八方金融有限公司
OCTAL Capital Limited

26th June, 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions (the "**2025 Shenyang Automobile CCTs**") between the Group and the Shenyang Automobile Group contemplated under 2025 Automotive Components Sales Framework Agreement and the 2025 Automobiles Sales Framework Agreement (the "**2025 Sales Framework Agreements**") and the 2025 Non-Exempt Proposed Caps for the period commencing from 20th May, 2025 to 31st December, 2026, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular to the Shareholders dated 26th June, 2025 (the "**Circular**") and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As at the Latest Practicable Date, Shenyang Automobile, through its subsidiaries, is interested in approximately 29.99% of the issued share capital of the Company. Accordingly, Shenyang Automobile is a connected person of the Company under the Listing Rules. Hence, the 2025 Shenyang Automobile CCTs constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios in respect of the 2025 Non-Exempt Proposed Caps contemplated under the 2025 Sales Framework Agreements, together with the sale of automobiles made by members of the Group to members of the Shenyang Automobile Group in the aggregate amount of approximately RMB17,323,000 between 1st January, 2025 to 19th May, 2025 under the Automobiles Sales Framework Agreement as disclosed in the Announcements, on an aggregated basis, is more than 5%, the 2025 Shenyang Automobile CCTs are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

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The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Song Jian, Mr. Jiang Bo, Mr. Dong Yang and Dr. Lam Kit Lan, Cynthia, has been established to advise the Independent Shareholders as to the 2025 Shenyang Automobile CCTs and the 2025 Non-Exempt Proposed Caps. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we were not connected with the Group, Shenyang Automobile or, where applicable, any of their respective substantial shareholders, directors or chief executives, or any of their respective subsidiaries or associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, there has been no engagement entered into between the Company and us. We are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders regarding 2025 Shenyang Automobile CCTs and the 2025 Non-Exempt Proposed Caps.

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

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussions with the management of the Company regarding the Group, the 2025 Shenyang Automobile CCTs and the 2025 Non-Exempt Proposed Caps, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information among other things, (i) the 2025 Sales Framework Agreements; (ii) the annual reports of the Company for the year ended 31st December, 2023 (the "**2023 Annual Report**") and 31st December, 2024 (the "**2024 Annual Report**"); (iii) other information as set out in the Circular; and (iv) the relevant market data and information available from public sources, to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Shenyang Automobile and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the 2025 Shenyang Automobile CCTs and the 2025 Non-Exempt Proposed Caps, we have taken into account the following principal factors and reasons:

1. Background of the Group

The Group is engaged in the manufacture and sale of automobiles and automotive components and provision of auto financing service through its major operating subsidiaries. In addition, the Group also owns a 25% equity interest in BMW Brilliance Automotive Ltd. ("**BBA**") which is engaged in the manufacture and sale of BMW automobiles and components in the PRC. JSA (formerly known as RBJAC) was reconsolidated into the Group since 31st May, 2024 and is principally engaged in the manufacture and sale of automobiles and automotive components.

2. Background of the Shenyang Automobile Group

Shenyang Automobile is a company established in the PRC and is 89.75% owned by Shenyang Cairui Automobile Industry Development Partnership Enterprise (Limited Partnership)* (瀋陽財瑞汽車產業發展合夥企業（有限合夥）), which is ultimately controlled by the State-owned Assets Supervision and Administration Commission of Shenyang Municipal Government (瀋陽市人民政府國有資產監督管理委員會) and the Liaoning Provincial Department of Finance (遼寧省財政廳). The principal business activities of Shenyang Automobile Group include but are not limited to investment holding and the manufacture, refitting and sale of automobiles and automotive components.

3. Financial information of the Group

Review of financial performance

The table below sets out the audited financial information of the Group for the years ended 31st December, 2022, 31st December, 2023 and 31st December, 2024 ("**FY2022**", "**FY2023**" and "**FY2024**"), extracted from the 2023 Annual Report and the 2024 Annual Report.

	FY2024 (Audited) *RMB'000*	**FY2023 (Audited)** *RMB'000*	**FY2022 (Audited)** *RMB'000*
Revenue	1,095,949	1,121,454	1,130,725
Gross profit	193,880	288,479	235,572
Gross margin	18%	26%	21%
Selling, general and administrative expenses	(582,239)	(477,521)	(471,732)
Share of results of associates	4,361,370	7,796,829	8,923,577[Note]
Other income, gain or losses, net	546,891	655,024	(1,544,645)
Profit before tax	4,519,902	8,262,811	7,142,772
Income tax (expense)/credit	(1,474,278)	(526,360)	4,058
Profit for the year	3,045,624	7,736,451	7,146,830

Note: Apart from share of results of associates, the amount for FY2022 also includes share of results of a joint venture, BBA in which 25% equity interest was disposed by the Group to BMW Holding B.V. (the "**JV Disposal**"). The JV Disposal was completed in February 2022, and following the completion of the JV Disposal, the Company indirectly hold 25% equity interest in BBA which is currently an associate of the Company.

FY2023 vs FY2022

The Group recorded a revenue of approximately RMB1,121.5 million for FY2023, representing a decrease of approximately 0.8% as compared with that of approximately RMB1,130.7 million for FY2022. The slight decrease in revenue was mainly due to the fall in demand for the Group's automotive components for traditional fossil-fueled motor automobiles, partly offset by the increasing demand for the Group's electric and hybrid motor automotive components, driven by growing consumer preference for electric and hybrid motor automobiles. Despite the slight decrease in revenue, the Group's gross profit increased by approximately 22.5% from approximately RMB235.6 million for FY2022 to approximately RMB288.5 million for FY2023, with gross margin improving from 21% to 26%. The improvement in gross margin was mainly due to the decrease in the market price of aluminium, a major raw material for the Group's production, in 2023.

