



Gram Capital Limited
嘉林資本有限公司

2 December 2024

*To: The independent board committee and the independent shareholders
of First Tractor Company Limited**

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Material Procurement Agreement (the “**Procurement Transaction**”) (including the relevant annual caps), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 2 December 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Existing CCT Agreements will expire on 31 December 2024. In order to ensure the smooth and normal production and operation process of the Group, on 29 October 2024, the Company entered into the New Agreements, all for a term of three years commencing from 1 January 2025 to 31 December 2027 (both days inclusive).

With reference to the Board Letter, the Procurement Transaction constitutes continuing connected transactions of the Company, and is therefore subject to the annual reporting, annual review, announcement and Independent Shareholders’ approval requirements under the Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Edmund Sit, Mr. Wang Shumao and Mr. Xu Liyou (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Procurement Transaction (including the relevant annual caps) are on normal commercial terms and are fair and reasonable; (ii) whether the Procurement Transaction (including the relevant annual caps) are in the interests of the Company and the Shareholders as a whole and conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Procurement Transaction (including the relevant annual caps) at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, apart from our engagement as the Independent Financial Adviser in respect of the Procurement Transaction, Gram Capital is engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the Company's continuing connected transaction regarding deposit services, details of which are set out in the Company's announcement dated 15 November 2024 (the "Other IFA Engagement"). Save for the Other IFA Engagement, there was no other service provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the Other IFA Engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Having considered the above, in particular (i) none of the circumstances as set out under Rule 13.84 of the Hong Kong Listing Rules existed as at the Latest Practicable Date; and (ii) the Other IFA Engagement is only independent financial advisory engagement, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Procurement Transaction. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, YTO or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Procurement Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Procurement Transaction, we have taken into consideration the following principal factors and reasons:

Information of the Group

With reference to the Board Letter, the Group is principally engaged in the production and sales of agricultural machineries and power machineries. The principal products include tractors of hi-powered and mid-powered, diesel engines and other accessories of tractors.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2023 and the six months ended 30 June 2024 (together with comparative figures) as extracted from the Company's annual report for the year ended 31 December 2023 (the "2023 Annual Report") and the Company's interim report for the six months ended 30 June 2024 (the "2024 Interim Report"):

	For the six months ended 30 June 2024 (unaudited) RMB	For the six months ended 30 June 2023 (unaudited) RMB	Year-on-year change	For the year ended 31 December 2023 (audited) RMB	For the year ended 31 December 2022 (audited) RMB	Year-on-year change
			%			%
Total operating revenue	7,806,619,832.72	7,248,544,566.19	7.70	11,533,786,779.44	12,563,780,344.92	(8.20)
– Agricultural machinery	7,092,748,823.42	6,470,455,793.85	9.62	10,136,024,866.40	11,226,401,926.33	(9.71)
– Power machinery	713,871,009.30	772,462,748.76	(7.59)	1,392,135,889.46	1,229,063,188.29	13.27
– Financial services	–	5,626,023.58	(100.00)	5,626,023.58	108,315,230.30	(94.81)
Operating profit	1,077,306,515.25	818,317,831.85	31.65	996,266,250.37	588,018,899.85	69.43
Net profit attributable to owners of the parent company	905,349,574.14	754,144,938.68	20.05	997,022,699.99	681,050,957.24	46.39

As illustrated in the above table, the Group's total operating revenue was approximately RMB11.53 billion for the year ended 31 December 2023 ("FY2023"), representing a decrease of approximately 8.20% as compared to that for the year ended 31 December 2022 ("FY2022"). With reference to the 2023 Annual Report, such decrease was mainly due to decrease in sales volume of the Company's tractors. In contrast, the Group recorded significant increase of approximately 46.39% in net profit attributable to owners of the parent company for FY2023 as compared to that for FY2022. With reference to the 2023 Annual Report and as advised by the Directors, such increase was mainly due to increase in operating profit led by the Group's optimization of product mix and continuous improvement in cost effectiveness control across its value chain.

