華升資本
CHINA SUNRISE CAPITAL

CHINA SUNRISE CAPITAL LIMITED
Unit 4513, 45th Floor
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99 Queen's Road Central
Hong Kong

3 January 2025

To: The Independent Board Committee and the Independent Shareholders of Tong Tong AI Social Group Limited

Dear Sirs,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of New Factoring Service Framework Agreement, the transactions contemplated thereunder and the proposed annual caps (the "**Proposed Annual Caps**") and the proposed revenue limits (the "**Proposed Revenue Limits**") for those transactions (the "**Continuing Connected Transactions**"), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 3 January 2025 (the "**Circular**"), of which this letter (the "**Letter**") forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

LISTING RULES IMPLICATIONS

Ms. Du is the controlling shareholder of the Company and is indirectly holding approximately 31.78% shareholding interest of the Company through Swiree, a company wholly owned by her. Mr. Wong is the controlling shareholder of the Company and is indirectly holding approximately 42.02% shareholding interest of the Company through Mega Bright, a company wholly owned by him. Each of Ms. Du, Swiree, Mr. Wong and Mega Bright is a connected person of the Company.

As GOME Holding is wholly-owned by Mr. Wong and the board of Zhongguancun is controlled by Mr. Wong, GOME Holding and Zhongguancun are associates of Mr. Wong. As such, the Connected Factoring Loan Borrowers which are subsidiaries of GOME Holding and Zhongguancun respectively are connected persons of the Company.

Whilst certain of the Connected Factoring Loan Borrowers are not associates of Mr. Wong and/or Ms. Du and do not fall into the categories of connected persons of the Company as described in Rules 14A.07(1) to (5) of the Listing Rules, the provision of the Connected Factoring Loans to such persons who are suppliers or customers of subsidiaries of GOME Holding and/or Zhongguancun are deemed to be continuing connected transactions of the Company under Rule 14A.20 of the Listing Rules on the ground that indirect benefit may be conferred on Mr. Wong, Ms. Du and/or their respective associates from the grant of the commercial factoring loans by the Group involving the transfer of the relevant trade receivables of such suppliers or customers of associates of Mr. Wong and/or Ms. Du (being trade payables of Mr. Wong, Ms. Du and/or their respective associates) to the Group.

In addition, as the provision of the Connected Factoring Loans to Connected Factoring Loan Borrowers will be regulated under the same framework as set out in the New Factoring Service Framework Agreement, these transactions constitute a single series of connected transactions which are related to each other and are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules.

Accordingly, the transactions contemplated under the New Factoring Service Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Based on the Proposed Annual Caps of the transactions contemplated under the New Factoring Service Framework Agreement and the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules, the New Factoring Service Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, annual review, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Wong and Ms. Du are controlling shareholders of the Company and are materially interested in the continuing connected transactions contemplated under the New Factoring Service Framework Agreement, Mega Bright and Swiree, being associates of Mr. Wong and Ms. Du respectively, shall abstain from voting on the relevant resolutions at the SGM. Save as disclosed above, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the other Shareholders has a material interest in the relevant resolutions and is required to abstain from voting on the relevant resolutions at the SGM.

Mr. Zhou Yafei, an executive Director, is the executive vice president of GOME Holding which is a company ultimately controlled by Mr. Wong and is also a non-executive director of Lajin Entertainment Network Group Limited of which Mr. Wong is a controlling shareholder. Ms. Wei Ting, a non-executive Director, is the vice president of the human resources department of GOME Holding. Ms. Wu Qian, a non-executive Director, is a director of Gome Telecom Equipment Co., Ltd., the board of which is controlled by Mr. Wong and a potential Connected Factoring Loan Borrower. Mr. Zhou Yafei, Ms. Wei Ting and Ms. Wu Qian are therefore deemed to have material interest in the New Factoring Service Framework Agreement and have abstained from voting on the relevant Board resolutions for approving the New Factoring Service Framework Agreement and the transactions contemplated thereunder. The independent non-executive Directors have also abstained from voting on the relevant Board resolutions for approving the New Factoring Service Framework Agreement and the transactions contemplated thereunder and reserved their view after obtaining opinion from the Independent Financial Adviser.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Mak Yau Kee Adrian, Professor Japhet Sebestian Law and Professor Huang Song, has been established to advise the Independent Shareholders as to:

(a) whether the Proposed Annual Caps for those transactions contemplated under the New Factoring Service Framework Agreement, respectively, are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole;

(b) whether the terms of the transactions contemplated under the New Factoring Service Framework Agreement, are fair and reasonable so far as the Independent Shareholders are concerned; and

(c) how the Independent Shareholders should vote on the relevant resolutions to be proposed at the SGM.

We, China Sunrise Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

None of the members of the Independent Board Committee has any interest or involvement in the New Factoring Service Framework Agreement and the transactions contemplated thereunder. Having obtained and considered the advice from the Independent Financial Adviser, the view and recommendation of the Independent Board Committee in respect of the Continuing Connected Transactions contemplated thereunder are set out in the Letter from the Independent Board Committee in this Circular.

