



Alliance Capital Partners Limited
同人融資有限公司

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To: The Independent Board Committee and the Independent Shareholders

MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTION IN RELATION TO THE 2024
CCT MASTER AGREEMENT

A. INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders of the Company on whether the terms under the 2024 CCT Master Agreement entered into between the Company, the CCT Counter Guarantors and Haining Schinder, the transactions contemplated thereunder, and the relevant annual caps for each of the year ending 31 December 2025, 31 December 2026 and 31 December 2027 (“Annual Caps”) are fair and reasonable, on a normal commercial terms, in the ordinary and usual course of business of the Company, and in the interests of the Company and its shareholders as a whole. Details of which are set out in the letter from the Board (the “Board Letter”) as contained in the circular of the Company dated 10 December (the “Circular”). Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Haining Schinder is a wholly-owned subsidiary of Lingjia New Material. Ms. Zhu Jiayun and Ms. Zhu Lingren jointly indirectly own 64.0% shareholdings of Lingjia New Material. Mr. Zhu is a Director and the controlling shareholder of the Company, and Ms. Zhu Jiayun and Ms. Zhu Lingren are the daughters of Mr. Zhu. Therefore, each of Lingjia New Material and Haining Schinder is an associate of Mr. Zhu, and is a connected person of the Company under the Listing Rules.

As mentioned in the Board Letter, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, save for Mr. Zhu, no Shareholder has any material interest in the 2024 CCT Master Agreement and the transactions contemplated thereunder. Mr. Zhu and his associates will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the 2024 CCT Master Agreement and the transactions contemplated thereunder. Save for the foregoing, no other Shareholders will be required to abstain from voting on the resolution(s) in respect of the 2024 CCT Master Agreement and the transactions contemplated thereunder, including the annual caps, at the EGM.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) for the annual caps under the 2024 CCT Master Agreement are higher than 5%, the transactions under the 2024 CCT Master Agreement constitute a non-exempt continuing connected transaction for the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, as one or more of the applicable percentage ratios (as defined in the Listing Rules) in relation to the Annual Caps under the 2024 CCT Master Agreement exceeds 25% but all applicable percentage ratios are less than 100%, the transactions under the 2024 CCT Master Agreement also constitute a major transaction for the Company and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The provision of the CCT Counter Guarantee by the CCT Counter Guarantors under the 2024 CCT Master Agreement and provision of the guarantee by Haining Schinder for the bank facilities to the Group in an aggregate amount of RMB450.0 million (the "Group's RMB450m Bank Facilities") and the associated costs without limitation to interest payment constitute financial assistance received by the Group from the connected person. As the above-mentioned financial assistances received by the Group from the CCT Counter Guarantors and Haining Schinder are on normal commercial terms or better and are not secured by the assets of the Group, they are fully exempted from the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Chow Hiu Tung, Mr. Zhang Yuchuan and Mr. Zhou Lingqiang, has been established by the Company to advise and make recommendations to the Independent Shareholders in respect of the terms of the 2024 CCT Master Agreement and the transactions contemplated thereunder (including the relevant Annual Caps).

There was no engagement between the Company and Alliance Capital Partners Limited in the past two years. Apart from this normal professional fee for our services to the Company in connection with this engagement as the Independent Financial Adviser, no other arrangements exist whereby we will receive any fees and/or benefits from the Company, and Alliance Capital Partners Limited is independent of the Group pursuant to Rule 13.84 of the Listing Rules.

B. BASIS OF OUR OPINION

In formulating our opinion, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or its management and/or the Directors. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Group and/or its management and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations for matters relating to the Group made or provided by the Directors and/or the management of the Group contained in the Circular have been reasonably made after due and careful enquiry. We have been advised by the Group and/or its management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business, default risk, financial conditions and affairs of the Group, the CCT Counter Guarantors and Haining Schinder. Our opinion was necessarily based on the legal, financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date. Shareholders should note that material subsequent developments from the Latest Practicable Date to the date of EGM and that we are aware (including any material change in legal, market and economic conditions) may affect and/or change our opinion, and we have no obligation to update this opinion to take into account events occurring after the EGM or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the continuing connected transactions under the 2024 CCT Master Agreement, we have considered the following principal factors and reasons:

1. Background information of the Group and parties to the 2024 CCT Master Agreement

1.1 Information of the Group

The Company is an investment holding company. Its subsidiaries are principally engaged in the businesses of (i) manufacturing and trading of upholstered furniture; (ii) land and property development; and (iii) travel and related operations.

