

24 October 2024

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs or Madams,

## **CONTINUING CONNECTED TRANSACTIONS**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement, and the transactions contemplated thereunder and the related proposed annual caps, 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 24 October 2024 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 30 September 2024. On 30 September 2024, Lisi Household entered into (i) the 2025 Export Agency Agreement with Lisi Import & Export for the provision of export agency services; and (ii) the 2025 Import Agency Agreement with Lisi Import & Export for the provision of import agency services.

As the 2022 Export Agency Agreement and 2022 Import Agency Agreement shall expire on 31 December 2024, on 30 September 2024, Lisi Household and Lisi Import & Export entered into (i) the 2025 Export Agency Agreement and (ii) the 2025 Import Agency Agreement to renew the respective existing agreements of the same subject matters for a term of three years commencing from 1 January 2025 and ending on 31 December 2027 and proposed the respective annual caps for the continuing connected transactions.

As at the Latest Practicable Date, Lisi Import & Export is owned as to 80% by Lisi Group and 18.18% by Ningbo Huayi, which is wholly-owned by Mr. Li, the Chairman, the executive Director and the controlling shareholder of the Company, and his son. Lisi Group is beneficially owned as to 98.15% by Mr. Li and his son. Therefore, Lisi Import & Export is a connected person of the Company. Accordingly, the entering into of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement constitutes continuing connected transactions for the Company.

Since the applicable percentage ratios in respect of the maximum aggregate annual values under the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are more than 5%, the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. He Chengying, Mr. Shin Yick Fabian and Mr. Kwong Kwan Tong, has been established to advise the Independent Shareholders as to (i) whether the terms of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement and their proposed annual caps are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the entering into of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and is in the interests of the Company and Shareholders as a whole; and (iii) whether to vote in favour of the relevant resolutions to be proposed at the SGM to approve the entering into of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement, the transactions contemplated thereunder and their proposed annual caps. In our capacity as the Independent Financial Adviser, our role is to provide an independent opinion to the Independent Board Committee and the Independent Shareholders in such regards.

## **OUR INDEPENDENCE**

As the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rule to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder.

Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We are not aware of the existence of or change in any circumstances that would affect our independence.

During the past two years, we were not appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company. Accordingly, we consider that we are eligible to give independent advice on, among other things, the 2025 Export Agency Agreement and the 2025 Import Agency Agreement and the proposed annual caps for the continuing connected transactions contemplated thereunder.

## **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 personnel; (iii) the opinions expressed by and the representations of the management of the Group (the “**Management**”); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us by the Directors and/or the Management, for which they are solely and wholly responsible for, 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 date of the SGM and all such statements of belief, opinions and intentions of the Management 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 Management and/or the advisers of the Group. We have also sought and received confirmation from the Management 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 Management 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 SGM.

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 Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Lisi Import & Export or any of their respective subsidiaries or associates.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation in respect of the proposed annual caps, we have taken into account the following principal factors and reasons:

### **1. Information on the parties**

#### ***1.1 The Group***

The Company is an investment holding company. Together with its subsidiaries, the Company operates business through four segments: (i) manufacturing and trading of household products; (ii) operation of supermarkets and property rental services; (iii) wholesales of alcohol, wine, beverages and electrical appliances; and (iv) investment holding.

Set forth below are the financial information of the Group for FY2023 and FY2024, as extracted from the annual report of the Company for FY2024 (the “2024 Annual Report”).

	<b>For the year ended 31 March</b>	
	<b>2024</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Total Revenue	2,687,361	2,422,402
– Manufacturing and trading segment	1,442,861	1,284,359
– Retail segment	332,798	395,948
– Wholesale segment	878,022	708,461
– Investments holding segment	33,680	33,634
Gross Profit	695,224	628,182
Profit for the year	325,051	269,764
		(note)
	<b>As at 31 March</b>	
	<b>2024</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Total assets	4,066,312	3,870,766
Total liabilities	1,672,045	1,795,784
Total equity	2,394,267	2,074,982

*Note:* The profit for FY2023 does not include the discontinued operations.

*For FY2023 and FY2024*

As disclosed in the 2024 Annual Report, the revenue of the Group increased by approximately 10.9% from approximately RMB2,422.4 million for FY2023 to approximately RMB2,687.4 million for FY2024. Such increase was primarily due to (i) the increase of approximately 12.3% in revenue generated from the manufacturing and trading business segment as the reduction of its operating cost and enhancement of production and product quality by installing automation systems in its production process; and (ii) the increase of approximately 23.9% in revenue generated from the wholesale business as the modest increase in revenue of wines and beverages and a promising increase in revenue of the electrical appliances segment, particularly heating, ventilation, and air conditioning. We also noted the other segments contributed to the revenue are (i) retail business with the decrease of approximately 15.9% in revenue due to increasing move to retail online shopping, e-commerce and large supermarket chains; and (ii) investments holdings segment which remained stable, respectively. As set out in the above table, the profit for FY2023 does not include the discontinued operation, segment of car-sale business and car trading platform business for FY2023, as it is not meaningful without comparable for FY2024. The Group recorded an increase of approximately 20.5% in profit for the year from approximately RMB269.8 million for FY2023 to approximately RMB325.1 million for FY2024. Such increase was driven by the increase in revenue and the net gain on disposal of certain land use rights and properties of the Group.