The improvement in other income, gains or losses of the Group by approximately RMB2,199.7 million from a loss of approximately RMB1,544.6 million for FY2022 to a gain of approximately RMB655.0 million for FY2023 was mainly due to (i) a net loss of RMB2,391.2 million resulted from the JV Disposal, primarily contributed by the one-off gain of approximately RMB4,896 million on disposal of partial equity interest in BBA, offset by the related tax on disposal of approximately RMB7,287 million recognized in FY2022; and (ii) deconsolidation of two subsidiaries, RBJAC and Shenyang Brilliance Jindong Development Co., Ltd. ("**Shenyang Jindong**"), contributing to one-off gains of approximately RMB622 million and RMB158 million, respectively, recognised in FY2022. RBJAC was deconsolidated effective from 12th January, 2022 (and reconsolidated into the Group following the completion of the Restructuring) following the acceptance of its Restructuring application by the Shenyang Intermediate People's Court (瀋陽市中級人民法院); and Shenyang Jindong, a wholly-owned subsidiary of the Company, commenced liquidation process on 26th July, 2022, resulting in the Company's loss of control over Shenyang Jindong on the same date.

The profit for the year of the Group increased by approximately 8.3% from approximately RMB7,146.8 million for FY2022 to approximately RMB7,736.5 million for FY2023. The increase was mainly attributable to (i) the improvement in other income, gains or losses from a loss of approximately RMB1,544.6 million for FY2022 to a gain of approximately RMB655.0 million for FY2023; (ii) a decrease in share of results of associates and a joint venture by approximately RMB1,126.7 million mainly due to less portion of result of BBA was shared to the Company following the JV Disposal; and (iii) the income tax credit of approximately RMB4.1 million for FY2022 turned into income tax expense of approximately RMB526.4 million for FY2023.

FY2024 vs FY2023

The Group recorded a revenue of approximately RMB1,095.9 million for FY2024, representing a decrease of approximately 2.3% as compared with that of approximately RMB1,121.5 million for FY2023. The decrease in revenue of the Group was mainly attributable to decrease in revenue from motor automobile financing due to increasing market competition, partly offset by the increase in sales of automotive components due to continuing increased orders from electric and hybrid motor automobile manufacturers and launch of new non-BMW automobiles beginning in FY2024. The Group's gross profit decreased significantly by approximately 32.8% from approximately RMB288.5 million for FY2023 to approximately RMB193.9 million for FY2024, with gross margin declining from approximately 26% to approximately 18%. The decrease in gross margin was mainly due to increase in cost of raw materials such as aluminum during FY2024 and the decrease in margin for the motor automobile financing due to market competition.

The profit for the year of the Group decreased by approximately 60.6% from approximately RMB7,736.5 million for FY2023 to approximately RMB3,045.6 million for FY2024. The decrease was primarily attributable to (i) the decrease in share of results of associates by approximately RMB3,435.5 million mainly due to the result of the drop of performance of BBA, a major associate of the Company, with its decreased sales volume and increased dealer support fees; (ii) the increase in selling, general and administrative expenses by approximately RMB104.7 million mainly due to the increase in costs of advertising and promotion for the launch of new non-BMW automobiles of the Group by JSA and increase of general and administrative expenses as a result of reconsolidation of JSA; (iii) the decrease in other income, gains or losses by approximately RMB108.1 million mainly due to the decrease in interest income by approximately RMB252.3 million with decreased deposits and reduced interest rates; and (iv) the increase in income tax expense by approximately RMB947.9 million mainly due to the increase of withholding tax on higher dividend from a subsidiary for FY2024.

4. Reasons for and benefits of the 2025 Shenyang Automobile CCTs

The Group is engaged in the manufacture and sale of automobiles and automotive components and provision of auto financing service through its major operating subsidiaries. In particular, the manufacture and sale of certain models of non-BMW automobiles and automotive components by the Group was carried out by its subsidiary, JSA (formerly known as RBJAC), prior to the Restructuring. Following the Restructuring, the subsidiary originally named as RBJAC and now renamed as JSA was reconsolidated into the Group since 31st May, 2024 and continue to engage in the manufacture and sale of models of non-BMW automobiles, including minibuses and multi-purpose vehicles, and automotive components.

As a result of the Restructuring, the production operation of JSA had been suspended since May 2021 and the business operation of JSA had been suspended since January 2022. JSA had been working on recommencing operations and preparing for the resumption of production following the completion of its Restructuring at end of May 2024. As mentioned in the Letter from the Board, JSA has completed trial production of its automobiles in May 2025 and is in its progression to full production. As part of the recommencement of the business operation of JSA, the Group is also in the process of re-establishing the sales connection network domestically and overseas. The Company expects to build distribution channels by authorising official distributors to facilitate sales of automobiles manufactured by the Group. The Shenyang Automobile Group possesses established sales and distribution network in the PRC. The strategic continuous cooperation with the Shenyang Automobile Group, in particular following JSA's official recommencement of its production lines, will enable the Group to leverage on the network of the Shenyang Automobile Group and is in line with the long-term development strategy of the Group, and is conducive to expanding the sales channel of the Group both domestically and overseas, enhancing the Group's sales volume, and facilitating the Group's long-term business development.

We noted that actual monthly sales transaction to the Shenyang Automobile Group increased from approximately RMB1.6 million for the one month period ended 31st December, 2024 to monthly average of approximately RMB4.3 million for the four-month period ended 30th April, 2025 ("**4M2025**"), achieving a high growth rate of approximately 170.2%. With the increasing production capacity of JSA, expansion of sales and distribution channels to downstream customers would be important for absorbing the manufactured automobiles from its fast increasing production capacity.

