

9 October 2024

*To the Independent Board Committee and the Independent Shareholders*

Capital Industrial Financial Services Group Limited  
Suite 803, 8/F.  
Harcourt House  
39 Gloucester Road  
Wanchai, Hong Kong

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND  
CONTINUING CONNECTED TRANSACTION IN RESPECT OF  
THE EMC FINANCE LEASE MASTER AGREEMENT**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the EMC Finance Lease Master Agreement, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 9 October 2024 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

On 29 August 2024, the Company entered into the EMC Finance Lease Master Agreement with Shougang, pursuant to which the Company has conditionally agreed to provide, or procure its subsidiaries to provide, at its discretion, Shougang Group with finance lease credit facilities for a term of three years commencing from the date on which the EMC Finance Lease Master Agreement becomes effective.

As at the Latest Practicable Date, Shougang, through its wholly owned subsidiaries, held 2,425,736,972 shares of the Company, representing approximately 61.06% of the issued share capital of the Company as at the Latest Practicable Date. As such, Shougang is the controlling shareholder of the Company, and Shougang and its subsidiaries are connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under the EMC Finance Lease Master Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

On the other hand, the transactions contemplated under the EMC Finance Lease Master Agreement will be recognised as acquisition of assets. As such, the EMC Finance Lease Master Agreement and the transactions contemplated thereunder constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio in respect of the transactions contemplated under the EMC Finance Lease Master Agreement exceeds 100%, the transactions contemplated under the EMC Finance Lease Master Agreement also constitute a very substantial acquisition of the Company under Chapter 14A of the Listing Rules and is accordingly subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, and the announcement, reporting and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

In view of Shougang's interests in the EMC Finance Lease Master Agreement, Shougang and its associates are required to abstain and shall abstain from voting on the relevant resolutions in relation to the EMC Finance Lease Master Agreement to be proposed at the SGM. Saved as disclosed above, no other Shareholders have material interest in the EMC Finance Lease Master Agreement and shall abstain from voting at the resolution(s) in relation to the approval of the EMC Finance Lease Master Agreement at the SGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Tam King Ching, Kenny, Mr. Ng Man Fung, Walter and Ms. On Danita has been formed to advise the Independent Shareholders on (i) whether the entering into the EMC Finance Lease Master Agreement is conducted in the ordinary and usual course of the Group; and (ii) whether the terms of the EMC Finance Lease Master Agreement (including the proposed annual caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and as to voting. We, Rainbow Capital (HK) Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and Shougang Group that could reasonably be regarded as relevant to our independence. We have been appointed as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to (i) a very substantial acquisition and continuing connected transaction in respect of renewal of the master facilities agreement; and (ii) a continuing connected transaction in respect of the technology license agreement (the "**Second Appointment**"), details of which are set out in the circular of the Company dated 9 October 2024. Other than that, there was no other engagement between the Group or Shougang Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received any fees or benefits from the Group or any other party to the EMC Finance Lease Master Agreement. The relevant fees paid or payable to us for acting as the independent financial advisers in relation to this appointment and the Second Appointment are normal professional fees and shall not affect our independence in both appointments. Accordingly, we are independent from the Company

pursuant to the requirement under Rule 13.84 of the Listing Rules and therefore we are qualified to give independent advice in respect of the EMC Finance Lease Master Agreement (including the proposed annual caps).

## **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, Shougang Group, or any of their respective substantial shareholders, subsidiaries or associates.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation on the terms of the EMC Finance Lease Master Agreement (including the proposed annual caps), we have taken into account the principal factors and reasons set out below:

### **1. Background information of the Group**

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of (i) sale and leaseback arrangement services; (ii) supply chain management and financial technology services; and (iii) property leasing services.

Set out below is a summary of the financial information of the Group for (i) the two years ended 31 December 2023 (“FY2022” and “FY2023”, respectively) as extracted from the annual report of the Company for FY2023 (the “2023 Annual Report”); and (ii) the six months ended 30 June 2023 and 2024 (“6M2023” and “6M2024”, respectively) as extracted from the interim report of the Company for 6M2024 (the “2024 Interim Report”):

(i) *Financial performance*

	<b>FY2022</b> <i>HK\$'000</i> <i>(audited)</i>	<b>FY2023</b> <i>HK\$'000</i> <i>(audited)</i>	<b>6M2023</b> <i>HK\$'000</i> <i>(unaudited)</i>	<b>6M2024</b> <i>HK\$'000</i> <i>(unaudited)</i>
<b>Continuing operations</b>				
<b>Total revenue</b>	<b>370,638</b>	<b>219,285</b>	<b>100,020</b>	<b>109,452</b>
— Revenue under sale and leaseback arrangements	90,300	188,021	86,499	93,805
— Revenue from supply chain management and financial technology business	275,880	26,845	11,220	13,513
— Property leasing income	4,458	4,419	2,301	2,134
<b>Gross profit</b>	<b>86,832</b>	<b>120,355</b>	<b>53,743</b>	<b>57,723</b>
Other income	9,696	18,580	9,827	5,253
Other gains, net	36,310	3,323	—	—
Selling expenses	(3,317)	—	—	—
Administrative expenses	(53,480)	(61,235)	(20,303)	(25,014)
Changes in fair value of investment properties	(2,471)	(3,192)	100	(2,341)
Changes in fair value of financial assets at fair value through profit or loss	(1,530)	267	(575)	(10)
Net impairment losses on financial assets	(17,150)	(24,905)	(3,468)	(559)
Impairment loss on goodwill	(945)	—	—	—
Finance costs	(4,812)	(1,307)	(875)	(583)
Share of profit of an associate	523	2,055	1,878	2,556
<b>Profit before income tax</b>	<b>49,656</b>	<b>53,941</b>	<b>40,327</b>	<b>37,025</b>
Income tax expense	(16,178)	(11,507)	(10,207)	(10,764)
<b>Profit attributable to the Shareholders</b>	<b>14,526</b>	<b>32,082</b>	<b>22,406</b>	<b>17,981</b>