With reference to the announcements of the Company dated 1 February 2016 and 25 November 2016 and the circular of the Company dated 29 April 2016 in relation to the Disposal. On 1 February 2016, the Company, the Vendors, the Purchasers and Mr. Zhu entered into the Disposal Agreement, pursuant to which, among others, the Vendors agreed to sell and the Purchasers agreed to acquire the entire equity interest of the Disposal Group. Completion of the Disposal took place on 25 November 2016. Haining Home Direct and Haining Schinder formed part of the Disposal Group under the Disposal Agreement.

The tables below set out certain consolidated financial information of the Company for (i) the year ended 31 December 2022 and 2023, (ii) the six months ended 30 June 2023 and 2024, and (iii) as at 31 December 2022, 2023 and 30 June 2024:

	For the year ended 31 December		For the six months ended 30 June	
	2022 RMB'000 (audited)	2023 RMB'000 (audited)	2023 RMB'000 (unaudited)	2024 RMB'000 (unaudited)
Revenue	863,429	956,757	381,786	423,868
Profit before tax	77,245	110,682	24,952	49,474
Profit for the period attributable to owners of the Company	68,279	70,426	32,723	27,824
	As at 31 December 2022 RMB'000 (audited)	2023 RMB'000 (audited)	As at 30 June 2024 RMB'000 (unaudited)	
Total assets	5,821,706	5,982,778	6,015,401	
Total liabilities	2,109,699	2,169,328	2,095,051	
Net assets attributable to owners of the Company	3,681,325	3,752,621	3,768,890	
Cash and cash equivalents	460,310	567,542	390,372	

FY2023 compared to FY2022

As stated in the annual report for the year ended 31 December 2023 (“FY2023”), the Company’s consolidated revenue increased by 10.8% from RMB863.4 million for the year ended 31 December 2022 (“FY2022”) to RMB956.8 million for FY2023. Such increase was mainly due to the increase in land and property development segment since there was an increase in the delivery of properties for the Group’s property development projects during FY2023, as compared to FY2022. In addition, the Company recorded consolidated profit before income tax of approximately RMB110.7 million for FY2023, representing an increase of approximately 43.3% over the consolidated profit before income tax of approximately RMB77.2 million for FY2022. The significant increase in profit before income tax was primarily due to the combined effect of the (i) increase in revenue of approximately RMB93.3 million, (ii) increase in gross profit of approximately RMB99.1 million, (iii) the increase in share of result of an associate of approximately RMB6.9 million, (iv) the decrease in selling and distribution cost of approximately RMB12.1 million, (v) the decrease in administrative expenses of approximately RMB11.6 million, and (vi) the decrease in finance costs of approximately RMB20.5 million.

In addition, the Company had (i) an increase in consolidated total assets of approximately 2.8% from approximately RMB5.8 billion as at 31 December 2022 to approximately RMB6.0 billion as at 31 December 2023, (ii) an increase in consolidated total liabilities of approximately 2.8% from approximately RMB2.1 billion as at 31 December 2022 to approximately RMB2.2 billion as at 31 December 2023, (iii) an increase in net assets attributable to owners of approximately 1.9% from approximately RMB3.7 billion as at 31 December 2022 to approximately RMB3.8 billion as at 31 December 2023, and (iv) an increase in cash and cash equivalents of approximately 23.3% from approximately RMB460.3 million as at 31 December 2022 to approximately RMB567.5 million as at 31 December 2023.

6M2024 compared to 6M2023

As stated in the interim report for the six months ended 30 June 2024 (“6M2024”), the Company’s consolidated revenue increased by approximately 11.0% from RMB381.8 million for the six months ended 30 June 2023 (“6M2023”) to RMB423.9 million for 6M2024. Such increase was mainly due to the increase in the delivery of property for the Group’s property development projects during the period. In addition, the Company recorded consolidated profit before income tax of approximately RMB49.5 million for 6M2024, representing an increase of approximately 98.3% over the consolidated profit before income tax of approximately RMB25.0 million for 6M2023. The significant increase in profit before income tax was primarily due to the combined effect of the (i) increase in revenue of approximately RMB42.1 million, (ii) increase in gross profit of approximately RMB29.4 million, (iii) decrease in selling and distribution cost of approximately RMB11.2 million, (iv) decrease in administrative expenses of approximately RMB10.0 million, (v) decrease in impairment loss on financial assets of approximately RMB1.6 million, and (vi) decrease in finance costs of approximately RMB1.5 million.

