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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sany Heavy Equipment International Holdings Company Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**SANY HEAVY EQUIPMENT INTERNATIONAL
HOLDINGS COMPANY LIMITED**

三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

VINCO 榮高

Vinco Financial Limited

Capitalised terms used in this cover page shall have the same meanings as defined in the section headed “Definitions” in this circular unless otherwise specified.

A notice convening the EGM of the Company to be held at Conference Room 103, Research and Development Building, Sany Heavy Equipment Co., Ltd., No. 25, 16 Kaifa Road, Shenyang Economic of Technological Development Zone, Shenyang, Liaoning Province, PRC at 11:00 a.m. on Thursday, 9 February 2023 is set out on pages EGM-1 to EGM-3 of this circular and a form of proxy for the EGM is despatched together with this circular. Shareholders who intend to appoint a proxy to attend the EGM shall complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment meeting (as the case may be). The completion of a form of proxy will not preclude Shareholders from attending and voting at the EGM in person should they so wish, and in such case, the instrument appointing a proxy shall be deemed to be revoked.

18 January 2023

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	26
LETTER FROM VINCO FINANCIAL	28
APPENDIX I — GENERAL INFORMATION	I-1
NOTICE OF EXTRAORDINARY GENERAL MEETING	EGM-1

DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

- “2022 Announcement” the announcement of the Company dated 11 November 2022 in relation to, among others, the 2022 Supplemental Products Sales Agreement, the 2022 Supplemental Equipment Sales and Leasing Framework Agreement and the 2022 Supplemental Master Purchase Agreement
- “2022 Circular” the circular of the Company dated 22 November 2022 in relation to, among others, the 2022 Supplemental Products Sales Agreement, the 2022 Supplemental Equipment Sales and Leasing Framework Agreement and the 2022 Supplemental Master Purchase Agreement
- “2022 Supplemental Equipment Sales and Leasing Framework Agreement” the supplemental agreement entered into between the Company and Sany Group on 11 November 2022 to supplement the equipment sales and leasing framework agreement entered into between the Company and Sany Group on 21 May 2021, in respect of the sale of Parts and Equipment by the Group for leasing to the Lessee(s)
- “2022 Supplemental Master Purchase Agreement” the supplemental agreement entered into between the Company and Sany Group on 11 November 2022 to supplement the supplemental agreement entered into between the Company and Sany Group on 18 December 2019 in relation to (1) the purchase by the Group of parts and components from Sany Group Companies and (2) the purchase by the Group of second-hand manufacturing equipment for the manufacturing of products of the Group from Sany Group Companies
- “2022 Supplemental Products Sales Agreement” the supplemental agreement entered into between the Company and Sany Group on 11 November 2022 to supplement the supplemental agreement entered into between the Company and Sany Group on 21 May 2021 in relation to the sales of finished products by the Group to Sany Group Companies for sales to end-customers
- “2023 Equipment Sales and Leasing Framework Agreement” the agreement entered into between the Company and Sany Group on 16 December 2022 in relation to the renewal of the 2022 Supplemental Equipment Sales and Leasing Framework Agreement for a term commencing from 1 January 2023 and ending on 31 December 2025 (both days inclusive)

DEFINITIONS

“2023 Master Purchase Agreement”	the agreement entered into between the Company and Sany Group on 16 December 2022 in relation to the renewal of the 2022 Supplemental Master Purchase Agreement for a term commencing from 1 January 2023 and ending on 31 December 2025 (both days inclusive)
“2023 Products Sales Agreement”	the agreement entered into between the Company and Sany Group on 16 December 2022 in relation to the renewal of the 2022 Supplemental Products Sales Agreement for a term commencing from 1 January 2023 and ending on 31 December 2025 (both days inclusive)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Company”	Sany Heavy Equipment International Holdings Company Limited (三一重裝國際控股有限公司), a company incorporated with limited liability on 23 July 2009 under the laws of the Cayman Islands and the Shares of which are listed on the Stock Exchange (stock code: 631)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Convertible Preference Share(s)”	the convertible preference share(s) of the Company
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Conference Room 103, Research and Development Building, Sany Heavy Equipment Co., Ltd., No. 25, 16 Kaifa Road, Shenyang Economic of Technological Development Zone, Shenyang, Liaoning Province, PRC at 11:00 a.m. on Thursday, 9 February 2023 for the purpose of considering and, if thought fit, approving the New Framework Agreements and the transactions contemplated thereunder (including the proposed annual caps for those transactions)

DEFINITIONS

“Financial Lease and Guarantee Agreement(s)”	individual financial lease and guarantee agreement(s) to be entered into amongst Sany Group Companies, the Lessee(s) and the Group in respect of leasing of the Parts and Equipment in accordance with the principles and terms of the 2023 Equipment Sales and Leasing Framework Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan, established to advise the Independent Shareholders on each of the New Framework Agreements and the transactions contemplated thereunder (including the annual caps for those transactions)
“Independent Shareholders”	the Shareholders who are not interested in or involved in the New Framework Agreements
“Independent Third Party(ies)”	third party(ies) who is/are independent of and not connected with the Company and its connected persons
“Latest Practicable Date”	13 January 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Lessee(s)”	lessee(s) under the Financial Lease and Guarantee Agreement(s) who is/are Independent Third Party(ies)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Mr. Liang”	Mr. Liang Wengen, the controlling shareholder of the Company
“New Framework Agreements”	collectively, the 2023 Products Sales Agreement, the 2023 Equipment Sales and Leasing Framework Agreement and the 2023 Master Purchase Agreement
“Parts and Equipment”	as defined under the paragraph headed “(2) 2023 Equipment Sales and Leasing Framework Agreement” of the “Letter from the Board” contained in this circular
“PRC”	the People’s Republic of China

DEFINITIONS

“Sale and Purchase Agreement(s)”	individual sale and purchase agreement(s) to be entered into between the Group and Sany Group Companies in respect of the sale of Parts and Equipment in accordance with the principles and terms of the 2023 Equipment Sales and Leasing Framework Agreement
“Sany Group”	Sany Group Limited* (三一集團有限公司), a company with limited liability established on 18 October 2000 under the laws of the PRC
“Sany Group Companies”	Sany Group and its subsidiaries from time to time
“Sany Hong Kong”	Sany Hong Kong Group Limited (三一香港集團有限公司), a company with limited liability incorporated on 14 October 2005 under the laws of Hong Kong, and the controlling shareholder of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	the ordinary share(s) with nominal value of HK\$0.1 each in the capital of the Company
“Share Award Scheme”	as defined under the paragraph headed “1. Disclosure of Interests” of Appendix I to this circular
“Share Option Scheme”	as defined under the paragraph headed “1. Disclosure of Interests” of Appendix I to this circular
“Shareholder(s)”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Vincio Financial” or “Independent Financial Adviser”	Vincio Financial Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on each of the New Framework Agreements and the transactions contemplated thereunder (including the annual caps for those transactions)
“%”	per cent

* For identification only



**SANY HEAVY EQUIPMENT INTERNATIONAL
HOLDINGS COMPANY LIMITED**

三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

Executive Directors:

Mr. Liang Zaizhong (*Chairman*)

Mr. Qi Jian

Mr. Fu Weizhong

Registered Office:

Cricket Square Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Non-executive Directors:

Mr. Tang Xiuguo

Mr. Xiang Wenbo

Principal Place of Business in Hong Kong:

Room 2010, 20th Floor, Landmark North

No. 39 of Lung Sum Avenue

Sheung Shui

N.T. Hong Kong

Independent Non-executive Directors:

Mr. Ng Yuk Keung

Mr. Poon Chiu Kwok

Mr. Hu Jiquan

18 January 2023

To the Shareholders

Dear Sir/Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 16 December 2022. On 16 December 2022, the Company entered into, among others, the New Framework Agreements, which are subject to Independent Shareholders' approval at the EGM. At the EGM, resolutions will be proposed for the Independent Shareholders to approve the New Framework Agreements, their respective annual caps and transactions contemplated thereunder.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) further information regarding the New Framework Agreements, (ii) the recommendation from the Independent Board Committee to the Independent Shareholders, (iii) the letter from Vinco Financial to the Independent Board Committee and the Independent Shareholders, and (iv) the notice convening the EGM.

CONTINUING CONNECTED TRANSACTIONS

(1) 2023 Products Sales Agreement

References are made to the 2022 Announcement and the 2022 Circular in relation to the 2022 Supplemental Products Sales Agreement, pursuant to which the Company agreed to sell or procure its subsidiaries to sell its finished products to Sany Group Companies for sale to end-customers.

As the 2022 Supplemental Products Sales Agreement was due to expire on 31 December 2022, the Company entered into the 2023 Products Sales Agreement with Sany Group to renew the 2022 Supplemental Products Sales Agreement for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

Set out below are the principal terms of the 2023 Products Sales Agreement:

Date:	16 December 2022
Parties:	(i) The Company; and (ii) Sany Group
Subject matter:	Pursuant to the 2023 Products Sales Agreement, the Company agreed to sell or procure its subsidiaries to sell its finished products to Sany Group Companies for sale to end-customers.
Term:	The 2023 Products Sales Agreement has a fixed term commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

LETTER FROM THE BOARD

Pricing:

Since the 2023 Products Sales Agreement serves the purpose of enabling the Company to take advantage of Sany Group Companies' sales network to sell its finished products to end-customers in a large scale, and in other words, the Group just sell the finished products to end-customers through Sany Group Companies' sales network, under an arrangement which Sany Group Companies do not actually receive any mark-up against the prices under the 2023 Products Sales Agreement. The prices of the finished products under the 2023 Products Sales Agreement are determined according to the costs involved (raw material costs, labour costs and manufacturing expenses) plus the gross profit margin, ranging from 10%–40% for domestic sales and from 10%–35% for overseas sales (considering that overseas sales involve higher transportation costs). Such gross profit margin is the same as that the Group charges on Independent Third Party customers when the Group sells the finished products to them directly. In any event, the prices at which the Group sells its product(s) to Sany Group Companies shall not be less than the price at which the Group sells the same product(s) to other distributors who are Independent Third Parties.

Payment:

The price of any products being sold under the 2023 Products Sales Agreement shall be paid by telegraphic transfer within three months after delivery and the relevant products having passed the inspection by Sany Group Companies.

The 2023 Products Sales Agreement is a framework agreement which provides the mechanism for the operation of the continuing connected transactions contemplated thereunder. It is envisaged that from time to time, and as required, the Group and Sany Group Companies will enter into separate individual agreements on terms and conditions which comply with the principles set out in the 2023 Products Sales Agreement.

LETTER FROM THE BOARD

Historical transaction amounts

The historical transaction amounts for the sales of finished products by the Group to Sany Group Companies are as follows:

	For the year ended 31 December 2020 RMB	For the year ended 31 December 2021 RMB	For the nine months ended 30 September 2022 RMB
Sales of finished products by the Group to Sany Group Companies	<u>599,036,000</u>	<u>1,094,033,000</u>	<u>1,082,887,000</u>

The orders under negotiation for the three months between October 2022 to December 2022 are approximately RMB1,090.4 million (of which approximately RMB651.19 million has been recognised) and thus the transaction amount for the sales of finished products by the Group to Sany Group Companies for the year ended 31 December 2022 is expected to be approximately RMB2,173.3 million.