*FY2023 compared to FY2022*

Revenue of the Group decreased by approximately 40.8% from approximately HK\$370.6 million for FY2022 to approximately HK\$219.3 million for FY2023, primarily attributable to the decrease in revenue from supply chain management and financial technology business by approximately HK\$249.0 million as a result of the

Group's business transformation in accordance with market condition. The Group suspended the business covering full-process services including steel product trading and logistics under the supply chain management and financial technology business segment since August 2022. Such decrease was partially offset by the increase in revenue under sale and leaseback arrangements by approximately HK\$97.7 million mainly due to the Group's continuous expansion of the individual consumer leasing business.

Despite the decrease in revenue, the Group recorded an increase in gross profit by approximately 38.6% from approximately HK\$86.8 million for FY2022 to approximately HK\$120.4 million for FY2023, primarily attributable to (a) the successful business transformation and launched of a supply chain financial platform in late 2022 for the supply chain management and financial technology business which had higher gross profit margin; and (b) the continuous expansion of sale and leaseback arrangements services.

The Group's profit attributable to the Shareholders increased by approximately 120.9% from approximately HK\$14.5 million for FY2022 to approximately HK\$32.1 million for FY2023. Such increase was primarily attributable to (a) the increase in gross profit as aforementioned; (b) the increase in other income by approximately HK\$8.9 million, mainly due to the increase in credit financing arrangement interest income, management and financial advisory service income, and financial technical service income from a related party; (c) the decrease in selling expenses by approximately HK\$3.3 million; (d) the decrease in finance costs by approximately HK\$3.5 million as a result of the decrease in the balance of total borrowings in 2023; and (e) the decrease in income tax expense by approximately HK\$4.7 million.

#### *6M2024 compared to 6M2023*

Revenue of the Group increased by approximately 9.4% from approximately HK\$100.0 million for 6M2023 to approximately HK\$109.5 million for 6M2024, primarily attributable to (a) the increase in revenue under sale and leaseback arrangements by approximately HK\$7.3 million as a result of the continuous expansion of the individual consumer leasing business; and (b) the increase in revenue from supply chain management and financial technology business by approximately HK\$2.3 million.

In line with the increase in revenue, the Group's gross profit increased by approximately 7.4% from approximately HK\$53.7 million for 6M2023 to approximately HK\$57.7 million for 6M2024.

Despite the increase in revenue and gross profit as mentioned above, the Group recorded a decrease in profit attributable to the Shareholders by approximately 19.7% from approximately HK\$22.4 million for 6M2023 to approximately HK\$18.0 million for 6M2024, primarily attributable to (a) the decrease in other income by approximately HK\$4.6 million mainly due to the decrease in bank deposit interest income and government grant; (b) the increase in administrative expenses by approximately HK\$4.7 million as a result of the increase in administrative staff cost;

and (c) the turnaround from fair value gains of investment properties of approximately HK\$0.1 million for 6M2023 to fair value losses of investment properties of approximately HK\$2.3 million for 6M2024.

(ii) *Financial position*

	As at 31 December		As at 30 June
	2022	2023	2024
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)
<b>Non-current assets, including:</b>	<b>633,581</b>	<b>515,130</b>	<b>280,993</b>
Investment properties	133,202	116,096	113,076
Intangible assets	65,025	71,806	72,053
Interests in an associate	83,951	84,851	85,434
Receivables under sale and leaseback arrangements	333,229	229,214	—
<b>Current assets, including:</b>	<b>1,372,650</b>	<b>1,399,571</b>	<b>1,632,276</b>
Receivables under sale and leaseback arrangements	756,885	889,811	1,016,299
Receivable under credit financing arrangement	168,453	165,386	164,215
Cash and cash equivalents	322,904	319,054	430,886
<b>Total assets</b>	<b>2,006,231</b>	<b>1,914,701</b>	<b>1,913,269</b>
<b>Current liabilities, including:</b>	<b>223,360</b>	<b>129,465</b>	<b>141,631</b>
Trade and bills payables	84,974	10,162	9,425
Other payables and accruals	70,040	109,682	124,383
<b>Non-current liabilities, including:</b>	<b>27,495</b>	<b>28,736</b>	<b>24,690</b>
Loan from a related party	—	9,810	9,741
Deferred tax liabilities	20,619	13,454	11,666
<b>Total liabilities</b>	<b>250,855</b>	<b>158,201</b>	<b>166,321</b>
<b>Equity attributable to the Shareholders</b>	<b>1,417,068</b>	<b>1,415,922</b>	<b>1,406,475</b>

