RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

9 October 2024

To the Independent Board Committee and the Independent Shareholders

Capital Industrial Financial Services Group Limited
Suite 803, 8/F
Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONTINUING CONNECTED TRANSACTION IN RESPECT OF RENEWAL OF MASTER FACILITIES AGREEMENT; AND (2) CONTINUING CONNECTED TRANSACTION IN RESPECT OF TECHNOLOGY LICENSE AGREEMENT

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 transactions contemplated under the Renewed Master Facilities Agreement and the Technology License Agreement (collectively, the "**Agreements**"), details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 9 October 2024 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meanings as those defined in the Circular.

On 23 August 2021, the Company entered into the 2021 Master Facilities Agreement with Shougang Group in respect of the provision of financing facilities by the Group to Shougang Group. With a view to continue to the transactions under the 2021 Master Facilities Agreement, on 29 August 2024, the Company entered into the Renewed Master Facilities Agreement with Shougang to renew the term for a further term of three years commencing from the date on which the Renewed Master Facilities Agreement becomes effective.

In addition, on 29 August 2024, the Company entered into the Technology License Agreement with Shougang, pursuant to which the Company agreed to grant a license to Shougang Group in respect of the Technology for a term of three years commencing from the date on which the Technology License Agreement becomes effective.

As at the Latest Practicable Date, Shougang, through its wholly owned subsidiaries, held 2,425,736,972 shares of the Company, representing approximately 61.06% of the issued share capital of the Company as at the Latest Practicable Date. As such, Shougang is the controlling shareholder of the Company, and Shougang and its subsidiaries are connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

On the other hand, the transactions contemplated under the Renewed Master Facilities Agreement will be recognised as acquisition of assets. As such, the Renewed Master Facilities Agreement and the transactions contemplated thereunder constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio in respect of the transactions contemplated under the Renewed Master Facilities Agreement exceeds 100%, the transactions contemplated under the Renewed Master Facilities Agreement also constitute a very substantial acquisition of the Company under Chapter 14A of the Listing Rules and is accordingly subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, and the announcement, reporting and the Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the highest applicable percentage ratio in respect of the proposed annual caps under the Technology License Agreement is more than 5%, the transactions contemplated under the Technology License Agreement are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of Shougang's interests in the Agreements, Shougang and its associates are required to abstain and shall abstain from voting on the relevant resolutions in relation to the Agreements to be proposed at the SGM. Saved as disclosed above, no other Shareholders have material interest in the Agreements and shall abstain from voting at the resolution(s) in relation to the approval of the Agreements at the SGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Tam King Ching, Kenny, Mr. Ng Man Fung, Walter and Ms. On Danita has been formed to advise the Independent Shareholders on (i) whether the entering into the Agreements are conducted in the ordinary and usual course of the Group; and (ii) whether the terms of the Agreements (including the proposed annual caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and as to voting. We, Rainbow Capital (HK) Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and Shougang Group that could reasonably be regarded as relevant to our independence. We have been appointed as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to a very substantial acquisition and continuing connected transaction in respect of the EMC finance lease master agreement (the "**Second Appointment**"), details of which are set out in the circular of the Company dated 9 October 2024. Other than that, there was no other engagement between the Group or Shougang Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received any fees or benefits from the Group or any other party to the Agreements. The relevant fees paid or payable to us for acting as the independent financial advisers in relation to this appointment and the Second Appointment are normal professional fees and shall not affect our independence in both appointments. Accordingly, we are independent from the Company pursuant to the requirement under Rule 13.84 of the Listing Rules and therefore we are qualified to give independent advice in respect of the Agreements (including the proposed annual caps).

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, Shougang Group, or any of their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Agreements (including the proposed annual caps), we have taken into account the principal factors and reasons set out below:

1. Background information of the Group

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of (i) sale and leaseback arrangement services; (ii) supply chain management and financial technology services; and (iii) property leasing services.

Set out below is a summary of the financial information of the Group for (i) the two years ended 31 December 2023 ("**FY2022**" and "**FY2023**", respectively) as extracted from the annual report of the Company for FY2023 (the "**2023 Annual Report**"); and (ii) the six months ended 30 June 2023 and 2024 ("**6M2023**" and "**6M2024**", respectively) as extracted from the interim report of the Company for 6M2024 (the "**2024 Interim Report**"):

(i) Financial performance

	FY2022 *HK$'000* *(audited)*	**FY2023** *HK$'000* *(audited)*	**6M2023** *HK$'000* *(unaudited)*	**6M2024** *HK$'000* *(unaudited)*
Continuing operations				
Total revenue	**370,638**	**219,285**	**100,020**	**109,452**
— Revenue under sale and leaseback arrangements	90,300	188,021	86,499	93,805
— Revenue from supply chain management and financial technology business	275,880	26,845	11,220	13,513
— Property leasing income	4,458	4,419	2,301	2,134
Gross profit	**86,832**	**120,355**	**53,743**	**57,723**
Other income	9,696	18,580	9,827	5,253
Other gains, net	36,310	3,323	—	—
Selling expenses	(3,317)	—	—	—
Administrative expenses	(53,480)	(61,235)	(20,303)	(25,014)
Changes in fair value of investment properties	(2,471)	(3,192)	100	(2,341)
Changes in fair value of financial assets at fair value through profit or loss	(1,530)	267	(575)	(10)
Net impairment losses on financial assets	(17,150)	(24,905)	(3,468)	(559)
Impairment loss on goodwill	(945)	—	—	—
Finance costs	(4,812)	(1,307)	(875)	(583)
Share of profit of an associate	523	2,055	1,878	2,556
Profit before income tax	**49,656**	**53,941**	**40,327**	**37,025**
Income tax expense	(16,178)	(11,507)	(10,207)	(10,764)
Profit attributable to the Shareholders	**14,526**	**32,082**	**22,406**	**17,981**

FY2023 compared to FY2022

Revenue of the Group decreased by approximately 40.8% from approximately HK$370.6 million for FY2022 to approximately HK$219.3 million for FY2023, primarily attributable to the decrease in revenue from supply chain management and financial technology business by approximately HK$249.0 million as a result of the Group's business transformation in accordance with market condition. The Group suspended the business covering full-process services including steel product trading and logistics under the supply chain management and financial technology business segment since August 2022. Such decrease was partially offset by the increase in revenue under sale and leaseback arrangements by approximately HK$97.7 million mainly due to the Group's continuous expansion of the individual consumer leasing business.

Despite the decrease in revenue, the Group recorded an increase in gross profit by approximately 38.6% from approximately HK$86.8 million for FY2022 to approximately HK$120.4 million for FY2023, primarily attributable to (a) the successful business transformation and launched of a supply chain financial platform in late 2022 for the supply chain management and financial technology business which had higher gross profit margin; and (b) the continuous expansion of sale and leaseback arrangements services.

The Group's profit attributable to the Shareholders increased by approximately 120.9% from approximately HK$14.5 million for FY2022 to approximately HK$32.1 million for FY2023. Such increase was primarily attributable to (a) the increase in gross profit as aforementioned; (b) the increase in other income by approximately HK$8.9 million, mainly due to the increase in credit financing arrangement interest income, management and financial advisory service income, and financial technical service income from a related party; (c) the decrease in selling expenses by approximately HK$3.3 million; (d) the decrease in finance costs by approximately HK$3.5 million as a result of the decrease in the balance of total borrowings in 2023; and (e) the decrease in income tax expense by approximately HK$4.7 million.

6M2024 compared to 6M2023

Revenue of the Group increased by approximately 9.4% from approximately HK$100.0 million for 6M2023 to approximately HK$109.5 million for 6M2024, primarily attributable to (a) the increase in revenue under sale and leaseback arrangements by approximately HK$7.3 million as a result of the continuous expansion of the individual consumer leasing business; and (b) the increase in revenue from supply chain management and financial technology business by approximately HK$2.3 million.

In line with the increase in revenue, the Group's gross profit increased by approximately 7.4% from approximately HK$53.7 million for 6M2023 to approximately HK$57.7 million for 6M2024.