We have obtained the list of models expected to be sold by JSA to the Shenyang Automobile Group under the 2025 Shenyang Automobile CCTs. We noted that JSA will primarily sell light commercial vehicles ("**LCV**"), especially medium-sized LCV, to the Shenyang Automobile Group. These medium-sized LCV models include three newly launched models of electric light commercial vehicles ("**E-LCV**"). As mentioned in the section headed "3. Financial Information of the Group" of this letter, there is growing consumer preference for electric and hybrid automobiles, evidenced by increasing orders for the Group's electric and hybrid automotive components. The Group prepared a vehicle sales analysis (the "**Vehicle Sales Analysis**") based on insurance registration data, which is a standard metric for measuring actual automobile sales in automobile industry in the PRC, sourced from paid research services provided by Beijing Tongda Youdao Consulting Co., Ltd.* (北京通達有道諮詢有限公司), a consulting company serving leading automobile manufacturers. According to the Vehicle Sales Analysis, medium-sized E-LCV sales in the PRC grew at an annual rate of approximately 198.3%, 35.5% and 110.9% in FY2022, FY2023 and FY2024, respectively, contributing a compound annual growth rate of approximately 104.5% over the four years from approximately 27,000 models in 2021 to approximately 231,000 models in 2024. Notably, the penetration rate of medium-sized E-LCV has reached approximately 78.6% in the PRC in 2024, indicating that medium-sized E-LCVs contribute significantly to overall medium-sized LCV sales. Having well-distributed medium-sized E-LCV offerings is therefore essential to maintaining the Group's market position. The collaboration with the Shenyang Automobile Group leverages their established sales and distribution channels, helping the Group expand market exposure for its newly launched electric models. This partnership allows the Group to develop a product mix aligned with market trends, positioning it to capture opportunities in the rapidly growing electric automobile market, particularly in the E-LCV segment, thereby securing a competitive position amid shifting market dynamics.

In view of the above, we concur with management of the Company that the strategic continuous cooperation with the Shenyang Automobile Group, in particular following JSA's official recommencement of its production lines, will enable the Group to leverage on the network of the Shenyang Automobile Group which is in line with the long-term development strategy of the Group, and is conducive to expanding the sales channel of the Group both domestically and overseas, thereby enhancing the Group's sales volume and facilitating the Group's long-term business development.

As mentioned in the Letter from the Board, JSA has also recently recommenced the trial production of materials and automotive components. Prior to the Restructuring, the Group had been acquiring raw materials and automotive components from Huachen and its associates for processing into core automotive components for use in production of automobiles and Huachen had been acquiring specially designed automotive components from the Group for use in its after sales services. Following the official recommencement of JSA's production of materials and automotive components in the second quarter of 2025, the Group will progressively reduce acquiring raw materials and automotive components from external suppliers (including the Shenyang Automobile Group) and focus on in-house production by JSA. As a distributor of JSA's automobiles, it is anticipated that the Shenyang Automobile Group will resume acquisition of materials and/ or automotive components from the Group for use in after-sales services, which will provide additional source of income for the Group.

Having considered that (i) the strategic collaboration with the Shenyang Automobile Group provides JSA with immediate access to established sales and distribution networks as it resumes operations after the Restructuring; (ii) monthly sales transactions to the Shenyang Automobile Group have demonstrated significant growth of approximately 170.2% from the amount for one month ended 31st December, 2024 to the monthly average amount for 4M2025; (iii) the partnership enables JSA to effectively market its newly launched medium-sized E-LCV models in a rapidly expanding segment of medium-sized E-LCV models where the segment had grown with a compound annual growth rate of approximately 104.5% over the four years from approximately 27,000 models for the year ended 31st December, 2021 to approximately 231,000 models in FY2024 and market penetration rate of approximately 78.6% in FY2024; (iv) the arrangement creates additional revenue streams through the supply of automotive components to the Shenyang Automobile Group; and (v) the cooperation aligns with the Group's long-term strategy to expand both domestic and international sales channels, we are of the view that the 2025 Shenyang Automobile CCTs are in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

5. Terms of the 2025 Sales Framework Agreements

(1) The 2025 Automotive Components Sales Framework Agreement

On 20th May, 2025, the Company and Shenyang Automobile entered into the 2025 Automotive Components Sales Framework Agreement in relation to the sale of materials and/or automotive components by members of the Group to members of the Shenyang Automobile Group.

The principal terms of the 2025 Automotive Components Sales Framework Agreement are set out as follows:

Vendor:	The Group
Purchaser:	The Shenyang Automobile Group
Subject:	Materials and/or automotive components
Term:	20th May, 2025 to 31st December, 2026
Pricing policy:	The materials and/or automotive components are produced exclusively for use on automobiles produced by the Group. The pricing for each sale of the materials and/or automotive components to the Shenyang Automobile Group shall be determined after arm's length negotiation between members of the Group and the relevant members of the Shenyang Automobile Group by reference to the official prevailing market price of the materials and/or automotive components determined by the Group at the material time.

The Company has a standardised pricing procedure for its materials and/or automotive components. JSA's sales department will initially formulate a recommended price based on the cost of the materials and/or automotive components plus a proposed profit margin of not less than 16%. The proposed profit margin is determined with reference to historical sales data including the gross profit margin of the materials and/or automotive components. The finance department will then review and evaluate pricing profitability based on expected cost structure before giving its final approval. The final prices of the materials and/or automotive components determined through the pricing procedure will be applied to all customers including Independent Third Party customers and the Shenyang Automobile Group. This mechanism ensures that the prices offered to the Shenyang Automobile Group will be no more favourable than the prices offered to Independent Third Party purchasers.

There is no historical transaction amount of the transactions contemplated under the 2025 Automotive Components Sales Framework Agreement.

