



建泉融資有限公司
VBG Capital Limited

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25 November 2025

*To: The independent board committee and the independent shareholders
of Zhuzhou CRRC Times Electric Co., Ltd.*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS WITH CRRC GROUP

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 2026-2028 CRRC Group Mutual Supply Agreement and the New CRRC Group Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 25 November 2025 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalized terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

On 30 October 2025, the Company and CRRC Group entered into the 2026-2028 CRRC Group Mutual Supply Agreement to set out a framework for the mutual provision of products and services between the Group and the CRRC Group of Companies for three years commencing from 1 January 2026 and ending on 31 December 2028.

According to the Letter from the Board, the transactions contemplated under the 2026-2028 CRRC Group Mutual Supply Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules, and are subject to the reporting, announcement, circular and independent shareholders’ approval requirements.

The Independent Board Committee comprising Mr. Li Kaiguo, Mr. Zhong Ninghua, Mr. Lam Siu Fung and Ms. Feng Xiaoyun (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the 2026-2028 CRRC Group Mutual Supply Agreement and the New CRRC Group Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the entering into of the 2026-2028 CRRC Group Mutual Supply Agreement is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the 2026-2028 CRRC Group Mutual Supply Agreement and the New CRRC Group Caps at the EGM. We, VBG Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from having acted as the independent financial adviser of the Company relating to a continuing connected transaction of which a circular was published by the Company on 7 November 2024, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the 2026-2028 CRRC Group Mutual Supply Agreement in compliance with Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion with regard to the 2026-2028 CRRC Group Mutual Supply Agreement and the New CRRC Group Caps, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Company (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Company were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Circular. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Company in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the independent financial adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, the CRRC Group of Companies or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the 2026-2028 CRRC Group Mutual Supply Agreement. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources but we did not conduct any independent investigation into the accuracy and completeness of such information.

Shareholders should note that as the New CRRC Group Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2028, and they do not represent forecasts of revenue or cost to be recorded from the 2026-2028 CRRC Group Mutual Supply Agreement. Consequently, we express no opinion as to how closely the actual revenue and cost to be recorded under the 2026-2028 CRRC Group Mutual Supply Agreement will correspond with the New CRRC Group Caps.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the 2026-2028 CRRC Group Mutual Supply Agreement and the New CRRC Group Caps, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the 2026-2028 CRRC Group Mutual Supply Agreement

Information on the Group

The Group is mainly engaged in the research, development, design, manufacture and sale of railway transportation equipment products, as well as provision of relevant services. The Group has an industrial structure of “components + systems + complete machines”. The products primarily include rail transit electrical equipment, rail engineering machinery and communication signal systems with a focus on rail transit traction converter systems. Meanwhile, the Group also actively expands into industries other than rail transit and carries out business operations in the fields of basic devices, new energy vehicle electric drive system, new energy power generation, marine equipment and industrial converter.

During the past three years, the Group robustly rebounded from the aftermath of the Covid-19 pandemic and its financial performance has swiftly restored the growing momentum. The Group's total revenue jumped successively by approximately 13.4% and 21.2% year-on-year from approximately RMB18.1 billion in 2022 to approximately RMB22.0 billion in 2023 and further to approximately RMB24.9 billion in 2024. The Group's profitability also jumped extensively in a row from 2022 to 2024 with net profit peaking at approximately RMB3.9 billion in 2024.

Information on CRRC Group

As extracted from Letter from the Board, CRRC Group is a state-owned enterprise of the PRC. The principal scope of business of CRRC Group is the authorized state-owned asset management and state-owned equity management, capital operation, investment and investment management, asset management and trust management; research and development, sale, leasing and technological services of transportation and urban infrastructure, new energy, energy conservation and environmental protection equipment; design, manufacture and repair of locomotive trains, urban railway transport trains, railway hoisting machinery, various mechanical and electrical equipment and parts, electronic equipment, environmental protection equipment and products; import and export of goods, technology and agency.

Reasons for and possible benefits of the 2026-2028 CRRC Group Mutual Supply Agreement

As advised by the Directors, the reasons for and possible benefits of the 2026-2028 CRRC Group Mutual Supply Agreement are as follows:

- (a) In relation to the purchase of products and/or services, the Group has been procuring certain parts and components and services for the manufacture of its products from the CRRC Group of Companies for many years. As a result of such long-term business relationship, the CRRC Group of Companies have been familiar with the Group's product standards and technical parameters, and have been able to respond quickly and in a cost-efficient manner to any new requirements that the Group may request. In order to fulfil product standards and technical parameters required by the Group's customers, the Group needs the CRRC Group of Companies to supply from time to time certain parts and components produced with CRRC Group's proprietary process and technology, and services for skills and technical know-how. Products provided by the CRRC Group of Companies have more competitive advantages in terms of technology, quality and cost. As CRRC Group is a large scale state-owned enterprise, the CRRC Group of Companies have more resources and other competitive edge over their competitors in providing the required parts and components. Furthermore, as the locations of some of the members of the Group and CRRC Group of Companies are in close proximity, the Group will benefit from lower transportation cost and time required for delivery of some of the products as compared to procuring the same from Independent Third Party suppliers, and faster after-sale service response.