Despite the increase in revenue and gross profit as mentioned above, the Group recorded a decrease in profit attributable to the Shareholders by approximately 19.7% from approximately HK$22.4 million for 6M2023 to approximately HK$18.0 million for 6M2024, primarily attributable to (a) the decrease in other income by approximately HK$4.6 million mainly due to the decrease in bank deposit interest income and government grant; (b) the increase in administrative expenses by approximately HK$4.7 million as a result of the increase in administrative staff cost; and (c) the turnaround from fair value gains of investment properties of approximately HK$0.1 million for 6M2023 to fair value losses of investment properties of approximately HK$2.3 million for 6M2024.

(ii) Financial position

	As at 31 December		As at 30 June
	2022	**2023**	**2024**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(unaudited)*
Non-current assets, including:	**633,581**	**515,130**	**280,993**
Investment properties	133,202	116,096	113,076
Intangible assets	65,025	71,806	72,053
Interests in an associate	83,951	84,851	85,434
Receivables under sale and leaseback arrangements	333,229	229,214	—
Current assets, including:	**1,372,650**	**1,399,571**	**1,632,276**
Receivables under sale and leaseback arrangements	756,885	889,811	1,016,299
Receivable under credit financing arrangement	168,453	165,386	164,215
Cash and cash equivalents	322,904	319,054	430,886
Total assets	**2,006,231**	**1,914,701**	**1,913,269**
Current liabilities, including:	**223,360**	**129,465**	**141,631**
Trade and bills payables	84,974	10,162	9,425
Other payables and accruals	70,040	109,682	124,383
Non-current liabilities, including:	**27,495**	**28,736**	**24,690**
Loan from a related party	—	9,810	9,741
Deferred tax liabilities	20,619	13,454	11,666
Total liabilities	**250,855**	**158,201**	**166,321**
Equity attributable to the Shareholders	**1,417,068**	**1,415,922**	**1,406,475**

As at 30 June 2024, total assets of the Group amounted to approximately HK$1,913.3 million, mainly composed of (a) investment properties of approximately HK$113.1 million, representing the Group's residential and commercial properties located in Hong Kong and the PRC; (b) receivables under sale and leaseback arrangements of approximately HK$1,016.3 million; (c) receivable under credit financing arrangement of approximately HK$164.2 million; and (d) cash and cash equivalents of approximately HK$430.9 million. Due to the business nature of the Group in relation to the provision of sale and leaseback arrangement services, receivables under sale and leaseback arrangements are the key assets of the Group, representing approximately 53.1% of the Group's total assets as at 30 June 2024.

As at 30 June 2024, total liabilities of the Group amounted to approximately HK$166.3 million, mainly composed of (a) deferred tax liabilities of approximately HK$11.7 million; and (b) other payables and accruals of approximately HK$124.4 million.

As at 30 June 2024, the Group recorded equity attributable to the Shareholders of approximately HK$1,406.5 million with gearing ratio (being loan from a related party divided by total equity) of approximately 0.6%.

(iii) Overall comment

The financial performance of the Group fluctuated for the periods under review as impacted by the Group's strategic transformation on the supply chain management and financial technology business segment in August 2022. Since then, the Group has been continuously exploring and experimenting to build and upgrade its own supply chain financial technology service platform, enabling the Group to generate positive returns during the periods under review.

As disclosed in the 2024 Interim Report, taking advantage of its industrial advantages and competitive edges, the Group will continue to focus on the provision of customized and comprehensive financial service solutions to the steel industry and upstream and downstream customers on the industry chain for different business scenarios including the corporate customer and individual consumer leasing market, and strive to meet its medium- and long-term strategic goal of continuous growth in performance.

2. Background information of Shougang Group

Shougang is a company established in the PRC and is the holding company of Wheeling Holdings, the controlling shareholder of the Company. Shougang Group is a state-owned enterprise wholly owned by the Beijing State-owned Capital Operation and Management Centre (北京國有資本運營管理中心) which is in turn wholly owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會).

Shougang is one of the largest steel production enterprises in the PRC and is principally engaged in a wide range of business including steel and iron production, overseas business, property development, mining resources and other businesses. As at the Latest Practicable Date, Shougang is interested in 2,425,736,972 shares of the Company, representing approximately 61.06% of the Company's total issued share capital as at the Latest Practicable Date. According to the World Steel Association, Shougang Group ranked ninth among the world's top 50 steel producing companies in terms of steel production volume in 2023, with a production volume of approximately 33.6 million tonnes in 2023.

According to an offering circular of Shougang Group as published on 12 August 2024 (the "**2024 Offering Circular**"), the total assets and net assets of Shougang Group as at 31 December 2023 amounted to approximately RMB527.0 billion and RMB169.5 billion, respectively. Shougang Group is a capital intensive company with total non-current assets of approximately RMB385.6 billion as at 31 December 2023, approximately 44.6% of which (i.e. approximately RMB171.8 billion) were the net book value of fixed assets. For FY2023, Shougang Group generated total revenue of approximately RMB238.0 billion and profit attributable to its shareholders of approximately RMB2.4 billion.

According to the 2024 credit rating report of Shougang Group (the "**2024 Credit Report**") issued by China Chengxin International Credit Rating Company Limited* (中誠信國際信用評級有限責任公司) ("**CCXI**"), the first national non-banking financial institution approved by the People's Bank of China to engage in credit rating, financial securities consulting and information services, Shougang Group was assigned a corporate rating of "AAA" with a stable outlook. The stable outlook reflects the advantages of Shougang Group's operation scale, resources, product structure and manufacturing facilities, as well as the expectation that Shougang Group's operation will remain stable.

3. The Renewed Master Facilities Agreement

(i) Background and reasons

On 23 August 2021, the Company entered into the 2021 Master Facilities Agreement with Shougang Group in respect of the provision of financing facilities by the Group to Shougang Group, which was approved by the then independent shareholders on 25 January 2022.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of sale and leaseback arrangement services, supply chain management and financial technology services and property leasing services. South China Leasing, an indirect non-wholly owned subsidiary of the Company, is a prominent leasing company in the PRC. As disclosed in the section headed "1. Background information of the Group" above, sale and leaseback arrangement services was one of the core businesses of the Group, which accounted for approximately 85.7% of its total revenue for both of FY2023 and 6M2024. As advised by the management of the Group, although the Group has prioritized the provision of supply chain management and financial technology services, the Group will also continue to promote its financial leasing services to the well-established steel companies and domestic conglomerates as it would enable the Group to earn a stable revenue stream with a considerably lower risk exposure.

As disclosed in the Letter from the Board, the Group aims at sourcing customers in the finance lease segment with sufficient assets and good creditability in order to safeguard the credit risks of the Group. Shougang Group is rich in assets and has a good credit history with good repayment capability. The Group has been providing financing and financial leasing services to Shougang Group for years, allowing the Group to gradually build up its customer profile and cumulate deep understanding in the industry characteristics, capital structures, business operation and financing needs of Shougang Group. As such, the entering into of the Renewed

Master Facilities Agreement is crucial and beneficial for the Group's continuous development in the financial leasing business which is in line with its business strategy.

As the 2021 Master Facilities Agreement will expire on 24 January 2025, with a view to facilitate the continued provision of financing facilities between the Group and Shougang Group under the 2021 Master Facilities Agreement, on 29 August 2024, the Company entered into the Renewed Master Facilities Agreement with Shougang to renew the term for a further term of three years commencing from the date on which the Renewed Master Facilities Agreement becomes effective.