Proposed annual caps and basis of determination

Pursuant to the 2023 Products Sales Agreement, it is proposed that the annual cap amounts for the three years ending 31 December 2025 are expected not to exceed the following:

	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB	For the year ending 31 December 2025 RMB
Sales of finished products by the Group to Sany Group Companies	<u>2,210,370,000</u>	<u>2,300,000,000</u>	<u>2,358,580,000</u>

The annual caps for each of the three financial years ending 31 December 2025 were determined by reference to (i) the historical transaction amounts; (ii) the orders under negotiation; (iii) the business plans of the Group; and (iv) the expected demand of the products by end-customers.

LETTER FROM THE BOARD

In arriving at the proposed annual cap under the 2023 Products Sales Agreement for the year ending 31 December 2023, the Company has taken into account (i) the orders under negotiation for the year ending 31 December 2023 which have reached approximately RMB1,398.9 million; and (ii) the transaction amount of approximately RMB1,734.08 million that was recognised and the transaction amount of approximately RMB439.21 million to be recognised for the year ended 31 December 2022.

The year-on-year increment of approximately 4.1% and 2.5% for the proposed annual caps under the 2023 Products Sales Agreement for the two years ending 31 December 2025 is relatively stable and estimated on a more prudent approach as the Group will build overseas sales channels gradually, which will enable the Group to sell finished products to overseas end-customers directly.

Reasons for and benefits of entering into the 2023 Products Sales Agreement

By selling the Group's products to Sany Group Companies, which will then be sold to end-customers in a large scale, the Group can take advantage of Sany Group Companies' domestic and overseas sales network and sales experiences to enhance the Group's sales.

In light of the above and the internal control procedures in place in order to ensure the transactions conducted under the 2023 Products Sales Agreement will be on terms not more favourable to Sany Group Companies than those offered to Independent Third Parties, the details of which are disclosed under the section headed "INTERNAL CONTROL MEASURES" of this circular, the Board considers that the terms of the 2023 Products Sales Agreement and the transactions contemplated thereunder are fair and reasonable, entered into on normal commercial terms or better, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

(2) 2023 Equipment Sales and Leasing Framework Agreement

References are made to the 2022 Announcement and the 2022 Circular in relation to the 2022 Supplemental Equipment Sales and Leasing Framework Agreement, pursuant to which (i) the Parts and Equipment shall either be sold by the Group to Sany Group Companies for leasing to the Lessees or to the Lessees which shall then be on-sold to Sany Group Companies for leasing back to the Lessees; and (ii) the Group shall settle the outstanding lease payments on behalf of the Lessees or repurchase the Parts and Equipment under certain circumstances.

As the 2022 Supplemental Equipment Sales and Leasing Framework Agreement was due to expire on 31 December 2022, the Company entered into the 2023 Equipment Sales and Leasing Framework Agreement with Sany Group to renew the 2022 Supplemental Equipment Sales and Leasing Framework Agreement for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

LETTER FROM THE BOARD

Set out below are the principal terms of the 2023 Equipment Sales and Leasing Framework Agreement:

- Date: 16 December 2022
- Parties: (i) The Company; and
(ii) Sany Group
- Subject matter: Pursuant to the 2023 Equipment Sales and Leasing Framework Agreement, the parts and equipment manufactured by the Group such as mining equipment, logistics equipment, automation machinery and relevant ancillary parts (the “**Parts and Equipment**”) shall either be sold to Sany Group Companies for leasing to the Lessees or to the Lessees which shall then be on-sold to Sany Group Companies for leasing back to the Lessees.
- Term: The 2023 Equipment Sales and Leasing Framework Agreement has a fixed term commencing from 1 January 2023 to 31 December 2025 (both days inclusive).
- Pricing and other terms: The terms under the Sale and Purchase Agreements and the Financial Lease and Guarantee Agreements shall conform to the principles and provisions set out in the 2023 Equipment Sales and Leasing Framework Agreement, and shall be agreed between the parties after arm’s length negotiations on normal commercial terms.

The parties to the 2023 Equipment Sales and Leasing Framework Agreement have agreed that the Parts and Equipment to be sold shall be at the prices which are determined according to the costs involved (i.e. research and development costs, raw material costs, labour costs and manufacturing expenses) plus the gross profit margin ranging from 10% to 40%, which shall in any event be no less favourable to the Group than terms available to Independent Third Parties.

If a Lessee breaches the terms as set out in the Financial Lease and Guarantee Agreement, the Group shall settle the outstanding lease payment on behalf of the Lessee or repurchase the Parts and Equipment on normal commercial terms, which shall be no less favourable to the Group than terms available to Independent Third Parties.

LETTER FROM THE BOARD

The 2023 Equipment Sales and Leasing Framework Agreement is a framework agreement which provides the mechanism for the operation of the continuing connected transactions contemplated thereunder. It is envisaged that from time to time, and as required, the Group and Sany Group Companies will enter into separate individual agreements on terms and conditions which comply with the principles set out in the 2023 Equipment Sales and Leasing Framework Agreement.

Historical transaction amounts

The historical transaction amounts for the sales of Parts and Equipment and the financial guarantee and repurchase of Parts and Equipment are as follows:

	For the year ended 31 December 2021 RMB	For the nine months ended 30 September 2022 RMB
Sales of Parts and Equipment	<u>100,393,000</u>	<u>478,419,000</u>
Financial guarantee and repurchase of Parts and Equipment	<u>88,163,000</u>	<u>399,559,000</u>

The orders under negotiation for the three months between October 2022 to December 2022 are approximately RMB986.1 million (of which approximately RMB428.2 million has been recognised) and thus the transaction amount for the sales of Parts and Equipment for the year ended 31 December 2022 is expected to be approximately RMB1,464.5 million.

Proposed annual caps and basis of determination

Pursuant to the 2023 Equipment Sales and Leasing Framework Agreement, it is proposed that the annual cap amounts for the three years ending 31 December 2025 are expected not to exceed the following:

	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB	For the year ending 31 December 2025 RMB
Sales of Parts and Equipment	<u>1,802,000,000</u>	<u>1,850,000,000</u>	<u>1,900,000,000</u>
Financial guarantee and repurchase of Parts and Equipment	<u>1,621,800,000</u>	<u>1,665,000,000</u>	<u>1,710,000,000</u>

LETTER FROM THE BOARD

The annual caps for each of the three financial years ending 31 December 2025 were determined by reference to (i) the historical transaction amounts; (ii) the orders under negotiation and the product sales plan at the prevailing market price of the Parts and Equipment, and the expected transaction scale which similar guarantee are required; (iii) the average loan ratio of the sales of Parts and Equipment of 90% (for the financial guarantee and the repurchase of Parts and Equipment); and (iv) current intention of the customers of changing from using instalment payment model directly with the Group to using finance lease services with Sany Group Companies, which would help to speed up the cash collection process of the Group.

In arriving at the proposed annual cap under the 2023 Equipment Sales and Leasing Framework Agreement for the year ending 31 December 2023, the Company has taken into account (i) the orders of sales of Parts and Equipment under negotiation for the year ending 31 December 2023 which have reached approximately RMB803.2 million; (ii) the transaction amount of approximately RMB906.62 million that was recognised and the transaction amount of approximately RMB557.9 million to be recognised for the year ended 31 December 2022; (iii) the average loan ratio for the financial guarantee and the repurchase of Parts and Equipment is approximately 90% of the sales of Parts and Equipment; and (iv) the increased demand for financial lease and guarantee services by customers to maintain their cash flow flexibility in light of the current global economy.

The year-on-year increment of approximately 2.7% and 2.7% for the proposed annual caps under the 2023 Equipment Sales and Leasing Framework Agreement for the two years ending 31 December 2025 is relatively stable and estimated on a more prudent approach as it is anticipated that the impact of COVID-19 on customers' business and operations will relieve in 2024 and 2025.

Reasons for and benefits of entering into the 2023 Equipment Sales and Leasing Framework Agreement

The principal business of the Group is sale and manufacture of machineries and equipment including but not limited to mining machineries, logistics equipment and other automatic machineries. In line with usual market practice, the Group has been providing financial guarantees to banks or independent finance leasing companies in respect of the products sold to end-user customers since 2005.

Sany Group Companies have extensive industry experience in the finance leasing business. They have maintained a long-term business relationship with the Group and have in-depth understanding of the Group's operations. The entering of the 2023 Equipment Sales and Leasing Framework Agreement would enable the Group to facilitate its sales to Independent Third Party customers, and monitor the repayment progress of these customers together with Sany Group Companies and take appropriate actions more efficiently and effectively in order to minimize the default risks associated with the leasing of the Parts and Equipment.

LETTER FROM THE BOARD

Having considered that: (i) the Group would be able to generate sales under the 2023 Equipment Sales and Leasing Framework Agreement; (ii) the terms under the 2023 Equipment Sales and Leasing Framework Agreement are no less favourable to the Group than the terms offered by banks or other finance leasing companies; (iii) it is a usual market practice for equipment manufacturers to provide similar financial guarantee in favour of end-user customers in connection with the sale of equipment; and (iv) the Company has the internal control procedures in place to ensure the transactions conducted under the 2023 Equipment Sales and Leasing Framework Agreement will be on terms not more favourable to Sany Group Companies than those offered to Independent Third Parties, the details of which are disclosed under the section headed “INTERNAL CONTROL MEASURES” of this circular, the Board considers that the terms of the 2023 Equipment Sales and Leasing Framework Agreement and the transactions contemplated thereunder are fair and reasonable, entered into on normal commercial terms or better, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

(3) 2023 Master Purchase Agreement

References are made to the 2022 Announcement and the 2022 Circular in relation to the 2022 Supplemental Master Purchase Agreement, pursuant to which the Group agreed to purchase from Sany Group Companies parts and components produced by them and second-hand manufacturing equipment.

As the 2022 Supplemental Master Purchase Agreement was due to expire on 31 December 2022, the Company entered into the 2023 Master Purchase Agreement with Sany Group to renew the 2022 Supplemental Master Purchase Agreement for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

Set out below are the principal terms of the 2023 Master Purchase Agreement:

Date:	16 December 2022
Parties:	(i) The Company; and (ii) Sany Group
Subject matter:	Pursuant to the 2023 Master Purchase Agreement, the Company agreed to purchase or procure its subsidiaries to purchase from Sany Group Companies (1) parts and components produced by Sany Group Companies and (2) second-hand manufacturing equipment, for the manufacturing of products of the Group.
Term:	The 2023 Master Purchase Agreement has a fixed term commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

LETTER FROM THE BOARD

Pricing:

Parts and components

For those tailor-made parts and components for the Group manufactured by Sany Group Companies, the basis of determining prices of the parts and components produced by Sany Group Companies will be determined on arm's length negotiation and with reference to the manufacturing costs involved in the relevant parts and components plus a gross margin ranging from approximately 10% to 30%, with reference to the usual gross margin of the Group's procurement of other similar parts and components from Independent Third Parties, which should be in any event no less favourable to the Group than that offered by Independent Third Parties.

For those common parts and components which can be easily accessible in the market, the Group will follow the pricing as determined during the Group's commercial procurement tender process.

Second-hand manufacturing equipment

The basis of determining prices of the second-hand manufacturing equipment will be determined on arm's length negotiation and with reference to the below formula, which is a default formula set by the Group's ERP financial software following the Group's accounting policy for depreciation and valuation on equipment and also applicable to the valuation of all equipment of the Group, no matter whether they are procured from Independent Third Parties or Sany Group Companies, and should be in any event no less favourable to the Group than terms offered by Independent Third Parties.

Price = Original Purchase Price – Original Purchase Price (1–3%) × (number of years since the equipment was purchased by Sany Group Companies/10 years)

“3%” represents the minimum residual value of equipment and “10 years” represents the maximum durable years of equipment and both of them are set according to the Group's accounting policy.