INDEPENDENCE OF CHINA SUNRISE CAPITAL

During the past two years immediately prior to the Latest Practicable Date, we were appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the (i) major and connected transaction involving the issue of consideration shares under specific mandate; and (ii) continuing connected transactions in relation to the contractual arrangements. Details of which are set out in the circular and the announcement of the Company dated 8 May 2024 and 28 August 2024 respectively (the "**Past Appointments**"). The Past Appointments are independent to our current appointment in relation to the Continuing Connected Transactions. We are of the view that the Past Appointments would not render our current appointment becoming not independent based on the fact that the Past Appointments and the current appointment in connection with the Continuing Connected Transactions are different sets of transactions which are different in nature and our professional fees in connection with the Past Appointments have been fully settled and we are not aware of the existence of or change in any circumstances that could affect our independence. Accordingly, we do not consider the Past Appointment gives rise to any conflict of interest for China Sunrise Capital in respect of the Continuing Connected Transactions.

Save for the Past Appointments and this appointment as the Independent Financial Adviser to provide our independent advice on the Continuing Connected Transactions, as at the Latest Practicable Date, China Sunrise Capital did not have any other relationship or connection, financial or otherwise, with or any interests in the Company, or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates that could reasonably be regarded as relevant to our independence. In the last two years, save for the Past Appointments and this appointment as the Independent Financial Adviser in connection with the Continuing Connected Transactions, there was no engagement between the Group and China Sunrise Capital.

Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we have received or will receive any fees or benefits from the Group, or the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates, Mega Bright, Swiree, the Connected Factoring Loan Borrowers or any other parties that could reasonably be regarded as relevant to our independence and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Agreements and the transactions contemplated thereunder under Rule 13.84 of the Listing Rules.

BASIS OF OUR ADVICE

In formulating our advice, we have relied on the truth, accuracy and completeness of the statements, information, facts, representations and opinions contained or referred to in this Circular, provided and made to us by the Directors and the management of the Group (collectively, the "**Management**"), the Company, and its advisers. We have reviewed, amongst other things:

(i) the New Factoring Service Framework Agreement;

(ii) the Company's interim report for the six months ended 30 June ("**1H**") 2024 (the "**2024 Interim Report**");

(iii) the Company's annual report for the year ended 31 December ("**FY**") 2023 (the "**2023 Annual Report**");

(iv) certain internal records and procedures of the Group; and

(v) other information as set out in the Circular.

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this Circular or this Circular misleading. We have also sought and received confirmation from the Directors that no material information or facts have been omitted from the information and facts provided to us and the representations made and opinions expressed by them are not misleading or deceptive in any material respect. We have no reason to suspect that any material information or facts have been omitted or withheld nor to doubt the truth, accuracy or completeness of the information and facts contained in this Circular or provided to us, or the reasonableness of the opinions expressed by the Management, the Company, and its advisers, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for us to formulate our advice as set out in this Letter. We have assumed that all statements, information, facts, representations and opinions contained or referred to in this Circular and/or those provided to us by the Management, the Company and its advisers, for which they are solely and wholly responsible, have been reasonably made after due enquiries and careful consideration and are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so in all material respect up to the date of the SGM.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of this Circular, save and except for this Letter.

We consider that we have performed all the necessary steps 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 advice. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the businesses, affairs, operations, financial position or future prospects of the Group.

Our advice is necessarily based on the prevailing financial, economic, market and other conditions and the information made available to us as at the Latest Practicable Date. Where information in this Letter has been extracted from published or otherwise publicly available sources, the sole responsibility of ours is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not used out of context.

This Letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the matters relating to the Continuing Connected Transactions. Except for its inclusion in this Circular, this Letter is not to be quoted or referred to, in whole or in part, nor shall this Letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion and recommendations in respect of the Continuing Connected Transactions to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1. Information of the parties involved

The Group

The Group is principally engaged in the provision of financial services, including the provision of commercial factoring and other financial services, game development and publishing businesses.

Mega Bright

Mega Bright is a company incorporated in Hong Kong with limited liability and is wholly owned by Mr. Wong. As at the Latest Practicable Date, Mega Bright is holding approximately 42.02% shareholding interest of the Company and is the controlling shareholder of the Company.

2. Reasons for and benefits of the Continuing Connected Transactions

As stated in the Letter from the Board, reference is made to the Company's announcement dated 23 April 2021 and the Company's circular dated 26 May 2021 in relation to the provision of Connected Factoring Loans under the Existing Factoring Service Framework Agreement. As the Existing Factoring Service Framework Agreement expired on 31 December 2024, the Company and Mega Bright entered into the New Factoring Service Framework Agreement to continue the provision of Connected Factoring Loans to the Connected Factoring Loan Borrowers.

