



South China Capital Limited

28/F., Bank of China Tower, No. 1 Garden Road, Central, Hong Kong.
Tel: 3196 6000

南華融資有限公司

29 November 2024

*To the Independent Board Committee and
the Independent Shareholders*

Heng Hup Holdings Limited

40/F., Dah Sing Financial Centre

No. 248, Queen's Road East

Wanchai

Hong Kong

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS UNDER 2025 MASTER PURCHASE AGREEMENTS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2025 Master Purchase Agreements and the transactions contemplated thereunder, details of which are contained in the letter from the Board (the “**Letter from the Board**”) as set out in the circular dated 29 November 2024 (the “**Circular**”). Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

References are made to the Company's announcement dated 29 October 2024, in relation to the 2025 Master Purchase Agreements.

IMPLICATIONS UNDER THE LISTING RULES

As (1) the counterparties to the 2025 Lek Seng Master Purchase Agreement, being Lek Seng and Lek Seng Metal Sdn. Bhd., and (2) the counterparties to the 2025 Chye Seng Huat Trading Master Purchase Agreement, being Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd., Soon Lee Metal Sdn. Bhd., and Shun Kuan Recycle Sdn. Bhd., are connected with each other, the transactions contemplated under the 2025 Lek Seng Master Purchase Agreement and the 2025 Chye Seng Huat Trading Master Purchase Agreement are aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. As the counterparties to the 2025 Master Purchase Agreements are connected persons and/or deemed connected persons of the Company, the 2025 Master Purchase Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the 2025 Master Purchase Agreements and the transactions contemplated thereunder are more than 5%, the 2025 Master Purchase Agreements and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Ms. Sai Shiow Yin, Mr. Puar Chin Jong and Mr. Chu Kheh Wee, has been established to make recommendation to the Independent Shareholders regarding the 2025 Master Purchase Agreements and the transactions contemplated thereunder.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the 2025 Master Purchase Agreements and the transactions contemplated thereunder are (i) conducted in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; (iii) fair and reasonable so far as the Independent Shareholders are concerned; and (iv) in the interests of the Company and the Shareholders as a whole, and to further give independent advice to the Independent Board Committee and the Independent Shareholders as to whether they should vote in favour of the resolution(s) approving the 2025 Master Purchase Agreements and the transactions contemplated thereunder.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interests in the Company that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this engagement, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions that could reasonably be regarded as relevant to our independence. During the past two years, we did not have any engagement with the Company or the Directors, chief executives of the Company and substantial Shareholders or any of their associates. Therefore, we consider that we are independent of the Company pursuant to the Listing Rules.

BASIS OF OUR OPINION

In arriving at our recommendation, we have reviewed, among other things, each of the 2025 Master Purchase Agreements, the Company's annual reports for each of the financial year ended 31 December (the "FY(s)") 2022 (the "**2022 Annual Report**") and 2023 (the "**2023 Annual Report**") and its interim report for the six months ended 30 June 2024 (the "**2024 Interim Report**"). We have also discussed with the management of the Group (the "**Management**") regarding the commercial implications of the 2025 Master Purchase Agreements and the transactions contemplated thereunder. In addition, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the Management. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the Management for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information which forms a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations whose omission would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group and the counterparties.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the 2025 Master Purchase Agreements and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Information on the Group

The Company is an investment holding company and its subsidiaries are principally engaged in trading of scrap ferrous metals, used batteries, waste paper, iron ore and other scraps in Malaysia.

2. Information on the counterparties to the 2025 Master Purchase Agreements

Lek Seng

As disclosed in the Letter from the Board, Lek Seng is a partnership owned by Mr. Lim Lai Wah and Mr. Lam Swee Seng, who are cousins of the Sia Brothers. Mr. Lim Lai Wah and Mr. Lam Swee Seng are brothers. As the Sia Brothers are the executive Directors and controlling shareholders of the Company, both Mr. Lim Lai Wah and Mr. Lam Swee Seng are deemed connected persons of the Company pursuant to Rule 14A.21(1)(a) of the Listing Rules. Lek Seng is engaged in trading of scrap materials.