(2) The 2025 Automobiles Sales Framework Agreement

On 20th May, 2025, the Company and Shenyang Automobile entered into the 2025 Automobiles Sales Framework Agreement in relation to the sale of automobiles by members of the Group to members of the Shenyang Automobile Group.

The principal terms of the 2025 Automobiles Sales Framework Agreement are set out as follows:

Vendor:	The Group
Purchaser:	The Shenyang Automobile Group
Subject :	Automobiles
Term:	20th May, 2025 to 31st December, 2026

Pricing policy for automobiles:	The pricing for each sale of the automobiles to the Shenyang Automobile Group shall be determined after arm's length negotiation between members of the Group and the relevant members of the Shenyang Automobile Group by reference to the official prevailing market price of the automobiles determined by the Group at the material time. The Company has a standardised pricing procedure for launch of automobiles. JSA's marketing team will initially conduct market research to evaluate marketable prices based on current marketing strategy, prevailing market conditions, and historical sales data. The market research will include analysis on competitors' pricing and product features for at least three competitor models of similar technical specifications such as number of seats and engine displacement as well as their market position. The finance department then evaluates pricing profitability based on expected cost structure before management committee (described below) giving its final approval. Other departments such as marketing department, sales department, research and development department will also participate in the evaluation in marketing and technical aspects. A dedicated management committee responsible for JSA's major economic decisions will then review and approve the proposed pricing. The final prices of the automobiles determined through the pricing procedure will be applied to all customers including Independent Third Party customers and the Shenyang Automobile Group. This mechanism ensures that the prices offered to the Shenyang Automobile Group will be no more favourable than the prices offered to Independent Third Party purchasers. Sales of automobiles were made by the Group to the Shenyang Automobile Group pursuant to the 2025 Automobiles Sales Framework Agreement in the aggregate amount of approximately RMB17,323,000 between 1st January, 2025 to 19th May, 2025.

Following the completion of JSA's trial production of its automobiles in mid-May 2025 and the entering into of the 2025 Automobiles Sales Framework Agreement, all sales of automobiles to the Shenyang Automobile Group will be made in accordance with the terms of the 2025 Automobiles Sales Framework Agreement only.

Review on terms of the 2025 Sales Framework Agreements

We understand that (i) the automotive components are specifically designed, produced and sold to the Shenyang Automobile Group for its use in after-sales services; and (ii) JSA will sell automobiles to the Shenyang Automobile Group to make use of the distribution network of the Shenyang Automobile Group.

Save as specifically provided, the payments under the 2025 Sales Framework Agreements shall be normally settled in cash or note payable with credit terms ranging from 30 to 90 days, which is the usual credit term policy adopted by the Group and subject to assessments based on the payment policies of the relevant vendor at the material time.

As regards the pricing policy for the transactions contemplated under the 2025 Sales Framework Agreements, the Company advised that there is a standardised pricing procedure for launch of products. For automobiles, JSA's marketing team conducts market research to evaluate marketable prices based on current marketing strategy, prevailing market conditions, and historical sales data. The market research will include analysis on competitors' pricing and product features for at least three competitor models of similar technical specifications such as number of seats and engine displacement as well as their market position. We consider the market research procedure to be adequate as the approach incorporates comprehensive analysis of both product features and pricing of comparable competitors while considering their market position, ensuring the selected competitor models are representative and enabling the Company to maintain commercial competitiveness in response to market dynamics under the pricing procedure. The JSA's finance department then evaluates pricing profitability based on expected cost structure before management committee (described below) giving its final approval. Other department such as marketing department, sales department, research and development department will also participate in the evaluation in marketing and technical aspects. Subsequently, a dedicated management committee responsible for JSA's major economic decisions reviews and approves the proposed pricing. The final prices of the product determined through the pricing procedure will be applied to all customers including Independent Third Party customers and the Shenyang Automobile Group.

For materials and/or automotive components, JSA's sales department will initially formulate a recommended price based on the cost of the materials and/or automotive components plus a proposed profit margin of not less than 16%. The proposed profit margin is determined with reference to historical sales data including the gross profit margin of the materials and/or automotive components. We understood from the Company that historically, the Company had made average gross margin of 37% and 30% from after-sales components during the years ended 31st December, 2020 and 2021, respectively, prior to the Restructuring. We have compared the minimum margin target and the abovementioned historical gross margins of the

Group to the credit rating methodology for automobile component industry effective from 22nd April, 2025 published by Golden Credit Rating International Co., Ltd., a major credit rating agency in the PRC recognised by National Development and Reform Commission. The methodology has ranked gross margins with over 20% to be indicators of, over eight tiers of operational efficiency, the second tier or first tier, and the range of 15% to 20% to be the third tier. We consider the minimum margin target of 16% to be fair and reasonable as it aligns with the indicators for healthy operational efficiency. Furthermore, we have reviewed on a random basis three sales transactions of automotive component in the year ended 2021, during which the minimum margin target was also 16%, and noted that all three transactions are with gross margin above 16%, demonstrating the effectiveness of the pricing policy to maintain sales transactions of automotive components at margin levels above minimum margin target. The finance department will then review and evaluate pricing profitability based on expected cost structure before giving its final approval. The final prices of the materials and/or automotive components determined through the pricing procedure will be applied to all customers including Independent Third Party customers and the Shenyang Automobile Group.