With reference to the major and connected transaction circular of the Company dated 8 May 2024, the Company has acquired CashBox Group Technology (Hong Kong) Limited ("**CashBox**") and the transaction was completed on 21 June 2024 (the "**CashBox Acquisition**"). As the Group has obtained the controlling interest from the CashBox Acquisition, the financial results of CashBox have been consolidated in the financial statements of the Group upon for 1H2024. The CashBox Acquisition has therefore contributed to a growth in revenue of the Group by approximately RMB6.0 million for 1H2024. Furthermore, as stated in the announcement of the Company dated 28 August 2024, the Company proposed to change the name of the Company from "Gome Finance Technology Co., Ltd." to "Tong Tong AI Social Group Limited", the reason of which is to better reflect the current business focus of the Group and its direction of future development. All in all, based on our discussion with the Management, factoring business will remain as one of the Group's businesses which has been expanded in 2024. Going forward, with the inclusion of the newly acquired online gaming business of CashBox, the Company will develop this newly acquired online gaming business of CashBox and at the same time maintain the steadily growing business from the commercial factoring segment, which historically had a low default rate and was able to generate an acceptable level of returns from deployment of the Company's funds.

We note from the 2024 Interim Report that the commercial factoring business' segment revenue and segment results indeed accounted for approximately 64.4% and approximately 71.6% of the Group's total revenue and results for 1H2024 respectively. As further disclosed in the 2023 Annual Report, the commercial factoring business' segment revenue and segment results contributed for approximately 92.4% and approximately 96.3% of the total revenue and results of the Group for FY2023 respectively, the revenue from the commercial factoring business increased from approximately RMB36.6 million for 1H2023 to approximately RMB39.2 million for 1H2024 and the revenue from the commercial factoring business also registered an increase from approximately RMB70.1 million for FY2022 to approximately RMB75.8 million for FY2023. Both increase of which were mainly attributable to the stable development of this business segment. Under the terms of the Connected Factoring Loans, the Group has the right to recover the outstanding sums from the borrower and, if the borrower is in default, the Group may also seek to collect the accounts receivables that are pledged or transferred to the Group as collateral. Historically, as discussed with the Management, the recoverability of the Connected Factoring Loans was generally satisfactory and no significant impairment of the Connected Factoring Loans was made. Based on the historical repayment history with the Company, the Connected Factoring Loan Borrowers have no overdue payments or defaults. Based on the applicable accounting standards and the analysis model adopted by the Group whereby the Group classifies loans into five different categories and three stages based on expected credit losses, provisions for expected credit loss were made for loan receivables of the Connected Factoring Loans according to the discounted cash flows that the Group expected to receive, with the provision balance being approximately RMB4.7 million as at 31 December 2023 (of which approximately RMB3.6 million was subsequently reversed as the outstanding balance was subsequently fully repaid and approximately RMB1.1 million was on book as the subject loans had not yet matured), which amounts were considered to be relatively insignificant to the Group and were not expected to result in impairment as bad debts. The Company expects that there will be keen demand for commercial factoring loans from the Connected Factoring Loan Borrowers and there is a need to have a sufficient buffer to cater for any sudden surge in demand for the Connected Factoring Loans as mentioned in the paragraph headed "Proposed Annual Caps" in the Letter from the Board.

We have also held further discussion with the Management in relation to the commercial rationale for providing commercial factoring loans to the Connected Factoring Loan Borrowers and the reasonableness of the increasing trend in the Proposed Annual Caps under the New Factoring Service Framework Agreement. We understand that the commercial factoring business is one of the sources of income for the Group and will be the cornerstone for the future development of the Group going forward. The demand for factoring loans from connected persons of the Company who are connected with the Connected Factoring Loan Borrowers represent an opportunity for the Group to expand its commercial factoring business and achieve better economies of scale. As stated in the 2023 Annual Report, the total revenue attributable to the commercial factoring business amounted to approximately RMB75.8 million for FY2023. On the other hand, as stated in "note 29 — related party transactions" under the consolidated financial statements of the Group for FY2023, the interest income from commercial factoring loan receivables derived from transactions with related parties amounted to approximately RMB26.8 million for FY2023, represented a significant portion of approximately 35.4% of the commercial factoring business segment.

In addition, the Group's factoring business has grown steadily and accumulated rich credit risk management capabilities with sufficient funds for lending. The Group aims (i) to ensure the continued steady growth of its existing factoring business; (ii) to meet the growing demand of the Connected Factoring Loan Borrowers; and (iii) to enhance the Group's overall profitability. Therefore, the Company has entered into the New Factoring Service Framework Agreement which can provide a framework to regulate the provision of commercial factoring loans by the Group to the Connected Factoring Loan Borrowers for FY2025, FY2026 and FY2027 for compliance with Rules 14A.34 and 14A.51 of the Listing Rules.

Given (i) the recurrent nature of the Existing Factoring Service Framework Agreement and the New Factoring Service Framework Agreement and the similar framework agreements that existed before these two agreements; and (ii) the strong historical financial performance of and favourable prospects offered by the commercial factoring business, we are of the view that the entering into of the New Factoring Service Framework Agreement are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the New Factoring Service Framework Agreement

Reference is made to the Company's announcement dated 23 April 2021 and the Company's circular dated 26 May 2021 (the "**Previous Disclosure**") in relation to the continuing connected transactions under the Existing Factoring Service Framework Agreement.