As at 30 June 2024, total assets of the Group amounted to approximately HK\$1,913.3 million, mainly composed of (a) investment properties of approximately HK\$113.1 million, representing the Group's residential and commercial properties located in Hong Kong and the PRC; (b) receivables under sale and leaseback arrangements of approximately HK\$1,016.3 million; (c) receivable under credit financing arrangement of approximately HK\$164.2 million; and (d) cash and cash

equivalents of approximately HK\$430.9 million. Due to the business nature of the Group in relation to the provision of sale and leaseback arrangement services, receivables under sale and leaseback arrangements are the key assets of the Group, representing approximately 53.1% of the Group's total assets as at 30 June 2024.

As at 30 June 2024, total liabilities of the Group amounted to approximately HK\$166.3 million, mainly composed of (a) deferred tax liabilities of approximately HK\$11.7 million; and (b) other payables and accruals of approximately HK\$124.4 million.

As at 30 June 2024, the Group recorded equity attributable to the Shareholders of approximately HK\$1,406.5 million with gearing ratio (being loan from a related party divided by total equity) of approximately 0.6%.

***(iii) Overall comment***

The financial performance of the Group fluctuated for the periods under review as impacted by the Group's strategic transformation on the supply chain management and financial technology business segment in August 2022. Since then, the Group has been continuously exploring and experimenting to build and upgrade its own supply chain financial technology service platform, enabling the Group to generate positive returns during the periods under review.

As disclosed in the 2024 Interim Report, taking advantage of its industrial advantages and competitive edges, the Group will continue to focus on the provision of customized and comprehensive financial service solutions to the steel industry and upstream and downstream customers on the industry chain for different business scenarios including the corporate customer and individual consumer leasing market, and strive to meet its medium- and long-term strategic goal of continuous growth in performance.

**2. Background information of Shougang Group**

Shougang is a company established in the PRC and is the holding company of Wheeling Holdings, the controlling shareholder of the Company. Shougang Group is a state-owned enterprise wholly owned by the Beijing State-owned Capital Operation and Management Centre (北京國有資本運營管理中心) which is in turn wholly owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會).

Shougang is one of the largest steel production enterprises in the PRC and is principally engaged in a wide range of business including steel and iron production, overseas business, property development, mining resources and other businesses. As at the Latest Practicable Date, Shougang is interested in 2,425,736,972 shares of the Company, representing approximately 61.06% of the Company's total issued share capital as at the Latest Practicable Date. According to the World Steel Association, Shougang Group

ranked ninth among the world's top 50 steel producing companies in terms of steel production volume in 2023, with a production volume of approximately 33.6 million tonnes in 2023.

According to an offering circular of Shougang Group as published on 12 August 2024 (the “**2024 Offering Circular**”), the total assets and net assets of Shougang Group as at 31 December 2023 amounted to approximately RMB527.0 billion and RMB169.5 billion, respectively. Shougang Group is a capital intensive company with total non-current assets of approximately RMB385.6 billion as at 31 December 2023, approximately 44.6% of which (i.e. approximately RMB171.8 billion) were the net book value of fixed assets. For FY2023, Shougang Group generated total revenue of approximately RMB238.0 billion and profit attributable to its shareholders of approximately RMB2.4 billion.

According to the 2024 credit rating report of Shougang Group issued by China Chengxin International Credit Rating Company Limited\* (中誠信國際信用評級有限責任公司) (“**CCXI**”), the first national non-banking financial institution approved by the People's Bank of China to engage in credit rating, financial securities consulting and information services, Shougang Group was assigned a corporate rating of “**AAA**” with a stable outlook. The stable outlook reflects the advantages of Shougang Group's operation scale, resources, product structure and manufacturing facilities, as well as the expectation that Shougang Group's operation will remain stable.

### **3. The EMC Finance Lease Master Agreement**

#### *(i) Background and reasons*

On 29 August 2024, the Company entered into the EMC Finance Lease Master Agreement with Shougang, pursuant to which the Company has conditionally agreed to provide, or procure its subsidiaries to provide, at its discretion, Shougang Group with finance lease credit facilities for a term of three years commencing from the date on which the EMC Finance Lease Master Agreement becomes effective.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of sale and leaseback arrangement services, supply chain management and financial technology services and property leasing services. As disclosed in the section headed “1. Background information of the Group” above, sale and leaseback arrangement services was one of the core businesses of the Group, which accounted for approximately 85.7% of its total revenue for both of FY2023 and 6M2024. As advised by the management of the Group, although the Group has prioritized the provision of supply chain management and financial technology services, the Group will also continue to promote its financial leasing services to the well-established steel companies and domestic conglomerates as it would enable the Group to earn a stable revenue stream with a considerably lower risk exposure.