The Group's audited total assets and total liabilities as at 31 March 2024 amounted to approximately RMB4,066.3 million and RMB1,672.0 million respectively. The Group's audited consolidated net assets value amounted to approximately RMB2,394.3 million as at 31 March 2024, representing an increase of approximately 15.4% as compared to that of approximately RMB2,075.0 million as at 31 March 2023. We noted such increase was mainly due to (i) the increase of approximately 43.4% in the trade and other receivables and contract assets and prepayments and (ii) the increase of approximately 20.9% in cash and cash equivalents. The Group's debt-to-equity ratio (bank loans and other borrowings over total equity) decreased from 40.9% as at 31 March 2023 to 27.8% as at 31 March 2024, mainly due to the decrease of bank loans of approximately RMB185.6 million in FY2024.

### ***1.2 Lisi Household***

Lisi Household is a wholly foreign owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company. Lisi Household is principally engaged in manufacturing and trading of plastic and metallic household products.

### ***1.3 Lisi Import & Export***

Lisi Import & Export is a limited liability company incorporated in the PRC and is principally engaged in import and export of goods and materials in the PRC. As at the Latest Practicable Date, Lisi Import & Export is owned as to 80% by Lisi Group, 18.18% by Ningbo Huayi, which is wholly owned by Mr. Li and his son, and 1.82% by Mr. Li Zhihong (李志鴻), being the father of Mr. Li. Therefore, Lisi Import & Export is a connected person of the Company.

### ***1.4 Lisi Group***

Lisi Group is principally engaged in manufacturing and sales of plastics and hardware products, operation of department stores, and investment in real estate development projects in the PRC. Lisi Group is beneficially owned as to (i) 98.15% by Mr. Li and his son, (ii) 1.40% by Mr. Li Zhihong (李志鴻); (iii) 0.15% by Mr. Cheng Jianhe, an executive Director; (iv) 0.15% by Mr. Jin Yaxue, an executive Director; and (v) and 0.15% by Mr. Xu Jinbo (許金波). Therefore, Lisi Group is a connected person of the Company.

## **2. Reasons for and benefits of the entering into the 2025 Export Agency Agreement and the 2025 Import Agency Agreement**

As set out in the Letter from the Board, Lisi Import & Export shall provide export agency services and import agency services pursuant to the 2025 Export Agency Agreement and the 2025 Import Agency Agreement. These services include the handling of government applications, settlement services, the provision of guarantees in respect of payment obligations under raw materials or goods purchase contracts entered into between Lisi Household with other third parties and other liaison services between local government departments and the customers. The government applications would include customs declarations and tax refund. The major category of products involved will be plastic and metal household products for export agency services and raw materials such as polypropylene and copolyester for import agency services. Lisi Import & Export would provide all such services for every transaction assigned by the Group. In providing the import agency services, due to customs declaration, it is necessary for Lisi Import & Export to purchase the products in its name and resell the products to the Group at costs.

We have enquired with and advised by the Management that the transactions contemplated under the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are expected to occur on a continuing basis and the Management considers the provision of export agency services and import agency services are the common practices for the Company. By way of entering into the 2025 Export Agency Agreement and the 2025 Import Agency Agreement, the Group may also utilise (i) the experience and resources of Lisi Import & Export in dealing and communicating with local government authorities, tax authorities and customs; (ii) the long term relationship established by Lisi Import & Export with the overseas suppliers so as to secure stable source of raw materials with favourable price and good credit payment terms; and (iii) connection of Lisi Import & Export with the financial institutions for credit support. Having established a stable long-term business relationship between Lisi Import & Export and the Company, Lisi Import & Export has gained an in-depth understanding of the operations and business models of the Company which help to ensure continued smooth operation of the business of the Group.

In addition, as disclosed in the 2024 Annual Report, in respect of manufacturing and trading segment of the Group, it is noted that the Group will continue to drive vigorously on product development and align their client base with higher margin products and customers. Besides, the Group will implement cost control measures including integrating and realigning management and sales resources, as well as making structural changes in procurement and manufacturing planning. As abovementioned, the Management expects the transactions will occur on a continuing basis. As such, it would (i) incur additional costs such as professional fees when it comes to making a regular disclosure for each of the related transaction and require to obtain approval from the Independent Shareholders under the Listing Rule; and (ii) experience a practical difficulty if the Group has to comply with the Listing Rules in respect of the continuing connected transaction each time a transaction is proposed. Accordingly, providing a framework for the negotiation of individual transactions under the agreement is necessary for the continued smooth operation of Lisi Household and beneficial to the Company and the Independent Shareholders.

Having considered the above mentioned factors, we concur with the view of the Management that the terms of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are on normal commercial terms, fair and reasonable and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

**3. Principal terms of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement**

***2025 Export Agency Agreement***

The principal terms of the 2025 Export Agency Agreement are as follows:

*Date*

30 September 2024

*Parties*

- (i) 寧波利時進出口有限公司 (Lisi Import and Export Company Limited\*); and
- (ii) 寧波利時日用品有限公司 (Ningbo Lisi Household Products Company Limited\*).