As at 30 June 2024, the Company had consolidated (i) total assets of approximately RMB6.0 billion, (ii) total liabilities of approximately RMB2.1 billion, (iii) net assets attributable to owners of approximately RMB3.8 billion, and (iv) cash and cash equivalents of approximately RMB390.4 million.

1.2 Information of the parties to the 2024 CCT Master Agreement

Lingjia New Material is a company established under the laws of the PRC with limited liability and Ms. Zhu Jiayun and Ms. Zhu Lingren jointly and indirectly own 64.0% shareholdings of Lingjia New Material as at the Latest Practicable Date. Its principal business is research and development of new material. Haining Schinder is a wholly-owned subsidiary of Lingjia New Material which established in the PRC with limited liability. It is principally engaged in the manufacturing of automotive leather.

Based on the latest available unaudited management accounts prepared under the PRC accounting standards of Haining Schinder, being the wholly owned subsidiary of Lingjia New Material, Haining Schinder recorded (i) revenue of approximately RMB180.6 million and (ii) profit before tax of approximately RMB19.1 million, for the nine months ended 30 September 2024. As at 30 September 2024, Haining Schinder had (i) total assets of approximately RMB522.4 million, (ii) total liabilities of approximately RMB188.1 million, (iii) net assets attributable to owners of approximately RMB334.3 million, and (iv) cash and cash equivalents of approximately RMB33.0 million.

1.3 Details of the guaranteed bank facilities and loans drawdown

Details of the guaranteed bank facilities and loans drawdown of, amongst others, the Group, Haining Schinder and Haining Home Direct up to the Latest Practicable Date as extracted from the Board Letter are set out below:

Approx. RMB' million	Facility amount		Guarantee with asset pledge		Guarantee	
	Total amount	Actual drawdown	Total amount	Actual drawdown	Total amount	Actual drawdown
A. Guarantees provided by the Group						
Haining Home Direct						
– Bank facilities of Haining Home Direct guaranteed by the Group						
(i) Bank of China ^(Note 1)	271.0	219.0	271.0	219.0	–	–
(ii) Agricultural Bank of China ^(Note 2)	28.0	26.0	–	–	28.0	26.0
(iii) Bank of Communications ^(Note 3)	10.0	–	10.0	–	–	–
– Total	309.0	245.0	281.0	219.0	28.0	26.0
Haining Schinder						
– Bank facilities of Haining Schinder guaranteed by the Group	162.0	106.4	87.0	31.4	75.0	75.0
B. Guarantees received by the Group						
– Bank facilities of the Group guaranteed by Haining Home Direct and Haining Schinder						
	430.0	430.0	–	–	430.0	430.0
– Bank facilities of the Group guaranteed by a subsidiary of the Company and Haining Schinder						
	20.0	20.0	–	–	20.0	20.0
– Bank facilities of the Group guaranteed by subsidiaries of the Company and Haining Home Direct and its subsidiary						
	31.5	28.5	–	–	28.5	28.5

Notes:

1. The duration of the bank facility issued by Bank of China to Haining Home Direct is from 14 October 2024 to 13 October 2027. The assets provided by the Group as pledge for such bank facility is land use right representing a total gross site area of approximately 212,789 square meters.
2. The duration of the bank facility issued by Agricultural Bank of China to Haining Home Direct is from 31 July 2024 to 30 July 2027. The Group does not provide any asset pledge for such bank facility.
3. The duration of the bank facility issued by Bank of Communication to Haining Home Direct is from 6 December 2024 to 6 March 2025. The assets provided by the Group as pledge for such bank facility is cash deposit of RMB10 million.

The assets provided by the Group for the above guarantees include land use rights, properties and cash deposits.

2. The 2024 CCT Master Agreement

The Company intends to enter into the 2024 CCT Master Agreement with the CCT Counter Guarantors and Haining Schinder, pursuant to which, among others, (i) the Company, as a guarantor, shall provide guarantee for the performance and repayment obligations of bank facilities to Haining Schinder in respect of the annual caps of up to RMB170.0 million, which were pledged by assets of the Group, and (ii) Haining Schinder, as a guarantor, shall continue to provide guarantee for the Group's RMB450m Bank Facilities and the associated costs without limitation to interest payment for the period from

1 January 2025 to 31 December 2027 (both days inclusive), subject to the terms and conditions of the 2024 CCT Master Agreement.