Based on the above, we concur with the Directors that the entering into of the Renewed Master Facilities Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

(ii) Principal terms

Details of the terms of the Renewed Master Facilities Agreement are set out in the Letter from the Board, which are summarized as follows:

Major terms of the Renewed Master Facilities Agreement

Date	:	29 August 2024
Parties	:	(a) the Company; and (b) Shougang
Subject matter	:	The Company will provide or procure its subsidiaries to provide at its discretion the Facilities to Shougang Group and/or its subsidiaries (including direct and/or indirect subsidiaries) from time to time during the term of the Renewed Master Facilities Agreement. The Group will finance the Facilities through bank borrowing and internal resources.
Term	:	A period of 3 years commencing from the date on which the Renewed Master Facilities Agreement becomes effective.
Principal amount	:	An aggregate principal amount of up to RMB2,000,000,000 (equivalent to approximately HK$2,151,000,000). The Facilities to be granted are non-revolving in nature and are subject to the maximum amount may not be exceeded at any time during the term of the Renewed Master Facilities Agreement.

The existing finance lease loan under the 2021 Master Facilities Agreement shall be carried forwarded to part of used facilities under the Renewed Master Facilities Agreement.

The grant of the Facilities is subject to the maximum amount under the Renewed Master Facilities Agreement and the outstanding balance of the Facilities owed by Shougang Group for each relevant year will not exceed RMB2,262,000,000 (equivalent to approximately HK$2,432,000,000), being the principal amount, interest and handling fee thereon.

Methods of provision of Facilities : The Facilities will be provided by the Group to Shougang Group by way of the following methods (each a "**Loan**"):

(a) finance lease, in which the Group will purchase equipment/asset items for Shougang Group and lease it to Shougang Group under a finance lease arrangement; and

(b) credit financing, in which the Group will provide credit financing facility to Shougang Group.

The relevant parties will enter into individual agreements with respect to each of the financing arrangements under the Facilities pursuant to the Renewed Master Facilities Agreement.

Guarantee : Shougang shall guarantee the obligations of the relevant member(s) of the Shougang Group as borrower(s) under each loan, or as lessee(s) under each finance lease. The relevant parties will enter into individual guarantee agreements with respect to each of the financing arrangements under the Facilities pursuant to the Renewed Master Facilities Agreement.

Conditions precedent : The Independent Shareholders having approved the Renewed Master Facilities Agreement and the transactions contemplated thereunder at a general meeting of the Company convened for approving the Renewed Master Facilities Agreement.

Major terms of the finance lease

Finance lease amount	:	The finance lease amount under each finance lease shall be the purchase price of the lease items, subject to such amount shall not exceed the unutilized portion of the Facilities. The purchase price of the lease items will be determined upon arm's length negotiations between the leasing parties with reference to lessor's purchase cost of the relevant equipment/asset items and the prevailing market price for such equipment/asset based on the relevant valuation report (if applicable).
Lease items	:	The lease items will be equipment and/or properties to be used by Shougang and/or its subsidiaries in their ordinary course of business. There is no other limitation or restriction on the type of equipment/properties to be included as a lease item as long as the leasing of such equipment/properties is in compliance with the applicable laws and regulations. The Group will assess the lease items on a case-by-case basis before granting each of the finance lease loan.
Term of each finance lease loan	:	The duration of each loan will be negotiated on a case-by-case basis and term of each finance lease loan will not have a term of longer than six (6) years from the date of the grant of the relevant Loan. To ensure the compliance of the Listing Rules, it is agreed that if the Company fails to renew the Renewed Master Facilities Agreement at the end of the Term, the Group has the rights to terminate the relevant finance lease loan and demand Shougang Group for full repayment of the outstanding loan within 14 days upon written notice.
Interest rate	:	The interest rate payable by the relevant lessee shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%.
Payment date of the lease and interest	:	Unless otherwise agreed, payment under each finance lease and the interest accrued shall be on a quarterly basis on the 21st day of March, June, September and December.

Security deposit	:	The Group shall be entitled to a security deposit to secure the payment obligations of the relevant lessee under a finance lease, the amount and payment arrangement of which will be determined in accordance with the circumstances of each case and set out in the specific agreement to be entered into by the Group and Shougang and/or its subsidiaries for each finance lease.
Handling fee	:	The Group shall be entitled to charge the relevant lessee for each finance lease a non-refundable handling fee of not more than 3.75% of the principal amount of the finance lease. Such handling fee shall be payable on the date of the drawdown of the fund. The handling fee is charged for the services provided by the Group in assessing the feasibility of conducting the relevant finance lease transactions. The handling fees and level of security deposits are determined by the Group on a case-by-case basis and will in any event determined with reference to the overall return of each project. Such rate is adjustable depending on various factors, including the level of services as provided by the Group and the risk exposures of the finance lease transactions.
Lessee's option to purchase	:	At the end of the finance lease, the relevant lessee will have the right to purchase the lease items at a nominal purchase price equal to 0.01% of the loan amount of the finance lease, which was based on the scale commonly used for end of term purchase by the lessee in the finance lease industry.

Major terms of the credit financing

Credit financing amount	:	The credit financing amount shall be such amount requested by Shougang Group, subject to such amount shall not exceed the unutilized portion of the Facilities.
Term of each credit financing loan	:	The duration of each loan will be negotiated on a case-by-case basis and term of each credit financing loan will not have a term of longer than three (3) years from the date of the grant of the relevant Loan.

To ensure the compliance of the Listing Rules, it is agreed that if the Company fails to renew the Renewed Master Facilities Agreement at the end of the Term, the Group has the rights to terminate the relevant credit financing loan and demand Shougang Group for full repayment of the outstanding loan within 14 days upon written notice.

Interest rate	:	The interest rate payable by the relevant borrower shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%.
Payment date of the credit financing and interest	:	Unless otherwise agreed, the outstanding principal of the credit financing shall be repayable at the expiry of the term of the credit financing and the interest accrued shall be paid on a quarterly basis on the 21st day of March, June, September and December.
Handling fee	:	The Group shall be entitled to charge the relevant borrower a non-refundable handling fee of not more than 1.5% of the principal amount of the credit financing. Such handling fee is negotiated on a case-by-case basis by reference to the handling fee charged by other finance companies for credit financing of similar nature. Such fee shall be payable at least five business days before the drawdown of the credit financing.

In assessing the fairness and reasonableness of the key terms of the Renewed Master Facilities Agreement, we have considered the followings:

Interest rate

As disclosed in the Letter from the Board, the range of interest rate for finance lease and credit financing were determined after arm's length negotiations between the parties with reference to the prevailing market rate and a reasonable margin, which will be added to the total cost of lending by the Group so as to ensure that the Group can earn a net income for providing the Facilities under the Renewed Master Facilities Agreement. Pursuant to the Renewed Master Facilities Agreement, the interest rate so charged shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%. The exact interest rate to be charged for each of the Loans is determined by the Company based on (a) the prevailing market interest rate at the relevant time; and (b) the risk profile of the relevant finance lease and the then business and financial conditions of the relevant subsidiary of Shougang, being the borrower or the lessee. In assessing the risk profile of the borrower in relation to each Loan, the following factors will be considered: (a) source of funds available for repayment, including the profitability, equity position and the cash flow condition of the borrower/lessee; (b) the valuations of the lease items as set out above when they are being sold in secondary markets to discharge the debt of the borrower/lessee; (c) the risk level of the relevant industry of the lessee during the term of the finance lease; (d) the risk and return analysis of other financing projects between the Company and/or its subsidiary and other independent third party borrowers with similar background; and (e) the general market conditions that will be faced by Shougang Group. The Group will ensure that the interest rate charged on the loans will not be more favorable than the interest rate granted to independent third party customers based on the analysis of items (a) to (e) above.

