disposal Group will remain as subsidiaries of the Company, and their results, assets and liabilities will continue to be consolidated into the consolidated financial statements of the Group.

Effect on earnings

Based on (i) the aggregate Consideration of RMB330 million, (ii) the Adjusted NAV of the Disposal Group of RMB159.1 million as at 31 December 2024; (iii) the 45% of the Convertible Notes of RMB80.0 million; and (iv) the estimated transaction costs relating to the Disposal of approximately RMB2.0 million, the Group may be expected to record an excess of Consideration of approximately RMB88.9 million in equity (reserves) upon Disposal Completion. As the net asset value of the Disposal Group would differ from the Adjusted NAV of the Disposal Group as at 31 December 2024 on the Disposal Completion Date, the actual excess of Consideration to be recognized in equity (reserve) may differ from the above figures. Since the excess of Consideration will be recognized in equity (reserves), apart from the estimated professional fees payable by the Group, the Disposal is not expected to have any impact on the Group's earnings.

Effect on net asset value and cash flow and gearing

Referring to the analysis above, it is expected that if any excess of Consideration received regarding the Disposal would be recorded in equity (reserves) upon Disposal Completion.

As the aggregate Consideration will be settled by the Set-Off, there will not be any sales proceeds to be received from the Disposal. Apart from the estimated professional fees payable by the Group, the Disposal would not have any impact on the Group's cash flow position.

In terms of gearing (total debt to total equity), as the set-off will fully settled the CS Loan by the Consideration in which total debt would decrease, the gearing of the Group will improve accordingly.

It should be noted that the above analyses are for illustrative purpose only and do not purport to represent how exactly the financial performance and position of the Group will be upon Disposal Completion.

Taking into consideration the above, including (i) the loss-making performance during the development stage of operations of the Disposal Group together with capital requirement (in referring to the business plan of the Disposal Group) would be considered burdensome to the Group's current liquidity position (with the Group recording negative operating cashflow in 2024, cash and cash equivalent balance of only HK$1.1 billion while current bank loans and other borrowings balances of RMB3.4 billion repayable within one year); (ii) the long-term prospects and competitiveness of Chinese NEV brands in overseas market; (iii) major terms of the Preferred Loan and Convertible Note were within the range of the market precedents noted above; and (iv) considering the performance and financial position of the Group and the scale Disposal Group as at 31 December 2024, that there would not be any material impact to the Company's operations and financial position regarding the Disposal; and (v) the factors considered by the relevant Directors for determining whether to exercise the conversion rights of the Convertible Notes are appropriate factors for considering exercising conversion rights in general and both the Company and EGL undertake they could only exercise their conversion rights together to upkeep their respective equity interest in the Disposal Company, we concur with the Directors that, the Disposal would allow the Group to continue hold a substantial equity interest in the Disposal Group and enjoy the future prospect of the Chinese NEV brands in overseas market while reducing the financial burden of the Group in funding the operation and capital requirement of the Disposal Group during such development stage of the Disposal Group and the Disposal is fair and reasonable and in the interest of the Company and its shareholders as whole.

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RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that, although the Agreement and the transactions contemplated thereunder including the Disposal and the Preferred Loans are not in the ordinary and usual course of the Company's business, the terms of the Agreement and the transactions contemplated thereunder including the Disposal and the Preferred Loans are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; and the entering into the Agreement is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend Independent Shareholders to vote in favor of the ordinary resolution for approving the Agreement and the transactions contemplated thereunder including the Disposal and the Preferred Loans at the relevant EGM.

Yours faithfully,
For and on behalf of
HALCYON CAPITAL LIMITED

Terry Chu
Managing Director