As part of the Company's internal policy and to ensure the Group's pricing policy is reflective of and aligns with actual market circumstances, members of the Group will, on a semi-annual basis, compare, among other things, the prevailing market prices of similar goods in the market against the prevailing market prices of its products. A database of market data and historical selling prices and records of the Group's products will be maintained for future references and comparisons. Where the semi-annual comparison reveals significant discrepancies between the actual prices of the Group's products and the prevailing market prices of similar goods in the market, adjustments to the standardised prices of the Group's products will be made in order to align with actual market circumstances, subject to the evaluation and approval process of the relevant departments of the members of the Group as disclosed in the paragraph headed "Pricing policy" in the sub-section headed "*(1) The 2025 Automotive Components Sales Framework Agreement*" and the paragraph headed "Pricing policy for automobiles" in the sub-section headed "*(2) The 2025 Automobiles Sales Framework Agreement*" in this letter. This mechanism ensures selling prices offered to the Shenyang Automobile Group will be no favourable than those to Independent Third Parties. We have obtained a set of documents for such standardised pricing procedure for automobiles performed in April 2025, which include research report, pricing approval form and minutes of management committee, we noted that the final price determination was supported by market research analysing competitor pricing and product features for model of similar specification and market position, and underwent a review and approval process involving the finance, marketing and sales departments, with final approval obtained from the management committee.

To access effectiveness of the pricing policy, we have obtained and reviewed three samples of sales transaction for the automobile product on a random basis between the Group and Independent Third Party customers for the five-month period ended 31st May, 2021, the last five-month period of normal production operation of the Group prior to the Restructuring (the "**Historical Period**"). The Historical Period was selected as (i) it represents the last period of normal production operations prior to the Restructuring since the Group had recommenced production since December 2024 and operated under trial production until May 2025 with a pricing policy based on cost and internal margin targets rather than prevailing market prices; and (ii) the pricing policy and payment terms for sales transaction for the automobile products during the period were the same as those in the 2025 Automobiles Sales Framework Agreement. The three selected samples are sales transactions of Haishiwang flat-roof 9-seater in June 2021, Haishiwang flat-roof 6-seater in March 2021, and Haishiwang high-roof 6-seater in February 2021. We have compared the unit prices offered to Independent Third Parties in the three sales transactions against the actual transactions with the Shenyang Automobile Group for the same model in the same month. We noted that the unit prices offered to the Independent Third Parties under the sales transactions of the same type of the automobile product in the Historical Period are the same as the respective unit prices offered to the Shenyang Automobile Group and consistent with the internal standard price as approved by management committee under the standardised pricing procedure. Based on the demonstrated effectiveness of the Group's pricing policy, we consider the pricing policy of the Group is effective and sufficient for ensuring the sale of the automobile product conducted by the Group to the Shenyang Automobile Group are on pricing terms no less favourable than those can be obtained from Independent Third Parties.

Regarding payment terms under the 2025 Sales Framework Agreements, our review of three random sales transactions from each of Independent Third Parties and the Shenyang Automobile Group during the Historical Period revealed that Independent Third Parties settled by the issuance of a note payable with credit terms of three months (approximately 90 days which is consistent to the Group's usual credit term policy), while the Shenyang Automobile Group was required to pay cash upon delivery which are payment terms less favourable than those offered to Independent Third Parties.

Based on our assessment of the Group's pricing policy and payment terms, including comparative analysis of selling prices and payment requirements between Independent Third Parties and the Shenyang Automobile Group, we conclude that the Group's policies effectively ensure that sales arrangements with the Shenyang Automobile Group are on terms no less favourable than those can be obtained from Independent Third Parties.

6. 2025 Non-Exempt Proposed Caps

The following table sets out the 2025 Non-Exempt Proposed Caps for the financial years ending 31st December, 2025 (“**FY2025**”) and 31st December, 2026 (“**FY2026**”):

2025 Shenyang Automobile CCTs	**2025 Non-Exempt Proposed Caps** For the period commencing 20th May, 2025 and ending 31st December, 2025 *(RMB'000)*	For the financial year ending 31st December, 2026 *(RMB'000)*
Sale of automobiles by members of the Group to members of the Shenyang Automobile Group pursuant to the 2025 Automobiles Sales Framework Agreement	121,656	205,043
Sale of materials and/or automotive components by members of the Group to members of the Shenyang Automobile Group pursuant to the 2025 Automotive Components Sales Framework Agreement	210	420
Total	**121,866**	**205,463**

As discussed in the Letter from the Board, the proposed annual caps for the sale of automobiles by members of the Group to members of the Shenyang Automobile Group pursuant to the 2025 Automobiles Sales Framework Agreement (the "**Automobiles Sales**") are determined with reference to the following factors: (i) the terms of the 2025 Automobiles Sales Framework Agreement; (ii) the progress of the production of JSA in the first quarter of 2025 and the anticipated progress of the post-trial production of JSA for the two years ending 31st December, 2026, currently with an estimated annual production of approximately 60,000 automobiles; (iii) the historical amount of sales of automobiles made between 1st January, 2025 to 19th May, 2025 in the amount of approximately RMB17,323,000 pursuant to the Automobiles Sales Framework Agreement; (iv) the increment in the sale prices of automobiles from 20th May, 2025 pursuant to the 2025 Automobiles Sales Framework Agreement and all sales of automobiles by members of the Group to members of the Shenyang Automobile Group from 20th May, 2025 will be made in accordance with the terms of the 2025 Automobiles Sales Framework Agreement only; (v) the estimated 1,400 units and 2,500 units of automobiles projected to be sold to the Shenyang Automobile Group pursuant to the 2025 Automobiles Sales Framework Agreement for the eight months ending 31st December, 2025 and the financial year ending 31st December, 2026, respectively, based on estimated demand from the Group's downstream sub-distributors, as communicated between distributors (including the Shenyang Automobile Group) and their downstream sub-distributors; (vi) the estimated price per unit of automobiles to be sold during the eight months ending 31st December, 2025 and the financial year ending 31st December, 2026; (vii) the anticipated gradual increase in production capacity and automobile orders post JSA's trial production stage commenced in mid-May 2025; (viii) the scheduled launch of five light commercial vehicles, especially medium sized electric light commercial vehicles by JSA by end of 31st December, 2025; and (ix) an additional buffer of 5% to cater for any increase in the transaction volume.

