Room 1108–1110, 11/F.
Wing On Centre
111 Connaught Road Central
Hong Kong

4 July 2025

To: Independent Board Committee and the Independent Shareholders of Huaibei GreenGold Industry Investment Co., Ltd

Dear Sirs/Madams,

CONTINUING CONNECTED TRANSACTIONS (1) PRODUCTS SALES FRAMEWORK AGREEMENT; AND (2) CONSTRUCTION PROJECT FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the provision of aggregate and concrete products by the Group to Huaibei Construction Investment Group under the Products Sales Framework Agreement and the procurement of construction services from Huaibei Construction Investment Group to the Group under the Construction Project Framework Agreement (collectively, the "**Continuing Connected Transactions**") together with their respective proposed annual caps for the three years ending 31 December 2027 (the "**Proposed Annual Caps**"). Details of the Continuing Connected Transactions and the Proposed Annual Caps are set out in the letter from the Board (the "**Board Letter**") contained in the circular of the Company to the Shareholders dated 4 July 2025 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As stated in the announcement of the Company dated 9 May 2025, the Previous Products Sales Framework Agreement expired on 31 December 2024. The Company entered into the Products Sales Framework Agreement with Huaibei Construction Investment, pursuant to which the Group shall supply aggregate and concrete products to Huaibei Construction Investment Group for a term of three years from 1 January 2025 to 31 December 2027. On the same day, the

Company also entered into the Construction Project Framework Agreement with Huaibei Construction Investment, pursuant to which the Group shall procure construction services from Huaibei Construction Investment Group for a term of three years from 1 January 2025 to 31 December 2027. Both agreements are subject to the Independent Shareholders' approval at the 2025 Second EGM.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Huaibei Construction Investment is the controlling Shareholder of the Company, holding approximately 75% of the total share capital of the Company, therefore Huaibei Construction Investment and its respective associates are connected persons of the Company under Chapter 14A of the Listing Rules. As such, the transactions contemplated under each of the Products Sales Framework Agreement and the Construction Project Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios for the proposed annual caps of the transactions contemplated under each of the Products Sales Framework Agreement and the Construction Project Framework Agreement exceed 5%, the transactions contemplated under each of the Products Sales Framework Agreement and the Construction Project Framework Agreement shall be subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Gao Wei, Mr. Liu Chaotian and Ms. Xing Mengwei, has been established to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the Proposed Annual Caps.

We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Continuing Connected Transactions are entered in the ordinary and usual course of business of the Company and the terms of the Continuing Connected Transactions are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Continuing Connected Transactions are in the interests of the Company and the Independent Shareholders as a whole and the Proposed Annual Caps are fair and reasonable; and (iii) whether the Independent Shareholders should vote in favour of the relevant resolutions to approve the Continuing Connected Transactions and the Proposed Annual Caps.

OUR INDEPENDENCE

We have not acted as an independent financial adviser or financial adviser for any transactions of the Group in the last two years from the date of the Circular. As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we comply with Rule 13.84 of the Listing Rules and are eligible to give independent advice in respect of the Continuing Connected Transactions (including the Proposed Annual Caps) to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have considered and reviewed, among other things, (i) the Products Sales Framework Agreement and the Construction Project Framework Agreement; (ii) the annual report of the Company for the years ended 31 December 2024 (the "**2024 Annual Report**"); (iii) the other information as set out in the Circular; (iv) relevant information provided by the management of the Company; and (v) other relevant market data and information from public sources.

We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company and its advisers, the Directors and the management of the Company (the "**Management**"), for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions. The Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the 2025 Second EGM.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other material facts that would make any statements in the Circular misleading. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and the Management.

This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the Continuing Connected Transactions and the Proposed Annual Caps, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing and arriving at our advice and recommendation with regard to the Continuing Connected Transactions and the Proposed Annual Caps, we have taken into account the principal factors and reasons set out below.

I. Background information on the parties to Continuing Connected Transactions

a. Information on the Company and the Group

As set out in the Board Letter, the Company is a joint stock company established in the PRC with limited liability and the Group is principally engaged in the production and sale of aggregate products and concrete products.

The information below sets out the summary financial information of the Group for the year ended 31 December 2023 ("**FY2023**") and 2024 ("**FY2024**") as extracted from the 2024 Annual Report.

	For the year ended 31 December	
	2024	**2023**
	RMB'000	*RMB'000*
Revenue	**236,168**	**290,622**
— Revenue from sales of aggregate products and others	215,545	215,921
— Revenue from sales of concrete products	19,909	74,701
— Income from agency services of concrete products	714	—
Cost of sales	(152,412)	(166,310)
Gross profit	**83,756**	**124,312**
Profit from operations	55,492	130,888
(Loss)/profit before taxation	(30,384)	67,988
(Loss and total comprehensive loss)/profit and total comprehensive income for the year	**(33,870)**	**57,924**
Attributable to:		
— Equity shareholders of the Company	(21,972)	37,490
— Non-controlling interests	(11,898)	20,434

For FY2024, the total revenue amounted to approximately RMB236.17 million, representing a decrease of approximately 18.74% as compared to approximately RMB290.62 million for FY2023. The revenue of the Group consists of revenue from sales of aggregate products and others, sales of concrete products and agency services of concrete products.