- (b) In relation to the supply of products and/or services, the Group has been supplying certain parts and components and services to the CRRC Group of Companies for many years. The parties have established a solid business relationship based on factors such as the continuity of historical product support and in-depth cooperation in technology research and development. As the Group has been focusing on and specialized in research, development, manufacture and sale of products including power converters, control systems, electrical systems and electric components etc. for the railway industry, urban railway industry and non-railway purposes, the Directors believe that the CRRC Group of Companies prefer acquiring such products from the Group as the Group processes the technical expertise and staff equipped with the relevant skills and specialities for providing technical services, after-sales services, maintenance services, management services in support of the products supplied. Furthermore, the Directors believe that the CRRC Group of Companies can reduce the procurement costs and obtain operating efficiency through making centralized and/or bulk purchases from the Group.
- (c) Due to the nature of the railway industry in the PRC, in particular after the merger of former China Northern Locomotive & Rolling Stock Industry (Group) Corporation (中國北方機車車輛工業集團公司) and former CSR Group (中國南車集團公司), there are a few industry players with comparable established size that are able to provide a wide variety of products and services that can serve the Group's business needs in a timely manner. Throughout the years of cooperation between the Group and the CRRC Group of Companies, the CRRC Group of Companies have been not only reliable customers which provide reliable source of revenue, but also reliable suppliers for providing the Group with timely and stable supply of the required and customized products and services.

In view of (i) the well-established cooperative relationship between the Group and the CRRC Group of Companies for mutual provision of products and services; (ii) the CRRC Group of Companies' good understanding of the service requirements of the Group; (iii) procurement from some of the CRRC Group of Companies could lower transportation cost and time; (iv) the supply of products and services by the CRRC Group of Companies is indispensable to the Group's business operations given the nature of the railway industry in the PRC with a few industry players of comparable established size and products scope; and (v) the revenue transactions under the 2026-2028 CRRC Group Mutual Supply Agreement will continue to generate considerable income to the Group, we are of the opinion that the entering into of the 2026-2028 CRRC Group Mutual Supply Agreement is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the 2026-2028 CRRC Group Mutual Supply Agreement

Summarized below are the principal terms of the 2026-2028 CRRC Group Mutual Supply Agreement as extracted from the Letter from the Board:

Date:	30 October 2025
Parties:	(a) CRRC Group; and (b) the Company.
Term:	Three years commencing from 1 January 2026 and ending on 31 December 2028.
Scope of products and services:	The Company agreed to supply and procure its subsidiaries to supply to the CRRC Group of Companies certain products and equipment, raw materials, parts and components, technical services, after-sales services, maintenance services, engineering contracting, management services and other related services, and related facilities for research and development, production and testing purposes. Products to be supplied by the Group are expected to include but not limit to locomotive traction converters, electric multiple unit traction converters, urban railcar traction converters and their respective auxiliary power supply equipment and control systems, and other related parts and components. Services to be provided supplied by the Group are expected to be mainly technical support services and maintenance services which are mostly specific to and tailor-made for the relevant products to be supplied. CRRC Group agreed to supply and procure its subsidiaries and/or their respective associates and/or subordinate entities (excluding the Group) to supply to the Group certain products and equipment, raw materials, parts and components, technical services, after-sales services, maintenance services, engineering contracting, management services and other related services, and related facilities for research and development, production and testing purposes. Products to be supplied by the CRRC Group of Companies are expected to include but not limit to electrical components such as motors, transformers, reactors, urban rail housing, transmission control devices and other related parts and components. Services to be provided by the CRRC Group of Companies are expected to be mainly technical services such as basic technology research, platform development, product testing and performance improvements, which are mostly specific to and tailor-made for the relevant products to be supplied.