Meanwhile, the proposed annual caps for the sale of materials and/or automotive components by members of the Group to members of the Shenyang Automobile Group pursuant to the 2025 Automotive Components Sales Framework Agreement (the "**Components Sales**") are determined with reference to the following factors: (i) the terms of the 2025 Automotive Components Sales Framework Agreement; (ii) the progress of the production of JSA in the first quarter of 2025 and the anticipated progress of the post-trial production to be conducted by JSA in the second quarter of 2025, currently with an estimated annual production of approximately 60,000 automobiles; (iii) the recommencement of production of materials and automotive components for sale from the second quarter of 2025; (iv) the 246 units of automobiles sold to the Shenyang Automobile Group pursuant to the Automobiles Sales Framework Agreement and the estimated 1,400 units and 2,500 units of automobiles projected to be sold to the Shenyang Automobile Group pursuant to the 2025 Automobiles Sales Framework Agreement for the eight months ending 31st December, 2025 and the financial year ending 31st December, 2026, respectively; (v) the projected number of units of each type of materials and automotive components and their estimated demand from the Shenyang Automobile Group for use in its after sales services determined primarily based on the number of automobiles sold to the Shenyang Automobile Group pursuant to the Automobiles Sales Framework Agreement or to be sold pursuant to the 2025 Automobiles Sales Framework Agreement; (vi) the estimated materials and automotive components sales for first-year after sales services of approximately RMB300 per automobile and second-year and third-year after sales services averaging approximately RMB220 per automobile; and (vii) an additional buffer of 5% to cater for any increase in the transaction volume.

As discussed with the management of the Company, we understood that the proposed caps for the Automobiles Sales for FY2025 and FY2026 were estimated based on the total transaction amount under a sales plan (the "**Sales Plan**") for the Automobiles Sales for the corresponding years. The Sales Plan was prepared based on estimated demand from the Group's downstream sub-distributors, as communicated between distributors (including the Shenyang Automobile Group) and their downstream sub-distributors. The total transaction amount under the Sales Plan was calculated by multiplying the estimated price per unit of the individual automobile products by the corresponding estimated sales quantity of such automobile products.

In evaluating the reasonableness of the proposed caps in respect of the Automobiles Sales under the 2025 Non-Exempt Proposed Caps, we have separately assessed the estimated quantity (the "**CCT Quantity**") and price per unit of automobiles for the Automobiles Sales under the Sales Plan (the "**CCT Selling Price**") and the additional buffer of 5%.

We have reviewed and compared the CCT Quantity and the historical quantity of automobiles sold to the Shenyang Automobile Group during the period of 4M2025 and the one-month period ended 31st December, 2024 (the "**Historical Quantity**"). We observed that the Historical Quantity is solely contributed by a new model launched in December 2024 (the "**Existing Model**") while the CCT Quantity is to be contributed by both the Existing Model and five new models to be launched in the eight-month period ending 31st December, 2025 ("**8M2025**") under the Sales Plan. It is expected that there will not be new models to be launched in FY2026 according to the current Sales Plan.

We noted that the monthly average CCT Quantity for 8M2025 of approximately 175 units (total CCT Quantity for the eight-month period being 1,400 units) represents a significant increase of approximately 255.7% as compared with the monthly average Historical Quantity of approximately 49 units (total Historical Quantity for the five-month period being 246 units). We consider this substantial growth rate was a result of the low monthly average Historical Quantity of 49 units serving as the base for comparison during the initial resumption phase of operation.

We have assessed the capability of JSA's six new models to attract new customers in their first year of launch in FY2025 by reviewing the historical performance of F50 and Haishiwang, the most recent two new LCV models launched for mass production prior to the Restructuring. We understood that six new models are expected to contribute individual sales quantities of ranging from 200 units to 3,100 units to customers including Independent Third Parties and the Shenyang Automobile Group during their first year of official launch. Upon comparison, we noted that F50 and Haishiwang contributed to sales quantities of more than 4,000 units and 7,600 units in their first year of official launch.

After the early production resumption stage in FY2025, the monthly average CCT Quantity for FY2026 of approximately 208.3 units (total CCT Quantity for the twelve-month period being 2,500 units) represents a relatively mild growth rate of approximately 19.0% as compared with monthly average estimated quantity of approximately 175.0 units (total CCT Quantity for the eight-month period being 1,400 units) for 8M2025. We consider that such mild growth rate is consistent to the management's expectation for stabilising production scale following an accelerated recovery, during which all six scheduled new products (including the Existing Model) are introduced to the market in 8M2025 and no new model expected to be launched in FY2026.

Besides, to further assess the growth rate of 19%, we have researched the recent wholesale quantity of the LCV segment in the PRC (represented by combined wholesale quantities of vehicle types categorised as MPV and light commercial passenger vehicles in the market analysis by China Automobile Dealers Association (CADA)) (the "**Wholesale Quantity**") for comparing the growth rate of 19% for FY2026 with the latest market performance for automobile manufacturers. We noted that the Wholesale Quantity started to grow fast since November 2024. In November 2024, the Wholesale Quantity reached approximately 139,000 units as compared to approximately 122,000 units in November 2023, reflecting a 14% growth. In December 2024, the Wholesale Quantity reached approximately 177,000 units, as compared to approximately 139,000 units in December 2023, reflecting a 27% growth. Similarly, during the first quarter of 2025, the Wholesale Quantity rose by 43%, increased to 361,000 units from approximately 253,000 units in first quarter of 2024. This consistent upward movement, represented by the recent growth rates from 14% to 43%, indicates that 19% growth rate for FY2026 is in line with the market trend.