As disclosed in the Letter from the Board, in view of the national dual-carbon target and the policy guidelines of “Guiding Opinions on Further Strengthening Financial Support for Green and Low-Carbon Development” (《關於進一步強化金融



支持綠色低碳發展的指導意見》) jointly issued by the People's Bank of China and the relevant regulatory authorities in the PRC, and in order to achieve the strategic objectives of energy conservation and emission reduction, quality enhancement and efficiency improvement as set out by the PRC government, the production enterprises under Shougang Group anticipates a huge demand for energy management and energy conservation and renovation ("EMC") works in the near future. Hence, Shougang Group will invite different EMC engineering companies through open bidding to undertake the provision of energy conservation services to Shougang Group for the EMC Project initiated by Shougang Group. Given that the Group is principally engaged in, among others, the provision of sale and leaseback arrangement services and other financial services in the PRC, and with the view to align to the latest environmental policies set out by the PRC government, we concur with the Directors that it is beneficial for the Group to provide finance lease services for the Equipment involved in the EMC Project and support the EMC Projects of the Shougang Group in financing aspect.

In addition, the Group has been providing finance lease services to Shougang Group for years, allowing the Group to gradually build up its customer profile and cumulate deep understanding in the industry characteristics, capital structures, business operation and financing needs of Shougang Group. As such, the entering into of the EMC Finance Lease Master Agreement is crucial and beneficial for the Group's continuous development in the financial leasing business which is in line with its business strategy.

Based on the above, we concur with the Directors that the entering into of the EMC Finance Lease Master Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

**(ii) Principal terms**

Details of the terms of the EMC Finance Lease Master Agreement are set out in the Letter from the Board, which are summarized as follows:

<b>Date</b>	:	29 August 2024
<b>Parties</b>	:	(a) the Company; and (b) Shougang

**Subject matter** : The Company will provide or procure its subsidiaries to provide at its discretion Finance Lease Credit Facilities to Shougang Group and, within the range of the maximum facilities amount at the request of Shougang Group, provide the EMC Engineering Company with finance lease services through direct lease and sale and leaseback services from time to time for the Equipment to be involved in various EMC Projects during the term of the EMC Finance Lease Master Agreement.

The Group will finance the Finance Lease Credit Facilities through bank borrowing and internal resources.

**Term** : A period of three (3) years commencing from the date on which the EMC Finance Lease Master Agreement becomes effective.

**Principal amount of facilities granted** : An aggregate principal amount of up to RMB3,400,000,000 (equivalent to approximately HK\$3,656,000,000).

The Finance Lease Credit Facilities to be granted are non-revolving in nature and are subject to the maximum amount may not be exceeded at any time during the term of the EMC Finance Lease Master Agreement.

**Methods of provision of Finance Lease Credit Facilities** : The Finance Lease Credit Facilities will be provided by the Group to Shougang Group, and within the range of the maximum facilities amount at the request of Shougang Group, the Group will provide the EMC Engineering Company with finance lease services through direct lease and sale and leaseback services from time to time for the Equipment to be involved in various EMC Projects (each a “**Finance Lease Loan**”). Details of which are as follows:

- (a) direct lease, in which the Group will enter into (1) finance lease agreement(s) with the EMC Engineering Company; and (2) sale and purchase agreement(s) with the Equipment Supplier designated by the EMC Engineering Company, and lease the Equipment purchased from the Equipment Supplier (as the vendor) to the EMC Engineering Company (as the lessee); and
- (b) sale and leaseback, in which (1) the EMC Engineering Company will purchase the Equipment from the Equipment Supplier; and (2) the Group (as the purchaser and the lessor) will enter into finance lease agreement(s) with the EMC Engineering Company (as the vendor and the lessee), whereby the Group will purchase the Equipment from the EMC Engineering Company and lease the Equipment back to the EMC Engineering Company.

The relevant parties will enter into individual agreements with respect to each of the finance lease arrangements under the Finance Lease Credit Facilities pursuant to the EMC Finance Lease Master Agreement.

**Term of each Finance Lease Loan** : The duration of each Finance Lease Loan will be negotiated on a case-by-case basis and each Finance Lease Loan will not have a term of longer than six (6) years from the date of the relevant Finance Lease Loan.

To ensure the compliance of the Listing Rules, it is agreed that if the Company fails to renew the EMC Finance Lease Master Agreement at the end of the Term, the Group has the rights to terminate the EMC Finance Lease Master Agreement and demand the relevant EMC Engineering Company for full repayment of the outstanding loan within 14 days upon written notice.

**Guarantee** : The Company has the right to require the EMC Engineering Company to provide its own or third-party guarantee (as the case may be) for the performance of its obligations under each Finance Lease Loan. The relevant parties will enter into individual guarantee agreements with respect to each of the finance lease arrangements under the Finance Lease Credit Facilities pursuant to the EMC Finance Lease Master Agreement.

**Conditions precedent** : The Independent Shareholders having approved the EMC Finance Lease Master Agreement and the transactions contemplated thereunder at a special general meeting of the Company convened for approving the EMC Finance Lease Master Agreement.