2.1 Reasons for and the benefits of the 2024 CCT Master Agreement

As set out in the Board Letter, since the completion of the Disposal Agreement, the parties to the Disposal Agreement had exerted efforts to arrange for the discharge and release all the guarantee obligations and liabilities of the Group in respect of the bank facilities to Haining Schinder and Haining Schinder in respect of the bank facilities to the Group. However, despite on-going negotiations between the Group and the relevant banks in the PRC (including the approach by the Group with the relevant commercial banks in the PRC during January and December 2023) for the said discharge and release, the Group has yet to reach a consensus with the said banks to discharge and release all guarantee obligations and liabilities as (a) notwithstanding the efforts made by Haining Schinder to repay the loans from its earnings and working capital available within the contract period of the 2021 CCT Master Agreement, Haining Schinder could not fully settle all the bank loans; and (b) the banks are of the view that they will only accept a creditable guarantor who possesses sufficient assets acceptable to the banks, i.e., at least similar to the latest financial position of the Group, as the replacement of guarantor to Haining Schinder's existing bank loans. Upon our discussion with the Management, we understand that these cross-guarantee arrangements help to enhance creditworthiness of the borrowing parties and secure bank loans with potentially larger loan amounts and longer terms.

It is also worth noting that, Haining Schinder had repaid part of the loans and related interests in the amount of approximately RMB85.0 million under the CCT Master Guarantee to the relevant commercial bank(s) in the PRC in May and June 2022. As a result, the maximum amounts guaranteed by the Group to Haining Schinder had been reduced to RMB308.0 million as at 30 June 2022, and such existing bank facilities is further reduced to approximately RMB162.0 million as at 30 September 2024. Nevertheless, having considered the terms and conditions of the existing guaranteed bank facilities of Haining Schinder, the Company intends to continue to negotiate with the banks with a view to procure for the discharge and release of the outstanding guarantee obligations. The Group's aim to release all guarantee to Haining Schinder as soon as possible remains unchanged.

Having considered that (i) the Group had cash and cash equivalents of approximately RMB390 million as at 30 June 2024; (ii) the Group's total bank borrowings amounted to approximately RMB660 million as at 30 June 2024; (iii) the Group's selling and distribution costs amounted to approximately RMB70 million and administrative expenses amounted to approximately RMB177 million for the year ended 31 December 2023; (iv) it would be desirable for the Group to reserve sufficient cash for satisfying the cash flows needs for its general working capital as and when needed; (v) the Group has maintained long-term relationships with the existing commercial banks in the PRC who have indicated their willingness to continue to provide the Group's RMB450m Bank Facilities based on the existing terms (including the requirements of provision of guarantee by Haining Schinder) upon renewal; and (vi) it is challenging for the Group to secure similar-sized (i.e. over RMB400 million), longer-term borrowings from other PRC banks, the Company considers that the continued provision of guarantees to and by Haining Schinder will enable the Group to strengthen its financial position and operate stably in the foreseeable term, given that it will facilitate the renewal of the Group's RMB450m Bank Facilities with the commercial banks in the PRC, and accordingly will help to ensure the Group to maintain adequate liquidity for, without limitation to, its general working capital (i.e. selling, distribution and administrative expenses), expanding its existing operations and/or capturing development opportunities if any.

It is further stated in the Board Letter that the Company believes that the Group is further protected and compensated by the CCT Counter Guarantee provided.

2.2 Principal terms of the 2024 CCT Master Agreement

Details of the terms of the 2024 CCT Master Agreement are set out in the section headed "THE 2024 CCT MASTER AGREEMENT" in the Board Letter.

2.3 Our analysis on the 2024 CCT Master Agreement

(a) Financial position of the Group

As disclosed in section 1.1 of this letter, the Group recorded (i) approximately 10.8% and 11.0% increase in its consolidated revenue, and (ii) approximately 43.3% and 98.3% increase in its consolidated profit before income tax for FY2023 as compared to FY2022, and for 6M2024 as compared to 6M2023, respectively. These indicated that the Group has continuous profit-making ability. In addition, as at 30 June 2024, the Company had consolidated

(i) total assets of approximately RMB6.0 billion, (ii) total liabilities of approximately RMB2.1 billion, (iii) net assets attributable to owners of approximately RMB3.8 billion, and (iv) cash and cash equivalents of approximately RMB390.4 million, implying that the Group has sufficient liquid assets to run its business, and the ability to fulfil its debt obligation.