Pricing policy:

The pricing for products and/or services supplied by and/or to the CRRC Group of Companies will be determined on the following principles in order of priority:

- (a) the prices prescribed by the government of the PRC or any regulatory authority(ies) (if any) (the “**Government-prescribed Prices**”);
- (b) the pricing guidelines or prices to be determined by the parties within the range as set by the government of the PRC or any regulatory authority(ies) (if any) (the “**Government-guided Prices**”), where no Government-prescribed Prices are available or applicable;
- (c) the final confirmed prices through the bidding and tendering process conducted in accordance with the applicable laws, rules and regulations (if any) (the “**Bidding Prices**”), where neither the Government-prescribed Prices nor the Government-guided Prices are available or applicable;
- (d) the market prices determined in accordance with the following order: (1) the prevailing prices charged by Independent Third Parties providing the same types of products and/or services under normal commercial circumstances in the locality where such products and/or services are provided or its surrounding regions; or (2) the prevailing prices charged by Independent Third Parties providing the same types of products and/or services under normal commercial circumstances, where none of the Government-prescribed Prices, the Government-guided Prices or the Bidding Prices are available or applicable (the “**Market Prices**”); and
- (e) the agreed prices based on the actual or reasonable cost incurred thereof plus a reasonable profit (which is determined with reference to the nature and historical price of products and/or services, current market price (if applicable) of the similar products and/or services and the Group’s forecasted demand and increase in the market price of such products and/or services in the remaining term), where none of the above pricing principles are available or applicable (the “**Agreed Prices**”).

In connection with the aforesaid pricing policy under the 2026-2028 CRRC Group Mutual Supply Agreement, we noted that prices of the products and/or services supplied by and/or to the CRRC Group of Companies shall be determined firstly based on the Government-prescribed Prices, followed by the Government-guided Prices. As advised by the Directors, the Government-prescribed Prices and Government-guided Prices include prices or pricing range set by the government authorities such as the National Development and Reform Commission (國家發展和改革委員會) and the National Railway Administration (國家鐵路局) (the “NRA”). For example, the Standard Quota for Design Budget of Basic Railway Construction Projects (《鐵路基本建設工程設計概(預)算費用定額》) issued by the NRA in December 2024 clearly sets out the price range references or limits for railway products such as locomotives. The Group will constantly monitor and ensure adherence to the applicable Government-prescribed Prices and Government-guided Prices as and when applicable. In light of that those standards are legitimate and impartial for the entire railway industry, we consider such pricing basis to be fair and reasonable.

As for pricing policies (c) and (d) above where both the Government-prescribed Prices and the Government-guided Prices are unavailable, we have further discussed with the Directors and understand that the Group has formulated a series of measures and procedures for its purchase of products and/or services, and similarly for its supply of products and/or services. With regard to the purchase side, the measures and procedures include Procurement Management Measures (《採購管理辦法》), Framework Agreement Sourcing Management Procedures (《框架合同尋源管理流程》) and Competitive Bidding Procurement Management Procedures (《競標採購管理流程》) etc., and they are applicable to both transactions with connected persons and the Independent Third Parties. The centralized procurement centre of the Company has maintained and operated a procurement management platform (<http://scm.csrzic.com>) as well as the CRRC’s procurement management platform, CRRC Go 2.0 (<http://www.crrcgo.cc/>). Through the procurement management platform, the Group prepares and approves sourcing plans, and executes and approves contracts. Procurement requirements are published via the CRRC Go 2.0 platform, so that the qualified suppliers (including but not limited to the CRRC Group of Companies) may respond to such procurement request by providing quotations or submitting bids to the platform, with the final selection also completed on the platform. In general, to be eligible as the Group’s qualified supplier, the supplier should be a legal entity with fixed business operation facilities and operational system, and has past the Group’s qualification assessment and assessment on sample products produced. The Group will, to the extent where the Market Prices approach is applicable, obtain and compare the quotations and bids from the suppliers, and further conduct researches on industry websites and obtain and compare price references from the market to the extent that those products and/or services are of comparable nature, quality, quantity and condition, and select the supplier in accordance with the established methods and procedures to ensure that the procurement is fair and reasonable.

In relation to the above, we have randomly selected and obtained from the Company 15 tender documents in respect of the Group's procurement of products and/or services from the CRRC Group of Companies pursuant to the 2023-2025 CRRC Group Mutual Supply Agreement. As the sample check is in addition to other due diligence work we performed to assess the pricing policy, the sample size is for reference only. Those non-exhaustive samples were selected by us on a random basis, five each year without specific criteria and covered the period from 2023 to 2025 with a broad spectrum of contract sum of below RMB1 million (five samples in total), between RMB1 million to RMB10 million (six samples in total) and over RMB10 million (four samples in total). We therefore consider them to be sufficient, fair and representative. After reviewing the same, we noted that the most competitive supplier was selected through public procurement. As such, pricing policy (c) pursuant to the 2026-2028 CRRC Group Mutual Supply Agreement was conformed to.