LETTER FROM THE BOARD

Payment: In respect of each purchase of parts and components or second-hand manufacturing equipment by the Group from Sany Group Companies, Sany Group Companies and the Group will enter into separate purchase agreements to specify the exact types and number of products to be purchased, the relevant delivery arrangements and the selling prices of such products.

Payment will be settled by way of telegraphic transfer at credit terms to be agreed by the parties in accordance with the Group's normal term of supplies from Independent Third Parties.

The 2023 Master Purchase Agreement is a framework agreement which provides the mechanism for the operation of the continuing connected transactions contemplated thereunder. It is envisaged that from time to time, and as required, the Group and Sany Group Companies will enter into separate individual agreements on terms and conditions which comply with the principles set out in the 2023 Master Purchase Agreement.

Historical transaction amounts

The historical transaction amounts for the purchase of parts and components and second-hand manufacturing equipment by the Group from Sany Group Companies are as follows:

	For the year ended 31 December 2020 RMB	For the year ended 31 December 2021 RMB	For the nine months ended 30 September 2022 RMB
Purchase of parts and components and second-hand manufacturing equipment by the Group from Sany Group Companies	<u>261,717,000</u>	<u>545,836,000</u>	<u>652,912,000</u>

The procurement under negotiation for the three months from October 2022 to December 2022 are approximately RMB255.1 million (of which approximately RMB145.6 million has been incurred) and thus the transaction amount for the purchase of parts and components and second-hand manufacturing equipment by the Group from Sany Group Companies for the year ended 31 December 2022 is expected to be approximately RMB908.0 million.

LETTER FROM THE BOARD

Proposed annual caps and basis of determination

Pursuant to the 2023 Master Purchase Agreement, it is proposed that the annual cap amounts for the three years ending 31 December 2025 are expected not to exceed the following:

	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB	For the year ending 31 December 2025 RMB
Purchase of parts and components and second-hand manufacturing equipment by the Group from Sany Group Companies	<u>1,214,218,070</u>	<u>1,696,940,810</u>	<u>2,284,841,210</u>

The annual caps for each of the three financial years ending 31 December 2025 were determined by reference to (i) the historical transaction amounts; (ii) the orders under negotiation; and (iii) the anticipated procurement plan of the Group having considered the business plan of the Group.

It is expected that there will be an increase in the amount of parts and components and second-hand manufacturing equipment purchased by the Group from Sany Group Companies from the year ending 31 December 2023 to the year ending 31 December 2025 owing to the anticipated continuous growth in scale of product sales of the Group in next three years.

In arriving at the proposed annual cap under the 2023 Master Purchase Agreement for the year ending 31 December 2023, the Company has taken into account the procurement plan of the Group for the procurement of raw materials, parts and components and second-hand manufacturing equipment to be purchased by the Group from Sany Group Companies, which was in line with the average historical growth rate of 39.5% in the revenue of the Group for the previous three years ended 31 December 2021.

The year-on-year increment of approximately 39.8% and 34.6% for the proposed annual caps under the 2023 Master Purchase Agreement for the two years ending 31 December 2025 is in line with the average historical growth rate of 39.5% in the revenue of the Group.

LETTER FROM THE BOARD

Reasons for and benefits of entering into the 2023 Master Purchase Agreement

The Directors consider that it is crucial for the Group to maintain the stability in supply and quality of the parts and components for its existing and future production needs. Sany Group Companies are familiar with the Group's specifications, standards and requirements and the Group is confident in the quality of the parts and components supplied by Sany Group Companies. In view of the Group's past purchasing experience with Sany Group Companies, the Directors are of the view that Sany Group Companies can effectively fulfill the Group's high requirement in supply stability as well as product quality. In addition, Sany Group Companies have provided the Group with more favourable terms such as flexible and timely delivery schedule of the parts and components purchased by the Group.

In light of the above and the internal control procedures in place to ensure the transactions conducted under the 2023 Master Purchase Agreement will be on terms not less favourable to the Group than those offered by Independent Third Parties, the details of which are disclosed under the section headed "INTERNAL CONTROL MEASURES" of this circular, the Board considers that the terms of the 2023 Master Purchase Agreement and the transactions contemplated thereunder are fair and reasonable, entered into on normal commercial terms or better, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mr. Liang is the controlling shareholder of the Company who is entitled to exercise or control the exercise of approximately 66.69% voting rights in the ordinary share capital of the Company and indirectly held 479,781,034 Convertible Preference Shares which represent approximately 13.17% issued share capital of the Company (as enlarged) upon full conversion. As Sany Group is held as to 56.74% by Mr. Liang, Sany Group is an associate of Mr. Liang under Rule 14A.12(1)(c) of the Listing Rules and hence a connected person of the Company under Chapter 14A of the Listing Rules.

Accordingly, the entering into of each of the New Framework Agreements with Sany Group and the transactions contemplated thereunder are continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest of all applicable percentage ratios in respect of the proposed annual caps under each of the New Framework Agreements is more than 5%, each of the New Framework Agreements is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

INTERNAL CONTROL MEASURES

(1) 2023 Product Sales Agreement

Before entering into an individual agreement under the 2023 Products Sales Agreement, the technical personnel and the finance department shall gather information regarding the product cost and pass on such information to the sales and marketing department which shall then determine the selling price based on the pricing principle set out the paragraph headed “(1) 2023 Product Sales Agreement — Pricing” of this circular, and with reference to at least two similar transactions conducted between the Group and Independent Third Party customers to ensure that the terms offered to Sany Group Companies shall not be more favourable to Sany Group Companies than terms offered to Independent Third Party customers or if such transactions are not available, two comparable transactions for similar products sold by other suppliers who are Independent Third Parties.

The terms are subject to further review and approval by the head of sales and marketing department prior to the signing and execution of the relevant agreement(s).

Based on the products’ level of standardization and the technologies used, different review process will be applied to determine the sales prices of the products: For standard products such as roadheaders, wide-bodied vehicles and mining vehicles, the sales and marketing department (營銷部) shall determine the sales price for further review and approval by the director of sales and marketing department (營銷部) and general manager of the Group.

For non-standard products such as hydraulic support and scraper, the technical personnel and the finance department (財務部) shall check the products’ costs first before the sales and marketing department (營銷部) determines the sales prices for further review and approval by the director of sales and marketing department (營銷部) and general manager of the Group. The Directors consider that the above internal control procedures are effective to ensure that the proposed transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

(2) 2023 Equipment Sales and Leasing Framework Agreement

In order to ensure that the terms under each individual Sale and Purchase Agreement and the Financial Lease and Guarantee Agreement are on normal commercial terms and are not less favourable to the Group than those offered by Independent Third Parties, the Group will adopt the following measures:

(i) Sale and Purchase Agreements

In relation to the sale of the Parts and Equipment under the Sale and Purchase Agreement, the technical personnel and the finance department shall gather information regarding the product cost and pass on such information to the sales and marketing department which shall then determine the selling price based on the

LETTER FROM THE BOARD

pricing principle set out the paragraph headed “(2) 2023 Equipment Sales and Leasing Framework Agreement — Pricing and other terms” of this circular, and with reference to at least two similar transactions conducted between the Group and Independent Third Party customers to ensure that the terms offered to Sany Group Companies shall not be more favourable to Sany Group Companies than terms offered to Independent Third Party customers. The terms are subject to further review and approval by the head of sales and marketing department prior to the signing and execution of the relevant agreement(s).

(ii) Financial Lease and Guarantee Agreements

In relation to the Financial Lease and Guarantee Agreement, the credit control department will obtain at least two quotations from Independent Third Party banks or finance leasing companies and compare the terms with those offered under the Financial Lease and Guarantee Agreement (including but not limited to the duration of the lease, interest rates, repurchase conditions and price etc.) to ensure that the terms offered under the Financial Lease and Guarantee Agreement are not less favourable to the Group than terms offered by Independent Third Party banks or finance leasing companies. The Group will only enter into an agreement with Sany Group Companies if terms offered by them are not less favourable to the Group than terms offered by other Independent Third Party banks or finance leasing companies.

In order to better safeguard the interests of the Shareholders under the 2023 Equipment Sales and Leasing Framework Agreement, the Group has a credit control department comprising 12 experienced lawyers and payment collection specialists. Before signing and execution of any Sale and Purchase Agreement and Financial Lease and Guarantee Agreement, the credit control department shall be satisfied with the results from the credit assessment of the Lessees and the head of marketing department and chief financial officer shall review and approve the terms under the Sale and Purchase Agreement and Financial Lease and Guarantee Agreement.

The credit control department shall perform due diligence and a credit assessment on Lessees under the relevant Sale and Purchase Agreement, and Financial Lease and Guarantee Agreement in accordance with the Group’s internal credit investigation and guarantee policy, among others, on the financial status, credit history, repayment capabilities, business operation and future prospect of the Lessees so as to control default risk by ensuring that the Lessees have good credit standings. To further protect the Group’s interest, the Group would also require each Lessee to provide a guarantor who has sufficient assets to guarantee its performance obligation under the Financial Lease and Guarantee Agreement.

LETTER FROM THE BOARD

(3) 2023 Master Purchase Agreement

The basis of determining the prices of the products to be purchased by the Group under the 2023 Master Purchase Agreement will be in accordance with the prevailing market prices of similar products and based on the following principles:

- (i) by reference to the prevailing market prices of the same or substantially similar products, taking into account the price, quality and other conditions (such as payment terms, credit terms and after-sales services) offered by suppliers via the Group's commercial procurement tender process. The commercial procurement policy of the Group indicates that where comparable products are available, commercial procurements must go through a tender process. To elaborate, there are generally two stages during the tender process. During the first stage, the Group circulates the technology specifications to the potential candidates and then invites three to five tenderers, including Sany Group Companies if they manufacture the relevant products that the Group requires, with due qualification, technology, and manufacturing scale to attend the tender to provide the bidding documents including the prices to the Group's commercial tender committee (商業評標委員會) and the technical tender committee (技術評標委員會) for review. The commercial tender committee mainly consists of three to five professional bidding engineers and the technical tender committee mainly consists of three to five research and development engineers and production engineers who work for the relevant business segment for the products. During the second stage, the Company negotiates with each of them in detail on the prices based on the review results obtained during the first stage and each of them then provides the second round of quotation based on such negotiation. The tenderer offering the most favourable prices wins the tender. The Group would choose a third party supplier if the price offered by them is more favourable. However, based on the Group's experience and historical transaction records, during the tender process where Sany Group Companies are involved, Sany Group Companies tend to offer the most favourable price compared to Independent Third Parties because Sany Group Companies are most familiar with the Group's specifications, standards, and requirements; and
- (ii) where the prevailing market price above is unavailable, such as for products tailor-made for the Group manufactured by Sany Group Companies due to confidentiality of certain technical information, which the Group cannot seek other market prices for reference, the basis of determining prices of the parts and components produced by Sany Group Companies will be determined on arm's length negotiation and with reference to the manufacturing costs involved in the relevant part and component plus a gross margin ranging from 10% to 30%, with reference to the usual gross margin of the Group's procurement of other similar products from Independent Third Parties, which should be in any event no less favourable to the Group than terms offered by Independent Third Parties, as disclosed in the paragraph headed "(3) 2023 Master Purchase Agreement — Pricing" of this circular. In order to determine the gross margin of the products, including parts and components, the Company maintains a cost engineer in charge

LETTER FROM THE BOARD

of the Group's procurement costs (the Group requires that such cost engineer should at least have three years of working experience in procurement department in the Group) to (1) collect the quotes obtained from the commercial tender procurement tender process of the Company and (2) conduct industry researches and price quotations on a monthly basis to obtain the latest industry standard, market price and breakdowns of costs of different kinds of products including but not limited to the similar parts and components in order to get a full picture of the gross margin charged on relevant products in the market as the Group's database. When the Company determines the prices of the parts and components to be produced by Sany Group Companies, the cost engineer would provide advice on the suggested gross margin with reference to that of the similar parts and components. Based on the current database of the Group, the gross profit margin charged on the similar parts and components with similar costs structure ranges from 10%–30%. To ensure that the actual prices for the procurement of the Group under the 2023 Master Purchase Agreement are on normal commercial terms and on terms no less favourable to the Group than those offered by Independent Third Parties, the internal audit department of the Group will conduct regular checks to review and assess, against manufacturing costs involved and Sany Group Companies' sales to other Independent Third Parties in the market, whether the products have been procured on normal commercial terms. If they are of the view that the prices of the procurement are less favourable to the Group than that offered by Independent Third Parties, they will report the issue to the executive Directors and the chief executive officer in order to re-consider and re-negotiate the prices of the procurement.