The Existing Factoring Service Framework Agreement has a term from 1 January 2022 to 31 December 2024 (both days inclusive). Pursuant to the Existing Factoring Service Framework Agreement, members of the Group may grant Connected Factoring Loans to the Connected Factoring Loan Borrowers from time to time, which are conditional upon the transfer of the relevant accounts receivable of such Connected Factoring Loan Borrowers to the Group. The members of the Group may from time to time and in view of their business demand enter into separate factoring agreements with the Connected Factoring Loan Borrowers, the terms of which shall be determined in accordance with the conditions and principles as set out in the Existing Factoring Service Framework Agreement. Please refer to the Previous Disclosure for details on the principal terms of the Existing Factoring Service Framework Agreement.

Principal terms of the New Factoring Service Framework Agreement

A summary of salient terms of the New Factoring Service Framework Agreement is set out below. For details on the background of the New Factoring Service Framework Agreement, please refer to the Letter from the Board.

Date

27 November 2024

Parties

(1) The Company

(2) Mega Bright

Term

From 1 January 2025 to 31 December 2027 (both days inclusive).

Subject Matter

Pursuant to the New Factoring Service Framework Agreement, members of the Group may grant commercial factoring loans (which mainly include forward factoring and supply chain financing) to the Connected Factoring Loan Borrowers from time to time, which are conditional upon transfer of the relevant accounts receivable or other trade receivables of the Connected Factoring Loan Borrowers to the Group on the effective date of each Individual Factoring Agreement.

The Connected Factoring Loan Borrowers comprise associates of Mr. Wong and/or Ms. Du and suppliers and customers of associates of Mr. Wong and/or Ms. Du. The Connected Factoring Loan Borrowers which are associates of Mr. Wong and/or Ms. Du are (a) subsidiaries of GOME Holding, which mainly engage in (i) the wholesale of household appliances and electronic products ("**Household Appliance Suppliers**"); and (ii) non-household appliance supply chain services ("**Non-household Appliance Suppliers**"), and (b) subsidiaries of Zhongguancun, which mainly engage in pharmaceutical manufacturing and providing pharmaceutical and healthcare services. The Household Appliance Suppliers are the borrowers in the New Factoring Service Framework Agreement who are also all the borrowers in the Existing Factoring Service Framework Agreement. Other than that, all the other Connected Factoring Loan Borrowers are the new borrowers under the New Factoring Service Framework Agreement.

The nature of accounts receivable primarily includes receivables from (i) the trade of household appliances and electronic products, (ii) non-household appliance supply chain procurement, and (iii) procurement in the pharmaceutical industry.

The Connected Factoring Loan Borrowers shall pay interest and/or other charges (such as penalty interest, early repayment charge and costs incurred in relation to debt collection, if applicable) to the relevant members of the Group for the factoring services. The interest rate for each commercial factoring loan under the New Factoring Service Framework Agreement will be determined by the parties based on arm's length negotiations with reference to prevailing market interest rate and credit risk of the Connected Factoring Loan Borrower, which is expected to range from 6% to 9% per annum. To evaluate the credit risk of the Connected Factoring Loan Borrowers, the Company will take into account the factors including (i) the duration of their business relationship with the Company, (ii) the nature of their business, and (iii) their repayment history. Additionally, the Company will also consider the prevailing market interest rate by referencing market comparable companies that provide factoring loan services to suppliers of consumer and electronic products in the PRC, as well as the current loan prime rates announced by the People's Bank of China.

Taking into consideration the various factors including the nature of business of the Connected Factoring Loan Borrowers, the duration of their relationship with the Company, the prevailing market practice, the typical factoring advance rates in the current market which usually range from 80% to 100%, the historical advance rates of the Company, the applicable interest rate and other pertinent terms of the loan, it is currently expected that the principal amount of the factoring loans to be granted to a borrower under the New Factoring Service Framework Agreement will represent approximately 70% to 95% of the amount of the accounts receivable to be transferred by such borrower to the Group.

We have obtained and reviewed from the Management the list of prevailing market rates on the factoring advance rates and further obtained, on a random basis, seven (7) samples of registration form filed to the Credit Centres (as defined below) during the Review Period from its internal database and noted that the principal amount of the factoring loans to be granted to the relevant borrowers are generally ranging from approximately 80% to 100%, with the mean and median of which stood at approximately 91.9% and 91% respectively. We consider that the Review Period is appropriate since it provided, in our opinion, a reasonable and meaningful number of samples for our analysis purpose and the seven (7) sets of sample documents to cover the Existing Factoring Service Framework Agreement during the Review Period, we consider the approval documents sample is adequate and representative.

The penalty interest for overdue payments under the Individual Factoring Loan Agreement is charged at 1.5 times of the applicable daily interest rate of the factoring loan, which is determined based on arm's length negotiations between the parties with reference to prevailing commercial practice and relevant regulatory ceiling of the private lending rate. Apart from this, there are no additional penalties or charges for late repayment.

Condition

The New Factoring Service Framework Agreement is only conditional on obtaining the approval of the Independent Shareholders.

Guiding Principles

The members of the Group may from time to time and in view of their business demand enter into separate factoring agreements with the Connected Factoring Loan Borrowers (the "**Individual Factoring Agreement(s)**"), which shall comply with the terms and conditions as set out in the New Factoring Service Framework Agreement.