*Subject Matter*

Lisi Import & Export shall provide export agency services to Lisi Household pursuant to the 2022 Export Agency Agreement. These export agency services primarily include assisting Lisi Household in handling government applications such as custom declarations, and settlement services and other liaison services between local government departments and the customers as requested by Lisi Household from time to time. The products involved in the 2025 Export Agency Agreement will be mainly plastic and metal household products under the following four categories: (i) hydration, which includes stainless steel bottles, plastic bottles, kids bottles, bike bottles, shakers and infusers; (ii) food storage, which includes storage canisters and food storage containers; (iii) kitchen and home organizers, which includes fridge bins, fresh keeper, cutlery trays, storage bins and desk organizers; and (iv) bakeware, which includes carbons steel pans, aluminium plates, silicone and steel pans, roaster pans, and kitchen tools and accessories. Lisi Import & Export would provide all such requested services for every transaction assigned by the Group. The Group could obtain similar services from other Independent Third Party agents if the terms offered by Lisi Import & Export are less favourable than those offered by other Independent Third Party agents.

*Term*

The 2025 Export Agency Agreement is for a term of three years commencing from 1 January 2025 and ending on 31 December 2027, unless at any time Lisi Household gives at least one (1) month prior notice of termination to Lisi Import & Export.

### *Consideration*

For the provision of the export agency services, Lisi Import & Export will charge an amount calculated based on the formula as set out in the 2025 Export Agency Agreement, which is equivalent to approximately 1.11% of the gross transactions amounts to be handled by Lisi Import & Export on behalf of Lisi Household (assuming that the rate of value added tax is 13% and the tax rebate rate is 13%). Currently the rate of value added tax is 13% and the tax rebate rate is 13%. Assuming the rate of value added tax remains at 13%, any decrease in the tax rebate rate from 13% to 0% will result in the rate of the export service fee to decrease from 1.11% to 0.98%. The actual export service fee in RMB will be subject to exchange rate fluctuations. The service fee is payable with the usual credit term of 30-60 days after completion of each transaction which is no less favourable than those offered by other Independent Third Party agents.

The rate of service fees was determined after arm's length negotiations by the parties with reference to the market rates ranging from 1.5% to 4.3% of the gross transaction amounts obtained by the Group from five of comparable companies engaging in similar services.

### *Condition Precedent*

The 2025 Export Agency Agreement is conditional upon the approval being obtained from the Independent Shareholders at the SGM. The 2025 Export Agency Agreement and the 2025 Import Agency Agreement are not inter-conditional.

As stated above, the export agency services fee quoted by Lisi Import & Export was determined after arm's length negotiations by the parties with reference to the market rates of comparable companies engaging in similar service and the service fee is payable with the usual credit term of 30-60 days after completion of each transaction which is no less favourable than those offered by other Independent Third Party agents. The Company confirmed that the terms of the 2025 Export Agency Agreement were same as the terms of the 2022 Export Agency Agreement. As such, in assessing the fairness and reasonableness of the terms of the 2025 Export Agency Agreement, we have obtained and reviewed the comparable agreements obtained by the Company in respect of the export agency service fees quoted by five Independent Third Party agents for the recent period (from 1 July 2024 to 30 September 2024), which are the latest comparable terms of Independent Third Party we can obtain and review in the market, so as to understand the recent selection process of the Group for the suitable agents and to assess whether the terms of the 2025 Export Agency Agreement is more favourable than the latest terms offered by the Independent Third Party agents. It is noted that the Independent Third Party agents charged services fee ranging from 1.5% to 4.3% of the gross transaction amounts and allowed payment term up to 60 days after completion of each transaction. The service fee offered by Lisi Import & Export to the Group is more favourable than those offered by Independent Third Party agents and the payment term offered by Lisi Import & Export to the Group is within the range of those offered by Independent Third Party agents. Furthermore, we have obtained an exhaustive list of the historical transaction under the 2022 Export Agency Agreement for the three months ended 31 March 2022, the two years ended 31 March 2024 and the six months ended 30 September 2024 (the “**Relevant Financial Period**”), being a period falling within the 2022 Export Agency Agreement, from the Company. We have then selected and reviewed samples based on the following criteria: (i) the total number of selected samples is not less than 10 sets and (ii) the total transaction amount of the selected samples is not less than 1% for the Relevant Financial



Period. We consider such criteria and the corresponding selected samples are fair, sufficient and representative for the purpose of our assessment, given that they represented (i) the largest transactions, which are selected by us independently from the full transaction list, in relation to the export agency services provided by Lisi Import and Export to Lisi Household (ii) for each of the Relevant Financial Period. Firstly, we sorted the transaction at the largest amount in each month on the list (the “**Selected Transactions**”). We then selected the samples beginning from the largest transaction amount of those Selected Transactions with aggregate 1% of the total transaction amount for each of the Relevant Financial Period and collected the corresponding samples (including the invoice, the sales confirmation and the customs declaration form) of each of those transactions from the Company. As such, we identified 18 sets of samples for us to review and assess whether the transactions were in compliance with the terms under 2022 Export Agency Agreement. Pursuant to the review we performed on the list of historical transaction under the 2022 Export Agency Agreement and the corresponding selected samples, we found both the service fee and payment terms offered by Lisi Import & Export were no less favourable than those offered by the Independent Third Party agents for each of the Relevant Financial Period and the actual historical transactions under the 2022 Export Agency Agreement (including but not limited to the pricing and credit terms) are similar to those stipulated under the 2025 Export Agency Agreement. Based on our review of the abovementioned agreements, we noted that the pricing basis and the term for transaction contemplated under the 2025 Export Agency Agreement were comparable and no less favourable than those offered by Independent Third Party agents.