As advised by the management of the Group, the Group has adopted, and will continue to adopt, policy and internal control mechanism on risk and return for project evaluation which applied to all financing transactions under the 2021 Master Facilities Agreement and the Renewed Master Facilities Agreement. The Group adopts similar assessment and approval processes in accepting transactions regardless of the mode of financing under the Renewed Master Facilities Agreement (i.e. finance lease or credit financing). Such policy and/or internal control mechanism includes (a) the review and approval of the relevant project proposal by different departments and the general manager office of the Group; (b) the assessment of risk profile of the borrower conducted by the risk management department; and (c) the risk and return analysis of the Loan conducted by the business department and risk management department of the Group. In evaluating projects, the Group has considered the following factors, including but not limited to, the borrower's and/or guarantor's financial position, the industry prospect for which the borrower and/or guarantor operates, the valuation of the lease assets, the repayment term and return. In addition, the Group will approach at least three banks for specific bank loan for the relevant project in determining its cost of the fund and then add a margin based on the overall risk profile and collaterals that may be secured in respect of the Loan. The Group would also evaluate if it has idle funds at the time. In such event, the Group would further evaluate the deposit rate for the idle fund and the lending rate that it could secure based on the risk profile and collaterals that may be secured in respect of the Loan. In assessing whether the above internal control measures are put in place and effectively implemented, we have obtained and reviewed the relevant documentation regarding the project evaluation, risk and return assessment and approval of the Loans granted by the Group to Shougang Group under the 2021 Master Facilities Agreement and noted that (a) the transactions contemplated thereunder were properly assessed and monitored; and (b) the Group had adhered to the internal procedures on project evaluation to ensure that the interest rate to be granted to Shougang and/or its subsidiaries under the relevant Loan will not be more favorable than the market lending rate. Based on the above, we concur with the view of the Directors that there are adequate internal control procedures in place to ensure that the actual interest rate to be charged will be in accordance with the Group's pricing policy.

Interest rate — Finance lease

As part of our due diligence on the interest rate chargeable on the finance lease transactions under the Renewed Master Facilities Agreement and the effectiveness of the internal control mechanism of the Group, we have reviewed the terms of all the finance lease transactions (the "**Reviewed Finance Lease Transactions**") conducted by the Group during the entire term of the 2021 Master Facilities Agreement (the "**Facilities Review Period**"). During the Facilities Review Period, we noted that (a) a total of 6 finance lease transactions has been entered into by the Group with Shougang Group at the interest rate from approximately 5% to 5.5%; and (b) a total of 4 finance lease transactions has been entered into by the Group with independent third party customers at the interest rate from approximately 5% to 5.5%. It is noted that the interest rates so charged by the Group to Shougang Group were comparable to that to independent third party customers. In addition, we have obtained the internal bank rate records of the Group and noted that the Group has approached three banks to determine the cost of the fund to the Group at the relevant time to ensure that the interest rate charged under the 2021 Master Facilities Agreement were no more favorable than the market lending rates.

As disclosed in the 2023 Annual Report, the interest rate of fixed rate receivables under sale and leaseback arrangement were 5–12% per annum for FY2023. Based on our review, all of the Reviewed Finance Lease Transactions are finance lease transactions on equipment leasing entered with corporate customers. As advised by the management of the Group, aside from such equipment leasing with corporate customers, all of the other finance lease transactions entered into by the Group during the Facilities Review Period are leasing transactions of consumer electronic devices, mainly mobile phones, entered with independent individual customers. As the customers of consumer electronic devices leasing are individuals who are generally considered to have greater credit risk as compared to corporate customers, higher interest rates of 10% to 12% were charged by the Group. In this regard, we have obtained and reviewed six cooperation agreements entered into between the Group and online platform companies during the Facilities Review Period and noted that the Group and the online platform companies have agreed to cooperate to conduct the finance lease transactions on mobile phone leasing with individual customers at an interest rate of 10% to 12% per annum. As these finance lease transactions were related to mobile phones leasing with individual customers which has different credit profile as compared to the transactions under the Reviewed Finance Lease Transactions, we consider they are not comparable to the transactions conducted under the 2021 Master Facilities Agreement which were related to equipment leasing with corporate customers.

Based on the above, it is noted that the interest rate on finance lease transactions granted to Shougang Group were not more favorable than those to independent third party corporate customers and the market lending rates. As such, we consider that the pricing policy of the finance lease transactions has been adherence in accordance with the Group's internal control procedures.

Interest rate — Credit financing

In respect of the credit financing, we understood from the management of the Group that a total of 2 credit financing transactions has been entered into by the Group with Shougang Group while no credit financing transaction was conducted by the Group with any independent third party customer during the Facilities Review Period. We therefore do not have direct reference for comparison purpose in assessing the fairness and reasonableness of the interest rate chargeable on the credit financing transactions under the Renewed Master Facilities Agreement. Alternatively, we have compared the interest rates chargeable on credit financing transaction under the Renewed Master Facilities Agreement against the market interest rate.

Pursuant to the 2021 Master Facilities Agreement and the Renewed Master Facilities Agreement, the interest rate shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%. We have obtained and reviewed all of the Group's credit financing agreements with Shougang Group during the Facilities Review Period. Based on our review, we noted that the interest rates charged by the Group were 5%. As disclosed in the 2024 Interim Report, the Group had no bank borrowings as at 31 December 2023 and 30 June 2024. As advised by the management of the Group, all of the transactions contemplated under the 2021 Master Facilities Agreement were funded by the Group's internal resources. In this regard, we have researched on the RMB loan prime rates and the RMB deposit rates from 2022 to 2024. According to the People's Bank of China ("**PBOC**"), in January 2022, the RMB loan prime rate was 3.70% for one-year period and 4.60% for over-five-year period, and the RMB loan prime rate gradually decreased and amounted to 3.35% for one-year period and 3.85% for over-five-year period in July 2024. According to the "Notice of the PBOC on Lowering the RMB Benchmark Loan and Deposit Interest Rates for Financial Institutions and Further Promoting the Interest Rate Liberation Reform (Yin Fa [2015] No. 325))" (中國人民銀行關於下調金融機構人民幣貸款和存款基準利率並進一步推進利率市場化改革的通知(銀發[2015]325號)) prescribed by the PBOC on 24 October 2015, the latest RMB benchmark deposit rates are 1.30% for six-month period, 1.50% for one-year period and 2.75% for three-year period. Such deposit rates have not been updated by the PBOC since then. As such, the credit financing interest rates charged by the Group under the 2021 Master Facilities Agreement and to be charged by the Group under the Renewed Master Facilities Agreement are no more favorable than the market benchmark lending rate and the market benchmark deposit rate for the idle funds during the relevant period.

Overall, having considered that (a) the interest rates on the finance lease transactions with Shougang Group were comparable to those with independent third party corporate customers; (b) the interest rates on the credit financing transactions with Shougang Group are no more favorable than the market benchmark lending rate and the market benchmark deposit rate for the idle funds; and (c) sufficient and effective internal control procedures have been and will continue to be in place to ensure that the interest rate on each Loan will follow its pricing policy under the Renewed Master Facilities Agreement, we concur with the management of the Group that the interest rates under the Renewed Master Facilities Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Handling fees

The handling fees to be charged by the Group will be not more than 3.75% of the principal amount of the finance lease and not more than 1.5% of the principal amount of the credit financing. As stated above, it is stipulated under the pricing policy of the Renewed Master Facilities Agreement that the handling fees are determined by the Group on a case-by-case basis with reference to the overall return of each finance lease project or the handling fee charged by other finance companies for credit financing of similar nature. Such rate is adjustable depending on various factors, including the level of services as provided by the Group and the risk exposures of the finance lease transactions.

In assessing the fairness and reasonableness of the handling fees on finance lease transactions, we have obtained and reviewed all of the finance lease agreements (a total of 10) entered into by the Group during the Facilities Review Period. We noted that the handling fees were charged at a range of approximately 0.50% to 1.63% to Shougang Group and approximately 1.60% to 3.00% to independent third party customers. We are given to understand that during the Facilities Review Period, the Group entered into two finance lease transactions with one independent third party customer with relatively high handling fees of approximately 2.00% and 3.00%. As advised by the management of the Group, this independent third party customer was a new customer for the Group so that its associated credit risk was higher than Shougang Group who has years of cooperation with the Group. As such, a relatively high handling fee was charged to this independent third party customer. Pursuant to the 2021 Master Facilities Agreement, the handling fee on finance lease transactions is adjustable depending on various factors, including the level of services as provided by the Group and the risk exposures of the finance lease transactions. In conducting business, a new customer is generally considered to have greater risk exposure than a recurring customer who has established a long-term relationship with the Group. Accordingly, we consider it is reasonable for the Group to charge higher handling fees on the aforesaid new customer and the policies of handling fee determination for Shougang Group and for the new customer are in line with the terms of the 2021 Master Facilities Agreement and are fair and reasonable.