As illustrative in the above table, the Group's total operating revenue was approximately RMB7.81 billion for the six months ended 30 June 2024 ("1H2024"), representing an increase of approximately 7.70% as compared to that for the corresponding period in 2023. With reference to the 2024 Interim Report, such increase was mainly due to increase in the sales volume of the Company's main products. In addition, the Group recorded significant increases of approximately 20.05% in net profit attributable to owners of the parent company for 1H2024 as compared to that for the corresponding period in 2023. With reference to the 2024 Interim Report, such increase was mainly due to the aforesaid increase in total operating revenue as partially offset by increases in total operating cost and income tax expenses.

With reference to the 2024 Interim Report, the Company will seize the favourable opportunities arising from the construction of a strong agricultural country (the PRC) and the transformation and development of agricultural machinery and equipment, to consolidate and strengthen the Company's advantages in manufacturing, technology and products, so as to promote the sustainable, stable, and healthy development of the Company.

Information on YTO, YTO Group and Sinomach Group

Set out below is the information on the parties involved in the Procurement Transaction as extracted from the Board Letter:

YTO is the immediate controlling Shareholder of the Company, holding 548,485,853 A Shares of the Company, and is principally engaged in the production and sales of agricultural machineries, specific transporting machineries, vehicles products and components, etc.

YTO Group is principally engaged in the production and sales of harvesting machineries, agricultural implements, transporting machineries, vehicles products, industrial equipment and components.

Sinomach Group is principally engaged in the business of research and development and manufacturing of machinery equipment, heavy machineries and engineering projects domestically and internationally, sales of automotive and parts, contracting of international projects and tendering of domestic and international projects, and import and export business.

Reasons for and benefits of the Procurement Transaction

With reference to the Board Letter, by taking advantage of the geographical convenience and the reliability of the supply of raw materials and services, the Group and YTO Group give full play to the advantages of their respective resources and carry out business related to daily operation with each other, which is conducive to the reduction of operating costs, the control of product quality, and the provision of efficient after-sale services, which in turn safeguard the Group's normal production and operation. The entering into of the New Agreements (including the Non-exempt CCT Agreement) can effectively lower the operation risk of both the Group and YTO Group, and is favourable to the Company's daily operation and management of production. The entering into of the New Agreements (including the Non-exempt CCT Agreement) is to renew the transaction arrangement under the Existing CCT Agreements.

As advised by the Company, with the development of large-scale and intensive management of land, large-scale agricultural business entities need agricultural machinery enterprises to provide complete sets of equipment to meet their "comprehensive, full-process mechanization" operating needs. Procurement of the Materials (as defined below) from YTO Group and Sinomach Group can help the Group actively improve its agricultural machinery product portfolio and meet the aforesaid operating needs.

Having considered the above reasons and benefits of the Procurement Transaction, we are of the view that the Procurement Transaction is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

Principal terms of the Procurement Transaction

1. Principal terms

Agreement date

29 October 2024

Parties

- (1) YTO (on behalf of YTO Group and Sinomach Group), as supplier; and
- (2) the Company (on behalf of the Group), as purchaser

Goods to be provided

Provision by YTO Group and Sinomach Group to the Group for goods required for the production and operation of the Group, including but not limited to raw materials (including steel, pig iron, waste steel, coke, nonferrous metals and lubricating oil), other industrial equipment (including machine tools), components (including clamping apparatus and moulds) and spare parts (the "Materials").

Term

From 1 January 2025 to 31 December 2027

Payment terms

Payment terms are determined after arm's length negotiation between the parties with reference to, among others, the payment terms for transactions between the Group and independent third party suppliers. Payment shall be principally settled within three months from the date of confirmation of receiving the goods by the purchaser. In order to ensure the stability of the supply of goods, subject to negotiations between the parties, prepayments may be made by the purchaser no more than six months before the estimated date of delivery of the goods.

2. Pricing standards

Under the Material Procurement Agreement, the price of the goods to be provided will be determined based on the following:

- (1) the market price of an independent third party obtained through prices quoted on industry websites or by market enquiries (i.e. the price of the same or similar product provided to independent third parties by suppliers other than YTO Group and Sinomach Group in the same region during the ordinary course of business on normal commercial terms);
- (2) if there is no market price determined by an independent third party, the transaction price between the supplier and an independent third party for the same or similar products, or the transaction price between the purchaser and an independent third party for the same or similar products; or
- (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)). The maximum percentage mark-up is determined based on, among others, (i) the median gross profit margin of 32.20% and the average gross profit margin of 35.16% of listed companies in the special equipment manufacturing industry classified by China Securities Regulatory Commission for 2023, as obtained by the Company in public information; and (ii) the profit margins of historical transactions entered into by the parties.