Terms of an Individual Factoring Agreement shall be negotiated at arm's length and determined by such member of the Group and the relevant Connected Factoring Loan Borrower based on normal commercial terms and with reference to the terms and conditions of comparable services offered by the Group to independent third parties with reference to the prevailing terms and conditions of other comparable factoring loans in the market within the knowledge of the Company, and shall be determined in accordance with the internal procedures of the Company (as described in the paragraph headed "LOAN MAKING PROCESSES" below). The transactions contemplated thereunder shall be fair and reasonable.

Details of the terms of the Individual Factoring Agreements shall be determined in accordance with the conditions and principles as set out in the New Factoring Service Framework Agreement and in case there is any conflict between the New Factoring Service Framework Agreement and any Individual Factoring Agreement, conditions and principles of the New Factoring Service Framework Agreement shall prevail.

The aggregate principal amount of any outstanding Connected Factoring Loans which may be granted by the Group under the Individual Factoring Agreements entered/to be entered into pursuant to the New Factoring Service Framework Agreement are subject to the proposed annual caps as set out under the paragraph headed "Proposed Annual Caps" in the Letter from the Board.

As an internal control and risk management measure to prevent the Group from placing undue reliance on the Connected Factoring Loans in business development in future, the Company will limit the aggregate revenue generated from the Connected Factoring Loans to not more than RMB34,000,000, RMB36,000,000 and RMB39,000,000 for FY2025, FY2026 and FY2027, respectively. The revenue limit is determined principally by reference to the following factors:

(a) the proposed annual caps for the grant of the Connected Factoring Loans under the New Factoring Service Framework Agreement;

(b) the factoring loans will generally mature within 60 days to 365 days;

(c) the interest rate for the factoring loan under the New Factoring Service Framework Agreement in the range between 6% and 9% per annum; and

(d) certain buffer to cater for unforeseen circumstances such as a surge in demand for factoring loans and increase in interest rates.

Review of principal terms

We have reviewed the Existing Factoring Service Framework Agreement in conjunction with the New Factoring Service Framework Agreement. We understand that the terms of the Individual Factoring Agreement shall be negotiated at arm's length and determined by such member of the Group and the relevant Connected Factoring Loan Borrower based on normal commercial terms and with reference to the terms and conditions of comparable services offered by the Group to independent third parties with reference to the prevailing terms and conditions of other comparable factoring loans in the market within the knowledge of the Company, and shall be determined in accordance with the internal procedures of the Company. Furthermore, we have randomly selected, obtained and reviewed: (i) nine (9) samples of the Individual Factoring Agreements entered into between members of the Group and the Connected Factoring Loan Borrowers (the "**Connected Factoring Agreements**") during the period of FY2022, FY2023 and the ten months period ended 31 October 2024 ("**10M2024**") (collectively referred as the "**Review Period**"); and (ii) nine (9) samples of factoring agreements entered into between members of the Group and the independent third party to the Connected Factoring Loan Borrower(s) (the "**I3P Factoring Agreements**") for the Review Period. Considering that (i) a total of 18 factoring agreements samples were selected on a random basis which covered each of the Connected Factoring Agreements and I3P Factoring Agreements; and (ii) such factoring agreements samples are selected during the Review Period as contemplated under the Existing Factoring Service Framework Agreement, we consider the factoring agreements samples are adequate and representative.

As discussed with the Management, with reference to the factoring loans granted by the Group in FY2022 and FY2023, the borrower was typically granted factoring loan for a principal amount representing approximately 75% to 90% of the amount of the accounts receivable to be transferred by such borrower to the Group. Such ratio is determined with reference to various factors, including the prevailing market practice, the applicable interest rate and other pertinent terms of the loan. Taking into consideration the aforesaid factors, it is currently expected that the principal amounts of the factoring loans to be granted under the New Factoring Service Framework Agreement will represent approximately 70% to 95% of the amount of the accounts receivable to be transferred to the Group.

Based on the above, and in particular, (i) the terms of an Individual Factoring Agreement shall be negotiated at arm's length; (ii) the established pricing policy as set out in the section headed "5. Pricing policy" below; (iii) the Company's internal control measures and our review of such measures to be discussed in the section below; and (iv) the Proposed Revenue Limits would protect to prevent the Group from placing undue reliance on the Connected Factoring Loans in business development in future, we consider the abovementioned the guiding principles for providing Connected Factoring Loans and other principal terms of the New Factoring Service Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company the Shareholders as a whole.

4. Internal control and risk management policy of the Group

As stated in the Letter from the Board, the Group has established internal procedures and workflow in assessing, approving and monitoring loan applications, and loans granted, including but not limited to the Connected Factoring Loans. Such internal control procedures and workflow help to ensure effective risk management and compliance with the relevant laws and regulations by the Group.

All key management of the Group who are responsible for managing the Group's financial services business (including the chief financial officer of the Company as mentioned below) would be independent from Mr. Wong and Ms. Du and their related parties.

The Group has set up different departments with sufficient and appropriate segregation of duties and authorities in all the business processes. The executive Directors will be closely involved in the policy setting and management process to ensure an effective supervision and proper business conducts.