Different review process will be applied to determine the supplier and the procurement price based on whether the comparable products with prevailing market price are available.

For the comparable products with prevailing market prices available, the Group shall go through a tender process to determine the supplier. During the tender, the Company shall obtain quotations from at least three suppliers which are Independent Third Parties during the tender process. After the two stages of tender process including reviewing the bidding documents and prices by the Group's commercial tender committee (商業評標委員會) and the technical tender committee (技術評標委員會) and negotiating with each tenderer on prices, product quality, delivery time and payment conditions offered by them, the tenderer offering the most favourable prices, products' quality, delivery time and payment conditions wins the tender. For those products that no prevailing market price is available, the cost engineer who is in charge of the Group's procurement costs shall determine the procurement prices for further review and approval by the director of commercial department (商務部), general manager and chairman of the Group.

Purchases of products under the 2023 Master Purchase Agreement must be on normal commercial terms and on terms no less favourable to the Group than those offered by Independent Third Parties.

LETTER FROM THE BOARD

(4) General

The Group has the following general internal control procedures to ensure all continuing connected transactions contemplated under the New Framework Agreements are conducted in accordance with the requirements under Chapter 14A of the Listing Rules:

- (i) the Group's financial department has a designated employee to monitor transactions conducted under each of the New Framework Agreements. When the transaction limit reaches 80% of the annual cap set under the respective agreement, he/she will promptly inform the business department of the Group and the chief financial officer such that the Group can arrange for a revision of the annual cap as appropriate, in compliance with all relevant requirements under Chapter 14A of the Listing Rules. No further transaction will be conducted in excess of the annual cap, and transactions will only resume after the Group has complied with all relevant Listing Rules requirements under Chapter 14A in relation to the revision of the annual cap;
- (ii) the internal audit department of the Group will conduct regular checks on a bi-annual basis to review and assess whether the transactions under each of the New Framework Agreements have been conducted in accordance with the terms of the relevant agreements and on normal commercial terms or better;
- (iii) the independent non-executive Directors will conduct an annual review of the transactions under each of the New Framework Agreements to ensure that the Group has complied with its internal approval procedures, terms of the respective agreement and the relevant Listing Rules; and
- (iv) the Company will engage external auditors to conduct annual review of the continuing connected transactions conducted under the New Framework Agreements.

Given that the continuing connected transactions conducted under the New Framework Agreements have to strictly adhere to the pricing policy and the internal control procedures of the Group, the Board considers that these procedures and policies are effective to ensure that the proposed transactions will be conducted on normal commercial terms or better and not prejudicial to the interests of the Company and the minority Shareholders.

LETTER FROM THE BOARD

INFORMATION OF THE PARTIES TO THE NEW FRAMEWORK AGREEMENTS

The Company and the Group

The Company is an investment holding company and its subsidiaries are principally engaged in the design, manufacture and sales of mining equipment, logistics equipment, robotic and smart mined products and spare parts and the provision of related services.

Sany Group

Sany Group is principally engaged in the manufacture and distribution of engineering machineries for construction purposes, and machinery leasing, manufacture of automobile and educational businesses. As at the Latest Practicable Date, Sany Group was held as to 56.74% by Mr. Liang, 8.75% by Tang Xiuguo (a non-executive Director), 8% by Xiang Wenbo (a non-executive Director), 8% by Mao Zhongwu (an Independent Third Party), 0.5% by Liang Linhe (nephew of Mr. Liang) and 10 shareholders who are Independent Third Parties each of them holding less than 5.00% of equity interest of Sany Group.

GENERAL

Since Sany Group, being a party to the New Framework Agreements, are associates of Mr. Liang, Mr. Liang Zaizhong, being the son of Mr. Liang, has abstained from voting on the Board resolution approving the respective agreements due to conflict of interests. As Mr. Tang Xiuguo and Mr. Xiang Wenbo also have interests in Sany Group, they have both abstained from voting on the Board resolutions approving the foregoing agreements.

Save as disclosed above, no Director has a material interest in the New Framework Agreements or has abstained from voting on the relevant Board resolution approving the respective agreements.

EGM

The Company will convene and hold the EGM at Conference Room 103, Research and Development Building, Sany Heavy Equipment Co., Ltd., No. 25, 16 Kaifa Road, Shenyang Economic of Technological Development Zone, Shenyang, Liaoning Province, PRC at 11:00 a.m. on Thursday, 9 February 2023, at which ordinary resolutions will be proposed for the Independent Shareholders to consider, and, if thought fit, to approve each of the New Framework Agreements. The notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular.

Any Shareholders with a material interest in each of the New Framework Agreements or the transactions as contemplated thereunder or their respective associates shall abstain from voting at the EGM. The relevant interested Shareholders, namely, Sany Hong Kong, Mr. Liang, Mr. Tang Xiuguo, Mr. Xiang Wenbo and their respective associates, together held 2,115,637,688 Shares, representing approximately 66.89% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting on the resolution approving each of the New Framework Agreements at the EGM. Save as disclosed above,

LETTER FROM THE BOARD

as at the Latest Practicable Date, and to the best knowledge, belief and information of the Directors having made all reasonable enquiries, no other Shareholder is required under the Listing Rules to abstain from voting at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon, and deposit it with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment of it if you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by way of poll. Accordingly, the resolutions to be considered and, if thought fit, approved at the EGM will be voted on by way of poll by the Independent Shareholders. After conclusion of the EGM, the poll results announcement will be published on the respective websites of the Stock Exchange and the Company.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information as contained in this 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 herein or this circular misleading.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 26 to 27 of this circular and the letter of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 28 to 48 of this circular in connection with the New Framework Agreements and the transactions contemplated thereunder (including the proposed annual caps for those transactions) and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the New Framework Agreements and the transactions contemplated thereunder (including the proposed annual caps for those transactions) were entered into in the ordinary and usual course of business on normal commercial terms or better and the terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the New Framework Agreements and the transactions contemplated thereunder (including the proposed annual caps for those transactions) at the EGM as set out in the notice of the EGM.

Your attention is drawn to the additional information set out in Appendix I to this circular.

Yours faithfully

By order of the Board

Sany Heavy Equipment International Holdings Company Limited

Liang Zaizhong

Chairman



**SANY HEAVY EQUIPMENT INTERNATIONAL
HOLDINGS COMPANY LIMITED**

三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

18 January 2023

To the Independent Shareholders,

Dear Sir/Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 18 January 2023 (the “**Circular**”) which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee and to advise you on whether the terms of the New Framework Agreements and the transactions contemplated thereunder (including the proposed annual caps for those transactions) are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group, in the interests of the Company and the Shareholders as a whole, and how the Independent Shareholders should vote on the resolutions at the EGM. Vinco Financial has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the “Letter from the Board” set out on pages 5 to 25 of the Circular and the “Letter from the Independent Financial Adviser” set out on pages 28 to 48 of the Circular. Your attention is also drawn to the additional information set out in Appendix I thereto. Having taken into account (i) the terms and conditions of the New Framework Agreements; and (ii) the factors and reasons considered by, and the advice and recommendations of, the Independent Financial Adviser as set out in its letter of advice, we are of the opinion that (i) the terms of each of the New Framework Agreements (including the proposed annual caps) are fair and reasonable; and (ii) the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the New Framework Agreements and the transactions contemplated thereunder (including the proposed annual caps for those transactions).

Yours faithfully,
Independent Board Committee

Mr. Ng Yuk Keung
*Independent non-executive
Director*

Mr. Poon Chiu Kwok
*Independent non-executive
Director*

Mr. Hu Jiquan
*Independent non-executive
Director*

LETTER FROM VINCO FINANCIAL

The following is the text of a letter of advice from Vinco Financial setting to the Independent Board Committee and the Independent Shareholders prepared in respect of the New Framework Agreements and the transactions contemplated thereunder (including the proposed annual caps for those transactions), which has been prepared for the purpose of incorporation in this circular:



Vinco Financial Limited

18 January 2023

*To the Independent Board Committee and the Independent Shareholders of
Sany Heavy Equipment International Holdings Company Limited*

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

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 New Framework Agreements and the transactions contemplated thereunder (including the proposed annual caps for those transactions), details of which are set out in the letter from the board (the “**Letter from the Board**”) contained in the circular of the Company dated 18 January 2023 issued to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular, unless the context otherwise requires.

Reference is made to the announcement of the Company dated 16 December 2022 (the “**Announcement**”). As set out in the Announcement, on 16 December 2022, the Company entered into, among others, the New Framework Agreements, which are subject to Independent Shareholders’ approval at the EGM.

As at the Latest Practicable Date, Mr. Liang is the controlling shareholder of the Company who is entitled to exercise or control the exercise of approximately 66.69% voting rights in the ordinary share capital of the Company and indirectly held 479,781,034 Convertible Preference Shares which represent approximately 13.17% issued share capital of the Company (as enlarged) upon full conversion. As Sany Group is held as to 56.74% by Mr. Liang, Sany Group is an associate of Mr. Liang under Rule 14A.12(1)(c) of the Listing Rules and hence a connected person of the Company under Chapter 14A of the Listing Rules.

LETTER FROM VINCO FINANCIAL

Accordingly, the entering into of each of the New Framework Agreements with Sany Group and the transactions contemplated thereunder are continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest of all applicable percentage ratios in respect of the proposed annual caps under each of the New Framework Agreement is more than 5%, each of the New Framework Agreements is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Any Shareholders with a material interest in each of the New Framework Agreements or the transactions as contemplated thereunder or their respective associates shall abstain from voting at the EGM. The relevant interested Shareholders, namely, Sany Hong Kong, Mr. Liang, Mr. Tang Xiuguo, Mr. Xiang Wenbo and their respective associates, together held 2,115,637,688 Shares, representing approximately 66.89% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting on the resolution approving each of the New Framework Agreements at the EGM. Save as disclosed above, as at the Latest Practicable Date, and to the best knowledge, belief and information of the Directors having made all reasonable enquiries, no other Shareholder is required under the Listing Rules to abstain from voting at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan, has been established by the Board to consider and advise the Independent Shareholders in respect of the fairness and reasonableness of the terms of the New Framework Agreements. We have been appointed and approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and conditions of the continuing connected transactions contemplated under the New Framework Agreements. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the New Framework Agreements are in the ordinary and usual course of the Group's business and on normal commercial terms or better, and in the interests of the Company and Independent Shareholders as a whole and whether the terms of the continuing connected transactions contemplated under the New Framework Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

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

LETTER FROM VINCO FINANCIAL

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 New Framework Agreements 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 appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company in respect of continuing connected transactions in relation to the 2022 Supplemental Master Purchase Agreement, the 2022 Supplemental Products Sales Agreement, the 2022 supplemental master transportation agreement, and the 2022 Equipment Sales and Leasing Framework Agreement (the “**Past Appointment**”). Details of the relevant transaction is set out in the 2022 Circular. The professional fees in connection with the appointment have been fully settled and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on, among other things, the New Framework Agreements and the proposed annual caps for the continuing connected transactions contemplated thereunder.

BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts, the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

LETTER FROM VINCO FINANCIAL

We also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, 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 statement in the Circular misleading.

We consider that we have reviewed all currently available information and documents particularly, (i) the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”); (ii) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”); (iii) the New Framework Agreements; (iv) the historical transactions between the Group and Sany Group or its subsidiaries; (v) the basis and assumption of the transactions contemplated under the New Framework Agreements; and (vi) the internal control measures governing continuing connected transactions which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the New Framework Agreements, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the New Framework Agreements, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of the New Framework Agreements contemplated thereunder, we have taken into account the principal factors and reasons set out below.

Information of the Company

The Company is an investment holding company and its subsidiaries are principally engaged in the design, manufacture and sales of mining equipment, logistics equipment, robotic and smart mined products and spare parts and the provision of related services.

LETTER FROM VINCO FINANCIAL

Set out below is summary of the Group's unaudited consolidated financial results of the Group for the six months ended 30 June 2022, as extracted from the 2022 Interim Report:

	For the six months ended	
	30 June	
	2022	2021
	(unaudited)	(unaudited)
	<i>RMB\$'000</i>	<i>RMB\$'000</i>
Revenue		
— Mining equipment	5,479,589	3,226,863
— Logistics equipment	<u>2,152,153</u>	<u>1,757,336</u>
	7,631,742	4,984,199
Profit for the period	912,616	828,946
	As at	As at
	30 June	31 December
	2022	2021
	(unaudited)	(audited)
	<i>RMB\$'000</i>	<i>RMB\$'000</i>
Total assets	23,141,096	20,785,122
Total liabilities	13,862,870	12,001,974
Total equity	9,278,226	8,783,148

With reference to 2022 Interim Report, the revenue of the Group increased by approximately 53.1% from approximately RMB4,984.2 million for the six months ended 30 June 2021 to approximately RMB7,631.7 million for the six months ended 30 June 2022. The Directors believe the increase was mainly attributable to (1) a marked increase in the revenue for the Group's roadheaders, integrated mining equipment, wide-bodied vehicles and small port machinery products due to the continual launch of products with intelligentization and electrification; (2) a significant increase in the international sales revenue as a result of the successful expansion into international markets; and (3) an acceleration in the structural adjustment of the Group's robotic business and its continuous growth in revenue.

The Group recorded an increase of 10.1% in profit for the period from approximately RMB828.9 million for the six months ended 30 June 2021 to approximately RMB912.6 million for the six months ended 30 June 2022. The Group's increase in profit for the six months ended 30 June 2022 was mainly attributable to the increase in revenue mentioned above.

LETTER FROM VINCO FINANCIAL

The Group's unaudited total assets and total liabilities as at 30 June 2022 amounted to approximately RMB23,141.1 million and RMB13,862.9 million respectively. The Group's unaudited consolidated net assets value amounted to approximately RMB9,278.2 million as at 30 June 2022, representing an increase of approximately 5.6% as compared to that of approximately RMB8,783.1 million as at 31 December 2021. The gearing ratio, which represents the ratio of net debt over net assets, increased from 51.4% as at 31 December 2021 to 52.9% as at 30 June 2022.

Set out is a summary of the audited consolidated financial results of the Group for the two years ended 31 December 2021, as extracted from the 2021 Annual Report:

	For the year ended	
	2021	2020
	(audited)	(audited)
	<i>RMB\$'000</i>	<i>RMB\$'000</i>
Revenue		
— Mining equipment	6,895,856	4,846,103
— Logistics equipment	<u>3,298,760</u>	<u>2,517,756</u>
	10,194,616	7,363,859
 Profit for the year	 1,309,158	 1,051,549
	As at 31 December	
	2021	2020
	(audited)	(audited)
	<i>RMB\$'000</i>	<i>RMB\$'000</i>
Total assets	20,785,122	17,464,161
Total liabilities	12,001,974	9,605,260
Total equity	8,783,148	7,858,901

For the year ended 31 December 2021, the revenue of the Group increased to approximately RMB10,194.6 million, representing an increase of approximately 38.4% as compared to that of the year ended 31 December 2020 of approximately RMB7,363.9 million. Pursuant to the 2021 Annual Report, the increase in revenue was mainly attributable to (1) the computerised and electric products of the Group has been continuously entering the market, with products such as intelligent excavators, electric front loaders, electric stacking machines and electric wide-bodied vehicles being widely recognised by the market, which drives a marked growth in the revenue of the Company's excavator, wide-bodied vehicles and small port machinery products; (2) wide-bodied vehicles and telehandlers have made a rapid entry into the international market as their

LETTER FROM VINCO FINANCIAL

international sales revenue achieve a significant increase of 155.1% and 439.4% respectively, leading to a significant increase of 54.0% in the overseas sales revenue; and (3) the Group's robotics business has undergone rapid growth at a rate of 188.3%.

The Group recorded a profit for the year ended 31 December 2021 in the amount of approximately RMB1,309.2 million, representing an increase of approximately 24.5% as compared to that for the year ended 31 December 2020 in the amount of approximately RMB1,051.5 million. The increase in profit was mainly due to an increase in government grants and gain on disposal of a subsidiary classified as held for sale.

The Group's audited total assets and total liabilities as at 31 December 2021 amounted to approximately RMB20,785.1 million and RMB12,002.0 million respectively. The Group's audited consolidated net assets value amounted to approximately RMB8,783.1 million as at 31 December 2021, representing an increase of approximately 11.8% as compared to that of approximately RMB7,858.9 million as at 31 December 2020. The gearing ratio, which represents the ratio of net debt over net assets, increased from 47.2% as at 31 December 2020 to 51.4% as at 31 December 2021.

Information of Sany Group

Sany Group is principally engaged in the manufacture and distribution of engineering machineries for construction purposes and machinery leasing, manufacture of automobile and educational businesses. As at the Latest Practicable Date, Sany Group was held as to 56.74% by Mr. Liang, 8.75% by Tang Xiuguo (a non-executive Director), 8% by Xiang Wenbo (a non-executive Director), 8% by Mao Zhongwu (an Independent Third Party), 0.5% by Liang Linhe (nephew of Mr. Liang) and 10 shareholders who are Independent Third Parties each of them holding less than 5.00% of equity interest of Sany Group.

Reasons for and benefits of entering into of the New Framework Agreements

As disclosed in the Letter from the Board, by selling the Group's products to Sany Group Companies, which will then be sold to end-customers in a large scale, the Group can take advantage of Sany Group Companies' domestic and overseas sales network and sales experiences to enhance the Group's sales.

Also, the principal business of the Group is sale and manufacture of machineries and equipment including but not limited to mining machineries, logistics equipment and other automatic machineries. In line with usual market practice, the Group has been providing financial guarantees to banks or independent finance leasing companies in respect of the products sold to end-user customers since 2005.

Sany Group Companies have extensive industry experience in the finance leasing business. They have maintained a long-term business relationship with the Group and have in-depth understanding of the Group's operations. The entering of the 2023 Equipment Sales and Leasing Framework Agreement would enable the Group to facilitate its sales to Independent Third Party customers, and monitor the repayment progress of these

LETTER FROM VINCO FINANCIAL

customers together with Sany Group Companies and take appropriate actions more efficiently and effectively in order to minimise the default risks associated with the leasing of the Parts and Equipment.

Furthermore, the Directors consider that it is crucial for the Group to maintain the stability in supply and quality of the parts and components for its existing and future production needs. Sany Group Companies are familiar with the Group's specifications, standards and requirements and the Group is confident in the quality of the parts and components supplied by Sany Group Companies. In view of the Group's past purchasing experience with Sany Group Companies, the Directors are of the view that Sany Group Companies can effectively fulfil the Group's high requirement in supply stability as well as product quality. In addition, Sany Group Companies have provided the Group with more favourable terms such as flexible and timely delivery schedule of the parts and components purchased by the Group.

Having considered (i) 2023 Products Sales Agreement allows the Group to take advantage of Sany Group Companies' domestic and overseas sales network and sales experiences to enhance the Group's sales; (ii) the Group would be able to generate sales under the 2023 Equipment Sales and Leasing Framework Agreement; and (iii) enable the stability in the supply and quality of the parts and components for its existing and future production needs, we are of the view that the entering into of the New Framework Agreements, together with the adoption of the annual caps, are conducted in the ordinary and usual course of the Group's business and are in the interests of the Company and the Shareholders as a whole.

Summary of the principal terms of New Framework Agreements

1. 2023 Products Sales Agreement

a. Review of historical annual cap

As disclosed in the Announcement, the Company and Sany Group entered into the 2023 Products Sales Agreement pursuant to which the Company agreed to sell or procure its subsidiaries to sell its finalised products to Sany Group Companies for sale to end-customers with a fixed term commencing from 1 January 2023 to 31 December 2025. As the 2022 Supplemental Products Sales Agreement was due to expire on 31 December 2022, the Company entered into the 2023 Products Sales Agreement with Sany Group to renew the 2022 Supplemental Products Sales Agreement for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

According to the 2023 Products Sales Agreement, the proposed annual caps for the three years ending 31 December 2025 are approximately RMB2,210 million, RMB2,300 million and RMB2,359 million respectively.

LETTER FROM VINCO FINANCIAL

b. Principal terms of the 2023 Products Sales Agreement

Since the 2023 Products Sales Agreement serves the purpose of enabling the Company to take advantage of Sany Group Companies' sales network to sell its finished products to end-customers in a large scale, and in other words, the Group just sell the finished products to end-customers through Sany Group Companies' sales network, under an arrangement which Sany Group Companies do not actually receive any mark-up against the prices under the 2023 Products Sales Agreement. The prices of the finished products under the 2023 Products Sales Agreement are determined according to the costs involved (raw material costs, labour costs and manufacturing expenses) plus the gross profit margin, ranging from 10% to 40% for domestic sales and from 10% to 35% for overseas sales (considering that overseas sales involve higher transportation costs). Such gross profit margin is the same as that the Group charges on Independent Third Party customers when the Group sells the finished products to them directly. In any event, the prices at which the Group sells its product(s) to Sany Group Companies shall not be less than the price at which the Group sells the same product(s) to other distributors who are Independent Third Parties.

Regarding the margins adopted by the Group, after our discussion with the management of the Company, we noted that those profit margins had been reference to the historical profit margins charged by the Group to Independent Third Parties customers for domestic sales and overseas sales. Given that the profit margins are (i) the same as the Group charges on the Independent Third Party customers directly; and (ii) made reference to the profit margins of historical transactions of the Group for domestic sales and overseas sales, we therefore consider that the profit margins adopted by the Group for domestic sales and overseas sales are fair and reasonable and on normal commercial terms.

In order to assess the fairness and reasonableness of the terms of the 2023 Product Sales Agreement, we have reviewed the samples of sales contracts entered into between the Group and other Independent Third Parties and Sany Group.