**Finance lease amount** : The finance lease amount under each finance lease shall be the purchase price of the lease items, subject to such amount shall not exceed the unutilized portion of the Finance Lease Credit Facilities.

The purchase price of the lease items will be determined upon arm's length negotiations between the leasing parties with reference to lessor's purchase cost of the relevant equipment/asset items and the prevailing market price for such equipment/asset based on the relevant valuation report (if applicable).

<b>Lease items</b>	:	The lease items will be equipment and/or properties to be used by the EMC Engineering Company for the purpose of providing energy conservation services to Shougang Group in execution of the EMC Projects.
<b>Interest rate</b>	:	<p>The interest rate payable by the relevant lessee shall be at a rate equal to the cost of lending of the Company and/or its subsidiaries plus 1% to 5%, subject to not being more than 10%.</p> <p>The interest rate to be charged on the relevant Finance Lease Loan shall be determined by the Group after the interest rate review process and risk assessment on the relevant borrower being conducted, details of which are set out in the section headed “INTERNAL CONTROL IN RELATION TO THE EMC FINANCE LEASE MASTER AGREEMENT” in the Letter from the Board.</p>
<b>Payment date of the lease and interest</b>	:	Unless otherwise agreed, time and frequency of payment under each finance lease and the interest accrued are subject to individual agreements to be entered into between relevant parties.
<b>Handling fee</b>	:	The Group shall be entitled to charge the relevant lessee for each finance lease a non-refundable handling fee of not more than 3.75% of the principal amount of the finance lease. Such handling fee shall be payable on the date of the drawdown of the fund. The handling fee is charged for the services provided by the Group in assessing the feasibility of conducting the relevant finance lease transactions. The handling fees and level of security deposits are determined by the Group on a case-by-case basis and will in any event determined with reference to the overall return of each project. Such rate is adjustable depending on various factors, including the level of services as provided by the Group and the risk exposures of the finance lease transactions.
<b>Lessee’s option to purchase</b>	:	At the end of the finance lease term, the relevant lessee will have the right to purchase the lease items at a nominal purchase price equal to 0.01% of the loan amount of the finance lease.

In assessing the fairness and reasonableness of the key terms of the EMC Finance Lease Master Agreement, we have considered the followings:

*Interest rate*

As disclosed in the Letter from the Board, the range of interest rate was determined after arm's length negotiations between the parties with reference to the prevailing market rate and a reasonable margin, which will be added to the cost of lending by the Group so as to ensure that the Group can earn a net income for providing the Finance Lease Credit Facilities under the EMC Finance Lease Master Agreement. Pursuant to the EMC Finance Lease Master Agreement, the interest rate so charged shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%. The exact interest rate to be charged for each of the Finance Lease Loans will be determined by the Company at the relevant time after taking into account the prevailing market interest rate. In determining the interest rate to be charged, the Group will approach at least three banks to seek for specific bank loan for the relevant project to determine the cost of the fund to the Group. The Group would then evaluate the credit risk of the lessee by reviewing its financial position and its ability to repay the Finance Lease Loan, and any assets or guarantee that may be provided as security. A margin would then be added based on the overall risk profile and collaterals that may be secured in respect of the Finance Lease Loan. In addition, the Group would evaluate if it has idle funds at the time. In such event, the Group would further evaluate the deposit rate for the idle fund and the lending rate that it could secure based on the risk profile and collaterals that may be secured in respect of the Finance Lease Loan.

As part of our due diligence on the interest rate chargeable under the EMC Finance Lease Master Agreement, we have reviewed the terms of all the finance lease transactions (the “**Reviewed Finance Lease Transactions**”) conducted by the Group from 2022 to 2024 (the “**Review Period**”). During the Review Period, we noted that (a) a total of 6 finance lease transactions has been entered into by the Group with Shougang Group at the interest rate from approximately 5% to 5.5%; and (b) a total of 4 finance lease transactions has been entered into by the Group with independent third party customers at the interest rate from approximately 5% to 5.5%. In addition, as disclosed in the 2024 Interim Report, the Group had no bank borrowings as at 31 December 2023 and 30 June 2024. As advised by the management of the Group, all of the Reviewed Finance Lease Transactions were funded by the Group's internal resources. In this regard, we have researched on the RMB loan prime rates and the RMB deposit rates from 2022 to 2024. According to the People's Bank of China (“**PBOC**”), in January 2022, the RMB loan prime rate was 3.70% for one-year period and 4.60% for over-five-year period, and, the RMB loan prime rate gradually decreased and amounted to 3.35% for one-year period and 3.85% for over-five-year period in July 2024. According to the “Notice of the PBOC on Lowering the RMB Benchmark Loan and Deposit Interest Rates for Financial Institutions and Further Promoting the Interest Rate Liberation Reform (Yin Fa [2015] No. 325))” (中國人民銀行關於下調金融機構人民幣貸款和存款基準利率並進一步推進利率市場化改革的通知(銀發[2015]325號)) prescribed by the PBOC on

24 October 2015, the latest RMB benchmark deposit rates are 1.30% for six-month period, 1.50% for one-year period and 2.75% for three-year period. Such deposit rates have not been updated by the PBOC since then. Accordingly, the interest rates charged by the Group on the Reviewed Finance Lease Transactions are no more favorable than the market benchmark lending rate and the market deposit rate for the idle funds during the relevant period. Based on the deposit interest rates offered by four independent commercial banks in the PRC as published on their official websites, the latest RMB deposit rates effective from 25 July 2024 are 1.25% for six-month period, 1.35% for one-year period, 1.75% for three-year period and 1.80% for five-year period. As such, the interest rates chargeable under the EMC Finance Lease Master Agreement are no more favourable than the historical interest rates charged by the Group and in line with the market benchmark lending rate and the market deposit rate for the idle funds.