Pricing standard no. (1) is generally adopted for purchase of raw materials, such as steel. Pricing standard no. (2) is adopted when (a) the Group purchases the same or similar products from both YTO Group and other independent third parties; or (b) the Group purchases products from YTO Group but not from other independent third parties, and YTO Group sells the same or similar products to independent third parties. Pricing standard no. (3) is generally adopted when the Group purchases products that are exclusively supplied by YTO Group.

YTO undertakes that the applicable price of the goods offered to the Group shall not be higher than that offered to its independent third party customers for the same goods.

When determining the price of the goods under Material Procurement Agreement, the Company will adopt the following assessment methods:

- (i) in relation to the above pricing standard no. (1) based on the market price of an independent third party, the procurement department of the Company will obtain and make reference to one to two price quotations of the same or similar goods through relevant industry website or market enquiry;
- (ii) in relation to above pricing standard no. (2) based on the transaction price between the suppliers and an independent third party, the finance department of the Company will obtain and make reference to one to two signed agreement(s) entered into between the suppliers and an independent third party in relation to the procurement of the same or similar goods. The finance department of the Company will also obtain the cost analysis of goods (including cost breakdown and gross profit margin) from the suppliers to assess whether the transaction price under the Material Procurement Agreement is fair and reasonable and comparable to the price of the same or similar goods offered by the suppliers to an independent third party; and
- (iii) in relation to pricing standard no. (3) based on costs plus a percentage mark-up, the finance department of the Company will obtain cost analysis of goods from the suppliers to determine the price with a percentage mark-up.

For our due diligence purpose, we obtained a list of historical Procurement Transaction for each of the two years ended 31 December 2023 and the six months ended 30 June 2024 and randomly selected one transaction for each period (three transactions in total) from the list (the “Selected Transactions”). The Company provided us with relevant transaction documents (such as internal approval records, individual agreements, invoices, and/or cost analysis) for the aforesaid selected transactions. We noted from the aforesaid documents that two of the sampled transactions (being the customised agricultural implements) followed pricing standard (3) (i.e. cost plus mark-up of less than 30%) and one of the sampled transactions (being a specific agricultural implement) followed pricing standard (2) above (purchase price per unit offered by connected person was the same with that offered by independent third party). As advised by the Directors, majority of the Materials under the Procurement Transaction were customised or specialised. Accordingly, majority of the Procurement Transaction were conducted under the pricing standards (2) and (3). Having considered that the Selected Transactions (i) were selected under random basis; and (ii) covered the period for the Purchase Transactions for each of the two years ended 31 December 2023 and the six months ended 30 June 2024, we are of the view that the Selected Transactions are adequate and representative for our analysis from the Independent Financial Adviser’s perspective.

With reference to the Board Letter, to ensure that the continuing connected transactions contemplated under the New Agreements (including the Procurement Transaction) are in compliance with the pricing terms agreed in the New Agreements and do not exceed the proposed annual caps, the Group has formulated internal control measures (the “**Internal Control Measures**”), which are implemented and supervised by the finance department, office of the Boards, and the audit and legal department of the Company. Details of the Internal Control Measures are set out under the section headed “(5) Internal Control Measures” of the Board Letter. Having considered that the Internal Control Measures include, amongst others, (i) reviews/approvals by the Board, finance department and relevant departments of the Company; (ii) annual review by independent non-executive Directors; and (iii) regular monitoring and evaluation by the Company’s internal audit department and external auditing organisations, we consider the Internal Control Measures to be adequate and appropriate.

With reference to the 2023 Annual Report, the independent non-executive Directors have reviewed, among other things, the continuing connected transactions (including the Procurement Transaction) for FY2023 and confirmed that the continuing connected transactions (including the Procurement Transaction) were (i) conducted in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) conducted in accordance with an agreement relating to the transaction on terms that are fair and reasonable and in the interests of the Shareholders as a whole (the “**INED Confirmation**”).