Lek Seng Metal Sdn. Bhd.

As disclosed in the Letter from the Board, Lek Seng Metal Sdn. Bhd. is a company owned as to 22.5% by Mr. Lam Swee Seng, 22.5% by Mr. Lim Lai Wah and the remaining shares hold by three (3) sons of Mr. Lim Lai Wah, being Lim Wei Jeng (18.33%), Lim Wei Sing (18.33%) and Lim Wei Shyong (18.34%). As such, Lek Seng Metal Sdn. Bhd. is a deemed connected person of the Company pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules. Lek Seng Metal Sdn. Bhd. is engaged in trading of scrap materials.

Chye Seng Huat Trading

As disclosed in the Letter from the Board, Chye Seng Huat Trading is a sole proprietorship owned by Mr. Lim Ching Chan, who is a cousin of the Sia Brothers. As such, Mr. Lim Ching Chan is a deemed connected person of the Company pursuant to Rule 14A.21(1)(a) of the Listing Rules. Chye Seng Huat Trading is engaged in trading of scrap materials.

Chye Seng Huat Sdn. Bhd.

As disclosed in the Letter from the Board, Chye Seng Huat Sdn. Bhd. is a company owned as to 50% by Mr. Lim Soon Lee being the son of the late Mr. Lim Tian Fow, being a cousin of the Sia Brothers. The remaining shares hold by Lim Kim Sing (25%) and Lim Tuan Ann (25%). As such, Chye Seng Huat Sdn. Bhd. is a deemed connected person of the Company pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules. Chye Seng Huat Sdn. Bhd. is engaged in trading of scrap materials.

Soon Lee Metal Sdn. Bhd.

As disclosed in the Letter from the Board, Soon Lee Metal Sdn. Bhd. is a company owned as to 50% by Mr. Lim Soon Lee being the son of the late Mr. Lim Tian Fow, being a cousin of the Sia Brothers. The remaining shares hold by Lim Kim Sing (25%) and Lim Tuan Ann (25%). As such, Soon Lee Metal Sdn. Bhd. is a deemed connected person of the Company pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules. Soon Lee Metal Sdn. Bhd. is engaged in trading of scrap materials.

Shun Kuan Recycle Sdn. Bhd.

As disclosed in the Letter from the Board, Shun Kuan Recycle Sdn. Bhd. is a company owned as to 33.4% by Mr. Lim Soon Lee being the son of the late Mr. Lim Tian Fow, being a cousin of the Sia Brothers. The remaining shares hold by Lim Kim Sing (33.3%) and Lim Tuan Ann (33.3%). As such, Shun Kuan Recycle Sdn. Bhd. is a deemed connected person of the Company pursuant to Rules 14A.21(1)(a) and (b) of the Listing Rules. Shun Kuan Recycle Sdn. Bhd. is engaged in trading of scrap materials.

Sia Brothers

Sia Brothers are executive Directors and controlling shareholders of the Company.

3. Reasons for and benefits of entering into the 2025 Master Purchase Agreements

As mentioned in the Letter from the Board, in view of the strong demand of scrap materials of the end customers, the Company would source scrap materials from suppliers in the market so long as they are able to deliver the required scrap materials for the Group. Given that there has been no material interruption in the supply of scrap materials by the relevant counterparties of the 2025 Master Purchase Agreements, the transactions were on arm's length basis, and the purchase prices payable and the payment terms granted by the relevant counterparties of the 2025 Master Purchase Agreements to the Group were comparable to those payable and granted to independent suppliers, the Directors consider the relevant counterparties of the 2025 Master Purchase Agreements to be reliable sources of supply of scrap materials and it is in the interests of the Group and the Shareholders as a whole that the Group continues to purchase scrap materials from the relevant counterparties of the 2025 Master Purchase Agreements.