With regard to the supply side, the measures and procedures include Administrative Measures for Sales Business and Accounts Receivables (《銷售業務和應收賬款管理辦法》), Administrative Measures for Rewards and Punishments of Sales Receipts (《銷售回款獎懲管理辦法》), Management Procedures for Sales Contract Review and Execution (《銷售合同評審與簽訂管理流程》) and Bidding Management Procedures (《投標管理流程》). The legal department of the Company maintains and operates a legal and sales contract management system and sets up different approval procedures to regulate the supply of the Group's products and/or services. The Group will conduct research on industry websites and compare prices of recent similar transactions of the Group in the market to the extent that those products and/or services are of comparable nature, quality, quantity and condition, so as to ensure that the prices of products and/or services to be supplied to the CRRC Group of Companies would be fair and reasonable to the Group and no less favourable to the Group than those offered to the Independent Third Parties.

In relation to the above, we have randomly selected and obtained from the Company (i) 15 sales agreements/record in respect of the Group's supply of products and/or services to the CRRC Group of Companies pursuant to the 2023-2025 CRRC Group Mutual Supply Agreement; and (ii) 15 sales agreements/record in respect of the Group's supply of similar products and/or services (to the extent possible) to its Independent Third Party customers. As the sample check is in addition to other due diligence work we performed to assess the pricing policy, the sample size is for reference only. Those non-exhaustive samples were selected by us on a random basis, five each year without specific selection criteria and covered the period from 2023 to 2025 with a broad spectrum of contract sum of below RMB1 million (8 samples in total), between RMB1 million to RMB10 million (12 samples in total) and over RMB10 million (10 samples in total). We therefore consider them to be sufficient, fair and representative. After reviewing the same, we noted that for similar types of products and/or services supplied by the Group to the CRRC Group of Companies and the Independent Third Party customers, their unit price and payment terms were comparable. As such, pricing policy (d) pursuant to the 2026-2028 CRRC Group Mutual Supply Agreement was conformed to.

As for pricing policies (e) under which the Agreed Prices are adopted, we understand from the Directors that the relevant products and/or services are usually specific or tailor-made items which are not readily available in the market for making meaningful comparison. In determining whether the profit is a reasonable profit under the pricing principle of Agreed Prices, the Company will take into account the historical profit margin of at least two similar products or services supplied by (or to) the Independent Third Parties (if available) or the relevant industry profit margin (if available) for reference in conjunction with the prevailing market and business condition. The Company will also consider, where applicable, the historical gross profit margin of the relevant business (and for reference only, the gross profit margins of the Group in respect of (i) rail transit equipment business; (ii) emerging equipment business and (iii) other business for the two years ended 31 December 2024 were in the range of approximately (i) 37-38%; (ii) 25-29% and (iii) 17%-19%, respectively) and will generally charge a reasonable profit at such reference rates (if applicable) depending on specific products and services required and prevailing market and business condition. Such data will provide an objective reference point for assessing the reasonableness of the profit margin of a particular product/service. Additionally, professional insight will be incorporated in the pricing and assessment process whereby experts in the Group with sufficient industry experience could opine on the fairness and reasonableness of the relevant price (and the profit margin) by reference to the comparable price and/or historical transaction price of the most similar items and take into account various factors, including the type of the products or services, the complexity of the products and technologies involved, the estimated costs and resources required in the research and development, production and/or provision of the products/services, as well as the prevailing market and business condition. Such experts are usually technical experts from the relevant product/business unit of the Group and are familiar with and/or closely involved in the research and development, production and/or operation processes of relevant products or the provision of related services. The experts' opinions on pricing are recorded and maintained in the Company's internal system to ensure traceability and accountability. This structured approach ensures that the determination of the "reasonable profit" is not arbitrary but based on objective data, expert insight, and prevailing market conditions, thereby ensuring that such price (and profit margin) is on normal commercial terms or better, fair and reasonable and in the interests of the Company and the Shareholders as a whole. For our due diligence purpose, we have requested the Company to provide us with the resume of the relevant experts of the Group. We noted their industry experience and proficiency as they all received at least tertiary education in fields related to automation, mechanical engineering, computer science and technology, civil engineering etc. and have joined the Group for more than eight years. In light of also the Group's prolonged history of operations, reputation and past successes within the PRC railway industry, there is no reasonable ground for us to doubt the relevant expertise and industry knowledge of the Group in determining the Agreed Prices.