In 2024, the revenue from sales of aggregates products and others of the Group amounted to approximately RMB215.55 million, representing a decrease of approximately 0.17% as compared to approximately RMB215.92 million in 2023, which is due to the combined effects of (i) a drop in the average selling price of aggregate products and others of the Group from RMB55.4 per tonne (exclusive of tax) in 2023 to RMB46.5 per tonne (exclusive of tax) in 2024, representing a decrease of approximately 16.06%; and (ii) growth in sales volume of aggregates products and others of the Group from approximately 3.90 million tonnes in 2023 to approximately 4.64 million tonnes in 2024, representing an increase of approximately 18.85%.

In 2024, the revenue from sales of ready-mixed concrete of the Group amounted to approximately RMB19.91 million, representing a decrease of approximately 69.27% as compared to approximately RMB64.78 million in 2023. Such decrease is due to the combined effects of (i) a drop in the average selling price of ready-mixed concrete of the Group from RMB375.90 per m^3 (exclusive of tax) in 2023 to RMB327.5 per m^3 (exclusive of tax) in 2024, representing a decrease of approximately 12.88%; and (ii) reduction in sales volume of ready-mixed concrete of the Group from 172,300 m^3 in 2023 to 60,800 m^3 in 2024, representing a decrease of approximately 64.71%.

For FY2024, the Group's net loss was approximately RMB33.87 million, as compared to a net profit of approximately RMB57.92 million for FY2023. The decrease in net profit was due to the decrease in the Group's operating revenue from concrete products for FY2024, the increase in depreciation of the Phase II production line of Gaoloushan Mine, the non-recurring interest compensation in relation to capital injection and the impairment of property, plant and equipment in the concrete products segment.

	As at 31 December	
	2024	**2023**
	RMB'000	*RMB'000*
TOTAL ASSETS	**2,475,042**	**2,383,014**
Non-current assets	1,891,243	1,983,009
Current assets	583,799	400,005
TOTAL LIABILITIES	**1,771,251**	**1,716,667**
Non-current liabilities	1,404,611	544,573
Current liabilities	366,640	1,172,094
TOTAL EQUITY	**703,791**	**666,347**
Share capital	264,000	264,000
Reserves	205,697	212,950

As at 31 December 2024, the total assets of the Group increased by approximately 3.86% to RMB2,475.04 million from approximately RMB2,383.01 million in 2023. The total liabilities of the Group amounted to approximately RMB1,771.25 million, representing an increase of approximately 3.18% as compared to approximately RMB1,716.67 million in 2023. The total equity amounted to RMB703.79 million in 2024 as compared to approximately RMB666.35 million in 2023.

b. Information on Huaibei Construction Investment

As stated in the Board Letter, Huaibei Construction Investment is a company established in the PRC with limited liability and is principally engaged in investment and management of infrastructure construction projects.

As at the Latest Practicable Date, Huaibei Construction Investment is the controlling Shareholder of the Company, holding approximately 75% of the total share capital of the Company. Therefore, Huaibei Construction Investment and its respective associates are connected persons of the Company under the Listing Rules.

As at the Latest Practicable Date, Huaibei Construction Investment is wholly-owned by Huaibei SASAC.

II. Reasons for and benefits of the Continuing Connected Transactions

As mentioned in the Board Letter, since the sale of aggregate and concrete products is in the ordinary and usual course of business of the Group, the transactions under the Products Sales Framework Agreement will broaden the income base of the Group. Additionally, Huaibei Construction Investment is a state-owned enterprise with support from the Huaibei municipal government, which is a reliable and credible customer and can assure timely payments.

The Huaibei Construction Investment Group has expertise and experience in construction projects and has been providing construction services to the Group, including its involvement in Gaoloushan Project (Phase II). The entering into of the Construction Project Framework Agreement can ensure the continuing and quality construction services from Huaibei Construction Investment Group to avoid disruption on the construction projects of the Group.