We noted that (i) the initial prices of the products payable by the Sany Group to the Group are no less favourable to the Group than those offered to other Independent Third Parties as stated in the samples obtained; and (ii) the payment terms as stated under the 2023 Products Sales Agreement are similar to those offered by the Group to Independent Third Parties as stated under the samples obtained and provided by Company.

In addition, we understood that the internal control department of the Group will regularly review and assess whether the terms of the sales of its finished products to Sany Group are in line with the 2023 Products Sales Agreement and on normal commercial terms. Moreover, the Company will engage external auditors to conduct annual review of the transactions under the 2023 Product Sales Agreement. Based on the aforesaid, we are of the view that the terms of the 2023 Product Sales Agreement are fair and reasonable and on normal commercial terms.

LETTER FROM VINCO FINANCIAL

c. The proposed annual cap

Set out below are (i) the historical annual caps and actual transaction amounts for the two financial years ended 31 December 2021 and nine months ended 30 September 2022; and (ii) the proposed annual cap for the three years ending 31 December 2025 under the 2023 Product Sales Agreement:

	For the year ended 31 December 2020 RMB	For the year ended 31 December 2021 RMB	For nine months ended 30 September 2022 RMB
Existing annual cap	599,200,000	1,281,336,000	2,178,490,000
Actual transaction amount	599,036,000	1,094,033,000	1,082,887,000
Utilisation rate	99.97%	85.38%	49.71%
	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB	For the year ending 31 December 2025 RMB
Proposed annual caps	2,210,370,000	2,300,000,000	2,358,580,000

As depicted from the table above, we note that the relevant utilisation rate of the existing annual cap is approximately 49.71% for the year ending 31 December 2022. After discussing with the management of the Company, having taken into consideration (i) the historical transaction amounts for the two years ended 31 December 2021 and the nine months ended 30 September 2022; (ii) the orders under negotiation; (iii) the business plan of the Group; and (iv) the expected demand of the products by end-customers, it is expected that there will be an increase in the volume of sales of finished products by the Group to Sany Group Companies from the year ending 31 December 2023 to the year ending 31 December 2025 owing to the fact that (i) the Group expects to improve its sales plan by taking advantage of the domestic and international sales network and sales experience of Sany Group Limited; and (ii) the stable economic development is expected to promote the development of the Group.

In arriving at the proposed annual cap under the 2023 Products Sales Agreement for the year ending 31 December 2023, the Company has taken into account (i) the orders under negotiation for the year ending 31 December 2023 which have reached approximately RMB1,398.9 million; and (ii) the transaction amount of approximately RMB1,734.08 million that was recognised and the transaction amount of approximately RMB439.21 million to be recognised for the year ended 31 December 2022.

LETTER FROM VINCO FINANCIAL

The year-on-year increment of approximately 4.1% and 2.5% for the proposed annual caps under the 2023 Products Sales Agreement for the two years ending 31 December 2025 is relatively stable and estimated on a more prudent approach as the Group will build overseas sales channels gradually, which will enable the Group to sell finished products to overseas end-customers directly.

In order to assess whether the proposed annual cap under the 2023 Products Sales Agreement is fair and reasonable, we have discussed with the management of the Company in relation to the basis and assumptions on the proposed annual cap under the 2023 Products Sales Agreement and we have considered the following aspects when assessing the fairness and reasonable of the basis of the proposed annual cap. We noted that the historical transaction amounts for nine months ended 30 September 2022 is approximately RMB1,082.89 million with the growth rate of approximately 31.97% of the historical transaction amounts by comparing the amount for the year ended 31 December 2021 and the annualised amount for the nine months ended 30 September 2022. We noted that the orders under negotiation for the three months between October 2022 to December 2022 are approximately RMB1,090.4 million (of which approximately RMB651.19 million has been secured) and thus the transaction amount for the sales of finished products by the Group to Sany Group Companies for the year ended 31 December 2022 is expected to be approximately RMB2,173.3 million. Pursuant to the list of orders under negotiation for the three months ended 31 December 2022 obtained from the Company, we noted that approximately 60% of the orders under negotiation for the three months ended 31 December 2022 are secured and we have reviewed the sample of internal document related to the transactions for the three months ended 31 December 2022. For our due diligence purpose, we have also collected list of the expected demand from end-customers and the corresponding samples of contracts signed with end-customers for year 2023 that indicated the expected demand of the products by end-customers.

Based on the above, having consider (i) approximately 49.71% of the existing annual caps for the year ending 31 December 2022 was utilised; (ii) the orders under negotiation; (iii) the business plan of the Group; and (iv) the expected demand of the products by end-customers, we are of the view that the proposed annual cap under the 2023 Products Sale Agreement is fair and reasonable.

2. 2023 Equipment Sales and Leasing Framework Agreement

a. Review of historical annual cap

As disclosed in the Announcement, the Company and Sany Group entered into the 2023 Equipment Sales and Leasing Framework Agreement pursuant to which: (i) Parts and Equipment shall either be sold by the Group to Sany Group Companies for leasing to the lessees or to the lessees which shall then be on-sold to Sany Group Companies for leasing back to the lessees; and (ii) the Group shall settle the outstanding lease payments on behalf of the lessees or repurchase the Parts and Equipment under certain circumstances.

LETTER FROM VINCO FINANCIAL

As the 2022 Supplemental Equipment Sales and Leasing Framework Agreement was due to expire on 31 December 2022, the Company entered into the 2023 Equipment Sales and Leasing Framework Agreement with Sany Group to renew the 2022 Supplemental Equipment Sales and Leasing Framework Agreement for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

According to the 2023 Equipment Sales and Leasing Framework Agreement, the proposed annual caps of the sales of Parts and Equipment for the three years ending 31 December 2025 are approximately RMB1,802 million, RMB1,850 million and RMB1,900 million respectively; and the financial guarantee and the repurchase of Parts and Equipment for the three years ending 31 December 2025 are approximately RMB1,622 million, RMB1,665 million and RMB1,710 million respectively.

b. Principal terms of the 2023 Equipment Sales and Leasing Framework Agreement

The terms under the 2023 Equipment Sales and Leasing Framework Agreement shall conform to the principles and provisions set out in the 2023 Equipment Sales and Leasing Framework Agreement, and shall be agreed between the parties after arm's length negotiations on normal commercial terms.

The parties to the 2023 Equipment Sales and Leasing Framework Agreement have agreed that the Parts and Equipment to be sold shall be at the prices which are determined according to the costs involved (i.e. research and development costs, raw material costs, labour costs and manufacturing expenses) plus the gross profit margin ranging from 10% to 40%, which shall in any event be no less favourable to the Group than terms available to Independent Third Parties.

If a Lessee breaches the terms as set out in the Financial Lease and Guarantee Agreement, the Group shall settle the outstanding lease payment on behalf of the Lessee or repurchase the Parts and Equipment on normal commercial terms, which shall be no less favourable to the Group than terms available to Independent Third Parties.

In order to assess the fairness and reasonableness of the terms of the 2023 Equipment Sales and Leasing Framework Agreement, we have reviewed the sales contracts provided by the Company in relation to the sales of the Parts and Equipment to Sany Group and to Independent Third Parties customers. In addition, we have randomly selected and obtained sample of sales contracts, selected from the sales summary for the nine months ended 30 September 2022 provided by the Group for the similar products by the Group sold to other independent customers. We have also obtained the products margin analysis of historical transactions and noted the gross margin of sample sales to Sany Group Companies and Independent Third Parties we reviewed are within 10% to 40%. We also noted that the profit margin of the products was calculated with reference to their sales amount and different costs including but not limited to direct costs and cost of raw materials, which was also within 10% to 40%. As confirmed by the management of the Group, there was no default of similar transactions to transactions contemplated under the 2022 Supplemental Financial

LETTER FROM VINCO FINANCIAL

Lease and Guarantee Agreement for the two years ended 31 December 2021 and the nine months ended 30 September 2022. Also, based on our discussion with the management of the Group, the Group has following measures to reduce the chance to breach of terms by the Lessees: (i) the guarantor of each individual Financial Lease and Guarantee Agreement is liable to repay the remaining balance if the Lessee could not make the repayment; (ii) the Group has the right to shut down the Parts and Equipment by the attached remote devices if the Lessee cannot make the repayment on time; and (iii) for each breach of terms, the Group retains the right to file a lawsuit against the Lessee. As such, we are of the view that such measures are able to safeguard the interest of the Group for each entering of individual Financial Lease and Guarantee Agreement.

Based on the aforesaid, we are of the view that the terms of the 2023 Equipment Sales and Leasing Framework Agreement are fair and reasonable and on normal commercial terms.

c. The proposed annual cap

Set out below are (i) the historical annual caps and actual transactions for the year ended 31 December 2021 and nine months ended 30 September 2022; and (ii) the proposed annual caps for the three years ending 31 December 2025 under the 2023 Equipment Sales and Leasing Framework Agreement:

Sales of Parts and Equipment

	For the year ended 31 December 2021 RMB	For nine months ended 30 September 2022 RMB
Existing annual cap	500,000,000	1,478,419,000
Actual transaction amount	100,393,000	478,419,000
Utilisation rate	20.08%	32.36%

Financial guarantee and repurchase of Parts and Equipment

	For the year ended 31 December 2021 RMB	For nine months ended 30 September 2022 RMB
Existing annual cap	425,000,000	1,299,559,000
Actual transaction amount	88,163,000	399,559,000
Utilisation rate	20.74%	30.75%

LETTER FROM VINCO FINANCIAL

	For the year ending 31 December 2023 <i>RMB</i>	For the year ending 31 December 2024 <i>RMB</i>	For the year ending 31 December 2025 <i>RMB</i>
Sales of Parts and Equipment	1,802,000,000	1,850,000,000	1,900,000,000
Financial guarantee and repurchase of Parts and Equipment	1,621,800,000	1,665,000,000	1,710,000,000

As depicted from the table above, we note that the relevant utilisation rate of the existing annual cap for the sales of Parts and Equipment and Financial guarantee and repurchase of Parts and Equipment are approximately 32.36% and 30.75% respectively for the year ending 31 December 2022. After discussing with the management of the Company, having taken into consideration of (i) historical transaction amounts for the year ended 31 December 2021 and the nine months ended 30 September 2022 under the 2022 Supplemental Equipment Sales and Leasing Framework Agreement; (ii) the orders under negotiation and the product sales plan at the prevailing market price of the Parts and Equipment, and the expected transaction scale which similar guarantee are required; (iii) the average loan ratio of the sales of Parts and Equipment of 90% (for the financial guarantee and the repurchase of Parts and Equipment); and (iv) current intention of the customers of changing from using instalment payment model directly with the Group to using finance lease services with Sany Group Companies, which would help to speed up the cash collection process of the Group.

In arriving at the proposed annual cap under the 2023 Equipment Sales and Leasing Framework Agreement for the year ending 31 December 2023, the Company has taken into account (i) the orders of sales of Parts and Equipment under negotiation for the year ending 31 December 2023 which have reached approximately RMB803.2 million; (ii) the transaction amount of approximately RMB906.62 million that was recognised and the transaction amount of approximately RMB557.9 million to be recognised for the year ended 31 December 2022; (iii) the average loan ratio for the financial guarantee and the repurchase of Parts and Equipment is approximately 90% of the sales of Parts and Equipment; and (iv) the increased demand for financial lease and guarantee services by customers to maintain their cash flow flexibility in light of the current global economy.