With the above being the case, we concur with the Directors that the terms of the 2026-2028 CRRC Group Mutual Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The New CRRC Group Caps

The table below illustrates the New CRRC Group Caps for the expenditure transactions and revenue transactions contemplated under the 2026-2028 CRRC Group Mutual Supply Agreement:

The New CRRC Group Caps (<i>RMB million</i>)			
	2026	2027	2028
Expenditure transactions			
Amount to be paid to the CRRC Group of Companies by the Group for the provision of the products and/or services	4,500	6,700	10,100
Revenue transactions			
Amounts to be paid to the Group by the CRRC Group of Companies for the provision of the products and/or services	16,300	21,100	27,500

Our assessment on the New CRRC Group Caps

In assessing the fairness and reasonableness of the New CRRC Group Caps, we have studied the Group's existing operations and future development blueprint in further depth and performed independent market research on the following factors which will essentially affect the future demand for railway products and/or services of the Group from the CRRC Group of Companies (and vice versa): (1) prospects of the railway industry, especially under the supportive policies of the PRC government; (2) development of new technologies, new industries, new business types and new models; (3) the recent growing trend of the railway industry; and (4) the possible inflation and rise in prices of the railway products and services.

The Group's existing operations and future development blueprint

As aforementioned, the Company is mainly engaged in the research, development, design, manufacture and sale of railway transportation equipment products, as well as provision of relevant services.

As advised by the Directors, the Company is a leading traction converter system supplier in the PRC's rail transit industry, and can produce traction converter systems for various vehicle models in the fields of locomotives, bullet trains and urban rail. The Company has a full spectrum of traction converter system products and a dominant market share. In the field of railway engineering machinery, the Group is one of the three manufacturers of road maintenance machinery designated by the State Railway Group. With about 79 administrative licenses, it can produce more than 50 kinds of products in multiple series, including heavy-duty railway vehicles, catenary vehicles, large road maintenance machinery, and urban rail transit engineering vehicles. In the field of power semiconductors, the Company has built industrial bases for 6-inch bipolar devices, 8-inch insulated gate bipolar transistors (IGBT) and 6-inch silicon carbide, and possesses a complete set of independent technologies for chips, modules, components and applications. The full spectrum of high-reliability IGBT products manufactured by the Company have terminated the monopoly of foreign companies in core devices for rail transit and ultra-high vacuum transmission.

Moreover, among its key technology breakthroughs, the Company completed the fully-furnished electric multiple unit (EMU) prototype and the finalization and upgrade of permanent magnet traction system for CR450, with leading efficiency and lightweight indicators in the industry, and achieved wide application of autonomous driving for 20,000-ton heavy-haul train at Shuohuang, securing locomotive autonomous driving orders of nearly RMB100 million. With permanent magnet traction growing rapidly and representing almost half of the total demand, the Company's market share outperformed the traditional peers. The Group also completed the first installation of electrical system for electric transmission continuous tamping vehicle, and secured the first ground-breaking order for large-size high-speed rail laying machine. The Group's communication signal business continued to expand, with revenue hitting a record high. In particular, its urban rail signal segment won bids for three lines in 2024. The seamless transformation of the signal system of Changsha Metro Line 2 was successfully completed, setting a new benchmark for domestic substitution. The Group's proprietary fully automatic operation system achieved the first demonstration application at Ningbo Metro Line 8, satisfying the conditions for operation. In addition, its power supply system segment won all four projects of Chongqing Metro.

Going forward, the Group is confident to further capitalize on its industrial advantages and leading market position, and to capture the growth opportunities arising from the positive outlook of the railway industry.

Prospects of the railway industry

Based on our independent research, the PRC government has promulgated a series of favorable policies for its railway sector, aiming to expand and modernize the network, attract private investment, and enhance efficiency. With reference to an article titled “China to roll out new railway operating plan” published in January 2024 by the State Council of the PRC at https://english.www.gov.cn/news/202401/08/content_WS659bd434c6d0868f4e8e2df1.html, China is set to implement a new railway operating plan starting from 10 January 2024, aimed at improving passenger and cargo transport capacity. Under the new plan, 233 passenger trains will be newly added across the country, bringing the total count to 11,149. A total of 22,264 freight trains will operate nationwide after the adjustment, an increase of 40 compared with the current schedule. Coupled with the launch of new train lines and stations nationwide, the adjustment aims to bolster connectivity in areas such as the Guangdong – Hong Kong – Macao Greater Bay Area and the Beijing-Tianjin-Hebei region. Efforts will also be made to enhance the efficiency of freight logistics, thereby safeguarding livelihoods and boosting social and economic development.