As understood from the 2024 Annual Report, under the continued implementation of China's new urbanisation and rural revitalisation strategies in 2024, the Huaibei municipal government actively promoted the high-quality development of the local construction industry, with particular emphasis on green and prefabricated buildings. A series of supportive policies and development initiatives were introduced, including measures to stabilise the real estate market, expedite key infrastructure projects such as expressways, and improve urban housing conditions through the renovation of urban villages and dilapidated residential areas. These efforts have collectively contributed to sustaining strong demand in Huaibei's construction market. As a result, the Company believes that infrastructure construction is expected to boom in Huaibei and its surrounding areas along with the accelerated promotion and commencement of infrastructure construction and key projects in 2025, leading to an increase in demand in the construction market in Huaibei and its surrounding cities, which will eventually stimulate demands for sand, gravel and aggregate markets, all of which are likely to help the Group increase its revenue. Given that (a) Huaibei Construction Investment is a wholly-owned subsidiary of Huaibei SASAC and primarily engages in the investment and management of infrastructure construction projects; and (b) the construction market in Huaibei and its surrounding cities is expected to experience positive growth, the Company believes that the entering into of the Framework Agreements is anticipated to create further business opportunities for the Group with Huaibei Construction Investment, provided that the service or product pricing remains competitive.

Having considered (i) the principal business of the Group; (ii) the background of Huaibei Construction Investment Group, which may enable the Group to capture business opportunities given the positive outlook for the construction market in Huaibei and its surrounding cities; (iii) that the Framework Agreements offer the Group an option, but not an obligation, to provide products to or procure services from Huaibei Construction Investment Group when the product or service price is competitive; (iv) the status of Huaibei Construction Investment as a state-owned enterprise, which is regarded as a reliable and creditworthy counterparty, thereby providing assurance of timely payments and reducing credit risk; (v) that the supply of aggregate and concrete products to Huaibei Construction Investment Group aligns with the Group's ordinary business operations and is expected to contribute to revenue diversification; and (vi) the substantial industry expertise and a proven track record in construction services of Huaibei Construction Investment Group, which would ensure the continuity and high quality in its construction services delivered to the Group, we concur with the Board's view that the entering into of the Framework Agreements are in the ordinary and usual course of business of the Company, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independents Shareholders as a whole.

III. The Continuing Connected Transactions

In arriving at our opinion on the Continuing Connected Transactions, we have also taken into consideration the following factors and reasons:

a. Principal terms of the Products Sales Framework Agreement

Parties	(a) Huaibei Construction Investment (for itself and on behalf of its subsidiaries); and (b) the Company (for itself and on behalf of its subsidiaries)
Term:	A term of three years from 1 January 2025 to 31 December 2027
Subject matter:	The Group shall supply aggregate and concrete products to Huaibei Construction Investment Group
Condition precedent:	The Products Sales Framework Agreement and the transactions contemplated thereunder are subject to the Independent Shareholders' approval having been obtained and/or compliance with other applicable securities regulatory requirements.

Please refer to the Board Letter for more details.

Pricing policy

The price payable by Huaibei Construction Investment Group to the Group under the individual orders shall be determined in accordance with the pricing policy adopted and regularly reviewed by the Group for the sale of aggregate and concrete products with reference to (i) the monthly market indicative price on construction materials published by Huaibei Construction Standard Rating Station (淮北市建設標準定額站) (if applicable); (ii) the prevailing market price of the same or similar products supplied by the Group to at least two independent third parties in the same or neighbourhood regions based on normal commercial terms and in the ordinary and usual course of business; (iii) the production costs of the Group; (iv) the payment terms; and (v) the transportation costs.

In order to assess the pricing standards of the aforesaid services, we have obtained and reviewed (i) a summary list of all sales transactions of the Group's largest three connected customers specifying unit rates for aggregate and concrete products sold to each of them for the three years ended 31 December 2024, together with the relevant contract documents (the "**Connected Products Contracts**"); and (ii) a summary list of the Group's sales details specifying the unit rates with the largest three independent customers for each of the three years ended 31 December 2024 together with the relevant contract documents (the "**Independent Products Contracts**", together with the Connected Products Contracts as the "**Sample Contracts**"). As advised by the Management, the aggregate revenue of the Connected Products Contracts accounts for approximately 99.34%, 93.08% and 99.94% of the total revenue generated from the connected persons of the Group for each of the three years ended 31 December 2024. Over the same period, the revenue of the Independent Products Contracts accounts for approximately 28.70%, 30.76%, and 17.74% of the total revenue generated from independent customers. Therefore, we consider the Connected Products Contracts and the Independent Products Contracts to be sufficient, fair and representative.

As advised by the Management, the unit rate of aggregate and concrete products under both the Connected Products Contracts and the Independent Product Contracts were determined based on its internal reference selling price regarding aggregate and concrete products for both connected and independent customers and adjusted by the monthly market indicative price on construction materials published by Huaibei Construction Standard Rating Station (淮北市建設標準定額站). In order to assess the pricing policies of the Independent Products Contracts and the Connected Products Contracts, we reviewed the Independent Products Contracts and the Connected Products Contracts, discussed with the Management, and understood that the principal products sold under the Sample Contracts consist of aggregate and concrete products which were principally sold by the Group. We then obtained the Group's monthly sales summaries and compared the unit prices of the principal products under the Sample Contracts with those in the summaries. Based on our review, we understood that the terms offered under the Connected Products Contracts are no more favourable than those offered to independent third-party customers. Accordingly, we are of the view that the Sample Contracts follow the pricing mechanism disclosed in the Products Sales Framework Agreement, and the pricing standards adopted for Connected Products Contracts and the Independent Products Contracts are consistent.