We also consider this 19% growth rate to be a conservative estimate for the first full year of normal production, considering that automobile products are marketed by JSA of which its Jinbei brand has an established market position in the PRC automobile sector. Prior to the Restructuring, JSA was a major player in LCV industry in the PRC. According to the Company's data, Jinbei brand maintained its leading position in China's LCV segment for 19 consecutive years from 1997 to 2015. At its peak, Jinbei brand commanded over 75% market share in the medium-sized LCV market and served more than 2 million users. According to a research released by China Association of Automobile Manufacturers, Jinbei brand ranked first in passenger commercial vehicle sales volume in 2015, which is consistent with our understanding of its position as a major player in the automobile industry. We also understand that Jinbei brand's technical capabilities are supported by its longstanding collaboration with Toyota, the leading automobile manufacturer, since 1991.

We are of view that the Group's growth potential and foundation for market expansion is supported by several factors including its extensive network of existing customers and repair shops, established reputation for reliability and safety (as evidenced by the certain automobile products are for governmental use such as police vehicles and ambulances) and the favourable market trend with fast growth in Wholesale Quantity.

Furthermore, we assessed the allocation of sales quantities under the Sales Plan. We noted that the estimated quantity of automobile products to be sold to the Shenyang Automobile Group of 1,626 units for FY2025 represent 14% of total sales quantity for FY2025 (which include sales to both Independent Third Parties and the Shenyang Automobile Group), being 12,000 units under the Sales Plan (the "**Total Quantity**"). This allocation of sales quantity of automobile products is considered reasonable, as Independent Third Parties are expected to contribute over 80% of Total Quantity, demonstrating a diversified customer base without heavy reliance on the Shenyang Automobile Group.

Finally, we compared the Total Quantity under the Sales Plan to historical data, production capacity and market benchmarks. We noted that the historical quantity of automobiles sold by JSA in the financial year ended 31st December, 2020 ("**FY2020**"), the last full financial year before its suspension of production, is 26,184 units. Additionally, the annual production of JSA is currently estimated at approximately 60,000 automobiles. We further noted that the Wholesale Quantity for FY2024, as a reference to the market size for sales by automobile manufacturers in the PRC, was 1.3 million units.

Based on JSA's (i) expansion in product portfolio which involves the Existing Model and five new models to be launched in 8M2025 and contributes to the CCT Quantity in FY2025 and FY2026; (ii) historical performance of JSA's new models; (iii) alignment of the growth of CCT Quantity in FY2026 with the current upward market trend in the Wholesale Quantity; (iv) Jinbei brand's established market position in the PRC; (v) diversified sales allocation with over 80% of sales expected from Independent Third Parties; and (vi) the Total Quantity of 12,000 units for FY2025, as compared to historical sales of JSA, current production capacity and market size benchmark, we consider that the sales targets under the Sales Plan to be reasonable and achievable.

Taking into account the above consideration, we are of the view that the CCT Quantity in determining the 2025 Non-Exempt Proposed Caps is justifiable.

To assess the reasonableness of the CCT Selling Price, we have compared the estimated price of the Existing Model for FY2025 under the Sales Plan against its standard price approved by the management committee under the standardised pricing procedure and our comparison showed that the estimated price and approved price are the same. We have also selected three models to be launched in 8M2025 under the Sales Plan on a random basis and obtained recent unit prices of competitor models in FY2025 provided by distributor customers of the Group where the competitor models are of similar target end-customer and specifications. We noted that the prices per unit for selected automobile models are the same as those of the competitor models.

We have also compared the CCT Selling Price under the proposed caps for FY2026 against that for 8M2025. We noted that the estimated prices for models of fossil fuel powered automobiles remained stable due to less price competition by competitors given their mature product lifecycle in the automobile industry, while there are estimated price reductions for models of electric powered automobiles taking into consideration the potential industry-wide price adjustments as a result of the current competition in the electric powered automobile market to secure market position in the fast growing sector. According to a market report by CADA, there are twenty eight electric vehicle models in the PRC decreased their selling prices during the first two-month period of FY2025, where the magnitude of decrease in average selling prices reached 17%, which is in line with the Company's estimation of price reductions for potential industry-wide price adjustments in electric models. Having considered that there is continuing shift in consumer preference towards new energy vehicles away from fossil fuel powered automobiles, we concur with the management's view that maintaining stable pricing for fossil fuel vehicles while implementing price reductions for electric vehicles is reasonable to reflect current market dynamics and maintain competitiveness.

As regards the proposed caps for the Components Sales under the 2025 Non-Exempt Proposed Caps, we understood from the management of the Company that the estimated transaction amounts were determined primarily based on the projected number of automobiles to be sold in FY2025 and FY2026 and the estimated quantity and price of the required components for after-sales services.

In setting the proposed caps of the Components Sales for FY2025, based on the Company's experience and the Company's understanding on the estimated demand for the automotive components by the Shenyang Automobile Group, the Company considered the projected number of automobiles to be sold under the Sales Plan for FY2025 that will require repair and maintenance, and the aggregate sales amount of the after-sales components for each automobile of approximately RMB300.

As for the proposed caps of the Components Sales for FY2026, based on the Company's experience and the Company's understanding on the estimated demand by the Shenyang Automobile Group, the projected number of automobiles to be sold under the Sales Plan for FY2026 that will require 100% coverage of after-sales components with aggregate sales amount of the after-sales components for each automobile of approximately RMB300, the Company also took into consideration that 65% of the number of automobiles covered by after-sales services in FY2025 will continue to require automotive components for repairments, with each automobile contributing to approximately RMB220 in components sales.