(b) Loan repayment ability of Haining Schinder

In assessing the fairness and reasonableness of the provision of CCT Master Guarantee under the 2024 CCT Master Agreement by the Company to Haining Schinder, we have obtained and reviewed the latest available unaudited management accounts of Haining Schinder prepared under the PRC accounting standards. It also serves the purpose of ascertaining the loan repayment ability of Haining Schinder. As disclosed in section 1.2 of this letter, we noted that Haining Schinder was profit making with unaudited net profit of approximately RMB19.1 million for the nine months ended 30 September 2024. The unaudited net assets attributable to owners of Haining Schinder amounted to RMB334.3 million as at 30 September 2024, indicating that it has the ability to cover all the existing bank facilities of approximately RMB162.0 million.

In addition, as discussed in section 2.1 of this letter, Haining Schinder had actively repaid the bank facilities and related interests under the CCT Master Guarantee to the relevant commercial bank(s) in the PRC during the guarantee period under 2021 CCT Master Agreement, resulting in a significant decline in existing bank facilities from approximately RMB308.0 million as at 30 June 2022 to approximately RMB162.0 million as at 30 September 2024. As confirmed by the Company, Haining Schinder had never defaulted in loan repayment and accordingly, while the Group had provided the CCT Master Guarantee under the 2016 CCT Master Agreement, 2018 CCT Master Agreement and 2021 CCT Master Agreement, the Group had never been called upon by banks to fulfil its obligations as guarantor during the guarantee periods under the 2016 CCT Master Agreement, 2018 CCT Master Agreement and 2021 CCT Master Agreement.

As mentioned above, (i) the unaudited net assets of Haining Schinder of RMB334.3 million as at 30 September 2024 is significantly higher than the maximum guarantee amount of RMB170.0 million under the CCT Master Guarantee provided by the Company as mentioned above; (ii) Haining Schinder has been able to repay the principal and interest on time over the past few years due to its continuous profit-making ability; and (iii) Haining Schinder had never defaulted in loan repayment; these have indicated that the Group's risk exposure to loan defaults from Haining Schinder is limited.

(c) Back-to-back guarantee provided by CCT Counter Guarantors

As disclosed in the Board Letter, each of the CCT Counter Guarantors agreed to jointly and severally provide the CCT Counter Guarantee to fully indemnify the Company, for the performance and repayment obligations of bank facilities to Haining Schinder in respect of the annual caps of up to RMB170 million for the period from 1 January 2025 to 31 December 2027 (both days inclusive). In other words, the CCT Counter Guarantee shall be secured by the assets of, without limitation to, (i) Mr. Zhu, a Director and the controlling shareholder of the Company deemed to be in control of 568,005,113 Shares or approximately 39.36% of the Company's issued share capital as at the Latest Practicable Date; and (ii) Lingjia New Material, which includes the entire interest in Haining Schinder, a wholly owned subsidiary of Lingjia New Material. The CCT Counter Guarantee is a back-to-back guarantee provided to the Group by the CCT Counter Guarantors to fully indemnify the Company's exposure to the provision of the CCT Master Guarantee.

In assessing the financial capability of the CCT Counter Guarantors to perform the CCT Counter Guarantee, we note that Mr. Zhu has 568,005,113 Shares or approximately 39.36% of the Company's issued share capital as at the Latest Practicable Date. By making reference to the one-year and two-year average closing price of HK\$0.357 and HK\$0.317 per Share up to and including the date of the 2024 CCT Master Agreement, the market value of the Shares deemed to be in control of Mr. Zhu amounted to approximately HK\$203.0 million and HK\$180.2 million respectively. Taking into account that the Shares are listed securities of which the above-mentioned market values represented approximately 3.20 or 2.84 times of the Group's pledged assets of approximately RMB63.4 million under the 2024 CCT Master Agreement and could sufficiently cover the maximum amount of RMB170 million under the CCT Master Guarantee provided by the Company, we consider the 2024 CCT Master Agreement is in the interest of the Company, and are fair and reasonable and on normal commercial term.

In addition to the above-mentioned market value of the Shares controlled by Mr. Zhu, the CCT Counter Guarantee shall also be secured by the assets of Lingjia New Material, which includes the entire interest in Haining Schinder, a wholly owned subsidiary of Lingjia New Material. The unaudited net assets of Haining Schinder as at 30 September 2024 was approximately RMB334.3 million. In this light, the market value of the Shares and the net assets of Haining Schinder could sufficiently cover the maximum amount of RMB170 million under the CCT Master Guarantee provided by the Company.