As such, we are of the view that the pricing standards and the principal terms of the Connected Products Contracts are in compliance with and similar to those under the Independent Products Contracts.

Having considered the abovementioned, we are of the view that the pricing standards and the principal terms of the Products Sales Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

b. Principal terms of the Construction Project Framework Agreement

Parties	(a) the Company (for itself and on behalf of its subsidiaries); and (b) Huaibei Construction Investment (for itself and on behalf of its subsidiaries)
Term:	A term of three years from 1 January 2025 to 31 December 2027
Subject matter:	The Group shall procure construction services from Huaibei Construction Investment Group.
Condition precedent:	The Construction Project Framework Agreement and the transactions contemplated thereunder are subject to the Independent Shareholders' approval having been obtained and/or compliance with other applicable securities regulatory requirements.

Please refer to the Board Letter for more details.

Pricing Policy

As set out in the Board Letter, the pricing for construction services is determined through arm's length negotiations, with reference to (i) the construction project budget pricing standard of the Anhui Province (《安徽省建設工程概算費用定額》); and (ii) prices and terms offered by independent suppliers for similar services under normal commercial conditions.

In order to assess the pricing standards of the aforesaid services, we requested for the three largest contracts of the construction services entered into by the Group with each of the connected services suppliers and the independent services suppliers for each of the three years ended 31 December 2024. As advised by the Management, the Group entered into only one construction project with the connected service provider in 2022 (the "**Connected Construction Project**") which was carried out over the past three years and the payment of which is determined based on the progress of the project, and no relevant projects were entered into with any independent service providers during the period. As such, we obtained the summary list of payment details for the Connected Construction Project together with the underlying documents. Based on our discussion with the Management and our review on the documents, we noted that the contract sums paid by the Group to Huaibei Construction Investment Group for each stage under the Connected Construction Project were determined based on labor and material cost as published in the respective monthly data published in construction project budget pricing standard of the Anhui Province (《安徽省建設工程概算費用定額》) with further adjustments (the "**Adjustment**") on actual machinery costs, fees, taxes, and other related expenses.

To assess the Adjustment mechanism, we held discussions with the Management and were confirmed that the same Adjustment mechanism is applied consistently to transactions with both connected suppliers and independent suppliers. We randomly selected the unit rates of certain principal products of the Connected Construction Project, reviewed the relevant Adjustments, and discussed the underlying reasons with the Management. We understood that the rates were initially determined with reference to several government-published pricing standards, including but not limited to, the Construction Project Budget Pricing Standards of Anhui Province (《安徽省建設工程概算費用定額》), the Measures for Bill of Quantities Valuation of Construction Projects in Anhui Province (《安徽省建設工程工程量清單計價辦法》), and the Construction Project Cost Quota Standards of Anhui Province (《安徽省建設工程費用定額》) as approved by the Anhui Provincial Department of Housing and Urban-Rural Development (安徽省住房和城鄉建設廳). These rates were subsequently adjusted in accordance with the relevant monthly data published in the Monthly Huaibei Construction Cost Report issued by Huaibei Municipal Bureau of Housing and Urban-Rural Development (淮北市住房和城鄉建設局). Based on our review of the supporting documents and discussions with the Management, we noted that the Adjustments are immaterial and considered justifiable.

Given the aforesaid, we consider the Adjustments and the basis of the price for the construction services to be provided by Huaibei Construction Investment to the Group to be fair and reasonable.

c. The Proposed Annual Caps and the basis of determination

Historical amount, existing and proposed annual caps

The following table sets out (i) the historical amounts paid by Huaibei Construction Investment Group to the Group for the sale of aggregate and concrete products for each of the three years ended 31 December 2024; and (ii) the Proposed Annual Caps under the Framework Agreements for each of the three years ending 31 December 2027.

As referred to the Board Letter, the historical amount paid by Huaibei Construction Investment Group to the Group during 2025 up till the Latest Practicable Date was approximately RMB7.3 million. The Company has not conducted any transactions with Huaibei Construction Investment Group pursuant to the Construction Project Framework Agreement from 1 January 2025 up till the Latest Practicable Date.

