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Answer-to-Question-_1_

REPORT

From: Garland & Moore LLP

To: Board of directors of Corline plc

Date:8 May 2025

Subject: Report on tax issues discussed in recent board meetings

INTRODUCTION

This report is prepared for the sole use of the Board of Directors of Corline plc in relation to the potential tax implications on the issues discussed during the board meeting dated 1 May 2025, including the acquisition of the business ofBatteries Nord Srl ("BNS"), the proposed changes in manufacturing operations, and the related funding options. The report aim to identify and analysis the potental UK tax issues and recommend the most tax efficient options to the Board.

No reliance shall be placed on this report by other third parties. Separate advices shall be seek for related regulatory, legal and overseas tax matters. The advices given are based on the current tax law and legislations.

EXECUTIVE SUMMARY AND RECOMMENDATION

Both the acquisition of shares or assets of BNS may ultimately generate the same amount of after-tax profits of £75m to Corline plc. If shares of BNS are acquired, future profits of BNS would not be subject to UK tax. The profits, after paying Belgium tax, could be repatriate to the group up to Corline plc free from UK tax and withholding tax.

On the other hand, if the assets of BNS are acquired by Corline Cars (No 2) Ltd ("CC2"). The trade could be conducted as a PE of CC2 and the profits of £100m would be brought in the UK coporate tax, which would increase the interest deuction capacity for proposed loan financing by c.£30m. Also, the assets would be acquried at market value which generate genearous capital allowance in the UK, if loss is resulted due to such capital allowances, the loss could set off the profits of other UK companies. As such, it is recommended to acquire the assets of BNS from the UK tax perspective. Neverthelss, separate advice is recommended to obtain to assess the Belgium tax impilcations.

For the funding structure, althought the option for issuing voting preference share ("Prefs") to Michael Hunter and his family ("Hunter family") would result in a lower dividend rate of 5.5%, no tax deduction would be available for the dividend. Also, this would lead to a change in control of the group, which give additional tax change in control and transfer pricing burden. There also may be regulatory resrictions of such changes as Corline plc is a listed company. The fact that Hunter family gaining control of Corline plc may also commercially affect the group's future operations and acquisition plans.

If the funding is to made by loans, it is suggested that the loans of £1,800m from UK banks to be made to Corline plc, which would be further on-lend to the respective subsidiary (i.e. CC2, Corline Overseas Holdings Ltd ("COHL") and Corline (France) SARL) charging the same arm's length interest, in order to fulfil the unallowable purpose test. Given the addition pre-tax profits of BNS's trade to be acquired as a permanent establishment ("PE") of CC2, the group could generate an interest capacity of £126m under the Corproate Interest Restriction ("CIR") rules, which is approximately equal to the expected interest expense on bank loans, allowing a full tax deduction of interest expesnes in the UK. It is therefore recommended for the group to obtain funding via loans instead of issuing of Prefs.

For the £1,200m loans from Hunter family, as the loan would be used to settle a tax dispute of Corline Sealand Ltd ("CSL") which would unlikely meet the unallowable purpose test, and even if an on-lending arrangment is in place, no interest deduction would be avialabe in Sealand. As such, we recommend the loan to be borrowed at the level of CSL. As such, no corresonding interest income need to be charged by Corline plc which would result in additional UK tax.

Last but not least, we note that the group proposed to convert the factory of CC2 into electric vehicle production plant. Such conversion is likely to be considered as a major change in the nature of CC2's business, and may therefore jeopardize its trading loss to be carried forward of £800m. As such, we recommend the group to postpone such conversion until January 2026, when the changes in ownership rules period expire.

GENERAL COMMENTS

We understand that the group is free to conduct the transactions in its own manner and all transactions contemplated are with bona fide commercial purposes. As such, it is not anticipated that our advice would consitute any agressive tax planning and avoidance provision shall not apply.

SECTION A: Acquistion of BNS

The Group decided in the board meeting to expand into the electric vehicle manufacturing field and therefore need a reliable supply of batteries. The Group has identified BNS, a Beligum company, as suitable acquisition target and have the option to buy either shares or assets of BNS at a consideration of EUR1,150m (equivalent to £1000m).