In assessing the fairness and reasonableness of the handling fees on credit financing transactions, as there was no credit financing transaction conducted by the Group with any independent third party customer during the Facilities Review Period, we have compared the handling fees on credit financing transaction under the Renewed Master Facilities Agreement against the handling fees charged by independent commercial banks. Based on our independent market research on the official websites of three independent commercial banks, being Bank of China, Industrial and Commercial Bank of China and Nanyang Commercial Bank, we noted that a credit financing handling fee of 0% to 1.5% was normally charged in the market. As the credit financing handling fees are disclosed in the official websites of these well-established commercial banks, we consider the source to be reliable. As such, the credit financing handling fees to be charged by the Group of not more than 1.5% under the Renewed Master Facilities Agreement are in line with the market rate.

Overall, having considered that the handling fees under the Renewed Master Facilities Agreement are generally comparable to those charged by the Group to independent third party corporate customers with similar risk profile and the market practice offered by independent commercial banks, we concur with the management of the Group that the handling fees under the Renewed Master Facilities Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Lessee's option to purchase

Pursuant to the Renewed Master Facilities Agreement, at the end of the finance lease, the relevant lessee will have the right to purchase the lease items at a nominal purchase price equal to 0.01% of the loan amount of the finance lease, which was based on the scale commonly used for end of term purchase by the lessee in the finance lease industry.

In assessing the fairness and reasonableness of the nominal purchase price of the finance lease transactions, we have independently performed research on the finance lease transactions announced by the companies listed on the Stock Exchange during the period from 1 June 2024 up to the date of the Renewed Master Facilities Agreement (being approximately three months). We have, on a best effort basis, identified an exhaustive list of 61 finance lease transactions (the "**Comparable Finance Lease Transactions**"). We consider the aforesaid review period is adequate, appropriate and sufficient to compare the terms of the recent finance lease transactions as the Comparable Finance Lease Transactions are considered relevant for the purpose of assessing recent market practice in relation to finance lease transactions and a sufficient list of the Comparable Finance Lease Transactions (i.e. a total of 61) has been identified. We have reviewed the terms of each of the finance lease transactions, including but not limited to the option to purchase at the end of the finance lease term, and noted that the nominal purchase price as a percentage of the finance lease loan amount of the Comparable Finance Lease Transactions ranges from approximately 0.000003% to 20% and 51 out of 61 finance lease transactions were set for a nominal purchase price of less than 0.01% of the loan amount of the finance lease. This demonstrates that it is common for finance lease transactions having nominal purchase price of less than 0.01% of the loan amount of the finance lease.

In view of the above, we consider that the nominal purchase price of the finance lease transactions under the Renewed Master Facilities Agreement are no more favorable than the market practice and we concur with the management of the Group that the nominal purchase price under the Renewed Master Facilities Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

Guarantee

Pursuant to the Renewed Master Facilities Agreement, Shougang shall guarantee the obligations of the relevant member(s) of the Shougang Group as borrower(s) under each loan, or as lessee(s) under each finance lease.

As discussed in the section headed "2. Background information of Shougang Group" above, Shougang Group is one of the largest steel production enterprises in the PRC. As at 31 December 2023, the total assets and net assets of Shougang Group amounted to approximately RMB527.0 billion and RMB169.5 billion, respectively. In addition, according to the 2024 Credit Report, CCXI has assigned a corporate rating of "AAA" with a stable outlook to Shougang Group, reflects the advantages of Shougang Group's operation scale, resources, product structure and manufacturing facilities, as well as the expectation that Shougang Group's operation will remain stable. As advised by the management of the Group, the guarantee provided by Shougang Group is relatively sizable as compared to the corporate guarantees and/or personal guarantees from independent third party customers, which would lower the credit risk exposed by the Group on the transactions to be conducted under the Renewed Master Facilities Agreement.

Having considered (a) the strong background and business scale of Shougang Group; and (b) the size of the historical guarantee provided by Shougang Group, we concur with the management of the Group that adequate guarantee has been sought to secure the interests of the Group under the Renewed Master Facilities Agreement.

Term

The term of the Renewed Master Facilities Agreement is for a period of 3 years commencing from the date on which the Renewed Master Facilities Agreement becomes effective. The duration of each loan will be negotiated on a case-by-case basis and each Loan shall expire within the 6-year period for finance lease loans and 3-year period for credit financing loans from the date of the grant of the relevant Loan. To ensure the compliance of the Listing Rules, it is agreed that if the Company fails to renew the Renewed Master Facilities Agreement at the end of the Term, the Group has the rights to terminate the relevant loan and demand Shougang Group for full repayment of the outstanding loan within 14 days upon written notice.

We noted that the finance lease and credit financing transactions entered into between the Group and independent third party customers during the Facilities Review Period ranged from 27 to 45 months, and most commonly set for a period of 45 months. Although the term of the finance lease loans offered under the Renewed Master Facilities Agreement, being not exceeding 6 years from the date of the grant of the relevant Loan, is longer than the Group's normal practice, we understood that granting such longer period was mainly due to that Shougang Group planned to lease substation equipment under the Renewed Master Facilities Agreement which generally has a longer operational lifespan. As such, a longer period of the finance lease transactions will ensure the stability of energy supply to various production facilities of Shougang Group.

In addition, we have reviewed the terms of each of the Comparable Finance Lease Transactions, including but not limited to the lease period, and noted that the lease period of the Comparable Finance Lease Transactions ranges from 1 year to 18 years, and 13 out of 61 finance lease transactions were set for a period of 6 or more years. This demonstrates that it is not uncommon for finance lease transactions having term of more than 6 years.

Having considered that (a) it is of market practice for finance lease transactions having term of more than 6 years; and (b) the Group has the rights to terminate the relevant loan and demand Shougang Group for full repayment of the outstanding loan within 14 days upon written notice if the Company fails to renew the Renewed Master Facilities Agreement at the end of the Term, we consider that it is of normal business practice for the Renewed Master Facilities Agreement and each Loan granted thereunder to have such duration.

(iii) Assessment of the proposed annual caps

Set out below are the historical annual caps and actual transaction amounts of the facilities granted by the Group to Shougang Group under the 2021 Master Facilities Agreement for the three years ended 31 December 2023 and the six months ended 30 June 2024:

	For the year ended 31 December			For the six months ended 30 June
	2021	**2022**	**2023**	**2024**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Approved amount of the facilities	2,000	2,000	2,000	2,000
Annual caps	2,264	2,264	2,264	2,264
Actual amount of facilities used				
— Finance lease	733 *(Note 2)* 29 *(Note 3)*	279 *(Note 3)*	—	—
— Credit financing	—	150 *(Note 3)*	150 *(Note 3)*	—
— Entrusted payment	—	16 *(Note 3)*	—	—
Facilities used during the relevant year/period	762	445	150	—
Maximum outstanding balance throughout the relevant financial year/ period *(Note 1)*	740	784	473	435

Notes:

1 It represents the maximum outstanding balance of the Group's receivables owed from Shougang Group under the 2021 Master Facilities Agreement during the relevant financial year/period.

2. It represents the existing facilities brought forward under the 2018 Master Facilities Agreement.

3. It represents the newly granted facilities during the relevant year/period.

As shown in the table above, the actual amount of facilities used for the three years ended 31 December 2023 and the six months ended 30 June 2024 amounted to approximately RMB762 million, RMB445 million, RMB150 million and nil, respectively. We understand from the management of the Group that the low historical transaction amounts as compared to the annual caps set under the 2021 Master Facilities Agreement were primarily attributable to (a) the parties not being able to conclude on certain commercial terms of the individual Loans, including the failure by the parties to agree on the payment terms; (b) the fluctuation in interests rate; and (c) availability of fund in the market, which resulted in the lower than expected utilization of the facilities under the 2021 Master Facilities Agreement.