We have reviewed the 2023 Annual Report and the 2024 Interim Report and we understand, among other things:

- the Group is mainly engaged in trading of scrap ferrous metals, used batteries, waste paper, iron-ore and other scraps in Malaysia; and
- the sales volume of scrap ferrous metal increased from (1) 675,062 tonnes for the FY 2022 to 725,577 tonnes for the FY 2023, representing an increase of about 7.5%; and (2) 308,891 tonnes for the six months ended 30 June 2023 to 471,580 tonnes for the six months ended 30 June 2024, representing an increase of about 52.7%.

In addition, we note that the type of the products under the 2025 Lek Seng Master Purchase Agreement and the 2025 Chye Seng Huat Trading Master Purchase Agreement are the same. On this regard, we have discussed with and advised by the Management that the type of the products under the 2025 Lek Seng Master Purchase Agreement and the 2025 Chye Seng Huat Trading Master Purchase Agreement may be the same but the price of such products may be different. It is the Group's practice to obtain the pricing information from other suppliers to ensure that the Group could source scrap materials from suppliers who are willing to offer the Group competitive prices. In particular, the proposed annual caps under the 2025 Master Purchase Agreements provide the Group flexibility to meet the potential increase in demand of the Group's customers.

Based on the above understanding, we concur with the Board's view that entering into the 2025 Master Purchase Agreements is (1) in the ordinary and usual course of business of the Group; and (2) in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole.

4. Principal terms of the 2025 Master Purchase Agreements

Summarised below are the principal terms for the 2025 Master Purchase Agreements, details of which are set out in the Letter from the Board.

	2025 Lek Seng Master Purchase Agreement	2025 Chye Seng Huat Trading Master Purchase Agreement
Date:	30 October 2024	30 October 2024
Parties:	<ul style="list-style-type: none"> • The Company; • Lek Seng; and • Lek Seng Metal Sdn. Bhd. 	<ul style="list-style-type: none"> • The Company; • Chye Seng Huat Trading; • Chye Seng Huat Sdn. Bhd.; • Soon Lee Metal Sdn. Bhd.; and • Shun Kuan Recycle Sdn. Bhd.

2025 Lek Seng Master Purchase Agreement	2025 Chye Seng Huat Trading Master Purchase Agreement
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Subject matter:	<p>The Group may, but is not obliged to, purchase scrap ferrous metals, used batteries and waste paper from Lek Seng and/or Lek Seng Metal Sdn. Bhd., subject to the annual caps of RM60.0 million, RM66.0 million and RM72.6 million for each of the three FYs from 2025 to 2027.</p>	<p>The Group may, but is not obliged to, purchase scrap ferrous metals, used batteries and waste paper from Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd., Soon Lee Metal Sdn. Bhd., and/or Shun Kuan Recycle Sdn. Bhd., subject to the annual caps of RM55.0 million, RM65.0 million and RM70.0 million for each of the three FYs from 2025 to 2027.</p>
Duration:	<p>Subject to the fulfillment of the conditions precedent of each of the 2025 Master Purchase Agreements, each of the 2025 Master Purchase Agreements shall be for the three FYs from 2025 to 2027 unless terminated earlier by agreement signed between the parties thereto.</p>	
Pricing:	<p>Under each of the 2025 Master Purchase Agreements, the prices payable by the Group will be determined after arm's length negotiations between the parties with reference to market prices and be on normal commercial terms (or on terms better to the Group than those available to Independent Third Parties).</p>	

Pricing basis

As mentioned in the Letter from the Board, to ensure the fairness and reasonableness of the terms of the 2025 Master Purchase Agreements, the Company will from time to time contact with other independent suppliers and its customers to keep abreast of the market conditions. Further, before the Company agrees on the purchase prices with the relevant counterparties of the 2025 Master Purchase Agreements, the Group will obtain the pricing information from other independent suppliers to ensure that the Group only source scrap materials from suppliers who are willing to offer the Group competitive prices.