A1: Shares acquisition

If the shares of BNS are to be acquired, the group would undertake the commercial history and potential liabiltiy, including Belgium tax liabilities, of the target company. It is therefore suggested to conducted a throughout tax due dilignece before the acuisition and put in place necessary warranty and indemnity in the sales and purchase agreements if necessary. Our firm would be pleased to line up with our Beligum colleague to assist under a separate engagement.

The shares of BNS would be sensible to be acuqired by COHL as COHL is the holding company of the group's overseas subsidiaries.

The acqusition of BNS may be financed by equity or loan from Corline plc. If it is financed by loan, interest expenses paid to Corline plc may be tax deductible, subject to certain requirement including CIR rules which would be further discussed in Section B.

COHL would have a £1000m base cost on on its investment BNS, which although would not lead to immediate tax deduction, could reduce the capital gain if the shares are sold in future. As BNS is a trading company and would be wholly owned by COHL, future disposal (if sold after at least 12 months holding period) may be eligilble to substantial shareholding exemption ("SSE") and be exempt from UK tax.

It is anticipated that BNS would derive c.£100m profits annually, as BNS is a separate Belgium subsidiary, such profits would not be subject to UK corporation tax. We understand that Belgium's tax rate is same as the UK (i.e. also at 25%), we therefore assume that BNS would be subject to £25m corporate tax in Belgium. Nevertheless, the Group is strongly advice to seek local tax advices as the detailed tax rules in Belgium may be difference.

The after-tax profits of BNS in the amount of c.£75m could be distributable to COHL as dividend. We understand that Belgium does not charge withholding tax ("WHT") on payment to UK parent company (i.e. COHL). As BNS is a wholly owned subsidiary of COHL, such dividend would also be exempt from UK corproate tax. Similarily, further distribtion of dvidend from COHL to Corline plc are also tax exempt.

From the the above, it is expected that an after-tax distribuiton of £75m per year could be archieved under the shares acuqisition option.

It is also worth noting that BNS would become an associated company once acquired by COHL. Any transactions between BNS and the group (including acquistion of batteries) should be conducted at transfer pricing arm's length principle. As BNS has been operated independently before, its product prices to third parties could be a reference point to the arm's length prices. Nevertheless, the group is recommended to conduct a benchmarking study to ensure all transactions are conducted at arm's length and necessary transfer pricing documentation are kept in place to suppoert its position.

Besides, after acquistion, BNS would become a controlled foreign company ("CFC") of the group, which may trigger a CFC tax if it fall within the applicable gateways under the CFC rules. Nevertheless, as BNS is actively trading and has been operated independently before the acquisition, it is not likely the CFC rules would apply.

A2 - Assets acquisition

The group could acqurie only the assets of BNS at the same consideration of £1000m.

If the assets were to acquired by a newly set up Belgium company of the group, the UK tax implications would be similar to those discussed in section A1.

Alternatively, the assets could be acquired by a UK group company. It may be sensible for the assets of BNS to be acquried by CC2as CC2 would be producing electric vehicle in future.

In such case, the previous trade of BNS would be treated as a PE of CC2. Unless an exemption is applied (to be discussed later), the profits of the PE would be subject to UK corporate tax at 25% similar to a UK company.

If land is acquired from BNS, it would not lead to immediate tax deduction, but the acuisition cost would become CC2's cost based to calculate future disposal gain.

If factory or other buildings are acquired from BNS, it would entitle to structure and building allowances at 3% per annuam on the acquistion price.

Fixture in the building acuqired would entitle to capital allowance under spectial rate pool at 6% per annum.

Plant and machinery acquired would entitle to capital allowance under standard rate pool at 18% per annum.

If the acquisition price is higher than the net assets value of assets, a goodwill would be resulted. On the basis that no qualifying IP (e.g. patent) is also acquired from BNS, there would be no deduction for goodwill acquired.

However, if a qualifying IP is acquired from BNS, it could claim tax deduction on annual ammortization or elect to claim a straight line 4% annual deduction on costs paid for qualifying IP. Any goodwill acquired together with qualifying IP would entitle to annual deduction at 6.5%, but the value is limit to 6 times of qualifying IP acquired.

As the assets acquired from BNS would be marked up to market value and entitled to generous depreciation allowances in the UK as explained above. It is likely that it would drive down the taxable profits from £100m. If it result in tax loss, such loss may set off against profits of other UK group companies under group relief.