The Business Department of the Group (the "**Business Department**") will approach potential customers (including the Connected Factoring Loan Borrowers). The borrowers which are the Connected Factoring Loan Borrowers may also apply for the Connected Factoring Loans via the Group's online lending platform.

The Group has established its own credit policies and credit approval procedures for loan applications. The members of the Business Department which are front-line sales representatives who would stay abreast of the latest market and borrowers' status and conditions, will evaluate credit risk of the borrowers based on its assessment and analysis of the loan applications and the internal risk review system as approved by the executive Directors principally with reference to their financial performance, nature and size of business, the business relationship with the Group, credit policy, repayment history, repayment ability, value and recoverability of collateral or other security. The Business Department will then pass its due diligence findings and the key terms of a loan tentatively set by the Business Department including the principal amount, interest rate, security arrangements and tenure of the loans to the Risk Audit Department of the Group (the "**Risk Audit Department**"), the members of which consist of departmental staffs and its department head who has more than 10 years of experience in risk management.

The Business Department will not accept a loan application if a borrower and/or the security do not meet the Group's requirements based on the results of its due diligence finding including the repayment history and default risk of a borrower.

The Risk Audit Department will review and analyse the credit approval form presented by the Business Department and may ask for further information and documents from the borrower if considered necessary. The Risk Audit Department may also review other records of the borrower, such as past loan applications and outstanding loans with the Group.

With regard to those borrowers and security for loans which meet the Group's basic requirements, the Risk Audit Department will tentatively assess the key terms of all loans including the Connected Factoring Loans. The Risk Audit Department will then present the credit approval form to the credit review committee (the "**Credit Review Committee**") which comprises of the chief financial officer of the Company and certain other senior management, setting out its recommendations on the key terms of the loans for the Credit Review Committee's review and approval. All loans will then be reviewed and confirmed by the Finance Department of the Group (the "**Finance Department**").

Individual Loan and Annual Caps

For all Connected Factoring Loans, the Risk Audit Department will submit the connected loan application to the Credit Review Committee for review and checking. The Credit Review Committee will obtain the latest available unutilised Proposed Annual Caps amount for the relevant connected loan from the Finance Department to ensure that such limit will not be exceeded if such connected loan is granted. After the Credit Review Committee has conducted the above checks and confirmed that the granting of such connected loan will not result in the Proposed Annual Caps amount being exceeded, the Credit Review Committee will then approve such loan application. If after conducting the above checks, the Credit Review Committee considers that the granting of such connected loan may result in the Proposed Annual Caps amount being exceeded, the Credit Review Committee will reject such connected loan application.

After a Connected Factoring Loan is approved, the Finance Department will be responsible for second reviewing and checking that the amounts of such connected loans, if granted, are within the Proposed Annual Caps amount before releasing the relevant funds to the relevant loan applicants. As such, the Group will not grant any connected loan, if granting such loan will lead to any of the Proposed Annual Caps amounts being exceeded.

We have reviewed a copy of the Group's credit policies and credit approval procedures. In addition, we have also randomly selected, obtained and reviewed six (6) sets of approval documents by the Credit Review Committee during the Review Period that the approval process on each sample was performed with appropriate approval process. We consider that the Review Period is appropriate since it provided, in our opinion, a reasonable and meaningful number of samples for our analysis purpose and the six (6) sets of approval documents to cover the Existing Factoring Service Framework Agreement during the Review Period, we consider the approval documents sample is adequate and representative.

Based on the above, we consider that the internal control procedures including credit risk control procedure contained in the internal control manual of the Group are sufficient and effective to implement the Continuing Connected Transactions and to monitor the Proposed Annual Caps so as to not exceeding the relevant annual cap amounts and the Continuing Connected Transactions are in the ordinary and usual course of business, on normal commercial terms or better.

Revenue Limit

The Group intends to further expand its commercial factoring business with both connected and unconnected borrowers and the applicable revenue limit is in place to prevent the Group from placing undue reliance on the Connected Factoring Loans in business development in future. Based on our discussions with the Management, the Management undertakes that the maximum loan exposure to Mr. Wong and his associates should not exceed 50% of the total amount of Group's factoring loan business.

The Group will designate the chief financial officer of the Company to monitor the applicable revenue limit imposed on the amount of Connected Factoring Loans and ensure that such limit is not exceeded.

The Finance Department will prepare a schedule showing the indicative maximum amount of Connected Factoring Loans which can be made each month without exceeding the applicable revenue limit based on the actual factoring loans made. The monthly schedule shall include, among other things, (i) the actual total outstanding principal amount of the Connected Factoring Loans as at the latest practicable date for the purpose of preparing the monthly schedule; (ii) the total revenue of the Group that would be recorded in the current financial year based on the actual Connected Factoring Loan portfolio up to the latest practicable date for the purpose of preparing the monthly schedule; and (iii) the maximum amount for the Connected Factoring Loans that can be granted by the Group in the following month without exceeding the applicable revenue limit.