With reference to another article titled “High-speed rail travel enhanced” published in June 2024 by the State Council of the PRC at https://english.www.gov.cn/news/202406/14/content_WS666b9e48c6d0868f4e8e8188.html, China will unveil a revamped national railway schedule, introducing a host of enhancements aimed at bolstering the country’s strategic interests and propelling regional socioeconomic progress. A notable addition to the new schedule is the inauguration of a high-speed railway loop linking Shanghai with the provinces of Zhejiang, Jiangsu and Anhui. Spanning more than 1,200 kilometers, it will start from Shanghai Railway Station in the heart of the city and then connect with key urban centers including Suzhou, Nanjing, Hangzhou and Huangshan Mountain before returning to Shanghai Hongqiao Railway Station. The loop line encompasses 21 stations and traverses several popular tourist cities in the Yangtze River Delta Region. Another standout feature of the new schedule is the introduction of swifter high-speed trains connecting Beijing with South China’s Guangdong province and neighboring Hong Kong. Bullet trains will race along the Beijing-Guangzhou High-speed Railway at a speed of 350 kilometers per hour, reducing the travel time between the two cities to 7 hours and 16 minutes, 22 minutes faster than before. Faster sleeper trains to Hong Kong are also poised to commence operations from Beijing and Shanghai, promising a refined travel experience for cross-border passengers and streamlining the journey between Hong Kong and the mainland.

According to the Guidelines on Developing National Comprehensive Transport Network (《國家綜合立體交通網規劃綱要》) jointly promulgated by the Central Committee of the Communist Party of China and the State Council of the PRC in February 2021, it is expected that by 2035, the total scale of the national comprehensive transport network will be about 700,000 kilometers (excluding foreign parts of international land routes, air routes, sea routes and postal routes), of which 200,000 kilometers will belong to the railway network.

According to the “14th Five-Year Plan” Modern Integrated Transportation System Development Plan (《“十四五”現代綜合交通運輸體系發展規劃》) published by the State Council of the PRC in December 2021, it is expected that by 2025, (i) the operation mileage of the railways will reach 165,000 kilometers, of which 50,000 kilometers will be the operation mileage of high-speed railways; and (ii) 10,000 kilometers will be the operation mileage of urban rail transit.

Furthermore, the government is currently in the process of formulating the new railway development plan under the 15th Five-Year Plan which will focus on, among other things, improving the railway network and enhancing transport efficiency.

The supportive government policies to further enhance and modernize the nation's railway network would facilitate the development of the Group's rail transit maintenance services. Furthermore, the continuing growth of the railway industry is expected to further boost the business growth of, and hence the transaction amounts between, the Group and the CRRC Group of Companies for the mutual supply of products and services.

Development of new technologies, new industries, new business types and new models

Under the new energy proposal defined in the report of the 20th CPC National Congress, it is expected that the ongoing implementation of the Outline for the Construction of Nation with Strong Transportation System (《交通強國建設綱要》), the “carbon peak and neutrality” strategy and other national initiatives will bring significant opportunities to the Company in developing rail transit and new energy equipment business. The Outline for the Construction of Nation with Strong Transportation System explicitly proposes to promote intelligent and digital transportation equipment as well as intelligent transportation, and advocate low-carbon and eco-friendly development. For the development of advanced rail transit equipment, China aims to develop a new generation of green, intelligent, high-speed and heavy-duty rail transit equipment system. In the context of the “carbon peak and neutrality” strategy, China vigorously improves railway transport capacity under the “highway to railway” initiative, thereby generating great growth potential to heavy-duty freight locomotives. As a core part of China's new infrastructure plan, it is expected that intercity high-speed railway/urban rail transit will enjoy attractive development opportunities. Driven by smart technologies and integrated innovation, the urban rail industry together with the rail transit maintenance market will witness a significant growth. At the same time, the low-carbon energy transformation will fuel the rapid development of new energy vehicle electric drive systems, semiconductor devices and sensors.

With reference to the China New Energy Power Generation Report 2025 published by the State Grid Energy Research Institute in July 2025, China is expected to add 430 gigawatts (GW) to 500 GW of new renewable energy capacity in 2025. New energy is expected to maintain an average annual growth of 300 GW during the 15th Five-Year Plan period (2026-30). On the other hand, according to the data released by the Ministry of Public Security of the PRC, China registered a record 5.6 million new energy vehicles (NEVs) in the first half of 2025, representing a year-on-year jump of approximately 27.9% and accounting for approximately 45.0% of all new automobile registrations during the same period, underscoring the acceleration of China's clean energy transition in the transportation sector. By the end of June 2025, the total number of NEVs on China's roads reached 36.9 million, representing 10.3% of the nation's overall automobile fleet.

As represented by the Directors, the Group has actively expanded into industries other than rail transit and carries out business operations in the fields of new energy power generations, new energy vehicle electric drive system etc. with an aim to grasp the aforesaid tremendous new market opportunities. In the new energy power generation market, the Group's IGBT modules saw rapidly growing shipment volume; the 7.5th generation ultra-fine trench-gate products reached the international leading level in terms of efficiency and current output capability; and its semiconductor project phase III at Yixing production line went into operation successfully. The Group also achieved a rapid breakthrough in the new energy market, with its power modules for NEVs achieved installation of approximately 2.3 million sets in 2024. Besides, the Group's new energy vehicle electric drive systems recorded a further growth in annual sales volume, with annual installation of 251,000 sets. The Group successfully developed the fourth-generation electric drive platform integrated bearing electric drive assembly, reducing system loss by more than 10%.