	Existing annual caps and historical amounts for the year ended 31 December			**Proposed Annual Caps for the year ending 31 December**		
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Products Sales Framework Agreement						
Annual cap for the amount payable by Huaibei Construction Investment Group to the Group for the sale of aggregate and concrete products (the "**Revenue Annual Caps**")						
Annual Caps	148,200	154,500	157,300	90,000	98,000	100,000
Historical amounts	8,400	82,200	43,000	—	—	—
Utilisation rate	5.67%	53.20%	27.33%	—	—	—
Construction Project Framework Agreement						
Annual cap for the amount payable by the Group to Huaibei Construction Investment Group for the procurement of construction services (the "**Expense Annual Caps**")						
Annual Caps	—	—	—	70,000	30,000	10,000
Historical amounts	—	—	—	—	—	—
Utilisation rate	—	—	—	—	—	—

Basis of the Revenue Annual Caps and our analysis

As disclosed in the Board Letter, the Revenue Annual Caps are determined after arm's length negotiations between the parties with reference to: (i) the historical transaction amount between the Group and Huaibei Construction Investment Group for the sale of aggregate and concrete products for the three years ended 31 December 2022, 2023 and 2024; (ii) the projected revenue in respect of construction projects under development by Huaibei Construction Investment Group for which the Group has been contracted to provide concrete products amounts to at least RMB88.2 million for the three years ending 31 December 2027; and (iii) the expected increase in the number of projects which the Company may be engaged by Huaibei Construction Investment Group to provide concrete products based on the growth and development of the construction industry in Huaibei City and its surrounding cities.

As refer to the above table, we noted that the historical amount paid by Huaibei Construction Investment Group to the Group for the sale of aggregate and concrete products was approximately RMB8.4 million, RMB82.2 million and RMB43.0 million respectively, with a utilization rate of the existing annual caps of approximately 5.67%, 53.20% and 27.33% for each of 2022, 2023 and 2024, respectively.

We discussed with the Management and were advised that the Revenue Annual Caps are primarily determined based on the historical transaction amounts after considering the projected revenue based on their negotiation with Huaibei Construction Investment Group and the average unit price of all aggregate and concrete products sold by the Group in 2024.

The Management further advised, the Group entered into five contracts with Huaibei Construction Investment Group for the sales of aggregate and concrete products for the three years ending 31 December 2027. As part of our due diligence, we obtained and reviewed the five contracts together and the internal memoranda regarding the sales of aggregate and concrete products to Huaibei Construction Investment Group, and conducted follow-up discussions with the Management.

As driven by the municipal initiatives including the advocation for "Triple Integration" of industrialization, digitalization and green development, and infrastructure projects such as the Wumeng Expressway Project (五蒙高速項目), Bomeng Expressway Project (亳蒙高速項目) and the Xuhuaifu Expressway Project (徐淮阜高速項目) and the 14th Five-Year Industrial Development Plan (《"十四五"工業發展規劃》), Huaibei Construction Investment Group expressed its intention to the Group to purchase no less than 1.8 million tonnes of aggregate and concrete products (or equivalent to approximately RMB88.2 million based on the average unit price of aggregate and concrete products sold by the Group in 2024 of RMB49.0) for the three years ending 31 December 2027. Additionally, apart from the aforesaid polices, the Notice of the

Huaibei Municipal People's Government on the Key Tasks for 2025 and the Allocation of Responsibilities (《淮北市人民政府關於2025年重點工作及責任分解的通知》) outlined that the local government plans to strengthen the local urban operations, initiatives including upgrading the eastern new city infrastructure and enhancing country-level capacity and integrating "people-industry-city" development, which may help Huabei Construction Investment Group to further expand its projects portfolios in Huaibei City and nearby cities in future, consequently, the number of the projects which the Company may be engaged by Huabei Construction Investment Group to provide aggregate and concrete products may be increased, therefore, the total sales volume of aggregate and concrete products to Huaibei Construction Investment Group would be approximately 1.9 million tonnes and 2.0 million tonnes for 2026 and 2027.

Having considered the aforesaid together with the supportive policies and development initiatives as announced by the Huaibei government, we consider the Revenue Annual Caps to be fair and reasonable.

Basis of the Expense Annual Caps and our analysis

As disclosed in the Board Letter, the Expense Annual Caps are determined after arm's length negotiations between the parties with reference to: (i) the historical transaction amounts between the Group and Huaibei Construction Investment Group for the three years ended 31 December 2022, 2023 and 2024; and (ii) the expected progress and completion date of the relevant construction project, and the ancillary maintenance services following thereafter.

In assessing the fairness and reasonableness of the Expense Annual Caps, we referred to the Board Letter and understood that the historical amount paid by the Group to Huaibei Construction Investment Group for the procurement of construction services amounted to approximately RMB159.4 million, RMB51.4 million and RMB57.5 million in 2022, 2023, and 2024, respectively. Based on our review of the Gaoloushan Project (Phase II) agreement, the payment approval and record of the project and our discussion with the Management, we noted that the amounts paid for the three years ended 31 December 2024 are in compliance with the contract payment terms.