The proposed annual caps of the Facilities (up to RMB2,000 million), on the basis of the principal amount of the Facilities and interest, and handling fees thereon, which represent the maximum outstanding balance throughout each year/period, is set out as follows:

For the financial year ending	**Annual caps for finance lease** *(RMB million)*	**Annual caps for credit financing** *(RMB million)*
From the commencement date of the Renewed Master Facilities Agreement to 31 December 2024	1,593	669
From 1 January 2025 to 31 December 2025	1,593	669
From 1 January 2026 to 31 December 2026	1,593	669
From 1 January 2027 to the last date of the Term of the Renewed Master Facilities Agreement	1,593	669

In assessing the reasonableness of the Facilities and the proposed annual caps under the Renewed Master Facilities Agreement, we have discussed with the management of the Group on the basis and assumptions underlying the projections. As advised by the management of the Group, in determining the Facilities (up to RMB2,000 million) and the proposed annual caps (a total of RMB2,262 million each year), they have taken into account, among others, (a) the historical transaction amount between the parties; (b) the capability of the Group to raise the necessary fund to finance the operation; and (c) the expected level of financing required by Shougang Group and the amount of financing that the Group is expected to be able to secure for financing the Facilities.

We have discussed with the management of the Group on each of the above factors and their potential impacts on the Facilities and the proposed annual caps and reviewed the relevant calculations. As stated in the section headed "2. Background information of Shougang Group" above, Shougang Group is a capital intensive company with total assets and net assets amounted to approximately RMB527.0

billion and RMB169.5 billion as at 31 December 2023, respectively. We noted that the principal amount of the Facilities of RMB2,000 million and the proposed annual caps of RMB2,262 million only represent approximately 1.1% and 1.3% of the carrying value of the fixed assets of Shougang Group of RMB171.8 billion as at 31 December 2023, respectively. The transaction size under the Renewed Master Facilities Agreement is hence not significant and the Directors believe that the Group is able to conduct more finance lease transactions with Shougang Group and/or its subsidiaries at scaleable sizes in future.

In respect of finance leasing, as advised by the management of the Group, Shougang Group's iron and steel production business requires equipment and machineries for operation which can cost a lot. As such, Shougang Group expects to utilize the Facilities to get access to the required manufacturing facilities such as blast furnace plants and substation equipment. Against this backdrop, we have obtained and reviewed the breakdown of the estimated financing needs of Shougang Group which has been confirmed and agreed by Shougang Group. Based on our review, we noted that there are nine potential finance lease transactions with a total amount of approximately RMB1.5 billion under ongoing negotiation with Shougang Group as at the Latest Practicable Date. Although these potential finance lease transactions are still pending and subject to further negotiation between the parties, they illustrate the anticipated demand on the Group's finance leasing services by Shougang Group in the near future. It is also expected that the Group will continue to have new finance lease transactions with Shougang Group during the term of the Renewed Master Facilities Agreement. As such, we consider the proposed annual caps for finance lease under the Renewed Master Facilities Agreement to be fair and reasonable.

In respect of credit financing, the proposed annual caps are determined with reference to Shougang Group's latest financing plan, which was proposed by Shougang Group based on its internal assessment on the estimated capital and operational needs in the next 36 months. As advised by the management of the Group, the Group believes that the financing needs of Shougang Group would increase in the next 36 months. In this regard, we have obtained and reviewed Shougang Group's latest financing plan in the next 36 months, the existing facilities expected to be brought forward under the 2021 Master Facilities Agreement and the expected repayment schedule. In considering the future financing needs of Shougang Group, we have performed research on the business operation of Shougang Group and discussed with the management of the Group and noted that (a) as the only iron and steel enterprise owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會), Shougang Group has obtained strong support from the local government. Under the leadership of the State Council and the municipal government, Shougang Group has completed the construction and relocation of new plant in Jingtang base and Qian'an base to continuously optimize its iron and steel production business; (b) Shougang Group will continue to explore and strengthen the synergies among different business divisions to increase its overall operating efficiency and profitability. While prioritizing on its iron and steel production business, Shougang Group aims to create the comprehensive competitiveness of "production plus services" through different business divisions, such as iron and steel production, industrial park construction and financial services. Shougang Group believes that such synergies will help maximize the value of its business portfolio, enhance its risk resistibility and improve its overall competitiveness; and (c) as at the end of 2023, Shougang Group had two major projects under construction in relation to iron ore and manufacturing base. The total investments of these two projects amounted to approximately RMB36.3 billion. As such, Shougang Group relies on external financing to satisfy a portion of its capital requirements for its business operation and expansion. In particular, Shougang Group had short-term and long-term borrowings of approximately RMB138.8 million as at 31 December 2023. As such, we consider the proposed annual caps for credit financing under the Renewed Master Facilities Agreement to be fair and reasonable.

Taking into account (a) the recent and future business strategies of Shougang Group to develop its iron and steel production business; (b) the expected financing needs of Shougang Group based on its capital-intensive nature, existing construction projects and huge historical funding raised from external borrowings; (c) the ongoing negotiation of potential finance lease transactions between the Company and Shougang Group; (d) the strong background of Shougang Group and its close linkage with Beijing Municipal People's Government; and (e) that the risk relating to the transactions contemplated under the Renewed Master Facilities Agreement would be controlled by the internal control measures stipulated under the section headed "2. The Renewed Master Facilities Agreement — Policy and Internal Control of the Group in relation to the Renewed Master Facilities Agreement" in the Letter from the Board, we consider the Facilities and the proposed annual caps under the Renewed Master Facilities Agreement, which are the same during the term of the Renewed Master Facilities Agreement, to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Although the proposed annual caps under the Renewed Master Facilities Agreement represent over 100% of the total assets of the Company as at 30 June 2024, taking into account that (a) as stated in the Letter from the Board, Shougang Group has good credit history with reliable repayment capability. Based on our independent market research, Shougang Group ranked ninth among the world's top 50 steel producing companies in terms of steel production volume in 2023. In addition, Shougang Group was assigned a corporate rating of "AAA" with a stable outlook by CCXI, which reflects the assessment of the local government's strong control and support of Shougang Group and the expectation that Shougang Group's operation will remain stable and it would remain strong linkage with Beijing Municipal People's Government. All of the above factors indicate that the credit risk associated with Shougang Group is considered to be relatively low; (b) as advised by the management of the Group, all of the transactions contemplated under the 2021 Master Facilities Agreement were funded by the Group's internal resources, which indicates that the Group had sufficient funds to conduct the transactions under the 2021 Master Facilities Agreement. We are also given to understand that prior to the finalisation of each project, the Group would assess the availability of internal resources and approach the banks for financing of each project, in order to ensure there are sufficient funds for the transaction; and (c) the proposed annual caps under the Renewed Master Facilities Agreement represent the amount of the Facilities granted by the Group to Shougang Group. As disclosed in the Letter from the Board, the Group has the absolute discretion on whether or not to provide the Loan under the Facilities at the relevant time. In any case, if the Group considers that it has difficulty to provide the Loan, it can reject to provide the Loan under the Facilities without any penalty, we consider there is no reliance and concentration risk or concern.

(iv) Financial effects of the transactions contemplated under the Renewed Master Facilities Agreement

The Directors consider that the entering into the Renewed Master Facilities Agreement will enable the Group to earn a net income. As (a) the interest rate to be charged on each of the Loans under the Renewed Master Facilities Agreement would be at a rate equal to the cost of lending of the Company and/or its subsidiaries plus 1% to 5%, subject to not being more than 10%; and (b) the Group shall be entitled to charge the relevant lessee for each finance lease under the Renewed Master Facilities Agreement a non-refundable handling fee of not more than 1.5% (in the case of credit financing) or 3.75% (in the case of finance lease) of the principal amount of the Loan, the Group is able to earn a net income over the term of the Renewed Master Facilities Agreement. As such, the Directors consider that the entering into the Renewed Master Facilities Agreement will have positive impact on the earnings of the Group in a long run.