Furthermore, pursuant to the major representations and warranties provided by the CCT Counter Guarantors under the 2024 CCT Master Agreement as discussed in the sub-section headed “*Major representations and warranties of the CCT Counter Guarantors*” under the section headed “THE 2024 CCT MASTER AGREEMENT” in the Board Letter, we noted that (i) without the written consent of the Group, the CCT Counter Guarantors shall not create any mortgage, charge, pledge, lien, hypothecation or other arrangement whatsoever over or affecting any of the entire equity interest of Haining Schinder during the CCT Guarantee Period; (ii) without the written consent of the Group, the CCT Counter Guarantors shall ensure that Haining Schinder will not increase its bank loans to the extent that exceed the guaranteed bank facilities of approximately RMB162.0 million provided by the Group to Haining Schinder during the CCT Guarantee Period; and (iii) without the written consent of the Group, Haining Schinder shall be conducted in the ordinary course of business consistent with the past practice and there shall have no material adverse change on the assets, liabilities, financial condition and operating condition of Haining Schinder, without limitation to material acquisition and disposal and dividend distribution during the CCT Guarantee Period.

(d) Collateral provided by the Company

Pursuant to the terms of the 2024 CCT Master Agreement, the pledge of the Group's assets for the CCT Master Guarantee has already been in place prior to the Disposal (Haining Schinder was a subsidiary of the Group at the relevant time), and such arrangement is also being continued under the 2016 CCT Master Agreement, the 2018 CCT Master Agreement and the 2021 CCT Master Agreement. Accordingly, the Company agreed to continue to provide guarantees and pledge the Group's assets for the CCT Master Guarantee. The assets provided by the Group for the CCT Master Guarantee include land use rights and properties with an aggregated book value of approximately RMB11,770,706 as at 30 September 2024. Based on our understanding, the properties and land use rights represent certain commercial properties in a total gross floor area of approximately 5,730 square meters and certain land in a total gross site area of 2,743 square meters, located in Haining, the PRC, owned by Haining Kareno Furniture Co., Ltd.* (海寧卡雷諾家私有限公司), an indirect wholly-owned subsidiary of the Company and they are used as offices of the Group for general administrative purposes. The commercial properties and land have a combined valuation amount of approximately RMB63,354,000 as at 16 April, 2024. The total value of collateral provided by the Company under the 2024 CCT Master Agreement is approximately RMB63.4 million, representing approximately 39.1% of the existing bank facilities of approximately RMB162.0 million available to Haining Schinder under the 2024 CCT Master Agreement.

With regards to the release of the Group's obligation and pledge of assets as collaterals, as mentioned in section 2.1 of this letter, despite the Group and Haining Schinder had various rounds of negotiations with relevant banks in the PRC over the years, the banks reiterated in their latest negotiation in December 2023 that they will only accept a creditable guarantor who possesses sufficient assets acceptable to the banks, i.e., at least similar to the latest financial position of the Group, as replacement of guarantor and/or collateral to Haining Schinder's existing bank facilities. Based on our discussion with the Company, notwithstanding Haining Schinder's efforts in seeking a replacement of guarantor and/or collaterals throughout the guarantee periods under the 2016 CCT Master Agreement, the 2018 CCT Master Agreement and the 2021 CCT Master Agreement, it is difficult for Haining Schinder to find another new creditable guarantor to replace the Group without (a) in-depth understanding to the operations of Haining Schinder; and (b) any fee or commission or to provide collaterals with value no less than the Group's pledged assets.

As mentioned in the Board Letter, based on the latest communication between Haining Schinder and the relevant banks, it is understood that Haining Schinder targets to repay all its bank facilities and related interests under the CCT Master Guarantee by the end of 2025 or in the first half of 2026. Once this materializes, the Group's obligations under the CCT Master Guarantee will be fully released. In the meantime, the Group will maintain quarterly communication with Haining Schinder to monitor the status of (i) the repayment progress of Haining Schinder; and (ii) identified potential guarantors (if any) who may be suitable to replace the Group as guarantor to part or all the CCT Master Guarantee.

(e) Nature and purpose of the provision of CCT Master Guarantee

We understand from the Company that both (i) the bank facilities guarantee provided by the Company to Haining Schinder and Haining Home Direct, and (ii) the bank facilities guarantee received by the Company from Haining Schinder and Haining Home Direct during the guarantee periods under the 2016 CCT Master Agreement, 2018 CCT Master Agreement and 2021 CCT Master Agreement are non-profit-making in nature.