As disclosed in the 2023 Annual Report, the interest rate of fixed rate receivables under sale and leaseback arrangement were 5–12% per annum for FY2023. Based on our review, all of the Reviewed Finance Lease Transactions are finance lease transactions on equipment leasing entered with corporate customers. As advised by the management of the Group, aside from such equipment leasing with corporate customers, all of the other finance lease transactions entered into by the Group during the Review Period are leasing transactions of consumer electronic devices, mainly mobile phones, entered with independent individual customers. As the customers of consumer electronic devices leasing are individuals who are generally considered to have greater credit risk as compared to corporate customers, higher interest rates of 10% to 12% were charged by the Group. In this regard, we have obtained and reviewed six cooperation agreements entered into between the Group and online platform companies during the Review Period and noted that the Group and the online platform companies have agreed to cooperate to conduct the finance lease transactions on mobile phone leasing with individual customers at an interest rate of 10% to 12% per annum. As these finance lease transactions were related to mobile phones leasing with individual customers which has different credit profile as compared to the transactions under the Reviewed Finance Lease Transactions, we consider they are not comparable to the finance lease transactions conducted between the Group and Shougang Group which were related to equipment leasing with corporate customers.

In view of the above, we concur with the management of the Group that the interest rates under the EMC Finance Lease Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

#### *Handling fees*

Pursuant to the EMC Finance Lease Master Agreement, the handling fees to be charged by the Group will be not more than 3.75% of the principal amount of the finance lease.

In assessing the fairness and reasonableness of the handling fees under the EMC Finance Lease Master Agreement, we have obtained and reviewed all of the finance lease agreements (a total of 10) entered into by the Group during the Review Period. We noted that the handling fees were charged at a range of approximately 0.50% to 1.63% to Shougang Group and approximately 1.60% to 3.00% to independent third party customers. We are given to understand that during the Review Period, the Group entered into two finance lease transactions with one independent third party customer with relatively high handling fees of approximately 2.00% and 3.00%. As advised by the management of the Group, this independent third party customer was a new customer for the Group so that its associated credit risk was higher than Shougang Group who has years of cooperation with the Group. In determining handling fee to be charged, the Group would consider various factors, including the level of services as provided by the Group and the risk exposures of the finance lease transactions. As disclosed in the letter from the Board, such risk-based approach to determine the handling fees is part of the pricing policy of the EMC Finance Lease Master Agreement and is applicable to the handling fees chargeable under the EMC Finance Lease Master Agreement. A new customer is generally considered to have greater risk exposure than a recurring customer who has established a long-term relationship with the Group. Accordingly, we consider it is reasonable for the Group to charge higher handling fees on the aforesaid new customer and the handling fees (i.e. not more than 3.75%) under the EMC Finance Lease Master Agreement are no more favourable than the historical handling fees charged by the Group.

In view of the above, we concur with the management of the Group that the handling fees under the EMC Finance Lease Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

#### *Lessee's option to purchase*

Pursuant to the EMC Finance Lease Master Agreement, at the end of the finance lease term, the relevant lessee will have the right to purchase the lease items at a nominal purchase price equal to 0.01% of the loan amount of the finance lease.

In assessing the fairness and reasonableness of the nominal purchase price of the finance lease transactions, we have independently performed research on the finance lease transactions announced by the companies listed on the Stock Exchange during the period from 1 June 2024 up to the date of the EMC Finance Lease Master Agreement (being approximately three months). We have, on a best effort basis, identified an exhaustive list of 61 finance lease transactions (the “**Comparable Finance Lease Transactions**”). We consider the aforesaid review period is adequate, appropriate and sufficient to compare the terms of the recent finance lease transactions as the Comparable Finance Lease Transactions are considered relevant for the purpose of assessing recent market practice in relation to finance lease transactions and a sufficient list of the Comparable Finance Lease Transactions (i.e. a total of 61) has been identified. We have reviewed the terms of each of the finance lease transactions, including but not limited to the option to purchase at the end of



the finance lease term, and noted that the nominal purchase price as a percentage of the finance lease loan amount of the Comparable Finance Lease Transactions ranges from approximately 0.000003% to 20% and 51 out of 61 finance lease transactions were set for a nominal purchase price of less than 0.01% of the loan amount of the finance lease. This demonstrates that it is common for finance lease transactions having nominal purchase price of less than 0.01% of the loan amount of the finance lease.