The chief financial officer of the Company will be responsible for reviewing the above schedule and determining the quota for the making of the Connected Factoring Loans that month principally based on the actual Connected Factoring Loans made and the indicative amounts as set out in the monthly schedule described above. The Business Department and the Risk Audit Department will then be informed of the quota limits. The Business Department will not be allowed to grant any Connected Factoring Loans over their allocated quota. If the granting of a Connected Factoring Loan may result in the applicable revenue limit being exceeded, such Connected Factoring Loan application will be rejected. We consider the internal control measures in relation to the monitoring of the revenue limits to be sufficient and effective.

We have further enquired the Management on the delinquency rate of all the previous Connected Factoring Loans. Historically, the recoverability of the Connected Factoring Loans was generally satisfactory and no significant impairment of the Connected Factoring Loans was made. Based on the applicable accounting standards and the analysis model adopted by the Group whereby the Group classifies loans into five different categories and three stages based on expected credit losses, provisions for expected credit loss were made for loan receivables of the Connected Factoring Loans according to the discounted cash flows that the Group expected to receive, with the provision balance being approximately RMB4.7 million as at 31 December 2023 (of which approximately RMB3.6 million was subsequently reversed as the outstanding balance was subsequently fully repaid and approximately RMB1.1 million was on book as the subject loans had not yet matured), which amounts were considered to be relatively insignificant to the Group and were not expected to result in impairment as bad debts.

Based on the above, we consider that the internal control procedures including credit risk control procedure contained in the internal control manual of the Group are sufficient and effective to implement the Continuing Connected Transactions and to monitor the revenue limits so as to not exceeding its relevant annual cap amounts and the Continuing Connected Transactions and are in the ordinary and usual course of business, on normal commercial terms or better.

On-site due diligence

To further assess the sufficiency and appropriateness of the internal control procedures of the Group, we have performed on-site inspections at the Company's office in Beijing and conducted interviews with the Management so as to conduct due diligence work on the approval process for Connected Factoring Loans and to further elaborate on the roles and responsibilities of each department and relevant personnel in the loan approval process.

We noted that the approval process for the Connected Factoring Loans and unconnected factoring loans is consistent with each other during the loan approval process, which are set forth below:

(i) in relation to credit approval, we understand that unconnected factoring loan borrowers would only require to obtain one single approval during a period of time in order to obtain certain credit limit, which the unconnected factoring loan borrowers are required to provide the necessary documentation to apply for drawdown as necessary;

(ii) the Connected Factoring Loan Borrowers are subject to a more stringent procedure as approval is required to be obtained by the Connected Factoring Loan Borrowers for each time of drawdown and the same set of documents required for unconnected factoring loan will also need to be provided by the Connected Factoring Loan Borrowers;

(iii) the Company will check the credit status of both Connected Factoring Loan Borrowers and unconnected factoring loan borrowers via the website of the credit reference centres of the People's Bank of China ("**Credit Centres**") to check whether there are any negative credit records. For our additional due diligence work done, we have independently set up an account on the website of the Credit Centres (https://www.zhongdengwang.org.cn/) and crosschecked, on a random basis, with the major customers as set out in the transaction statistics ledger* (交易統計台帳) which we obtained from the Company. We noted that the website of the Credit Centres has clearly stated the amount of the account receivables and the identity of the relevant factoring loan borrower and the counterparty of the relevant account receivables. The Credit Centres has also assigned the designated serial number for each account receivables, so the Company will be able to avoid any duplication in granting factoring loans with the same account receivables;

(iv) the Connected Factoring Loan Borrowers as well as unconnected factoring loan borrowers would also need to submit both originals and photocopies of their respective business licenses, identification of the legal representative, articles of association and the audited financial statements for the past two financial years. During the credit approval process, approval is needed from all relevant departments including Business Department, Risk Audit Department, Finance Department and Credit Review Committee;

(v) we noted that the contract review procedure is also consistent to both Connected Factoring Loan Borrowers as well as unconnected factoring loan borrowers;

(vi) for each time of new application of Connected Factoring Loans, the approval process would extend to the chief financial officer of the Company. The head of the Finance Department will then check if the relevant loan application exceeds the remaining annual cap and the applicable revenue limit and will also update the ledger, the Finance Department will notify the company secretary of the Company who will be providing confirmation accordingly. Subsequently, if it is confirmed that granting of the factoring loan will not exceed the annual cap and the applicable revenue limit, the Credit Review Committee will approve the application of the factoring loan. In the contrary, if the granting of certain factoring loan would potentially lead to the exceed in annual cap and the applicable revenue limit, the relevant factoring loan application will be rejected;

(vii) based on our review, we noted that the instrument of transfer for each accounts receivable is in place and the Company will also file and upload the relevant information on the website of the Credit Centres; and

(viii) during the course of our on-site interviews, we have, on a random basis, obtained from the Management and reviewed a total four (4) sets of walkthrough documents in relation to the office automation system approval procedure, which include two (2) sets of walkthrough documents for each of Connected Factoring Loan Borrowers as well as unconnected factoring loan borrowers respectively. We noted from the walkthrough documents that the approval process is in line with the process as set out under the section headed "INTERNAL CONTROL AND RISK MANAGEMENT" in the Letter from the Board.