The Company’s auditors were also engaged to report on the Group’s continuing connected transactions (including the Procurement Transaction) for FY2023 pursuant to Chapter 14A of the Hong Kong Listing Rules. Regarding the Group’s continuing connected transactions (including the Procurement Transaction), the auditors of the Company confirmed to the Board that (i) they had not noticed any matters that lead them to believe that the disclosed continuing connected transactions were not approved by the Board; (ii) they had not noticed any matters that lead them to believe that the transactions involving goods or services provided by the Company did not comply with the Company’s pricing policies in all material respects; (iii) they had not noticed any matters that lead them to believe that such transactions were not in compliance with the relevant agreements impacting those transactions in all material respects; and (iv) they had not noticed any matters that lead them to believe that the disclosed continuing connected transactions have exceeded the maximum annual total price disclosed in the Company’s previous announcements of the disclosed continuing connected transactions. (the “**Auditor Confirmation**”).

3. Proposed annual caps

Set out below are the details of (i) the historical transaction amounts of the Procurement Transaction for the two years ended 31 December 2023 and the six months ended 30 June 2024 (together with respective annual caps); and (ii) the proposed annual caps for the three years ending 31 December 2027 in respect of the Procurement Transaction (the “Procurement Cap(s)”) as extracted from the Board Letter:

	For the year ended 31 December 2022 RMB0'000	For the year ended 31 December 2023 RMB0'000	For the year ending 31 December 2024 ("FY2024") RMB0'000
Historical transaction amounts	70,764	54,279	36,111 (Note)
Annual caps	85,000	71,000	75,000

	For the year ending 31 December 2025 ("FY2025") RMB0'000	For the year ending 31 December 2026 ("FY2026") RMB0'000	For the year ending 31 December 2027 ("FY2027") RMB0'000
Procurement Cap(s)	81,000	85,000	90,000

Note: The historical transaction amount was for 1H2024.

With reference to the Board Letter, the Procurement Caps were determined with reference to the following factors: (i) the historical transaction amounts; and (ii) the Group provides machinery unit sales to its customers by purchasing products such as harvesting machines and agricultural implements from YTO. Based on the current user demand and market conditions, it is expected that the scale of unit sales of the Group will increase in the future.

To assess the fairness and reasonableness of the Procurement Caps, we obtained the Procurement Caps calculation (the “Calculation”) from the Company.

Procurement Cap for FY2025

According to the Calculation, we noted that:

- (i) the historical transaction amount of the Procurement Transaction for FY2023 was approximately RMB542.8 million (the “**2023 Procurement Amount**”); and
- (ii) the estimated annualized transaction amount of the Procurement Transaction for FY2024 (the “**2024 Annualized Procurement Amount**”) was approximately RMB614.8 million (such amount was calculated based on the historical transaction amount for 1H2024 and proportion between the historical amount for the first half and the second half of 2023, which we consider to be justifiable);
- (iii) the 2024 Annualized Procurement Amount represents an increase of approximately 13.3% as compared to the 2023 Procurement Amount (the “**2024 Increase**”);
- (iv) the Procurement Cap for FY2025 was formulated based on (a) the Group’s estimated demand for the Materials of approximately RMB736.4 million (the “**2025 Estimated Procurement Amount**”); and (b) a buffer of 10%; and
- (v) the 2025 Estimated Procurement Amount represents an increase of approximately 19.8% as compared to the 2024 Annualized Procurement Amount (the “**2025 Increase**”).

As advised by the Directors, the 2025 Increase was mainly based on estimated increase in procurement for harvesting machinery and agricultural implement products, with anticipation on rising market demand for harvesting machinery and agricultural implements due to continuing national support for agricultural mechanization.

With reference to the Board Letter:

- (i) The Group provides complete sets of agricultural machinery to its customers by purchasing products such as harvesting machines and agricultural implements from the suppliers. According to the “National High-Standard Farmland Construction Plan (2021-2030)*” (《全國高標準農田建設規劃(2021–2030年)》) issued by the Ministry of Agriculture and Rural Affairs of the PRC, the PRC had built 800 million acres of high-standard farmland in 2020 and will build 1.075 billion and 1.2 billion acres by 2025 and 2030, respectively. The construction of high-standard farmland, combined with the advancement of agricultural modernisation and the development of rural economies, has driven an increased demand for agricultural machinery. To meet the growing need for comprehensive and full-process mechanised operations, the Company expects to expand its sales of complete sets of agricultural machinery and increase its procurement of products such as harvesting machines and agricultural implements.
- (ii) With strong national support for agriculture in various aspects, it is expected that the development trend of the agricultural machinery industry is sustainable, supporting the increasing annual caps for the three years ending 31 December 2027.