#### ***2025 Import Agency Agreement***

The principal terms of the 2025 Import Agency Agreement are as follows:

##### *Date*

30 September 2024

##### *Parties*

- (i) 寧波利時進出口有限公司 (Lisi Import and Export Company Limited\*); and
- (ii) 寧波利時日用品有限公司 (Ningbo Lisi Household Products Company Limited\*).

### *Subject Matter*

Lisi Import & Export shall provide import agency services to Lisi Household pursuant to the 2025 Import Agency Agreement. These services include the handling of government applications, settlement services and the provision of guarantees in respect of payment obligations under raw materials or goods purchase contracts entered into between Lisi Household with other third parties. The government applications would include customs declarations and tax refund. The products involved will mainly be raw materials under the following categories, namely polypropylene, copolyester, ethylene-propylene copolymer, styrene-acrylonitrile copolymer, linear low density polyethylene, polystyrene and styrene-methacrylate copolymer. Lisi Import & Export would provide all such services for every transaction assigned by the Group. In providing the import agency services, due to customs declaration, it is necessary for Lisi Import & Export to purchase the products in its name and resell the products to the Group at costs. The Group could obtain similar services from other Independent Third Party agents if the terms offered by Lisi Import & Export are less favourable than those offered by other Independent Third Party agents.

### *Term*

The 2025 Import Agency Agreement is for a term of three years commencing from 1 January 2025 and ending on 31 December 2027, unless at any time Lisi Household gives at least one (1) month prior notice of termination to Lisi Import & Export.

### *Consideration*

Lisi Household will purchase raw materials or goods from Lisi Import & Export at costs. In addition, for the provision of the import agency services, Lisi Import & Export will charge an amount equivalent to 0.6% of the gross transaction amounts handled by Lisi Import & Export on behalf of Lisi Household. The purchase price and the service fees are payable after completion of each transaction with the usual credit term of 30-45 days which is no less favourable than those offered by other Independent Third Party agents.

The rate of service fees was determined after arm's length negotiations by the parties with reference to the market rates ranging from 0.6% to 1.5% of the gross transaction amounts obtained by the Group from five comparable companies engaging in similar services.

### *Condition Precedent*

The 2025 Import Agency Agreement is conditional upon the approval being obtained from the Independent Shareholders at the SGM. The 2025 Import Agency Agreement and the 2025 Export Agency Agreement are not inter-conditional.

As stated above, the import agency services fee quoted by Lisi Import & Export was determined after arm's length negotiations by the parties with reference to the market rates of comparable companies engaging in similar services and the purchase price and the service fees are payable after completion of each transaction with the usual credit term of 30-45 days which is no less favourable than those offered by other Independent Third Party agents. The Company confirmed that the terms of the 2025 Import Agency Agreement were same as the terms of the 2022 Import Agency Agreement. As such, in assessing the fairness and reasonableness of the terms of the 2025 Import Agency Agreement, we have obtained and reviewed the comparable agreements obtained by the Company in respect of the import agency service fees quoted by five Independent Third Party agents for the recent period (from 1 July 2024 to 30 September 2024), which are the latest comparable terms of Independent Third Party we can obtain and review in the market so as to understand the recent selection process of the Group for the suitable agents and to assess whether the terms of the 2025 Import Agency Agreement is more favourable than the latest terms offered by the Independent Third Party agents. It is noted that the Independent Third Party agents charged services fee ranging from 0.6% to 1.5% of the gross transaction amounts and allowed credit term ranging from 10 days upon completion of each transaction. The service fee paid to the Independent Third Party agents was equivalent to or less favourable than those paid to Lisi Import & Export and the payment term offered by Lisi Import & Export is more favourable to the Group than those offered by the Independent Third Party agents.

Furthermore, we have obtained an exhaustive list of the historical transaction under the 2022 Import Agency Agreement for the Relevant Financial Period, being a period falling within the 2022 Import Agency Agreement, from the Company. We have then selected and reviewed samples based on the following criteria: (i) the total number of selected samples is not less than 10 sets and (ii) the total transaction amount of the selected samples is not less than 1% for the Relevant Financial Period. We consider such criteria and the corresponding selected samples are fair, sufficient and representative for the purpose of our assessment, given that they represented (i) the largest transactions, which are selected by us independently from the full transaction list, in relation to the import agency services provided by Lisi Import and Export to Lisi Household (ii) for each of the Relevant Financial Period. We selected the samples beginning from the largest amount of transaction for each of the Relevant Financial Period on the list and collected the corresponding samples (including the sales confirmation, the delivery note and the customs declaration form) of each of those transactions from the Company. As such, we identified 10 sets of samples for us to review and assess whether the transactions were in compliance with the terms under 2022 Import Agency Agreement. Pursuant to the review we performed on the list of historical transaction under the 2022 Import Agency Agreement and the corresponding selected samples, we found both the service fee and payment terms offered by Lisi Import & Export were no less favourable than those offered by the Independent Third Party agents for each of the Relevant Financial Period and the actual historical transactions under the 2022 Import Agency Agreement (including but not limited to the pricing and credit terms) are similar to those stipulated under the 2025 Import Agency Agreement. Based on our review of the abovementioned agreements, we noted that the pricing basis and the terms for transaction contemplated under the 2025 Import Agency Agreement were comparable and no less favourable than those offered by Independent Third Party agents.