The year-on-year increment of approximately 2.7% and 2.7% for the proposed annual caps under the 2023 Equipment Sales and Leasing Framework Agreement for the two years ending 31 December 2025 is relatively stable and estimated on a more prudent approach as it is anticipated that the impact of COVID-19 on customers' business and operations will relieve in 2024 and 2025.

According to the news, named as “The National Bureau of Statistics released economic data for November — Recovery trend of the economy in PRC”* (國家統計局發佈11月份經濟數據顯示 — 我國經濟總體保持恢復態勢) found in the State Council of

LETTER FROM VINCO FINANCIAL

PRC (Source: www.gov.cn) on 17 December 2022, the implementation of optimised policies for epidemic control and measures helped stabilising the economy in PRC and the most difficult moment for PRC's economy has passed and it is expected that the manufacturing related business would continue to recover gradually.

It is expected that the volume of sales of Parts and Equipment by the Group to Sany Group Companies will remain stable whereas there will be an increase in the amount of financial guarantee and repurchase of the Parts and Equipment from the year ending 31 December 2023 to the year ending 31 December 2025 owing to the anticipated growth in scale of sales of the Group; and the growth in sales demand of finance lease.

In order to assess whether the proposed annual cap under the 2023 Equipment Sales and Leasing Framework Agreement is fair and reasonable, we have discussed with the management of the Company in relation to the basis and assumptions on the proposed annual cap under the 2023 Equipment sales and Leasing Framework Agreement and we have considered the following aspects when assessing the fairness and reasonable of the basis of the proposed annual cap. We noted that the historical transaction amounts for the nine months ended 30 September 2022 is approximately RMB478.4 million and RMB399.6 million for the Sales of Parts and Equipment and financial guarantee and repurchase of Parts and Equipment respectively with the growth rate of approximately 535.39% and 504.27% of the historical transaction amounts respectively by comparing the amounts for the year ended 31 December 2021 and the annualised amounts for the nine months ended 30 September 2022. We noted that the orders under negotiation for the three months between October 2022 to December 2022 are approximately RMB986.1 million (of which approximately RMB428.2 million has been secured) and thus the transaction amount for the sales of Parts and Equipment for the year ended 31 December 2022 is expected to be approximately RMB1,464.5 million. Pursuant to the list of order under negotiation for the three months ended 31 December 2022 obtained from the Company, we noted that approximately 43% of the orders under negotiation for the three months ended 31 December 2022 are secured and we have reviewed the sample of internal document related to the transactions for the three months ended 31 December 2022. For our due diligence purpose, we have also collected the list of orders under negotiation with amount of approximately RMB803.2 million for the sales of Parts and Equipment, which is approximately 45% of the expected demand of the total sale of the Parts and Equipment for the year ending 31 December 2023.

We noted that the average loan ratio of the sales of Parts and Equipment of 90% (for the financial guarantee and the repurchase of Parts and Equipment). As advised by the management of the Group, the percentage of down payment can be adjusted with reference to their history of repayment, their financial statements and industry practice. We reviewed samples of leasing agreement signed with independent bank or other finance lease companies and noted that their down payment is approximately 15%. As such, we are of the view that the average loan ratio of 90% is fair and reasonable. As discussed with the management of the Company, customers have

adopted the finance lease model instead of the instalment payment model which speeds up the Company's cash collection for products since the cash collection rate of the financial lease is 100%.

Based on the above, having consider (i) approximately 32.36% and 30.75% of the existing annual caps for the sales of Parts and Equipment and financial guarantee and repurchase of Parts and Equipment respectively for the year ending 31 December 2022 were utilised; (ii) the orders under negotiation and the product sales plan at the prevailing market price of the Parts and Equipment, and the expected transaction scale which similar guarantee are required; (iii) the average loan ratio of the sales of Parts and Equipment of 90% (for the financial guarantee and the repurchase of Parts and Equipment); and (iv) current intention of the customers of changing from using instalment payment model directly with the Group to using finance lease services with Sany Group Companies, which would help to speed up the cash collection process of the Group, we are of the view that the proposed annual cap under the 2023 Equipment Sales and Leasing Framework Agreement is fair and reasonable.

3. 2023 Master Purchase Agreement

a. Review of historical annual cap

As disclosed in the Announcement, the Company and Sany Group entered into the 2023 Master Purchase Agreement pursuant to which the Company agreed to purchase or procure its subsidiaries to purchase from Sany Group Companies (1) parts and components produced by Sany Group Companies and (2) second-hand manufacturing equipment, for the manufacturing of products of the Group. As the 2022 Supplemental Master Purchase Agreement was due to expire on 31 December 2022, the Company entered into the 2023 Master Purchase Agreement with Sany Group to renew the 2022 Supplemental Master Purchase Agreement for a term of three years commencing from 1 January 2023 to 31 December 2025 (both days inclusive).

According to the 2023 Master Purchase Agreement, the proposed annual caps for the three years ending 31 December 2025 are approximately RMB1,214 million, RMB1,697 million and RMB2,285 million.

b. Principal terms of the 2023 Master Purchase Agreement

For those tailor-made parts and components for the Group manufactured by Sany Group Companies, the basis of determining prices of the parts and components produced by Sany Group Companies will be determined on arm's length negotiation and with reference to the manufacturing costs involved in the relevant parts and components plus a gross margin ranging from approximately 10% to 30%, with reference to the usual gross margin of the Group's procurement of other similar parts and components from Independent Third Parties, which should be in any event no less favourable to the Group than those offered by Independent Third Parties.

LETTER FROM VINCO FINANCIAL

For those common parts and components which can be easily accessible in the market, the Group will follow the pricing as determined during the Group's commercial procurement tender process. The basis of determining prices of the second-hand manufacturing equipment will be determined on arm's length negotiation and with reference to the below formula, which is a default formula set by the Group's SAP financial software following the Group's accounting policy for depreciation and valuation on equipment and also applicable to the valuation of all equipment of the Group, no matter whether they are procured from Independent Third Parties or Sany Group Companies, and should be in any event no less favourable to the Group than terms offered by Independent Third Parties.

Price = Original Purchase Price – Original Purchase Price

(1–3%) x (number of years since the equipment was purchased by Sany Group Companies/10 years)

“3%” represents the minimum residual value of equipment and “10 years” represents the maximum durable years of equipment and both of them are set according to the Group's accounting policy.

We have reviewed the purchases summary prepared by the Group for the year ending 31 December 2022. In the summary, we noted that there are quotations from the Independent Third Parties suppliers for similar products and the terms of such purchases from Sany Group are comparable to and no less favourable to the Group than those offered by other independent suppliers to the Group. When there are no third party suppliers comparable available, the basis of determining prices of the parts and components produced by Sany Group and its subsidiaries will be determined on arm's length negotiation and with reference to the manufacturing costs involved in the relevant parts and components plus a gross margin ranging from 10% to 30%, and with reference to the usual gross margin of the Group's procurement of other similar products from Independent Third Parties, which should be in any event no less favourable to the Group than is available to Independent Third Parties.

According to the Letter from the Board, when there are no third party suppliers comparable available, the Company will follow the pricing policy and apply the gross profit margin ranging from 10% to 30%. In this regard, we have obtained and reviewed the gross profit margin summary for certain parts and components prepared by the Company in which showing parts and components purchased by the Company from Sany Group and noted that items showed in the summary are in the gross profit margin ranging from 10% to 30%. Moreover, as confirmed by the Company, the manufacturing costs plus a gross margin ranging from 10% to 30% is an industry norm to calculate the purchase price.

LETTER FROM VINCO FINANCIAL

Having considered when there are no third party suppliers comparable available, (i) the Company will follow the pricing policy and apply the gross profit margin ranging from 10% to 30%; and (ii) the manufacturing costs plus a gross margin ranging from 10% to 30% is an industry norm to calculate the purchase price. We therefore are of the view that using the manufacturing costs plus a gross margin ranging from 10% to 30% to determine the pricing of the products when there are no third party suppliers comparable available under the 2023 Master Purchase Agreement is fair and reasonable and on normal commercial terms.

c. The proposed annual cap

Set out below are (i) the historical annual caps and actual transactions for the two financial years ended 31 December 2021 and nine months ended 30 September 2022; and (ii) the proposed annual cap for the three years ending 31 December 2025 under the 2023 Master Purchase Agreement:

	For the year ended 31 December 2020 RMB	For the year ended 31 December 2021 RMB	For the nine months ended 30 September 2022 RMB
Existing annual cap	408,695,000	560,747,000	908,001,000
Actual transaction amount	261,717,000	545,836,000	652,912,000
Utilisation rate	64.04%	97.34%	71.91%
	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB	For the year ending 31 December 2025 RMB
Proposed annual caps	1,214,218,070	1,696,940,810	2,284,841,210

After discussing with the management of the Company, having taken into consideration of (i) historical transaction amounts for the two years ended 31 December 2021 and the nine months ended 30 September 2022; (ii) the orders under negotiation; and (iii) the anticipated procurement plan of the Group having considered the business plan of the Group.

It is expected that there will be an increase in the amount of parts and components and second-hand manufacturing equipment purchased by the Group from Sany Group Companies from the year ending 31 December 2023 to the year ending 31 December 2025 owing to the anticipated continuous growth in scale of product scale of the Group in next three years.

LETTER FROM VINCO FINANCIAL

In arriving at the proposed annual cap under the 2023 Master Purchase Agreement for the year ending 31 December 2023, the Company has taken into account the procurement plan of the Group for the procurement of raw materials, parts and components and second-hand manufacturing equipment to be purchased by the Group from Sany Group Companies, which was in line with the average historical growth rate of 39.5% in the revenue of the Group for the previous three years ended 31 December 2021.

The year-on-year increment of approximately 39.8% and 34.6% for the proposed annual caps under the 2023 Master Purchase Agreement for the two years ending 31 December 2025 is in line with the average historical growth rate of 39.5% in the revenue of the Group.

In order to assess whether the proposed annual cap under the 2023 Master Purchase Agreement is fair and reasonable, we have discussed with the management of the Company in relation to the basis and assumptions on the proposed annual cap under the 2023 Master Purchase Agreement and we have considered the following aspects when assessing the fairness and reasonable of the basis of the proposed annual cap. We noted that the historical transaction amounts for the nine months ended 30 September 2022 is approximately RMB652.91 million with the growth rate of approximately 59.49% of the historical transaction amounts by comparing the amount for the year ended 31 December 2021 and the annualised amount for the nine months ended 30 September 2022. We noted that the procurement under negotiation for the three months from October 2022 to December 2022 are approximately RMB255.1 million (of which approximately RMB145.6 million has been secured) and thus the transaction amount for the purchase of parts and components and second-hand manufacturing equipment by the Group from Sany Group Companies for the year ended 31 December 2022 is expected to be approximately RMB908.0 million. Pursuant to the list of procurement under negotiation for the three months ended 31 December 2022 obtained from the Company, we noted that approximately 57% of the procurement under negotiation for the three months ended 31 December 2022 is secured and we have reviewed the sample of internal document related to the transactions for the three months ended 31 December 2022. For our due diligence purpose, we have also obtained and reviewed the expected procurement plan of the Group and noted that the Company expected to purchase from Sany Group or its subsidiaries approximately RMB1.15 billion for the year ending 31 December 2023.

Based on the above, having consider (i) the existing annual cap for the year ending 31 December 2022 was substantially utilised; and (ii) the anticipated procurement plan of the Group, we are of the view that the proposed annual cap under the 2023 Master Purchase Agreement is fair and reasonable.