We also noticed various PRC governmental policies regarding agricultural machinery industry as set out below:

On 30 April 2024, the General Office of the Ministry of Agriculture and Rural Affairs of the PRC and the General Office of the Ministry of Finance of the PRC jointly issued an article titled “Opinions on the Implementation of Agricultural Machinery Purchase and Application Subsidies for 2024-2026*” (《2024—2026年農機購置與應用補貼實施意見》), indicated the support to farmers and agricultural production and operation organizations to purchase and use advanced and applicable agricultural machinery, accelerating development of new productive forces, and promoting the full-scale, comprehensive, and high-quality development of agricultural mechanization.

On 24 July 2024, the National Development and Reform Commission of the PRC and the Ministry of Finance of the PRC jointly issued an article titled “Several Measures to Strengthen Support for Large-scale Equipment Renewals and Trade-ins of Consumer Goods*” (《關於加力支援大規模設備更新和消費品以舊換新的若干措施》), which stated the focus on ensuring stable and secure food supply of grains and important agricultural products, increasing the enthusiasm of farmers and agricultural production and operation organizations to scrap and replace old agricultural machinery.

On 5 September 2024, the General Office of the Ministry of Agriculture and Rural Affairs of the PRC, the General Office of the National Development and Reform Commission of the PRC and the General Office of the Ministry of Finance of the PRC jointly issued an article titled “Supplemental Notice on Strengthening Efforts to Continuously Implement the Agricultural Machinery Scrap and Renewal Subsidy Policy*” (《關於加大工作力度持續實施好農業機械報廢更新補貼政策的補充通知》), which indicated subsidies for scrapping old agricultural machinery and replacement of the same type of machinery after scrapping, and support for effective promotion of replacement of outdated agricultural machinery.

After discussion with the Company, we understand that the above PRC governmental policies are supportive to the PRC agricultural machinery industry and may stimulate further demand of agricultural machines. Having taking into account the supportive PRC governmental policies as stated above and the 2024 Increase of approximately 13.3%, we consider the 2025 Increase and the 2025 Estimated Procurement Amount to be justifiable.

We also noted from other Hong Kong listed companies’ circulars regarding continuing connected transactions that the incorporation of buffer of 10% in proposed annual caps are not uncommon among companies listed on the Stock Exchange. Accordingly, we consider incorporation of buffer of 10% in the Procurement Cap for FY2025 to be justifiable.

In light of the above, we consider that the Procurement Cap for FY2025 is fair and reasonable.

Procurement Caps for FY2026 & FY2027

According to the table above, the Procurement Cap increases by (i) approximately 4.9% from FY2025 to FY2026; and (ii) approximately 5.9% from FY2026 to FY2027.

As advised by the Directors, the aforesaid increases were mainly for catering further possible growth of the Procurement Transaction in FY2026 and FY2027 led by continuous development in agricultural machinery industry, fluctuation in raw materials price and possible inflation. We consider such moderate increases in the Procurement Caps to be reasonable.

In light of the above, we consider that the Procurement Caps for FY2026 and FY2027 are fair and reasonable.

Shareholders should note that as the Procurement Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2027, and they do not represent forecasts of cost to be incurred under the Procurement Transaction. Consequently, we express no opinion as to how closely the actual cost to be incurred under the Procurement Transaction will correspond with the Procurement Caps under the Material Procurement Agreement.

Having considered the principal terms of the Procurement Transaction as set out above, we are of the view that the terms of the Procurement Transaction (including the Procurement Caps) are on normal commercial terms and are fair and reasonable.

Hong Kong Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values of the Procurement Transaction must be restricted by their respective proposed annual caps; (ii) the terms of the Procurement Transaction (including their respective annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Procurement Transaction must be included in the Company's subsequent published annual reports. Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Procurement Transaction (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded their respective annual caps. In the event that the total amounts of the Procurement Transaction are anticipated to exceed their respective annual caps, or that there is any proposed material amendment to the terms of the Procurement Transaction, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Procurement Transaction and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Procurement Transaction are on normal commercial terms and are fair and reasonable; and (ii) the Procurement Transaction is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Procurement Transaction and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited



Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.

* *For identification purpose only*