The Company has not conducted any transactions with Huaibei Construction Investment Group pursuant to the Construction Project Framework Agreement since 1 January 2025 to the Latest Practicable Date. The construction for Gaoloushan Project (Phase II) was a one-off connected transaction at the time the construction services agreement (the "**2022 Construction Project Agreement**"), which was of a contract value of approximately RMB278 million, and was entered into in June 2022 (i.e. prior to the listing of the Company on the Stock Exchange), and the Company did not enter into any framework agreements in respect of such construction thereafter.

As the contract sum (i.e. approximately RMB278 million) was subsequently discovered to be insufficient to complete the construction of Gaoloushan Project (Phase II), the Company entered into the Construction Project Framework Agreement to obtain additional cap for the said project.

As advised by the Management, the Gaoloushan Mine (Phase II) was scheduled for completion by September 2023. Nevertheless, a series of unexpected factors, including but not limited to uncharted underground utilities, extra power-installation requirements, and newly tightened environmental standards, have delayed the completion date of Gaoloushan Mine (Phase II), which is still under construction as at the Latest Practicable Date. According to the Board Letter, it is within the norm of the construction industry for the final settlement amount to exceed the budgeted contract sum as stipulated in the original agreement, which may be caused by a combination of factors such as the situation of the land, insufficient or defective design and external unforeseeable risks. Due to a chain of aforesaid uncontrollable events, the progress of Gaoloushan Project (Phase II) was significantly hindered. The Company has to incur additional cost for the Gaoloushan Project (Phase II) (i.e. more than that as originally set out in the 2022 Construction Project Agreement), and hence entered into the Construction Project Framework Agreement (i) to remedy and resolve unexpected infrastructure issues/complications which were only discovered midst the construction process (including the uncontrollable events described above); and (ii) as the project site blueprint was modified from time to time based on updated site topographies and real-time construction progress, to cover additional components to be procured, especially in light of the rising costs of raw materials.

As advised by the Management, the Expense Annual Caps were primarily determined based on the historical transaction amounts after considering the anticipated amount to be paid to Huaibei Construction Investment Group in connection to (a) the Gaoloushan Mine (Phase II), which is estimated at approximately RMB70 million, RMB29 million and RMB9 million for the three years ending 31 December 2027, respectively; and (b) other small-scale projects.

As advised by the Management, save for minor finishing work and submission of regulatory filings to government authorities for usage approval, the contracted scope for the construction works of Gaoloushan Mine (Phase II) has now been substantially completed, with full project completion targeted for the first half of 2026. Thereafter, the Company will retain Huaibei Construction Investment Group to provide warranty-related ancillary maintenance throughout 2026 and 2027, and the warranty payment will be completed in 2027.

For our due diligence, we obtained the projected expense summary of Gaoloushan Mine (Phase II). Based on our review of the expense summary and discussion with the Management, we understand that the projected construction cost of the Gaoloushan Mine (Phase II) amounts to approximately RMB70 million. The estimate is based on the anticipated costs relating to the construction works of Gaoloushan Mine (Phase II), including but not limited to the steel material costs, machinery installation costs, labour costs, statutory fees and tax expense.

According to the conversation with the Management, the steel material costs are calculated based on the estimated material quantities derived from the design drawings of Gaoloushan Mine (Phase II), which specify the specifications (such as steel section models and plate thicknesses), dimensions, and quantities of all steel components required for the project. The unit prices are referenced from the Anhui Province Construction Project Pricing Norm (《安徽省建築工程計價定額》). Labour costs are determined with reference to Huaibei Construction Investment Group's assessment of the manpower requirements based on the design drawings of Gaoloushan Mine (Phase II), as well as the overhead costs specified in the Labour Quota for Construction Projects (《建設工程勞動定額》) published by the Anhui Provincial Department of Housing and Urban-Rural Development (安徽省住房和城鄉建設廳). Statutory fees include, but are not limited to, safety and civility construction expenses, social insurance contributions, and housing provident fund payments, which are determined in accordance with local government regulations. Based on the aforesaid, we consider the projected expense summary of Gaoloushan Mine (Phase II) to be justifiable.

Having considered the aforesaid, we concur with the management of the Group's view and consider the Expense Annual Caps to be fair and reasonable.

Conclusion

Based on the above, we are of the view that the Proposed Annual Caps are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

IV. Internal control measures and corporate governance measures

As set out in the Board Letter, the Company would strive to exercise stringent monitoring over the transaction amounts and respective annual caps of the Framework Agreements to ensure that necessary measures and appropriate actions can be timely taken in order to comply with the relevant requirements of the Listing Rules.