In view of the above, we consider that the nominal purchase price of the finance lease transactions under the EMC Finance Lease Master Agreement is in line with the market practice and we concur with the management of the Group that the nominal purchase price under the EMC Finance Lease Master Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

#### *Term*

The term of the EMC Finance Lease Master Agreement is for a period of 3 years commencing from the date on which the EMC Finance Lease Master Agreement becomes effective. The duration of each Finance Lease Loan will be negotiated on a case-by-case basis and each Finance Lease Loan will not have a term of longer than six (6) years from the date of the relevant Finance Lease Loan. To ensure the compliance of the Listing Rules, it is agreed that if the Company fails to renew the EMC Finance Lease Master Agreement at the end of the Term, the Group has the rights to terminate the EMC Finance Lease Master Agreement and demand the relevant EMC Engineering Company for full repayment of the outstanding loan within 14 days upon written notice.

We noted that the finance lease transactions entered into between the Group and independent third party customers during the Review Period ranged from 27 to 45 months, and most commonly set for a period of 45 months. Although the term of the finance lease loans offered under the EMC Finance Lease Master Agreement, being not exceeding 6 years from the date of the grant of the relevant Finance Lease Loan, is longer than the Group's normal practice, we understood that granting such longer period was mainly due to that the EMC Projects may require electricity equipment which generally has a longer operational lifespan. As such, a longer period of the finance lease transactions will ensure the stability of energy supply to the EMC Projects.

In addition, we have reviewed the terms of each of the Comparable Finance Lease Transactions, including but not limited to the lease period, and noted that the lease period of the Comparable Finance Lease Transactions ranges from 1 year to 18 years, and 13 out of 61 finance lease transactions were set for a period of 6 or more years. This demonstrates that it is not uncommon for finance lease transactions having term of more than 6 years.

Having considered that (a) it is of market practice for finance lease transactions having term of more than 6 years; and (b) the Group has the rights to terminate the EMC Finance Lease Master Agreement and demand the relevant EMC Engineering

Company for full repayment of the outstanding loan within 14 days upon written notice if the Company fails to renew the EMC Finance Lease Master Agreement at the end of the Term, we consider that it is of normal business practice for the EMC Finance Lease Master Agreement and each Finance Lease Loan granted thereunder to have such duration.

***(iii) Assessment of the proposed annual caps***

The proposed annual caps of the Finance Lease Credit Facilities (up to RMB3,400 million), on the basis of the principal amount of the Finance Lease Credit Facilities and interest, and handling fees thereon, which represent the maximum outstanding balance of the Group's receivables owed from the relevant EMC Engineering Companies under the EMC Finance Lease Master Agreement (which includes the outstanding loan principal, interest and handling fees thereof) throughout each year/period, is set out as follows:

<b>For the financial year ending</b>	<b>Annual caps (RMB million)</b>
From the commencement date of the EMC Finance Lease Master Agreement to 31 December 2024	3,868
From 1 January 2025 to 31 December 2025	3,868
From 1 January 2026 to 31 December 2026	3,868
From 1 January 2027 to the last date of the Term of the EMC Finance Lease Master Agreement	3,868

In assessing the reasonableness of the Finance Lease Credit Facilities and the proposed annual caps under the EMC Finance Lease Master Agreement, we have discussed with the management of the Group on the basis and assumptions underlying the projections. As advised by the management of the Group, in determining the Finance Lease Credit Facilities (up to RMB3,400 million) and the proposed annual caps (RMB3,868 million each year), they have taken into account, among others, (a) the numbers and estimated value of EMC Projects to be initiated by Shougang Group; (b) the capability of the Group to raise necessary fund to finance the EMC Projects; and (c) the anticipated demand of financing need of various EMC Projects.

We have discussed with the management of the Group on each of the above factors and their potential impacts on the Finance Lease Credit Facilities and the proposed annual caps and reviewed the relevant calculations. As advised by the management of the Group, in order to achieve the strategic objectives of energy conservation and emission reduction, quality enhancement and efficiency improvement as set out by the PRC government, the production enterprises under Shougang Group anticipates a huge demand for EMC works in the near future. Hence, Shougang Group will invite different EMC engineering companies through open bidding to undertake the provision of energy conservation services to Shougang

Group which can cost a lot. As such, Shougang Group expects to utilize the Finance Lease Credit Facilities to enable the EMC Engineering Company get access to the required facilities such as blast furnace equipment, generator equipment and power station equipment for the EMC Projects. Against this backdrop, we have obtained and reviewed the breakdown of the estimated financing needs of the potential EMC Projects which has been confirmed and agreed by Shougang Group. Based on our review, we noted that there are 14 potential EMC Projects with a total amount of approximately RMB3.3 billion under ongoing negotiation with Shougang Group as at the Latest Practicable Date. It is also expected that the Group will continue to have new finance lease transactions for the potential EMC Projects during the term of the EMC Finance Lease Master Agreement.