We have enquired with and are advised by the Company that Lisi Import & Export is the only agency providing export agency services and import agency services to Lisi Household for the Relevant Financial Period. The Company has right to select any other service providers for provision of export agency services and import agency services as it, from time to time, thinks fit and appropriate for the benefits of the Company.

Given that (i) the pricing basis and the terms of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are no less favourable to the Group than those offered by the Independent Third Party agents; and (ii) the transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group, we concur with the Company that the terms of each of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned.

#### 4. Assessment on the proposed annual caps

##### *2025 Export Agency Agreement*

##### *Review of the historical annual caps and actual transaction amount*

The historical annual caps and respective actual transaction amounts for the export agency services contemplated under the 2022 Export Agency Agreement for the Relevant Financial Period are set out below:

	For the three months ended 31 March 2022 (RMB'000)	For the year ended 31 March 2023 (RMB'000)		For the nine months ending 31 December 2024 (RMB'000)
2022 Export Agency Agreement		2024 (RMB'000)		
Historical annual caps	3,250	13,150	15,780	13,320
Actual transaction amount	2,755	11,107	12,975	6,884
Utilisation rate	84.8%	84.5%	82.2%	51.7%

*Note:* Based on the unaudited actual transaction amount for the six months ended 30 September 2024

As illustrated above, it is noted that the actual transaction amounts for the three months ended 31 March 2022, the two years ended 31 March 2024 and the six months ended 30 September 2024 amounted to approximately RMB2.8 million, RMB11.1 million, RMB13.0 million and RMB6.9 million respectively, and utilised up to approximately 84.8%, 84.5%, 82.2% and 51.7% of the annual caps for the respective periods. We noted that the utilisation rates of the historical annual caps for the export agency services contemplated under the 2022 Export Agency Agreement were relatively high for the three months ended 31 March 2022 and the two years ended 31 March 2024, that the average utilisation rates of such period was over 80%, which indicated the estimation of the transaction amounts in the Relevant Financial Period under the 2022 Export Agency Agreement was reasonable.

As set out above, the actual transaction amounts for the respective periods from 1 January 2022 to 31 March 2024 did not exceed the respective annual caps under the 2022 Export Agency Agreement and the actual transaction amount for the period from 1 April 2024 to 31 December 2024 is not expected to exceed the respective annual cap by the end of the current term.

*The Proposed Annual Caps*

2025 Export Agency Agreement	For the	For the year ending		For the
	three months			nine months
	ending	31 March		ending
	2025	2026	2027	2027
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Proposed annual caps	4,375	17,700	18,550	14,475

As stated in the Letter from the Board, the Proposed Annual Caps for the transactions contemplated under the 2025 Export Agency Agreement were determined with reference to (i) the amount of past transactions between Lisi Import & Export and Lisi Household under the 2022 Export Agency Agreement; (ii) the estimated annual sales of Lisi Household of approximately USD210 million for the calendar year of 2025; (iii) the expected growth of the business of Lisi Household at the rate of 5% per annum and the corresponding increase in the service fees payable for the calendar years from 2025 to 2027; and (iv) buffer for the annual growth and the impact of exchange rate fluctuation on export activities (assuming further depreciation of the RMB exchange rate for up to 10% per year).

In assessing the fairness and reasonableness of the proposed annual caps for the transactions contemplated under the 2025 Export Agency Agreement, we have confirmed with the Management that the proposed annual caps under the 2025 Export Agency Agreement considered the historical transaction under 2022 Export Agency Agreement for the six months ended 30 September 2024 with the assumption of approximately 10% depreciation of the RMB exchange rate and buffer for the annual growth.

We noted that the expected growth rate of 5% in the business of Lisi Household and the corresponding increase in service fees payable is based on the year-to-year growth rate of approximately 6.9% in the revenue in USD generated from the manufacturing and trading business segment as calculated from (i) the amount of revenue generated from the manufacturing and trading business segment disclosed in the 2024 Annual Report and (ii) their corresponding exchange rates of RMB to USD. We consider the respective year-to-year growth rate calculated in USD as the segment revenue generated was dominated in USD. Pursuant to the 2024 Annual Report, we noted that the revenue generated from the export business of Lisi Household is over 90% of the manufacturing and trading business segment and the remaining revenue contributed to such segment is related to local sales. Therefore, we are of the view that it is reasonable for the Company to adopt a relatively prudent approach on such expected growth rate. Also, we compared the estimated annual sales of Lisi Household of approximately USD210 million for 2025 with the historical revenue from the manufacturing and trading business for FY2024, and noted that there is an approximately 5% growth rate in revenue, which is in line with the expected growth rate of 5% in the business of Lisi Household. In addition, we have obtained and reviewed the confirmed