4. The Technology License Agreement

(i) Background and reasons

On 29 August 2024, the Company entered into the Technology License Agreement with Shougang, pursuant to which the Company agreed to grant a license to Shougang Group in respect of the Technology for a term of three years commencing from the date on which the Technology License Agreement becomes effective.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of sale and leaseback arrangement services, supply chain management and financial technology services and property leasing services. As disclosed in the section headed "1. Background information of the Group" above, supply chain management and financial technology services was one of the core businesses of the Group and the Group has been continuously exploring and experimenting to build and upgrade its own supply chain financial technology service platform.

As disclosed in the Letter from the Board, Shougang Group is one of the largest steel production enterprises in the PRC and is principally engaged in a wide range of business including steel and iron production, overseas business, property development, mining resources and other businesses. The Technology includes the finance lease system, supply chain platform and factoring operation platform developed by the Group, for using on the businesses in respect of finance lease, supply chain finance and factoring. The Technology was being promoted by the Group to various potential end users and the financial technology services business of the Group has been expanding. It is expected that after the grant of the licence to use the Technology, Shougang Group would use the Technology internally among various companies under Shougang Group. On the other hand, with the use of the Technology become more reputable and popular within the Shougang Group, it helps the Group to promote the Technology to other enterprises in the PRC and accelerate the momentum of the customer network expansion and business development of the Group in the long-term. Accordingly, the entering into of the Technology License Agreement is consistent with the business and commercial objective of the Group, as it can strengthen the longstanding and stable cooperation relationship between the Group and Shougang Group, further enhance the business opportunities of the Group and broaden the revenue base of the Group.

Based on the above, we concur with the Directors that the entering into of the Technology License Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

(ii) Principal terms

Details of the terms of the Technology License Agreement are set out in the Letter from the Board, which are summarized as follows:

Date	:	29 August 2024
Parties	:	(a) the Company (as licensor); and (b) Shougang Group (as licensee)
Subject matter	:	The Company shall grant a license to Shougang Group in respect of the Technology, pursuant to which Shougang Group shall be entitled to use, copy, modify or merge the Technology for businesses in respect of finance lease, supply chain finance and factoring.
Term	:	A period of 3 years commencing from the date on which the Technology License Agreement becomes effective.

Fees and payment terms	:	In relation to the License under the Technology License Agreement, the fees were determined after arm's length negotiations between the Company and Shougang, taking into account the prices quoted by third parties for the licensing of similar technology, the prices charged by the Company for the licensing of similar technology to its other customers, the coverage, scale and complexity of the Technology service provided and the service cost of the Group.

We have reviewed the Technology License Agreement and have discussed with the management of the Group on the major terms therein. As disclosed in the Letter of the Board, the Technology includes the finance lease system, supply chain platform and factoring operation platform developed by the Group, for using on the businesses in respect of finance lease, supply chain finance and factoring. We are advised by the management of the Group that a royalty fee of 5% will be charged on the revenue of Shougang Group generated from using the Group's finance lease system and factoring operation platform while a royalty fee of 0.10% will be charged on the amount of financing facilitated from using the Group's supply chain platform under the Technology License Agreement.

In order to promote the Group's supply chain management and financial technology services after business transformation, the Group has entered into the financial services collaboration agreements with two independent commercial banks in the PRC, under which the Group has agreed to allow these banks to use the Group's supply chain platform for free. In this regard, we have obtained and reviewed the aforesaid agreements and noted that the royalty fee of granting the license to use the supply chain platform was nil for these independent commercial banks. As confirmed by the management of the Group, except for the above, the Group had not licensed any other similar technology to any independent third parties while Shougang Group had not received similar technology from any independent third parties.

As part of our due diligence on the Technology License Agreement, we have also obtained and reviewed 6 samples of quotation provided by the Group to independent third parties for granting the licence to use the Technology. Based on our review, we noted that (a) the royalty fees for granting the license to use the Technology were generally determined as a percentage of the revenue generated or the financing amount facilitated associated with the relevant Technology; and (b) the royalty fees charged by the Group on Shougang Group were no more favourable than those on independent third parties.

We have further performed independent research to identify comparable transactions involving similar technology license arrangement announced by the companies listed on the Stock Exchange during the period from 1 January 2022 to the date of the Technology License Agreement (being approximately three years). However, no comparable transaction was identified. Therefore, we expanded our scope to identify comparable transactions involving granting the rights to use trademarks with pricing basis as a percentage of revenue. We have identified, on a best effort basis, an exhaustive list of 9 transactions (the "**Comparable Transactions**"). Although the Comparable Transactions are not exactly similar to the transactions contemplated under the Technology License Agreement, we consider that the Comparable Transactions can provide a general reference to the pricing trend of recent practice in respect of granting the license to use certain items that are important to facilitate the business operations as well as a sufficient sample size for comparison purpose.

The details of the Comparable Transactions are set out below:

Date of announcement	Company name (stock code)	Nature of the transaction	Pricing basis
12 April 2024	Vision International Holdings Limited (8107.HK)	The right to use the trademarks anti-counterfeit traceability e-platform, customized anti-counterfeit devices and supply chain management solutions and revocable license to use certain patents	A fixed royalty rate of 3% of the unit rate of the supply chain management solution formulated which involves the use of the patents being licensed
5 February 2024	YGM Trading Limited (375.HK)	The right, license and authority to use certain trademarks	Royalty fees equal to 5% on the first US$10,000,000 of the net total invoiced revenue and thereafter at 4% of the net total invoiced revenue exceeding the amount of US$10,000,000
29 December 2023	Wynn Macau, Limited (1128.HK)	The license to use certain intellectual properties including certain trademarks, domain names, copyrights and service marks	License fees equal to 3% of the intellectual property gross revenue
31 July 2023	JS Global Lifestyle Company Limited (1691.HK)	The rights to obtain, produce and source, and the exclusive rights to distribute and sell the products of certain brands	License royalty equals to 3% of net sales of products of the brands
30 March 2023	China Overseas Grand Oceans Group Limited (81.HK)	The right to use the trademarks	Royalty equals to 1% of audited consolidated turnover
21 December 2022	BOE Varitronix Limited (710.HK)	The right to use the trademark	License fee equals to 0.5% of revenue from the principal business less the internal purchases of the previous year

Date of announcement	Company name (stock code)	Nature of the transaction	Pricing basis
2 December 2022	Sands China Ltd. (1928.HK)	The license to use certain trademarks and service marks for the design, development, construction, ownership, management and/or operation of casinos or gaming areas	Royalty equals to 1.5% of gross non-gaming and gaming revenue
27 June 2022	Precision Tsugami (China) Corporation Limited (1651.hk)	The license to use the technology necessary for the manufacture of certain high precision machine tools and the right to use the trademarks	License fees equal to 1% or 5% of the total sales of such models of the high precision machine tools
18 January 2022	ManpowerGroup Greater China Limited (2180.HK)	The license to use certain trademarks and proprietary products	Royalty fee equals to 1.5% of revenue

As shown in the table above, the royalty fees as a percentage of the relevant revenue of the Comparable Transactions are in the range of 0.5% to 5%. The royalty fee of using the finance lease system and factoring operation platform of 5% under the Technology License Agreement is therefore close to the high end of the Comparable Transactions. Although the royalty fee of using the supply chain platform of 0.10% under the Technology License Agreement is lower than that of the Comparable Transactions, it is charged as a percentage of the financing amount facilitated rather than the revenue generated which generally has a larger base than revenue. In addition, the royalty fee of using the supply chain platform of 0.10% is higher than that charged on the independent commercial banks in the PRC of nil as discussed above. As such, we consider the royalty fee of using the supply chain platform is also fair and reasonable.