Also, the group may set of the profits of the PE via group relief, which is limited to a deduction allowance of £5m plus 50% of profits in excess of deduction allowance. Please note that the use of CC2's tax loss brought forward is subject to certain restrictions to be disucssed in Secion 3.

In addition, by bring the pre-tax profits of £100m to the UK tax net, it could potential increase the interest deduction capacity of the group by approximately x.£30m (i.e. 30% of tax-EBITDA assuming it would not be materialy different from the pre-tax profits). Further discussion on CIR is in Section B.

Please note that as the trade and assets continue to remain in Belgium, the PE may also subject to coroprate tax in Belgium. Local tax advice is suggested to seek in this regard.

As the PE is subject to tax in both UK and Belgium, tax relief may be avaialble in two ways. One is for CC2 to make an irrevokable election to exmeption the profits of all PE. The exemption would apply the the first accounting year after the election. As the BNS trade has been profitable, it is not expected that the exemption would be affect by any tax loss in the PE. However. in view of the the benefits for additional interest deduction from PE's profits being taxed in the UK, it is not recommended to elect for PE exemption.

Alternatively, CC2 could apply for tax credit and set off any UK tax payable against the tax paid in Belgium. As it is expected that UK's taxable profits would be less than Belgium given the capital allowances claimed, it is likely that all UK tax payable would be fully set off by Belgium tax paid. In essence, PE's profits would only be subject to Belgium tax, at the rate of 25%. As PE is the same legal entity of CC2, the after tax profits of £75m could be distributed up to Corline plc free of UK tax.

<u>Section B: Funding options</u>

To finance the acuquistion of BNS, convertion of UK and French factories, and settlement of Sealand tax dispute, the group need to raise additional funds of £3,000, which, after eliminating unfeasible options, could be done in two ways.

B1: Investment from Hunter family

The first option is for Hunter family to subscribe for 210m voting participating preference shares ("Prefs") into Corline plc at the issue price of £3,000. The Prefs are entitled to 5.5% fixed annual dividend and rights to additional dividend if the group's profits exceed £1000m.

The group's profits for the year ended 31 December 2025 ("FY25") are estimated to be the same as 2024 at £542m. It may increase to £642m taking into consideration of addtional profits after acquistion of BNS's bussiness, which still quite below £1000m, hence it is reasonable to assume that no additional dividend would be paid, but the group may review this position in future if profitabitily increase (e.g. due to sales increase of electric vehicles).

It is expected that an annual dividend of £165m (i.e. £3,000 x 5.5%) would be paid to the Prefs until they are redeemd in 2035. No tax deduction would be available for such dividend payment. Without obtaining further external finance, it is expected that the dividend would be paid out of future after tax profits of the group.

The issue of new shares would not subject to UK stamp duty and not subject to UK VAT.

After the issuing of 210m Prefs, total shares of Corline plc would increase from 200m to 410m with Hunter family holding 51.2% (210m/410m) voting rights. It would resulted in a change of ownership in Corline. From the tax perspective, a change in ownership may affect the use of any trading loss of Corline plc if there is a major change in the nature of conduct in the trade within the period of three years before and five years after the change. On the understanding that Corline plc is an investment holding company without any trading loss, it may be an adverse tax effect. However, as Corline plc is a listing company, it may sujbect to regulatory and legal requirements governing the change in ownership and the group is suggested to seek separate advices. Further, with Hunter family taking control of Corline group, it may also affect the group future oepration and restructuring plan which the Board should consider from the commercial perspective.

It is also worth noting that Hunter family also own several companies in Sealand which supply products to CSL. If Hunter family take control of Corline plc, these Sealand companies would become related parties of the group and all transactions between them would need to be conducted at an arm's length basis.

Also, if the Prefs are to be deemed in 2035, it may lead to a further changes in ownership as the Hunter family would loss its controlling interest in Corline plc and similar tax implcations on change in owneship should be considered.

B2: Loan from bank and Hunter family

Another funding option is to obtain a loan from a consortium of UK bank of £1,800m made to Corline plc and a loan from Hunter family of £1,200m made to Corline plc or CSL, both at the interest rate of 7%. It is expected that a total annual interest of £210m would be incurred.

For the interest expenses to be deductible under UK tax (assume all borrowed by Corline plc), such interest expenese should not be used for an unallowable purposes, and also not restricted under CIR rules.