Nevertheless, considering that the said arrangement is reciprocal, the Company has taken into account the following factors when deciding to continue providing the CCT Master Guarantee by entering into the 2024 CCT Master Agreement: (i) the Group's guarantee obligation under the CCT Master Guarantee is fully indemnified by the back-to-back CCT Counter Guarantee, (ii) the financial capability of the CCT Counter Guarantors in protecting the Company's interests under the CCT Master Guarantee arrangement, and (iii) the aggregate guarantee amount of the Group's RMB450m Bank Facilities provided by Haining Schinder together with either Haining Home Direct or a subsidiary of the Company is higher than the maximum of RMB170 million under the CCT Master Guarantee provided by the Company.

In light of the above, in particular, (a) the reciprocal continued provision of guarantees by Haining Schinder to facilitate the renewal of the relevant loans in aggregate principal amount of approximately RMB450.0 million by the Group, which will help to ensure the Group to maintain adequate liquidity for, without limitation to, its general working capital, expanding its existing operations and/or capturing development opportunities if any; (b) the repayment history (including no default in loan repayment) of Haining Schinder; (c) Haining Schinder has been able to repay the principal and interest on time over the past few years due to its continuous profit-making ability; (d) the Group's guarantee obligation under the CCT Master Guarantee is fully indemnified by the back-to-back CCT Counter Guarantee; (e) the aggregate guarantee amount of the Group's RMB450m Bank Facilities provided by Haining Schinder together with either Haining Home Direct or a subsidiary of the Company is higher than the maximum of RMB170 million under the CCT Master Guarantee provided by the Company; (f) the unaudited net assets of Haining Schinder of RMB334.3 million as at 30 September 2024 is significantly higher than the maximum guarantee amount of RMB170 million under the CCT Master Guarantee provided by the Company; we are of the view that the pledge of the Group's assets with value amounted to approximately RMB63.4 million under the 2024 CCT Master Agreement is fair and reasonable and on normal commercial term.

(f) Commission fee

Pursuant to the terms of the 2024 CCT Master Agreement, neither the Company, Haining Schinder nor any of the CCT Counter Guarantors will receive any fee or commission from providing the CCT Master Guarantee and the CCT Counter Guarantee respectively.

In assessing the fairness and reasonableness of the commission fee, we have reviewed comparable transactions involving mutual/cross-guarantee arrangement announced by companies listed on the Stock Exchange, under which the listed companies agreed to provide guarantee to the counter-parties, in the past 24 months immediately preceding the date of the 2024 CCT Master Agreement (the "Comparable Transactions"). We have, to our best effort and so far as we are aware, identified 5 Comparable Transactions which we consider to be exhaustive. We also consider the following list of the Comparable Transactions fair, representative and comparable to the 2024 CCT Master Agreement, taking into account that (i) they involve the same transaction type, i.e. the provision of guarantee by listed companies on the Stock Exchange under mutual/cross-guarantee arrangement; (ii) the 24-month period immediately prior to the date of the 2024 CCT Master Agreement represents a reasonable and meaningful time period to capture the recent market practice for the said transaction; and (iii) a list of 5 Comparable Transactions identified in accordance with the aforesaid

selection criteria shall be adequate to provide a general reference for comparison purpose. Independent Shareholders should note that the businesses, operations and prospects of the Group may not be the same as, or vary from, those of the listed companies conducting the Comparable Transactions, and the Comparable Transactions set out below are for the purpose of providing a general insight on the terms in respect of the provision of guarantee during the said 24 months' period. Details of the Comparable Transactions are set out below:

Date of announcement	Company name	Stock code	Guarantee/ commission fee rate (% per annum)
29 April 2024	Kunming Dianchi Water Treatment Co., Ltd.	3768.HK	Nil
22 January 2024	Jiangxi Copper Company Limited	358.HK	No specific disclosure (Note)
18 January 2023	Sundy Service Group Co. Ltd	9608.HK	4.0%
30 December 2022	Jiangxi Copper Company Limited	358.HK	No specific disclosure (Note)
4 November 2022	China Tianrui Group Cement Company Limited	1252.HK	Nil
		Maximum	4.0%
		Minimum	Nil
		Average	0.8%
30 October 2024	The Company	496.HK	Nil

Source: The website of the Stock Exchange

Note: Announcement of the Comparable Transactions did not explicitly disclose such information. However, given the guarantee/commission fee is considered as one of the material terms under mutual/cross-guarantee arrangement (i.e. the existence of which shall be disclosed), it is possible that the relevant guarantee/commission fee involved shall be nil.