It is expected that the new national energy proposals as aforementioned would continue to facilitate the development of the Group's basic devices, new energy vehicle electric drive system, new energy power generation and other emerging industry businesses, and broaden the Group's products range. Such new development is expected to further boost the business growth of, and hence the transaction amounts between, the Group and the CRRC Group of Companies for the mutual supply of products and services.

Recent growing trend of the railway industry

We noted from our independent research that there has been a prompt dynamic recovery of the national railway industry after the Covid-19 pandemic. Based on the data released by the Ministry of Transport of the PRC, in 2023, the total passenger volume and passenger turnover were approximately 3.9 billion and 1,472.9 billion passengers per kilometers, increasing substantially by approximately 130.4% and 123.9%, respectively, as compared to 2022. In 2024, the total passenger volume surpassed 4.3 billion, being the historic hike; whilst the total passenger turnover peaked at approximately 1,579.9 billion passengers per kilometers.

On the other hand, based on the data released by the National Railway Administration of the PRC, China completed railway fixed asset investment of approximately RMB850.6 billion in 2024, up by approximately 11.3% as compared to 2023. During the same year, 3,113 kilometers of new lines were put into operation, including 2,457 kilometers of high-speed railways. The national railway operating mileage reached 162,000 kilometers, including 48,000 kilometers of high-speed railway operating mileage. The double line rate was approximately 60.8%. The electrification rate was approximately 76.2%. In 2024, the total number of railway locomotives in China was around 22,500, including 7,800 diesel locomotives and 14,700 electric locomotives. The total number of railway passenger trains in China was around 81,000, of which 4,806 were EMUs. The number of railway freight trains in China was approximately 1.0 million.

The business of both the Group and the CRRC Group of Companies would likely be benefited from the recent growth of the railway industry, which will trigger their mutual demand for products and services under the 2026-2028 CRRC Group Mutual Supply Agreement.

Possible inflation and rise in prices of railway products and services

To understand the possible inflation and rise in prices of railway products and services, we found the following relevant data released by the National Statistics Bureau of the PRC:

Year-on-year change	2020	2021	2022	2023	2024
Consumer price index	2.5	0.9	2.0	0.2	0.2
Producer price index	(1.8)	8.1	4.1	(3.0)	(2.2)
Purchasing price index	(2.3)	11.0	6.1	(3.6)	(2.2)

It is noted that each of the consumer price, producer price and purchasing price indices had been climbing persistently for two years in 2021 and 2022. In the recent two years, the producer price and purchasing price indices demonstrated a slight downward movement. On a separate note, it is noted that the average year-on-year increase in the railway transport service price index from 2022 to 2024 was 1.5%. Given the historical price fluctuation, possible inflation and rise in prices of railway products and services in future cannot be ruled out.

After considering the above essential factors affecting the future demand for railway products and/or services of the Group from the CRRC Group of Companies (and vice versa), we are of the view that the New CRRC Group Caps are fair and reasonable estimation of the future amounts of the transactions contemplated under the 2026-2028 CRRC Group Mutual Supply Agreement judging from (i) the Group's massive operation scale, industry leading position and development potential; (ii) the positive outlook of the railway industry leveraging on the government's supportive policies; (iii) the development of new technologies, new industries, new business types and new models which will further enhance the Group's future advancement; (iv) the recent growing trend of the railway industry; and (v) the possible future inflation and rise in prices of railway products and services.

On the other hand, we noted that the utilization rates of the Existing CRRC Group Caps ranged from around 35% to 70% for 2023 and 2024, which were not at high levels. As advised by the Directors, the relatively low utilization rates of the Existing CRRC Group Caps were primarily attributable to subdued demand within the railway industry, delays in project approvals, and a relatively more restrictive policy environment that limited the pace of infrastructure development. These factors exerted certain impact on the railway industry and also affected the transactions between the Group and the CRRC Group of Companies. However, the current outlook for the railway industry has improved markedly, as evidenced by the government's introduction of more favourable policies, increased infrastructure investment and fostered efforts to improve railway innovation and technology. Such positive changes are expected to mitigate the factors that previously constrained cap utilization and drive higher transaction volumes and greater utilization of the New CRRC Group Caps in the coming years.

Upon our further discussion with the Directors, we were advised that the railway industry is a vital national industry. At the same time, attributable to the prominent market position of the Company and the CRRC Group, both parties are required to respond timely and efficiently should there be any new government initiatives and priorities leading to evolving products and services' needs. Any additional demand for railway products and/or services may be massive given the scale of each railway infrastructure project. Therefore, it is necessary and reasonable for the Company to ensure that the New CRRC Group Caps are robust enough so as to provide sufficient flexibility for it to cope with any unforeseeable market changes.