With reference to the aforementioned pricing terms, we have reviewed (1) a total of three sets of sample documents (the “**Samples**”) in connection with the transactions conducted under the 2022 Lek Seng Master Purchase Agreement in each of 2023 and 2024 (2023: one transaction with Lek Seng and two transactions with Lek Seng Metal Sdn. Bhd.; 2024: two transactions with Lek Seng and one transaction with Lek Seng Metal Sdn. Bhd.); and (2) a total of three sets of Samples in connection with the transactions conducted under the 2022 Chye Seng Huat Trading Master Purchase Agreement in each

of 2023 and 2024 (2023: one transaction with each of Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd.; 2024: two transactions with Chye Seng Huat Trading and one transaction with Soon Lee Metal Sdn. Bhd.). We consider the basis of selecting the Samples that we have reviewed to be justifiable and sufficient because, in respect of selection criteria, (i) they were randomly selected; (ii) they took place in 2023 and 2024 that can reflect the Group's latest business practice in its ordinary and usual course of business; and (iii) as we did not identify any anomaly when we reviewed such samples, we therefore did not require further samples and this sample size is in line with our usual practice. We have compared the purchase price in the abovementioned Samples with that of other independent suppliers and understand that the pricing terms with the respective counterparties were no less favourable than those obtained from independent third party.

We also note from the 2022 Annual Report and the 2023 Annual Report that, in accordance with the Listing Rules, (1) the auditor of the Company has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions of the Group in accordance with Rule 14A.56 of the Listing Rules; and (2) the independent non-executive Directors have reviewed the continuing connected transactions of the Group for FY 2022 and FY 2023 and confirmed that (i) such transactions were in the Group's ordinary and usual course of business and on normal commercial terms (or more favorable than normal commercial terms available for the Group); and (ii) the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered, (i) our review of the pricing terms of the Samples, which are no less favourable than those available from independent third parties; (ii) the track record of compliance by the Group, where the auditor of the Company and the independent non-executive Directors had reviewed and will continue to review the continuing connected transactions of the Group; and (iii) the internal control procedures implemented by the Group, we are of the view that the terms of the 2025 Master Purchase Agreements and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

5. Proposed annual caps and basis of determination

The below table sets out the historical transaction amounts under the respective category for each of FY 2022, FY 2023 and the nine months ended 30 September 2024 (the “CCT Period”).

	For FY 2022 RM	2023 RM	For the nine months ended 30 September 2024 RM
<u>Historical purchase amounts:</u>			
Under the 2022 Lek Seng			
Master Purchase Agreement	43,950,463	49,282,149	40,424,150 ^{Note}
Under the 2022 Chye Seng Huat			
Trading Master Purchase Agreement	42,462,561	17,691,943	18,236,736 ^{Note}

Note: As at the Latest Practicable Date, the existing annual caps for the year ending 31 December 2024 under the 2022 Lek Seng Master Purchase Agreement and the 2022 Chye Seng Huat Trading Master Purchase Agreement have not been exceeded.

The Company estimates the proposed annual caps in respect of the 2025 Master Purchase Agreements and the transactions contemplated thereunder for the period from the FYs 2025 to 2027:

	For FY 2025 RM' million	2026 RM' million	2027 RM' million
<u>Proposed annual caps for:</u>			
The 2025 Lek Seng Master			
Purchase Agreement	60.0	66.0	72.6
The 2025 Chye Seng Huat			
Trading Master Purchase Agreement	55.0	65.0	70.0
Total	115.0	131.0	142.6