The Company has adopted the following internal management procedures to ensure that the continuing connected transactions contemplated under the Framework Agreements are fair and reasonable and on normal commercial terms, and are conducted in compliance with the Listing Rules and within the annual cap stipulated under the respective Framework Agreement:

(i) the Company has appointed an executive Director and several personnel of the legal and the securities investment department (collectively, the "**IC Supervisors**") to oversee the implementation of the internal control measures hereinbelow;

(ii) the transactions arrangements contemplated under the Framework Agreements are conducted on a non-exclusive basis;

(iii) the Group has formulated a series of measures and policies on, among others, contract policies, project management policies and administrative measures on connected transactions. The Framework Agreements and the separate agreements of the transactions thereunder will first be drafted by the relevant business units in accordance with the Framework Agreements and model contracts provided by the legal department of the Company. The price will be determined based on market prices or cost-plus method. The said agreements will then be submitted for review and approval by the (a) responsible personnel of the legal department to ensure due compliance with the Framework Agreements, (b) the audit committee to, in particular, ensure fairness and reasonableness of the pricing terms thereof upon issuing an independent opinion, (c) the general manager of the Company and (d) the Board, after which such agreements will be filed at Huaibei SASC by the secretary of the Board for final compliance check.

A comprehensive tiered approval system is in place to ensure that the terms of Framework Agreements are in compliance with relevant regulations and guidelines (if applicable) and market practices and will not deviate from the terms of the Framework Agreements;

(iv) the legal department and finance department of the Company have been entrusted to review, maintain and update a list of connected persons of the Group bi-annually;

(v) the finance department and the business units of the relevant subsidiaries of the Company will formulate yearly plans on connected transactions based on their strategic objectives, and submit them to the Company's finance department, production management department, secretary of the Board and the Board for review, approval and consolidation. In addition, the audit committee and the Board will on a quarterly basis convene meetings to review the pricing policies of the Framework Agreements. The independent non-executive Directors will also conduct annual review for the implementation and execution of continuing connected transactions (including related pricing mechanisms) to ensure that the continuing connected transactions under the Framework Agreements are on normal commercial terms, and terms no less favourable than independent customers or suppliers; and

(vi) the various responsible internal departments of the Company (including the relevant business units and the finance department) and that of the Company's subsidiary will collaborate to compile a monthly summary of the continuing connected transactions, regularly monitor the fulfillment status against the annual caps under the Framework Agreements, and report to the audit committee and the Board accordingly on a monthly basis. If the actual transaction amount reaches 90% or more of the relevant annual cap at any time of the year, the dedicated personnel shall promptly notify the Board and all other departments, which shall only conduct further continuing connected transactions after checking the amount and sufficiency of the unutilised annual cap. Where necessary, the Board would consider taking appropriate measures in accordance with the requirements of the Listing Rules, including, but not limited to, publishing announcement for an increase annual cap amount and seeking approval from the shareholders of the Company, if applicable;

(vii) the external auditors of the Company would conduct year end audit, and provide its opinions and letter to the Board regarding the pricing policies and annual caps of continuing connected transactions of the Group conducted during the previous financial year in accordance with the Listing Rules;

(viii) the audit committee will organise internal testing and financial sample surveys to check the completeness and effectiveness of the relevant internal control measures relating to the connected transactions from time to time, and will convene meetings on a quarterly basis to discuss and assess the implementation of continuing connected transactions;

(ix) the Board office, the legal department and securities investment department of the Company will arrange training sessions at least once per month for the management of the Company, the managers and officers of the business units, finance department, legal department and the securities investment department, the officers of the Board office, and the management of the Company's subsidiaries. The training shall cover, among others, (a) detailed guidance on connected and notifiable transactions under Chapters 14 and 14A of the Listing Rules, including identification, classification, and shareholders' approval requirements; and (b) clarification of the definition and scope of connected persons, procedures for identifying and handling connected transactions, and ongoing monitoring obligations under the Company's enhanced internal control and compliance systems;

(x) the secretary to the Board, the legal department and the finance department of the Company are tasked to regularly investigate and assist the Company in identifying the connected persons of the Company through a declaration of interest mechanism, whereby the responsible personnel will issue confirmation letters to the connected persons to enquire their latest shareholding structure, and accordingly compile and update a list of connected persons of the Group based on the responses and desktop searches. The list of connected persons of the Group will be updated by the dedicated personnel on a quarterly basis, and submitted to the IC Supervisors and the management for their review; and

(xi) the Company will strengthen cooperation with its professional advisers in relation to regulatory compliance with the Listing Rules, and will duly and timely obtain their advice where necessary.

In assessing the internal control imposed by the Group to monitor the transactions contemplated under the Framework Agreements, we were also provided with the sample internal-control records documenting the Group's approval workflow for connected transactions executed in early 2025. According to these records, we understood that a responsible officer in the sales department of the Group firstly submits the details of a connected transaction into the Group's internal approval system, the deputy general manager and the general manager of the sales department of the Company then review the details and approve the transactions. Each connected transaction is subsequently consolidated into a monthly summary that is submitted to the senior management in the finance department of the Group for approval. Afterwards, the monthly summaries of the connected transactions are submitted to the Board for final review on a quarterly basis. Moreover, we were provided a latest summary list of connected persons of the Group and were advised by the Management that the list is updated every 6 months.