Additionally, as advised by the Directors, the industry position and business potential of the CRRC Group of Companies also play a pivotal role in determining the New CRRC Group Caps in the coming years. The CRRC Group is a large-scale state-owned enterprise. CRRC is the world's leading and diverse rolling stock supplier with advanced technology and has consecutively ranked the first in the international market in terms of sales volume of rolling stock equipment. Thus, the Group would like to leverage on the CRRC Group's profound international reputation to further explore the overseas railway market and achieve brand building for its own products and services. Future supply and procurement of the parties include various models of electric locomotives, EMUs and subways for overseas export, city subways and inter-city rails.

Taking into account the aforesaid factors, we concur with the Directors that the historical utilization rate of the Existing CRRC Group Caps may not be valid reference for the fairness and reasonableness of the New CRRC Group Caps and that it is fair and reasonable for the Company to ensure that the New CRRC Group Caps are robust enough amidst the unique nature of the railway industry and the leading industry position of the CRRC Group of Companies. Moreover, based on our study of the actual transaction amounts under the 2023-2025 CRRC Group Mutual Supply Agreement, we noted that from 2023 to 2024, both the expenditure transactions and revenue transactions illustrated a year-on-year surge of over 30%. Accordingly, we are of the view that the year-on-year increment of around 50% and 30% of the New CRRC Group Caps for the expenditure transactions and revenue transactions from 2027 to 2028 are acceptable.

Based on all the foregoing, we concur with the Directors that the New CRRC Group Caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. Internal control and compliance with the Listing Rules

As referred to in the Letter from the Board, the Group has adopted a series of internal control measures to supervise its continuing connected transactions, details of which are set out under the section headed “Internal control procedures” of the Letter from the Board.

The Directors further confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the total amounts of the transactions must be restricted by the New CRRC Group Caps for the three years ending 31 December 2028; (ii) terms of the 2026-2028 CRRC Group Mutual Supply Agreement (together with the New CRRC Group Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors’ annual review on the terms of the 2026-2028 CRRC Group Mutual Supply Agreement (together with the New CRRC Group Caps) must be included in the Company’s subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide annually a letter to the Board confirming, among other things, that the transactions are carried out in accordance with the terms under relevant agreements and the pricing policies of the Company in all material respects, and the New CRRC Group Caps are not being exceeded.

In addition, we notice that to enhance the effectiveness of internal control, the Company conducted quarterly review of the transactions contemplated under the 2023-2025 CRRC Group Mutual Supply Agreement. In particular, the finance center of the Company will calculate and prepare a summary for continuing connected transactions with the CRRC Group of Companies each quarter to assess whether the relevant continuing connected transactions will exceed the annual caps. On top of such quarterly review, the relevant personnel of the Company also perform routine check on the continuing connected transactions. In the event that the actual transaction amounts are expected to exceed the annual caps, they shall report to the Board immediately so that the Company will promptly take necessary actions and procedures to comply with relevant requirements under the Listing Rules. In this relation, we noted from the Company’s announcements in respect of such quarterly review published from 2023 to August 2025 that the transactions contemplated under the 2023-2025 CRRC Group Mutual Supply Agreement had been entered into in the ordinary and usual course of business of the Group, were on normal commercial terms which were fair and reasonable insofar as the interests of the Company and the Shareholders are concerned as a whole, were conducted in accordance with the Group’s pricing policies and the terms of the relevant agreements governing such transactions, and were within the annual cap amounts of the relevant years. We are also not aware of any internal control deficiency in the historical continuing connected transactions conducted by the Company. As confirmed by the Company, the Company will continue to conduct quarterly review of the transactions contemplated under the 2026-2028 CRRC Group Mutual Supply Agreement and publish the relevant results on the Stock Exchange’s website.

Having (i) the effective implementation of the internal control measures of the Group as proven by the fact that the Group had no historical non-compliance with regard to continuing connected transactions; (ii) the stipulated requirements for continuing connected transaction of the Listing Rules as well as (iii) the enhanced quarterly review of the Company in place, the transactions contemplated under the 2026-2028 CRRC Group Mutual Supply Agreement will be monitored and hence the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the 2026-2028 CRRC Group Mutual Supply Agreement and the New CRRC Group Caps are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the 2026-2028 CRRC Group Mutual Supply Agreement is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the 2026-2028 CRRC Group Mutual Supply Agreement and the New CRRC Group Caps and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited

A handwritten signature in black ink that reads "SingRL". The letters are cursive and stylized, with the "R" and "L" being particularly prominent.

Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 20 years of experience in corporate finance.