4. Internal Control Measures

As confirmed by the Director, to ensure that the actual prices for the transactions under the New Framework Agreements are on normal commercial terms or better and on terms no less favourable to the Company than to Independent Third Parties, the internal audit department of the Group will conduct regular checks to review and assess whether the products have been procured or sold in accordance with the terms of the relevant agreement and on normal commercial terms or better. In addition, the Company has engaged external auditors to conduct annual review of the transactions under the New Framework Agreements.

We have assessed the internal control policy for continuing connected transactions of the Group by discussing with the management of the Group in relation to the internal control procedures and reviewing the internal control policy document. We believe that such internal procedures abided by the internal control framework can effectively assure that the existing and possible future individual agreements entered/to be entered with any connected parties are/will be on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders. In view of the internal control measures established by the Company in relation to the continuing connected transactions, we are of the view that appropriate measures will be in place to govern the conduct of the continuing connected transactions under the New Framework Agreements and safeguard the interests of the Independent Shareholders. Besides, the Group's financial department has a designated employee to monitor related transactions conducted under each of the New Framework Agreements. When the transaction limit reaches 80% of the annual cap set under the respective agreement, he/she will promptly inform the business department of the Group and the chief financial officer such that the Group can arrange for a revision of the annual cap as appropriate, in compliance with all relevant requirements under Chapter 14A of the Listing Rules. No further transaction will be conducted in excess of the annual cap, and transactions will only resume after the Group has complied with all relevant Listing Rules requirement under Chapter 14A in relation to the revised annual cap. Also, the internal audit department of the Group will conduct regular checks on a bi-annual basis to review and assess whether the transactions under each of the New Framework Agreements have been conducted in accordance with the terms of the relevant agreements and on normal commercial terms or better. As mentioned earlier, we noted that the Company's independent non-executive Directors will conduct an annual review of the transactions under each of the New Framework Agreements to ensure that the Group has complied with its internal approval procedures, terms of the respective agreement and the relevant Listing Rules pursuant to the latest meeting minutes dated 31 August 2022. We have also obtained the letter issued by the external auditors dated 29 March 2022 to conduct annual review of the continuing connected transactions. Having taken the usual practice of the other listed companies on the Stock Exchange, we consider the above procedures taken previously would continue to be conducted by the Company under each of the New Framework Agreements to ensure the pricing policy will be adhered from time to time and the monthly review to be implemented by the Company on all the connected transaction agreements would further enhance the adequacy and effectiveness of the internal control measures to be adopted by the Company for continuing connected transaction if the internal control policy will be properly executed by the management.

LETTER FROM VINCO FINANCIAL

RECOMMENDATION

Having taken the above principal factors and reasons, we are of the view that the entering of the New Framework Agreements is on normal commercial terms or better, in the ordinary course of business of the Group and are in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the New Framework Agreements and the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable. Therefore, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM approving terms of the New Framework Agreements and the annual caps for the continuing connected transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Vinco 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 Vinco 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.

* *For identification only*

1. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and the chief executives of the Company in the share capital and associated corporations of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in Shares and underlying Shares:

Name of Director	Nature of interest	Number of Shares held	Percentage of issued voting shares of the Company
Mr. Qi Jian ⁽¹⁾	Beneficial owner	6,746,706	0.21%
Mr. Fu Weizhong ⁽²⁾	Beneficial owner	3,961,596	0.13%
Mr. Tang Xiuguo	Interest of spouse	3,462,000	0.11%
Mr. Xiang Wenbo ⁽³⁾	Beneficial owner	2,858,000	0.09%
Mr. Poon Chiu Kwok ⁽⁴⁾	Beneficial owner	1,000,000	0.03%
Mr. Ng Yuk Keung ⁽⁵⁾	Beneficial owner	1,000,000	0.03%
Mr. Hu Jiquan ⁽⁶⁾	Beneficial owner	1,000,000	0.03%

Notes:

- (1) The 6,746,706 Shares in which Mr. Qi Jian is interested or deemed to be interested represent: (i) 5,290,000 Shares which may be issued to him upon the exercise of the share options granted to him on 29 December 2021 under the share option scheme adopted by the Company on 16 February 2013 (the “Share Option Scheme”); (ii) 550,615 Shares awarded to him on 18 December 2020, 315,352 Shares awarded to him on 2 September 2021 and 590,739 Shares awarded to him on 8 June 2022 under the restricted share award scheme adopted by the Company on 3 December 2019 (the “Share Award Scheme”).
- (2) The 3,961,596 Shares in which Mr. Fu Weizhong is deemed to be interested represent: (i) 500,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 and 3,160,000 Shares which may be issued to him upon the exercise of the share options granted to him on 29 December 2021 under the Share Option Scheme; (ii) 152,683 Shares awarded to him on 18 December 2020; and (iii) 40,028 Shares awarded to him on 2 September 2021 and 108,885 Shares awarded to him on 8 June 2022 under the Share Award Scheme.
- (3) Mr. Xiang Wenbo directly holds 2,858,000 Shares.

- (4) The 1,000,000 Shares in which Mr. Poon Chiu Kwok is deemed to be interested represent the 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.
- (5) The 1,000,000 Shares in which Mr. Ng Yuk Keung is deemed to be interested represent the 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.
- (6) The 1,000,000 Shares in which Mr. Hu Jiquan is deemed to be interested represent the 1,000,000 Shares which may be issued to him upon the exercise of the share options granted to him on 15 December 2017 under the Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had, or were deemed to have, any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Long positions in shares of Sany BVI (being the ultimate holding company of the Company):

Name of Director	Nature of interest	Number of shares held	Percentage of issued share capital
Mr. Tang Xiuguo ^(Note)	Beneficial owner	869.58	8.70%
Mr. Xiang Wenbo ^(Note)	Beneficial owner	795.04	7.95%

Note: Mr. Tang Xiuguo and Mr. Xiang Wenbo holds 8.70% and 7.95% of the issued share capital of Sany BVI, respectively, which in turn holds the entire issued share capital of Sany Hong Kong.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or any of their spouses or children under the age of 18 were interested, or were deemed to be interested in the long and short positions in the Shares, underlying Shares and debentures of the Company or any of its holding company, subsidiaries or other associated corporation (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required pursuant to the Model Code to be notified to the Company and the Stock Exchange. At no time had the Company or any of its holding company or subsidiaries been participated in any arrangements to enable the directors or chief executive (including their spouses or children under the age of 18) of the Company to acquire any interests and short positions of Shares or underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO).

(b) Interests and short positions of substantial Shareholders and other parties in the Shares and underlying Shares

As at the Latest Practicable Date, other than the interests and short positions of certain Directors and chief executives as disclosed under the paragraph above, the interests and short positions of persons in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholder required to be kept by the Company under section 336 of the SFO were as follows:

Long positions in Shares and underlying Shares:

Name of Shareholder	Capacity	Number of Shares/ underlying Shares held	Approximate percentage of issued voting shares of the Company
Sany Hong Kong ⁽¹⁾	Beneficial owner	2,578,228,722	81.51%
Sany BVI ⁽²⁾	Interest of a controlled corporation	2,578,228,722	81.51%
Mr. Liang ⁽³⁾	Interest of controlled corporation/ Beneficial owner	2,589,098,722	81.86%

Notes:

- (1) The 2,578,228,722 Shares and underlying Shares consist of 2,098,447,688 ordinary Shares and 479,781,034 underlying Shares which may be issued pursuant to the conversion of the 479,781,034 Convertible Preference Shares issued to Sany Hong Kong.
- (2) Sany BVI owns 100% of the issued share capital of Sany Hong Kong. Sany BVI is therefore deemed to be interested in all the Shares and underlying Shares held by Sany Hong Kong under the SFO.
- (3) Mr. Liang is interested in 56.38% of Sany BVI. Mr. Liang is therefore deemed to be interested in all the Shares and underlying Shares held by Sany Hong Kong under the SFO. Mr. Liang also directly held 10,870,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, no other person had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

2. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

3. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Vinco Financial	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO

Vinco Financial has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Vinco Financial does not have any shareholding in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group.

As at the Latest Practicable Date, Vinco Financial did not have any interest, direct or indirect, in any assets since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up, have been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there has not been any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their close associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

6. INTERESTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Group since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up.

As at the Latest Practicable Date, there was no other contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors was materially interested and which was significant in relation to the business of the Group.

7. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (www.sanyhe.com) from the date of this circular up to and including the date of the EGM:

- (a) the 2023 Products Sales Agreement;
- (b) the 2023 Equipment Sales and Leasing Framework Agreement;
- (c) the 2023 Master Purchase Agreement; and
- (d) the written consent from Vinco Financial referred in paragraph 3 of this appendix.

8. MISCELLANEOUS

- (a) The Company's share registrar and transfer office in Hong Kong is at Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (b) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.



**SANY HEAVY EQUIPMENT INTERNATIONAL
HOLDINGS COMPANY LIMITED**

三一重裝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 631)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the an extraordinary general meeting (the “**EGM**”) of Sany Heavy Equipment International Holdings Company Limited (the “**Company**”) will be held at Conference Room 103, Research and Development Building, Sany Heavy Equipment Co., Ltd., No. 25, 16 Kaifa Road, Shenyang Economic of Technological Development Zone, Shenyang, Liaoning Province, PRC at 11:00 a.m. on Thursday, 9 February 2023 for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

1. “**THAT**

- (a) the 2023 Products Sales Agreement (as defined in the circular of the Company dated 18 January 2023 (the “**Circular**”)) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) the proposed annual caps for the three years ending 31 December 2025 for the transactions contemplated under the 2023 Products Sales Agreement be and are hereby approved, confirmed and ratified.”

2. “**THAT**

- (a) the 2023 Equipment Sales and Leasing Framework Agreement (as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) the proposed annual caps for the three years ending 31 December 2025 for the transactions contemplated under the 2023 Equipment Sales and Leasing Framework Agreement be and are hereby approved, confirmed and ratified.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. “**THAT**

- (a) the 2023 Master Purchase Agreement (as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) the proposed annual caps for the three years ending 31 December 2025 for the transactions contemplated under the 2023 Master Purchase Agreement be and are hereby approved, confirmed and ratified.”

By order of the board of directors
Sany Heavy Equipment International Holdings Company Limited
Liang Zaizhong
Chairman

Hong Kong, 18 January 2023

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:

Room 2010, 20th Floor, Landmark North
No. 39 of Lung Sum Avenue
Sheung Shui
N.T. Hong Kong

Notes:

- (1) A member entitled to attend and vote at the above meeting may appoint one or, if he holds two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.
- (2) Where there are joint holders of any share of the Company, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (3) In order to be valid, a form of proxy together with the power of attorney (if any) or other authority (if any) under which it is signed or a certified copy thereof shall be deposited at the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. The proxy form will be published on the website of the Stock Exchange.
- (4) The register of members of the Company will be closed from Monday, 6 February 2023 to Thursday, 9 February 2023 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the entitlement to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 February 2023.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (5) The completion of a form of proxy will not preclude you from attending and voting at the EGM in person should you so wish. If you attend and vote at the EGM, the authority of your proxy will be revoked.

As at the date of this notice, the executive directors of the Company are Mr. Liang Zaizhong, Mr. Qi Jian and Mr. Fu Weizhong, the non-executive directors of the Company are Mr. Tang Xiuguo and Mr. Xiang Wenbo, and the independent non-executive directors of the Company are Mr. Ng Yuk Keung, Mr. Poon Chiu Kwok and Mr. Hu Jiquan.