Taking into account that (a) the pricing basis under the Technology License Agreement is similar to the quotations offered by the Group to independent third parties; (b) the royalty fees charged by the Group on Shougang Group were no more favourable than those offered by the Group to independent third parties; (c) the royalty fee of using the finance lease system and factoring operation platform of 5% is close to the high end of the Comparable Transactions; and (d) the royalty fee of using the supply chain platform of 0.10% is higher than that charged on the independent commercial banks in the PRC, we consider that the terms of the Technology License Agreement are on normal commercial terms which are fair and reasonable.

(iii) Assessment of the proposed annual caps

The annual amounts payable by Shougang Group to the Company pursuant to the Technology License Agreement are subject to the following annual caps:

For the financial year ending	**Annual caps** *(RMB million)*
From the commencement date of the Technology License Agreement to 31 December 2024	5.9
From 1 January 2025 to 31 December 2025	19.8
From 1 January 2026 to 31 December 2026	27.1
From 1 January 2027 to the last date of the Term of the Technology License Agreement	33.7

Based on the information provided by Shougang Group, the table below sets out Shougang Group's expected demand for the Technology under the Technology License Agreement in the coming three years:

(RMB'000)	**From the commencement date of the Technology License Agreement to 31 December 2024**	**2025**	**2026**	**2027**
Estimated revenue of Shougang Group to be generated from using the Group's finance lease system and factoring operation platform	106,500	344,500	479,500	600,000
5% royalty fee charged	**5,325**	**17,225**	**23,975**	**30,000**
Estimated amount of financing to be facilitated from using the Group's supply chain platform by Shougang Group	267,000	720,000	648,000	583,000
0.10% royalty fee charged	**267**	**720**	**648**	**537**
Estimated total amounts	**5,592**	**17,945**	**24,623**	**30,537**

In assessing the reasonableness of the proposed annual caps under the Technology License Agreement, we have discussed with the management of the Group on the basis and assumptions underlying the projections. As advised by the management of the Group, in determining the proposed annual caps, they have taken into account, among others, (a) the current operation scale and expected growth of Shougang Group; and (b) Shougang Group's anticipation on the demand for the related service.

We have discussed with the management of the Group on each of the above factors and their potential impacts on the proposed annual caps and reviewed the relevant calculations. As advised by the management of the Group, the estimated total royalty fees payable by Shougang Group are determined based on the royalty fee rate to be charged by the Group on each of the Technology as well as the amount of revenue to be generated and the financing amount to be facilitated by Shougang Group through using the Technology, which are agreed and confirmed by Shougang Group. Based on the above basis, the proposed annual caps are then derived as the aggregate of the estimated royalty fees for the finance lease system, supply chain platform and factoring operation platform developed by the Group.

In respect of the finance lease system, it is an online operation system in relation to the mobile phone leasing business targeting individual customers. The total revenue of Shougang Group's mobile phone leasing business under the finance lease system is estimated to gradually decrease from approximately RMB42.5 million in 2024 as Shougang Group has planned to dedicate more resources on corporate customers. Such estimated total revenue was determined with reference to the historical revenue of Shougang Group's mobile phone leasing business of approximately RMB160.0 million for FY2023, which we consider to be fair and reasonable.

In respect of the supply chain platform, it is an online financing platform based on real business contracts and creditor-debt relationships in the entire industrial chain, introducing high-quality financial resources to finance or provide services to multiple entities in Shougang Group's supply chain. Through such online financing platform, suppliers could use the credit certificates issued by the Group to obtain financing from external financing channels such as commercial banks which could largely reduce their financing costs. As disclosed in the 2023 Annual Report, Shougang credit certificate is an electronic certificate that utilize blockchain technology to create immutable and traceable digital representation of suppliers' account receivable due from anchor enterprises. The total amount of financing to be facilitated through the supply chain platform is estimated to range from approximately RMB267.0 million to RMB720.0 million from 2024 to 2027. Such estimated total amount of financing was determined with reference to its historical amount of approximately RMB8.3 billion for FY2023, which we consider to be fair and reasonable.

In respect of the factoring operation platform, it is an online operation platform in relation to the factoring business which supports factoring to carry out the pre-bill business in the early stage, and establishes a pre-loan, in-loan and post-loan management module for factoring business so as to support the normal commencement of factoring business. The total revenue of Shougang Group's factoring business under factoring operation platform is estimated to increase from approximately RMB64.3 million to approximately RMB600.0 million from 2024 to 2027. We understood from the management of the Group that Shougang Group plans to transform the factoring business to align with the factoring operation platform in late 2024 and actively develop it to secure a new growth factor. Such estimated total revenue was determined based on the amount of Shougang Group's factoring loans to be granted under the factoring operation platform (in the range of approximately RMB1.4 billion to RMB12.7 billion) and an annualized yield rate of 5%. With reference to the 2024 Offering Circular, as at 31 December 2024, Shougang had account payables of approximately RMB49.2 billion. The amount of Shougang Group's factoring loans of approximately RMB1.4 billion to RMB12.7 billion therefore only represent approximately 2.8% to 25.8% of the account payables of Shougang Group as at 31 December 2023. As such, the transaction size of Shougang Group's factoring business under the factoring operation platform is considered to be fair and reasonable.

According to the National Bureau of Statistics of China, the Chinese GDP has increased from approximately RMB98,652 billion in 2019 to approximately RMB126,058 billion in 2023 with a compound annual growth rate of approximately 6.3%. With reference to the International Monetary Fund, the Chinese economy is expected to continue to grow with a projected GDP growth rate of approximately 5.0% and 4.5% in 2024 and 2025, respectively. Furthermore, according to Intelligence Research*(智研咨詢), driven by the domestic economy recovery, ecommerce growth and the rise of financial technology firms, the total business volume of the Chinese factoring services market has achieved a year-on-year increase of approximately 13.9% in 2022 and China has remained the world's largest factoring services market for five consecutive years. In view of the sustainable growth of the Chinese economy, the factoring services market in China is expected to continue to grow in future. Founded in 2008, Intelligence Research is a research and consulting company focusing on various industries and markets. Through its office in Beijing, the PRC, Intelligence Research produces a variety of market research reports, industry analytical reports and publications covering different industries. Taking into account the positive outlook of the Chinese factoring services market, we consider it is fair and reasonable to adopt the buffer of 5% for 2024 and 10% for 2025 to 2027 per annum in projecting the proposed annual caps under the Technology License Agreement.

Generally speaking, in our opinion, it is in the interests of the Group and the Independent Shareholders to determine the proposed annual caps in a way that can accommodate the potential growth of the Group's business. Provided that the terms of the Technology License Agreement are fair and reasonable and the transactions contemplated under the Technology License Agreement are subject to annual review by the independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules, the Group would have desirable flexibility in conducting its businesses if the proposed annual caps are tailored to the estimated demands from Shougang Group, in particular that the royalty fees could increase the revenue of the Group and therefore support its future business growth and development.

Having considered all the above factors including the basis from which the Directors have determined the proposed annual caps under the Technology License Agreement, we consider the proposed annual caps under the Technology License Agreement to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

5. Reporting requirements and conditions of the continuing connected transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the transactions contemplated under the Agreements (the "**Transactions**") are subject to the following annual review requirements:

(i) the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts that the Transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(ii) the Company must engage its auditors to report on the Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Transactions:

(a) have not been approved by the Board;

(b) were not, in all material respects, in accordance with the pricing policies of the Group if the Transactions involves the provision of goods or services by the Group;

(c) were not entered into, in all material respects, in accordance with the relevant agreements governing the Transactions; and

(d) have exceeded the relevant proposed annual caps;

(iii) the Company must allow, and ensure that the counter-parties to the Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Transactions as set out in paragraph (ii); and

(iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the relevant proposed annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Transactions and the relevant proposed annual caps not being exceeded, we are of the view that appropriate measures are in place to monitor the conduct of the Transactions and assist in safeguarding the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the Agreements are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Agreements (including the proposed annual caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the SGM to approve the Transactions.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited

Larry Choi

Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.