Generally, an interest expeneses would be considered as used for an unallowable purposes if it is not used in the buiness of the company (i.e. Corline in this case) and not related to the profits generated by the company.

We understand the funding would be used to convert CC2's factory (£400m), convert French factory (£400m), acquire BNS (£1,000m) and settle CSL's tax dispute (£1,200m). All of these usage are for the purpsoes of Corline plc's subsidiary's business instead of itself, hence may be considered as unallowable purposes and non-deductible. Besides, as the £1,200m was used to finance the settle of tax dispute of CSL, which is a separate legal entity from Corline plc, and the amount include payment of corporate tax, penalty and interest for tax purspoes which its nature are non-deductible for tax purposes.

The unallowable purpsoes test may be met by Corline plc on-lending the loans to relevant subsidaries and charging an arm's length interest (e.g. at the same rate of 7%). In such case, while the interest income would be taxable, those interest expesnes are related to Corline plc's taxable interest income and therefore not likely to be treated as for unallowable purposes.

For the loans on-lent to CC2 and COHL, as the loan is used to finance its business (manufacturing businss of CC2 and investment holding business of COHL), the interest expenses are also likely to meet the unallowable purpsoes tax (but still subject to CIR rules).

For the loans on-lent to Corline (France) Sarl, interest income would be taxed at 25% in the UK, while tax deduction may be claim in France, which has the same tax rate as UK. However, French tax advice is suggested to seek in this respect. There would be no WHT on interest payment from Corline (France) Sarl.

For the loans on-lent to CSL, interest would also be taxed at 25% in the UK. Any interset repayment is not subject to WHT in Sealand. However, no tax deduction is allowable in Sealand. As such, it is suggested for the Hunter family's loan of £1,200m to be made to CSL directly, as it would not generate any tax deduction in Sealand but would increase taxable income of Corline plc in the UK (which otherwise not meeting transfer pricing arm's lenght rules).

The interest expenses would further subject to the CIR rules which generally restrict the tax deduction of net interest expenses of all UK group companies exceeding a £2m threhold, by an interest capacity calculated at 30% of the UK group companies' tax-EBITDA, or by the ratio of the group's net interest expenses to the group's EBITDA multiply by the group's tax EDITDA.

Assuming that (i) the taxable profits of Corline Cars UK Ltd ("CC1") and CC2 are similar to the their tax EBITDA, (ii) Corline plc and COHL's tax EBITDA are nil (as they only receive dividend income which are non-taxable), (iii) assets of BNS would be acquired and taxable profits of £100m are chargeable to UK tax, the estimated tax EBITDA would be £420m (£290m + £30m + £100m), which would give a interest capacity of £126m. This is approximately the same as the annual interest on loans from UK banks (£1,800 x 7%). As such, these interest could be fully deductible for UK tax purposes.

SECTION C: USES OF CC2'S TAX LOSS

We understand that CC2 was acquried by the group at 31 December 2019, with a trade loss brought forward of £850m (of which £50m has been utlized as of today).

As mentioned in section B1, there are rules resticting the use of trading loss upon a chagne in ownership. As CC2's trading loss was arisen after 1 April 2017, it is generally available to set off future total profits. However, such trading loss would be denied if there is a major change in the nature of conducting its trade wihtin a period of three years before and five years after the acquisition. For CC2, such period would expire on 1 Jan 2026 (i.e. 5 years after the acquisition date on 31 December 2019).

Whether a change is a major change could be subjective and the HMRC would look into various factors, although we understand that a removal of unfavorable products, change in management technique, chagne to align with technology, etc. may not constitute a major change.

We understand that CC2 continue to operate its luxury car manufacturing after the acqustion, and have not received any query from HMRC when the loss ultilized, which apppear that there has been no major change in business. However, if it is proposed that the factory of CC2 would be converted to a electric vehicle manufacturing plant, such change in product, operation and market is very likely to be considered as a major change, and such change could result in the loss of trading loss brought forward of £800m. Such loss after 5 years of acquisition on 1 January 2026, could no longer set off CC2's future profits, but could also surrender as group relief to other UK group companies, subject to the £5m deduction allowance plus 50% in excess of deduction allowance.

Therefore, we recommend the group to postpone the conversion of CC2's factory until Jan 2026 when the 5 years restrictions period are over to protect the trading loss carried forward of £800m.