In respect of the proposed annual caps for the 2025 Lek Seng Master Purchase Agreement and the 2025 Chye Seng Huat Trading Master Purchase Agreement, we have discussed with and have been advised by the Management that in arriving at the proposed annual caps, the Company has taken into account: (a) the Group’s aggregate costs of purchase of the materials from (1) Lek Seng and Lek Seng Metal Sdn. Bhd. (being the counterparties to the 2025 Lek Seng Master Purchase Agreement), during the historical period, for which the growth of about 12.3% for the FY 2023 as compared with that of the FY 2022 and the growth of about 9.2%

for the nine months ended 30 September 2024 as compared with that of the nine months ended 30 September 2023 (in a pro rata basis); and (2) Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and Soon Lee Metal Sdn. Bhd. (being the counterparties to the 2025 Chye Seng Huat Trading Master Purchase Agreement) during the CCT Period; (b) the anticipated demand of the Group's customers for materials for the three FYs from 2025 to 2027 after expanding the business to the northern region of Malaysia by establishing a new scrapyard at Sungai Petani, in the State of Kedah; (c) the Group's expected business growth with the newly ventured businesses into steel slag recycling and trading of iron-ore through the Group's two new subsidiaries, namely East China Metallurgy Sdn. Bhd. and Heng Hup Resources Sdn. Bhd.; and (d) the market overview of the scrap material trading market that during 2022 to 2028, the projected growth of the metal scrap recycling market in Malaysia will be at a compound annual growth rate of 5.6%.

As part of our due diligence, we have conducted our independent research on public website, we noted that, according to an article on businesswire.com we noted that, according to an article on businesswire.com (<https://www.businesswire.com/news/home/20230323005424/en/Malaysia-Metal-Scrap-Recycling-Market-Report-2022-2028-Government-Focus-on-Rail-System-Expansion-Fuels-Growth---ResearchAndMarkets.com>), the metal scrap recycling market in Malaysia had been projected to grow at a compound annual growth rate ("CAGR") of 5.6% during 2022 to 2028.

In addition, based on our independent review of the 2022 Annual Report, the 2023 Annual Report and the 2024 Interim Report, we noted that:

- (i) the sales volume of scrap ferrous metal (1) decreased from 701,846 tonnes for the FY 2021 to 675,062 tonnes for the FY 2022 (the "**Sales Decrease in 2022**"), representing a decrease of about 3.8%; and (2) increased from 675,062 tonnes for the FY 2022 to 725,577 tonnes for the FY 2023 (the "**Sales Increase in 2023**"), representing an increase of about 7.5%; while the same increased from 308,891 tonnes for the six months ended 30 June 2023 to 471,580 tonnes for the six months ended 30 June 2024, representing an increase of about 52.7%; in this regard, we have discussed with and have been advised by the Management that the Sales Decrease in 2022 was mainly due to the imposition of export tax on scrap metal exports by the Malaysian Government and the Sales Increase in 2023 was mainly due to the recovery in demand of scrap ferrous metal which was driven by the low average scrap ferrous metal prices in 2023;
- (ii) the cost of trading goods sold decreased from approximately RM1,337 million for the FY 2022 to RM1,247 million for the FY 2023, representing a decrease of about 6.7%; while the same increased from approximately RM538 million for the six months ended 30 June 2023 to RM791 million for the six months ended 30 June 2024, representing an increase of about 47.0%;

- (iii) the historical purchase amounts with Lek Seng and/or Lek Seng Metal Sdn. Bhd. (1) for the FY 2023 was approximately RM49.3 million, representing a year-on-year growth of about 12.3% (as compared with that of the FY 2022 of approximately RM 43.9 million) and (2) for the nine months ended 30 September 2024 was approximately RM40.4 million, representing a growth of about 9.2% (as compared with that of the nine months ended 30 September 2023 (in a pro rata basis)); and
- (iv) the historical purchase amounts with Chye Seng Huat Trading, Chye Seng Huat Sdn. Bhd. and/or Soon Lee Metal Sdn. Bhd. (1) for the FY 2023 were approximately RM 17.7 million, representing a year-on-year decrease of about 58.4% (as compared with that of the FY 2022 of approximately RM 42.5 million) and (2) for the nine months ended 30 September 2024 was approximately RM18.2 million, representing a growth of about 36.8% (as compared with that of the nine months ended 30 September 2024 (in a pro rata basis)).