Based on our review of the Sales Plan, we noted that the proposed caps of the Components Sales across FY2025 and FY2026 demonstrated consistent patterns, driven by after-sales component demand for automobile products to be sold to the same distributor under the Shenyang Automobile Group, with first-year components sales expected to maintain a stable value of approximately RMB300 per automobile. Upon inquiry, we understand this pattern reflects the distinct business models of the two distributors under the Shenyang Automobile Group. One of the two distributors operates a retail model offering complimentary first-year maintenance service, which historically generates higher component demand compared to subsequent years. The retail-focused distributor is expected to contribute sales to JSA of 700 units of automobiles and 1,000 units of automobiles during 8M2025 and FY2026, respectively. The another distributor will purchase automobile products for vehicle modifications into specialised vehicles such as police vehicles and ambulances without providing after-sales services to its customers. We understood that the end-customers of specialised vehicle typically seek repairs at repair shops of Independent Third Parties across the PRC due to their need for geographically convenient after-sales service, given that specialised vehicle distributors maintain limited service branch networks and wide acceptance of JSA's automobile products among repair shops across the PRC. Since the part of end-customers purchasing specialised vehicles will source after-sales component through Independent Third Parties, it is reasonable that no components sales are expected to be contributed by the distributor of specialised vehicles. According to the Company's internal track record, around 80% of automobile products covered by the after-sales services would require automotive components for first-year maintenance, and around 60% to 65% of such automobile products require components for second-year maintenance. Therefore, we consider the projected coverage rates of 100% for first-year and 65% for second-year maintenance represent prudent estimates of after-sales service requirements. The estimated components sales per automobile for first-year and second-year after-sales services are also based on the Company's internal track record of components sales. Under the internal track record, the average components sales per vehicle is RMB250, with first-year maintenance requiring approximately RMB300 per vehicle and second-year and third-year maintenance averaging approximately RMB220 per vehicle, which is consistent to the Company's estimation of components sales per automobile for the proposed caps across FY2025 and FY2026.

Based on the above analysis, we consider that the basis for setting the 2025 Non-Exempt Proposed Caps (including the respective proposed caps for Automobiles Sales and Components Sales) for each of the two years ending 31st December, 2026 are fair and reasonable.

7. Internal control procedures in respect of 2025 Shenyang Automobile CCTs

With reference to the Letter from the Board, we noted that the Company has established the following internal control measures to ensure that the transactions entered into under the 2025 Sales Framework Agreements will be conducted in accordance with the pricing policies of the Group and the respective terms of such agreements are on normal commercial terms and in the ordinary and usual course of business of the Group and that the terms shall not be less favourable than the terms which can be obtained from an Independent Third Party for the provision/purchase of similar goods or services so far as the Company is concerned. Such internal control measures mainly include the following:

(a) prior to the entering into each transaction under the 2025 Shenyang Automobile CCTs, the final pricing and other major terms of the 2025 Shenyang Automobile CCTs are required to be approved by the senior management of the various departments involved such as the department head, chief financial officer and/or the general manager of the relevant members of the Group as the final checks and balances measure to ensure the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders;

(b) the managers of the relevant members of the Group will review the terms of the executed transactions undertaken pursuant to the 2025 Sales Framework Agreements on a monthly basis to ensure the prices for the goods provided or to be provided thereunder are reflective of the pricing policies of the Group and in accordance with the terms of the 2025 Sales Framework Agreements;

(c) the finance department of the Company will review, on a monthly basis, the transaction amount under 2025 Sales Framework Agreements and submit such information for the management's review, including but not limited to the historical transaction amount, to ensure that the relevant transactions are carried out in accordance with the terms of the 2025 Sales Framework Agreements and will not exceed the respective annual caps. In the event that the utilisation rate of the relevant 2025 Non-Exempt Proposed Caps reaches 90%, the Board will be informed for considering if the relevant 2025 Non-Exempt Proposed Caps shall be revised and, if so, the Company will further comply with relevant requirements under the Listing Rules; and

(d) the auditors of the Company and the independent non-executive Directors will conduct annual review on the transactions entered into under the 2025 Sales Framework Agreements in accordance with the Listing Rules.

We noted from each of the annual reports for the financial years ended 31st December, 2024 (the "**Annual Reports**") that the independent non-executive Directors have reviewed and confirmed that the internal control procedures put in place by the Company are adequate and effective and the continuing connected transactions, including the transactions under the Automobiles Sales Framework Agreement started since 2024 (the "**Previous CCTs**"), have been conducted according to Chapter 14A of the Listing Rules. We have also obtained and reviewed copies of the letters from the Company's auditors for the annual review on the Previous CCTs and noted that there was no inconsistency between the disclosure in the Annual Reports and the letters from the Company's auditors.

To further assess whether the above internal control measures are in place and sufficient for monitoring the Previous CCTs, we have obtained and reviewed the internal control procedures detailing the guidance and policies for conducting the Previous CCTs and the monthly report of the relevant transactions and noted that the Company has conducted monthly review on the extent of utilisation of the approved caps under the Previous CCTs and the transaction amounts are within the said proposed caps for the Previous CCTs and the abovementioned internal control measures were in place for the Previous CCTs.

Taking into account the internal control procedures in place in respect of the 2025 Shenyang Automobile CCTs, in particular (i) the limitation in transaction amount by way of setting the 2025 Non-Exempt Proposed Caps; (ii) the compliance with all other relevant requirements under the Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the Previous CCTs); and (iii) the Group's historical internal control procedural records for the Previous CCTs, we consider that the Company has taken appropriate measures to govern the Group in carrying out the 2025 Shenyang Automobile CCTs thereby safeguarding the interests of the Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we concur with the Directors' view that (i) 2025 Shenyang Automobile CCTs and the 2025 Non-Exempt Proposed Caps are carried out in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the basis of determining the 2025 Non-Exempt Proposed Caps in respect of the 2025 Shenyang Automobile CCTs is fair and reasonable.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to approve the 2025 Shenyang Automobile CCTs and the 2025 Non-Exempt Proposed Caps.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung	**Louis Chan**
Managing Director	*Director*

Note:

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

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