purchase orders list as at 7 October 2024 and noted that the confirmed purchase orders of plastic and metallic household products of Lisi Household which was not yet delivered amounted to approximately USD48.0 million, representing approximately 23% of the expected total sales amount of USD210 million for the calendar year of 2025. We were advised by the Management that such confirmed purchase orders are scheduled to be delivered not later than 31 March 2025 and similar amount of transaction is expected to be purchased every three months that we found the annualised amount of approximately USD48.0 million of confirmed purchased orders for the three months ended 31 March 2025 is in line with the expected total sales amount of USD210 million for the calendar year of 2025. We have, for due diligence purpose, collected samples of purchase orders representing approximately 5% of the total confirmed purchase orders from the overseas customers to assess the accuracy and reasonableness of that confirmed purchase order list. Based on the foregoing, the confirmed purchase orders received by the Group so far supported the estimated annual sales of approximately USD210 million for the calendar year of 2025 and hence taking into account such expected demand of the Company when setting the proposed annual caps is considered reasonable. Based on the breakdown of total services fee paid by Lisi Household to Lisi Import & Export for the Relevant Financial Period we obtained from the Company, we noted that the total transaction amount was approximately RMB6.9 million for the six months ended 30 September 2024. By annualising the historical transaction amount for the six months ended 30 September 2024 with an expected growth rate of 5%, such amount is over 80% of the proposed annual cap for the year ending 31 March 2026. In addition, there is an increase of 16.8% in the actual historical transaction under the 2022 Export Agency Agreement from RMB11.1 million for FY2023 to RMB13.0 million for FY2024.

Furthermore, we performed our independent research on the fluctuation of exchange rate and found that the exchange rate of RMB to USD for the two years ended 31 March 2024 and the six months ended 30 September 2024 was depreciated by approximately 10% on average according to the China Foreign Exchange Trade System of PRC (source: <https://www.chinamoney.com.cn/>). Moreover, with reference to the 2024 Annual Report, the Company would continue to maintain and enlarge its customer base including the cost control measures and business strategy of focusing on higher margin products and customers and development of new products and customers. As such, a buffer of the proposed annual caps is considered a reasonable measurement. Based on the forecast plan we obtained from the Company, we found both the expected growth rates of the proposed annual caps for the calendar year of 2026 and 2027 are approximately 5%. We are of the view such expected growth rates are relatively moderate and fair as they align with the expected growth of the business of Lisi Household mentioned above.

Having considered the abovementioned factors, we are of the view that the proposed annual caps in respect of the export agency services and the major factors considered as the basis of determining the proposed annual caps under the 2025 Export Agency Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

## ***2025 Import Agency Agreement***

### ***Review of the historical annual caps and actual transaction amount***

The historical annual caps and respective actual transaction amounts for the import agency services contemplated under the 2022 Import Agency Agreement for the Relevant Financial Period are set out below:

<b>2022 Import Agency Agreement</b>	<b>For the</b>	<b>For the year ended</b>		<b>For the</b>
	<b>three months</b>			<b>nine months</b>
	<b>ended</b>	<b>31 March</b>		<b>ending</b>
	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>31 December</b>
	<b>(RMB'000)</b>	<b>(RMB'000)</b>	<b>(RMB'000)</b>	<b>(RMB'000)</b>
Historical annual caps	27,200	163,400	183,400	166,000
Actual transaction amount	26,094	147,172	40,014	32,235
				<i>(Note)</i>
Utilisation rate	95.9%	90.1%	21.8%	19.4%

*Note:* Based on the unaudited actual transaction amount for the six months ended 30 September 2024

As illustrated above, it is noted that the actual transaction amounts for the three months ended 31 March 2022, the two years ended 31 March 2024 and the six months ended 30 September 2024 amounted to approximately RMB26.1 million, RMB147.2 million, RMB40.0 million and RMB32.2 million respectively, and utilised up to approximately 95.9%, 90.1%, 21.8% and 19.4% of the annual caps for the respective periods. Furthermore, the actual transaction amount for the respective periods from 1 January 2022 to 31 March 2024 did not exceed the respective annual caps under the 2022 Import Agency Agreement and the actual transaction amount for the period from 1 April 2024 to 31 December 2024 is not expected to exceed the respective annual cap by the end of the current term. Moreover, we noted that (i) the historical annual caps were close to full utilisation for the three months ended 31 March 2022 and the year ended 31 March 2023 that their utilisation rates were over 90%. However, there was a significant reduction in the import agency services contemplated under the 2022 Import Agency Agreement for FY2024 and the six months ended 30 September 2024. Based on the discussion with the Management, such decreasing trend is due to the increase in the Group's procurement of raw materials and goods from local suppliers instead of overseas suppliers during the relevant periods for more effective cost control and hence was in the interest of the Company and the Shareholders.

### *The Proposed Annual Caps*

2025 Import Agency Agreement	For the	For the year ending		For the
	three months			nine months
	ending	31 March		ending
	31 March	2026	2027	31 December
	2025			2027
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Proposed Annual Caps	28,900	170,850	175,850	149,400

As stated in the Letter from the Board, the Proposed Annual Caps for the transactions contemplated under the 2025 Import Agency Agreement were determined with reference to (i) the amount of past transactions between Lisi Import & Export and Lisi Household under the 2022 Import Agency Agreement; (ii) the sales forecast of Lisi Household for the calendar year of 2025 based on the expected growth of the business of Lisi Household at the rate of 5% per annum; and (iii) buffer for the annual growth and the impact of exchange rate fluctuation on import activities (assuming further depreciation of the RMB exchange rate for 10% per year) and the fluctuation of the price of the raw materials and transportation costs.