As illustrated in the table above, the guarantee/commission fees charged on the amount guaranteed by the listed companies under the Comparable Transactions ranged from nil to 4.0% per annum, with an average guarantee/ commission fee rate of approximately 0.8% per annum. In fact, we note that certain Comparable Transactions adopted the arrangement of no fee or commission payment in respect of the provision of mutual/cross guarantee. Thus, we consider that the arrangement of no fee or commission being payable by the Company and the CCT Counter Guarantors for the provision of the CCT Master Guarantee is fair and reasonable.

Having considered the above analysis as well as reasons for and the benefits of the 2024 CCT Master Agreement, we are of the view that the 2024 CCT Master Agreement is fair and reasonable and on normal commercial term.

3. Annual Caps

Set out below are the existing annual caps and respective utilisation amounts under the 2021 CCT Master Agreement:

	For the year ended 31 December		For the year ending 31 December
	2022	2023	2024
	RMB' million	RMB' million	RMB' million
Existing annual caps	393	393	393
Utilisation amounts	393	230	217
			(up to 30 September 2024)
Utilization ratio of annual caps	100%	59%	55%

Set out below are the Annual Caps under the 2024 CCT Master Agreement:

	For the year ending 31 December		
	2025	2026	2027
	RMB' million	RMB' million	RMB' million
Maximum amount	170	170	170

As set out in the Board Letter, the Annual Caps were determined after arm's length negotiations between the Company and the CCT Counter Guarantors with reference to, among others, the existing bank facilities of approximately RMB162.0 million guaranteed by the Group to Haining Schinder and the associated costs, without limitation to interest payment.

Pursuant to the terms of the 2024 CCT Master Agreement, the CCT Counter Guarantors shall ensure that Haining Schinder will not increase its total bank loans to the extent that exceed the guaranteed bank facilities of approximately RMB162.0 million provided by the Group to Haining Schinder during the CCT Guarantee Period without the written consent of the Group. As a result, the bank loans shall be capped at the existing guaranteed bank facilities of approximately RMB162.0 million during the CCT Guarantee Period.

In assessing the fairness and reasonableness of the Annual Caps, we have (i) discussed with the Company the basis and assumptions adopted in arriving at the Annual Caps, (ii) reviewed the latest summary of guaranteed bank facilities of approximately RMB162.0 million, with detail breakdown and interest rate (ranging from 3.20% to 6.98% per annum) of each of the bank facilities provided by the Group to Haining Schinder, and (iii) the relevant bank facility agreements. In light of the above, we concur with the view of the Management that the Annual Caps are fair and reasonable.

4. Periodic/Annual review and internal control

To ensure the Group's conformity with the above terms in relation to the transactions contemplated under the 2024 CCT Master Agreement, and the Annual Caps will not be exceeded, we have reviewed the internal control policies of the Group in relation to connected transaction and note the following:

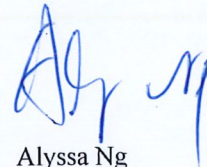
- (i) the senior manager of the Group's internal audit department and the management of the Group will conduct regular checks on a quarterly basis to review (including checking the relevant facility agreements and outstanding drawdown amount of borrowings under the facility agreements and reviewing the financial information of the guaranteed party), and assess whether the transactions contemplated under the relevant continuing connected transaction are conducted in accordance with the terms of its respective agreement;
- (ii) the senior manager of the Group's internal audit department will monitor the funding usage and recovery situation of the guaranteed party and inquire about the debt repayment status from the guaranteed party in a timely manner during the guarantee period;
- (iii) the independent non-executive Directors will continue to review the transactions contemplated under the relevant continuing connected transaction; and
- (iv) the Group's auditors will also conduct an annual review on the pricing terms and annual caps thereof.

By implementing the above procedures, the Directors consider that, and we concur that the Company has established appropriate internal control measures to ensure that the transactions contemplated under the 2024 CCT Master Agreement will be on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

D. RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that despite the transaction under the 2024 CCT Master Agreement may not be in the Company's ordinary and usual course of business, the terms of the 2024 CCT Master Agreement (including the Annual Caps) are on normal commercial terms and fair and reasonable so far as the Company's Independent Shareholders are concerned, and the 2024 CCT Master Agreement is in the interests of the Company and its shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the 2024 CCT Master Agreement and the transactions contemplated thereunder (including the Annual Caps).

Yours faithfully,
For and on behalf of
Alliance Capital Partners Limited



Alyssa Ng
Managing Director

Ms. Alyssa Ng is a licensed Type 1 & 6 person registered with the Securities and Futures Commission and as a responsible officer of Alliance Capital Partners Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry, including initial public offerings and transactions involving companies listed in Hong Kong and the provision of independent financial advisory services.