Furthermore, we note that, based on the information available to the Company, the low utilization rate of the annual caps in FY 2023 under the 2022 Chye Seng Huat Trading Master Purchase Agreement (being about 32.2%) was due to management restructuring of Soon Lee Metal Sdn. Bhd., which hindered its ability to meet the Company's procurement demands. In addition, the transaction amounts were under gradual recovery for the financial period for the nine months ended 30 September 2024. On this regard, we have further discussed with the Management on the basis of determining the proposed annual caps under the 2025 Lek Seng Master Purchase Agreement and have been advised that such proposed annual caps have taken into account of (1) the strong demand for scrap ferrous metal which is expected to be continued in 2025; (2) the substantial increase in purchase amount for the nine months ended 30 September 2024 (i.e. a growth of about 36.8% as mentioned above); (3) the long-term business relationships with the owner of the counterparties to the 2025 Chye Seng Huat Trading Master Purchase Agreement; and (4) the quality of the historical purchase which was up to the acceptance standard of the Group's customers and hence reduced the chance that the scrap ferrous metals being rejected by the Group's customers. On the basis of the above, we are of the view that the proposed annual caps are justifiable.

Based on the above, (1) the proposed annual caps for the 2025 Lek Seng Master Purchase Agreement represent the CAGR of about 10.2% from the FYs 2023 to 2027, which are considered to be generally in line with the market growth and the recent business growth of the Group, we are of the opinion that the proposed annual caps for the 2025 Lek Seng Master Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the proposed annual caps for the 2025 Chye Seng Huat Trading Master Purchase Agreement represent the CAGR of about 41.0% from the FYs 2023 to 2027, which are considered to be justifiable by taking into account of (i) the recent business growth of the Group (especially the financial performance of the Group for the six months ended 30 June 2024, i.e. increase in revenue and gross profit of about 50.5% and 109.1%) and (ii) the recent increase in cost of trading goods sold for the six months ended 30 June 2024 (i.e. a growth of about 47.0%), we are of the opinion that the proposed annual caps for the 2025 Master Purchase Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

6. Internal control procedures of the Group

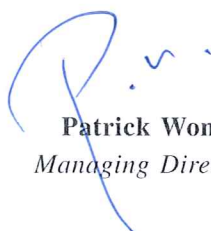
Please refer to the section headed “Internal Control Procedures” in the Letter from the Board for the details of internal control procedures of the Group.

We have reviewed the “Internal Control Procedures” in the Letter from the Board, in assessing whether the Company has put in place effective internal control procedures for its existing continuing connected transactions, we have obtained and reviewed the following documents: (i) the Samples as mentioned in the section headed “Pricing basis” above; and (ii) the internal documents (including the board minutes) of the quarterly review for the existing continuing connected transactions for March and June 2024, we note that the above documents and the pricing terms of the Samples which were no less favourable than those available from independent third parties were in compliance with the internal control procedures of the Company, thus we are of the opinion that the Company has put in place effective internal control procedures for its continuing connected transactions. On this basis, having considered that in the 2022 Annual Report and the 2023 Annual Report (i) the auditor of the Company has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions of the Group in accordance with Rule 14A.56 of the Listing Rules; and (ii) the independent non-executive Directors have reviewed the continuing connected transactions of the Group for FY 2022 and FY 2023 and confirmed that such transactions were in the Group’s ordinary and usual course of business and on normal commercial terms (or more favorable than normal commercial terms available for the Group); and the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole, therefore, we consider that the Group has sufficient internal control measures for the 2025 Master Purchase Agreements and the transactions contemplated thereunder.

RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that the 2025 Master Purchase Agreements and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, 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 Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution(s) to be proposed at the EGM to approve the 2025 Master Purchase Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
South China Capital Limited



Patrick Wong
Managing Director



Felix Leung
Associate Director

Notes:

Mr. Patrick Wong is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 20 years of experience in advising corporate finance transactions.

Mr. Felix Leung is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in the corporate finance industry.