In assessing the fairness and reasonableness of the Proposed Annual Caps for the transactions contemplated under the 2025 Import Agency Agreement, we have confirmed with the Management that the proposed annual caps under the 2025 Import Agency Agreement considered the historical transaction for the three years ended 30 September 2023 with the assumption of the expected growth rate of 5% and approximately 10% depreciation of the RMB exchange rate.

We obtained the breakdown of the past transaction between Lisi Import & Export and Lisi Household under the 2022 Import Agency Agreement from the Company and noted that the historical transaction amount for three years from 1 October 2021 to 30 September 2024 was approximately RMB96.2 million per annum on average. As mentioned earlier, we found the expected growth rate of 5% in the business of Lisi Household is based on the year-to-year growth rate of approximately 6.9% in the revenue in USD generated from the manufacturing and trading business segment. Since the increase in sales would require the procurement of raw materials and goods to manufacture the final products to end-customers, it is reasonable to consider the expected growth rate of 5% in the business of Lisi Household when calculating the basis of proposed annual caps.

Furthermore, we performed our independent research on the fluctuation of exchange rate and found the exchange rate of RMB to USD for the two years ended 31 March 2024 and the six months ended 30 September 2024 was depreciated by approximately 10% on average pursuant to the China Foreign Exchange Trade System of PRC (source: <https://www.chinamoney.com.cn/>). By considering the details in the sales forecast of Lisi Household, including (i) approximately RMB96.2 million of historical transaction amount per annum on average from 1 October 2021 to 30 September 2024; (ii) the assumption of the expected growth rate of 5%; and (iii) approximately 10% depreciation of the RMB exchange rate, which also supported by our independent research mentioned in above, we found the annual expected transaction amount is approximately RMB111.1



million, which is approximately 65% of the proposed annual caps for the year ending 31 March 2026. However, in setting the proposed annual caps for the transactions contemplated under the 2025 Import Agency Agreement, the Directors have considered that the Group's demand for import agency services during the relevant periods will be subject to the Group's expected demand for raw materials and goods to be procured from overseas suppliers, which in turn will be affected by the type of products demanded by the Group's customers from time to time as well as the price quotations for the supply of the relevant raw materials and goods to be obtained by the Group from its overseas suppliers and domestic suppliers. Also, as mentioned in the section headed "Review of the historical annual caps and actual transaction amount" under "2025 Import Agency Agreement" above, the actual transaction amounts for the three months ended 31 March 2022 and the year ended 31 March 2023 were relatively high, which their average utilisation rate was over 90%. Hence, we are of the view that it is reasonable to consider buffer of the sales forecast of Lisi Household for the fluctuation in the Group's demand for import agency services due to the potential increase in the procurement of raw materials and goods by the Group from overseas suppliers with reference to the above mentioned high utilisation rate under 2022 Import Agency Agreement when setting the proposed annual caps under the 2025 Import Agency Agreement. Also, based on the forecast plan we obtained from the Company, we found both the expected growth rates of the proposed annual caps for the calendar year of 2026 and 2027 are approximately 3%. We are of the view such expected growth rates are relatively moderate and fair as they align with the expected growth of the business of Lisi Household mentioned above.

In view of the low utilisation rate of import agency services contemplated under the 2022 Import Agency Agreement for FY2024 and the six months ended 30 September 2024, we noted that the historical transaction amount of the import agency service was raised by approximately 61% during the same period from approximately RMB40.0 million for FY2024 to approximately RMB64.5 million of the annualised transaction amount for the six months ended 30 September 2024. We consider such improvement indicates the recovery of demand of imported raw materials and goods from overseas suppliers. As discussed with Management, such increase in transaction amount of the import agency service is due to the increase in procurement of raw materials from overseas suppliers for cost efficiency that the price offered by overseas suppliers were more favourable than those offered by local suppliers. Moreover, we have, for due diligence purpose, randomly selected and reviewed 10 samples of customs declaration form for the imported raw materials handled by Lisi Import & Export for the Relevant Financial Period and found that there was a decreasing trend of the unit price in the recent period from FY2024 to the six months ended 30 September 2024. Accordingly, there was a drop of approximately 13.5% on average in the unit price of imported raw materials from the period of 1 April 2023 to 31 March 2024 to the period of 1 April 2024 to 30 September 2024. Besides, we have conducted an independent research on the market price of the major raw material imported by the Company from China Plastics Online (source: [www.21cp.com](http://www.21cp.com)), an independent market research provider of plastic industry in PRC, to justify the unit price for goods sourced locally. Based on the foregoing, we found that the local market price of that raw material as at 17 October 2024 is higher than the price of the same raw material imported by the Company in September 2024. Therefore, despite the Group's low utilisation rate for import agency services under the 2022 Import Agency Agreement for FY2024 and the six months ended 30 September 2024, we concur with the view of the Management that such decreasing trend in the average unit price of imported raw materials in the recent period would likely increase its procurement of raw materials from overseas suppliers and hence the increase in the import agency service during the term of the 2025 Import Agency Agreement to enhance its cost efficiency.