We noted that the Previous Products Sales Agreement expired on 31 December 2024, while the Company only entered into the Framework Agreements on 9 May 2025. As advised by the Management, the delay in the timely renewal of the Framework Agreements was attributable to several factors: (i) the absence of an internal policy or mechanism to prompt the Company to initiate the renewal process; (ii) the prolonged internal approval procedures involving approval from multiple departments; (iii) the Group's need to reassess the corporate structure and business segments of Huaibei Construction Investment Group following its organisational restructuring; and (iv) the misunderstanding among the Company's business unit staff, who mistakenly assumed that signed contracts were sufficient for execution, without recognising the requirement for prior approval of Framework Agreements for the compliance with the Listing Rules.

We further noted that the Company has experienced other instances of non-compliance with the Listing Rules. Specifically, (a) according to the Company's announcements dated 29 November 2023 and 5 December 2023, the continuing connected transactions conducted under the previous blasting services procurement framework agreement (the "**Previous Blasting Services Procurement Framework Agreement**") entered into with Anhui Leiming Blasting Engineering Co., Ltd. ("**Leiming Blasting**"), a connected person at the subsidiary level, exceeded the approved annual cap, resulting in a breach of the Listing Rules (the "**November 2023 Non-Compliance**"); and (b) as disclosed in the announcements dated 21 January 2025 and 9 April 2025, an advance payment arrangement with Huaibei Construction Investment constituted a connected transaction that also failed to comply with the Listing Rules (the "**December 2024 Non-Compliance**"). As advised by the Management, the Company is of the view that the November 2023 Non-Compliance resulted from a failure to closely monitor the actual transaction amounts under the Previous Blasting Services Procurement Framework Agreement, while the December 2024 Non-Compliance was due to fund management and loan arrangements that were not related to the ordinary course of business of the Company. To conduct an internal review and provide remedial recommendations in respect of the December 2024 Non-Compliance, the Group engaged SHINEWING Risk Services Limited to provide remedial recommendations in respect of the December 2024 Non-Compliance. As part of our due diligence, we obtained and reviewed the internal control report and noted that the remedial measures for the December 2024 Non-Compliance primarily focus on the funds transfer with its connected persons, including the controlling shareholder of the Company, namely Huaibei Construction Investment.

We also understood that, to enhance the effectiveness of internal control procedures and prevent future non-compliance incidents, the Company has implemented a series of measures, including but not limited to: (i) providing at least once per month training to relevant management and departmental personnel of the Group on transaction monitoring, approval, and disclosure, with a focus on the requirements under Chapters 13, 14, and 14A of the Listing Rules, internal compliance procedures, and legal consequences of non-compliance; (ii) optimising the decision-making process by establishing a joint pre-examination mechanism with Huaibei SASAC to shorten administrative review procedures and implementing a dual-track approval system; (iii) strengthening compliance assurance through periodic risk assessments, updating internal controls, implementing the "Connected Transaction Compliance Improvement Plan" from June 2025, and conducting quarterly internal audits on connected transactions; (iv) appointing an executive director and designated personnel from the legal and securities investment departments to monitor compliance with the Listing Rules, review annual caps, and update the connected persons list on a quarterly basis; and (v) engaging the Company's Hong Kong legal adviser to conduct specialised training on the regulatory requirements of the Chapter 14A of the Listing Rules.

Based on our review of the internal control documents, our discussions with the Management regarding the remedial actions taken in response to the non-compliance incidents and the proposed enhancements to internal control procedures, we concur with the Directors' view that the internal control measures imposed by the Group will effectively monitor connected transactions to be contemplated under the Framework Agreements, and the Company has adequate mechanisms, internal control procedures and external monitoring measures to ensure that the continuing connected transactions contemplated under the Framework Agreements are in strict compliance with relevant regulations and guidelines and the terms of the Framework Agreements.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the Continuing Connected Transactions are in the ordinary and usual course of business of the Group; and (ii) the terms of the Continuing Connected Transactions and the Proposed Annual Caps are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are in the interests of Company and the Independent Shareholders as a whole.

Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the 2025 Second EGM in this regard.

Yours Faithfully,
For and on behalf of
Merdeka Corporate Finance Limited
Wallace So
Managing Director

Mr. Wallace So is a licensed person registered with the Securities and Futures Commission of Hong Kong, a responsible officer of Merdeka Corporate Finance Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and a licensed representative of Merdeka Investment Management Limited to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. Mr. Wallace So has over 13 years of experience in corporate finance industry.