In considering the future financing needs of the potential EMC Projects, we have performed research on the business operation of Shougang Group and discussed with the management of the Group and noted that (a) iron and steel industry is a high-consumption, heavy-polluting, energy-intensive industry. In light of the “double carbon” target proposed by the Chinese government (i.e. to reach peak carbon use by 2030 and achieve carbon neutrality by 2060), Shougang Group will firmly establish the concept of green development, continue to refine the system to advance work related to “dual carbon”, further improve low-carbon plans, and explore green and low-carbon production paths. It will strengthen investment management and promote environmental protection and energy conservation project construction to strive for a green and low-carbon steel enterprise. As such, the construction of the EMC Projects is essential for Shougang Group’s sustainable development; and (b) as at 31 December 2023, Shougang Group had short-term and long-term borrowings of approximately RMB138.8 million which indicates that Shougang Group relies on external financing to satisfy a portion of its capital requirements for its business operation and expansion. Having considered the large operation scale of Shougang Group, it is expected that the size of the EMC Projects will not be small and the EMC Engineering Company will need external financing from time to time.

Taking into account (a) the recent and future business strategies of Shougang Group to establish the concept of green and low-carbon development; (b) the expected financing needs of the potential EMC Projects; (c) the ongoing negotiation of potential finance lease transactions between the Company and Shougang Group; and (d) that the risk relating to the transactions contemplated under the EMC Finance Lease Master Agreement would be controlled by the internal control measures stipulated under the section headed “Internal Control in relation to the EMC Finance Lease Master Agreement” in the Letter from the Board, we consider the Finance Lease Credit Facilities and the proposed annual caps under the EMC Finance Lease Master Agreement, which are the same during the term of the EMC Finance Lease Master Agreement, to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Although the proposed annual caps under the EMC Finance Lease Master Agreement represent over 100% of the total assets of the Company as at 30 June 2024, taking into account that (a) as advised by the management of the Group, Group, all of the Reviewed Finance Lease Transactions were funded by the Group's internal resources, which indicates that the Group had sufficient funds to conduct the finance lease transactions. We are also given to understand that prior to the finalisation of each project, the Group would assess the availability of internal resources and approach the banks for financing of each project, in order to ensure there are sufficient funds for the transaction; (b) the proposed annual caps under the EMC Finance Lease Master Agreement represent the amount of the Finance Lease Credit Facilities granted by the Group to Shougang Group. As disclosed in the Letter from the Board, the Group has the absolute discretion on whether or not to (1) cancel, adjust or alter the Finance Lease Credit Facilities and its maximum facilities amount at any time; and (2) provide the Finance lease Loan(s) at the relevant time. In any case, if the Group considers that it has difficulty to provide the Finance Lease Loan or have any concern on the credibility of the relevant EMC Engineering Company, it can reject to provide the Finance Lease Loan without any penalty; and (c) the borrowers of the transactions contemplated under the EMC Finance Lease Master Agreement are various EMC Engineering Companies, who shall be independent third parties to the Group, we consider there is no reliance and concentration risk or concern.

*(iv) Financial effects of the transactions contemplated under the EMC Finance Lease Master Agreement*

The Directors consider that the entering into the EMC Finance Lease Master Agreement will enable the Group to earn a net income. As (a) the interest rate to be charged on each of the Finance Lease Loans under the EMC Finance Lease Master Agreement would be at a rate equal to the cost of lending of the Company and/or its subsidiaries plus 1% to 5%, subject to not being more than 10%; and (b) the Group shall be entitled to charge the relevant lessee for each finance lease under the EMC Finance Lease Master Agreement a non-refundable handling fee of not more than 3.75% of the principal amount of the finance lease, the Group is able to earn a net income over the term of the EMC Finance Lease Master Agreement. As such, the Directors consider that the entering into the EMC Finance Lease Master Agreement will have positive impact on the earnings of the Group in a long run.

#### **4. Reporting requirements and conditions of the continuing connected transactions**

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the transactions contemplated under the EMC Finance Lease Master Agreement (the “**Transactions**”) are subject to the following annual review requirements:

- (i) the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts that the Transactions have been entered into:
  - (a) in the ordinary and usual course of business of the Group;
  - (b) on normal commercial terms or better; and
  - (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) the Company must engage its auditors to report on the Transactions every year. The Company’s auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company’s annual report) confirming whether anything has come to their attention that causes them to believe that the Transactions:
  - (a) have not been approved by the Board;
  - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Transaction involves the provision of goods or services by the Group;
  - (c) were not entered into, in all material respects, in accordance with the relevant agreements governing the Transactions; and
  - (d) have exceeded the relevant proposed annual caps;
- (iii) the Company must allow, and ensure that the counter-parties to the Transactions allow, the Company’s auditors sufficient access to their records for the purpose of the reporting on the Transactions as set out in paragraph (ii); and
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the relevant proposed annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Transactions and the relevant proposed annual caps not being exceeded, we are of the view that appropriate measures are in place to monitor the conduct of the Transactions and assist in safeguarding the interests of the Independent Shareholders.

## OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the EMC Finance Lease Master Agreement is conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the EMC Finance Lease Master Agreement (including the proposed annual caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the SGM to approve the Transactions.

Yours faithfully,  
For and on behalf of  
**Rainbow Capital (HK) Limited**



**Larry Choi**  
*Managing Director*

*Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.*