Having considered the above, we are of the view that the proposed annual caps in respect of the import agency services and the above factors considered as the basis of determining the proposed annual caps under the 2025 Import Agency Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

## **5. Internal control measures**

As disclosed in the Letter from the Board, the Company has adopted, the following internal control measures in relation to the transactions contemplated under the 2025 Export Agency Agreement and the 2025 Import Agency Agreement in order to safeguard the interests of the Company and the Shareholders as a whole:

- (i) The Management obtains price quotation from at least two independent service providers or suppliers (subject to practical availability and feasibility), taking into account factors including the relevant experience, capability and available resources of the service providers or suppliers (“**Factors**”), to ensure the quality standards of the service providers or suppliers.
- (ii) In the event that the pricing terms and the Factors offered by Lisi Group and/or Lisi Import & Export (as the case may be) are not considered to be comparable with the pricing terms and the Factors offered by the other independent service providers or suppliers, the Group will not approve and accept the price quotation from Lisi Group and/or Lisi Import & Export (as the case may be). The final acceptance of price quotation offered by Lisi Group and/or Lisi Import & Export (as the case may be) shall be approved by the senior Management in accordance with the pricing policies of the Group and will not be prejudicial to the interests of the Group and the Shareholders as a whole.
- (iii) The operation team of the Company conducts regular checks (once per quarter) on whether the transactions under the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are conducted in accordance with the agreed contract terms.
- (iv) The independent non-executive Directors and the auditor of the Company will conduct annual review with respect to the continuing connected transactions of the Company throughout the preceding financial year and confirm on the transactional amounts and terms of the continuing connected transactions in the annual report of the Company pursuant to the requirements under the Listing Rules, and to ensure that the transactions are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the relevant agreements governing the continuing connected transactions.

In order to ensure transaction amounts under the 2025 Export Agency Agreement and the 2025 Import Agency Agreement will be within the relevant annual caps during the term, the Company adopts the following measures:

1. the Board shall arrange to provide training for the senior management and responsible finance staff on the compliance requirements and practical knowledge of notifiable transactions (including the continuing connected transactions);
2. the operation team of the Company is assigned to be responsible for internal control and in particular to monitor and oversee all the on-going transactions (including the continuing connected transactions), and to ensure the effective coordination and communication between various departments of the Company, including the finance department, the business department and the Board. The operation team will report to the Directors regularly (every month);
3. a working group comprising members from Hong Kong and the PRC to ensure the operational internal control procedures are fully implemented;
4. the Board will engage an expert which will conduct annual internal control assessment; and
5. the operation team and the corporate governance team of the Company are responsible for collecting data and statistics of the continuing connected transactions under the 2025 Export Agency Agreement and the 2025 Import Agency Agreement to ensure the relevant annual caps are not exceeded.

In light of the above, as advised by the Management, we are given to understand that the Company has assigned specific responsibilities to its operation team in performing regular checks and monitoring of the unitization of annual caps to ensure its compliance with the limits approved by its Independent Shareholders and overseeing all related transactions to make sure all continuing connected transactions of the Company are in accordance with the 2025 Export Agency Agreement, the 2025 Import Agency Agreement and the Listing Rules.

In the event that the utilisation of annual caps is anticipated to exceed the Proposed Annual Caps, or that there is any proposed material amendment to the terms of the 2025 Export Agency Agreement and the 2025 Import Agency Agreement, as confirmed by the Directors, the Company shall re-comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

In assessing the adequacy and effectiveness of the internal control measures, we have confirmed with the Management that since the proposed annual caps under the 2022 Export Agency Agreement and the 2022 Import Agency Agreement being approved on 31 January 2022, there is no historical deficiency identified in the previous transactions. Besides, we have obtained and reviewed the correspondence among the personnel of the operation team who were responsible to perform the review mentioned above, monitor the utilisation of annual caps and ensure all related transactions are in accordance with the 2022 Export Agency Agreement, 2022 Import Agency Agreement and the Listing Rules and noted the Company implemented such internal control measures accordingly. Having considered the above, we are of the view such measures to be conducted by the Company under the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are sufficient.

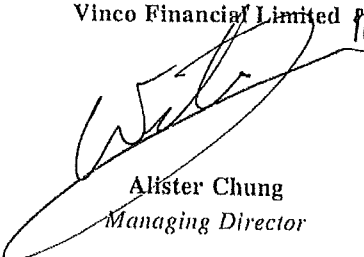
We concur with the view of the Directors that the internal control measures above can ensure that the transactions contemplated under the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are on normal commercial terms and that the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## RECOMMENDATIONS

Having considered the principal factors and reasons described above, we are of the opinion that the export agency services and the import agency services contemplated under the 2025 Export Agency Agreement and the 2025 Import Agency Agreement are conducted in the ordinary and usual course of the business of the Group; their respective terms and the proposed annual caps are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution(s) to be proposed at the SGM to approve the 2025 Export Agency Agreement and the 2025 Import Agency Agreement and the proposed annual caps.

Yours faithfully,  
For and on behalf of  
Vincor Financial Limited



Alister Chung  
Managing Director

*Note:* Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vincor Financial Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.