Based on the above, we consider that the above internal control measures and risk management function adopted by the Company are appropriate and no preferential treatment will be extended to Connected Factoring Loan Borrowers, such internal control measures and risk management function are able to provide reasonable assurance that the interests of the Company in respect of the provision of the Connected Factoring Loans to the Connected Factoring Loan Borrowers will be safeguarded.

5. Pricing policy

As stated in the Letter from the Board, the Group's policy for determining the terms of a loan (including a Connected Factoring Loan) is set out below:

(a) terms of a loan shall be determined in accordance with the Group's pricing policy (which covers the range of interest rates and the term and credit limit of a loan) applicable to both connected and unconnected loans as formulated by the Business Department and updated by the Business Department from time to time when there is any significant change in market interest rate or the Group's internal funding situation and in any event at least once a year, with reference to the terms of at least three comparable types of products offered by identified major competitors of the Group, such terms to which the Company may have access through publicly available sources and other market research by the Group, the credit risk of the borrower (which, among other factors, is to be assessed based on the business relationship between the borrower and the Group and the repayment history of the borrower as described in the paragraph headed "(i) Loan application and due diligence" above), the trend of the premium of the market interest rate over the twelve months lending rate as published by the People's Bank of China from time to time, the interest rate cap of any private lending under the applicable PRC laws and the Group's funding cost as affected by the financial market liquidity;

(b) the credit risk of the borrower as assessed by the Risk Audit Department, based on the system and guidelines approved by the Credit Review Committee; and

(c) in the case of a Connected Factoring Loan, the terms shall be normal commercial terms which are negotiated on an arm's length basis in the ordinary and usual course of business and shall not be less favourable to the Company as compared to the terms of comparable transactions (in terms of similar credit risk and term) to be entered into by the Group with third parties which do not constitute connected transactions.

We have randomly selected, obtained and reviewed: (i) nine (9) samples of the Connected Factoring Agreements for the Review Period; and (ii) nine (9) samples of the I3P Factoring Agreements for the Review Period, and noted that the interest rates charged to factoring loans for the Review Period were as below:

Table 1: Interest rate range charged to factoring loans by the Group for FY2022, FY2023 and 10M2024

	FY2022 *(RMB'000)*	**FY2023** *(RMB'000)*	**10M2024** *(RMB'000)*
Interest Rates Range			
Connected Factoring Agreements	8%	8%	7.5%
I3P Factoring Agreements	8%	8%	7.5%

During our review of the randomly selected nine (9) samples of the Connected Factoring Agreements and nine (9) samples of the I3P Factoring Agreements for the Review Period, we note that:

(a) the range of interest rates adopted in the Connected Factoring Agreements were comparable to that in the I3P Factoring Agreements as summarised in the above table;

(b) the interest rates range of 8% in FY2022, 8% in FY2023, and 7.5% in 10M2024 for the Connected Factoring Agreements is consistently aligned with that of the I3P Factoring Agreements; and

(c) the facility terms of the loans granted (generally one year) are in line with the repayment periods (generally within 300 days) of the Connected Factoring Agreements, and are broadly in line with those of the I3P Factoring Agreements.

We consider that the Review Period is appropriate since it provided, in our opinion, a reasonable and meaningful number of samples for our analysis purpose and the nine (9) samples for each of the Connected Factoring Agreements and I3P Factoring Agreements as a whole provides a fair and representative sample.

Furthermore, we have, on a non-exhaustive basis, examined four (4) market comparable companies, of which two (2) market comparable companies were provided by the Management (the "**Company Comparables**") and two (2) market comparable companies were obtained from our desktop research (the "**IFA Comparables**", collectively, the "**Market Comparables**"), which offer factoring loan services to suppliers of consumer and electronic products in the PRC and are affiliates of major retailer/e-commerce groups. We note the prevailing interest rates charged by the Market Comparables in FY2023 are as below:

Table 2: Annualised rates charged by Market Comparables offering commercial factoring service in FY2023

Company Comparables	**Annualised Rate in FY2023**
SY Holdings Group Limited (6069.HK)	Approximately 4.9% to 14.0%
JD Finance (京保貝)	Approximately 4.6%–14%

Source: Market intelligence provided by the Management

IFA Comparables	**Annualised Rate in FY2023**
Alibaba Finance (網商貸)	Approximately 7.2%–18.0%
Suning Finance (信速融)	Approximately 12%

Source: The websites containing relevant commercial factoring service pricing information of the relevant IFA Comparables

We consider the Market Comparables are affiliates of PRC household brands active in selling and distributing consumer and electronic products which are major players in providing factoring loan services to suppliers of consumer and electronic products in the PRC. As such, the Market Comparables, in our view, form a meaningful and representative benchmark to the Group. We noted that (i) the interest rate charged in the Connected Factoring Agreements for the Review Period are within the range of the annualised rates from approximately 4.6% to approximately 18.0% charged by the Market Comparables; and (ii) the nature of the accounts receivable generally involves trade receivables from the trade of household appliances and electronic products; and (iii) the facility terms for the loans granted generally align with the repayment periods of the Market Comparable, which are typically within one year.

Based on the above, we consider the abovementioned pricing policy will ensure that the Connected Factoring Loans shall be conducted at terms no less favourable to the Group than those offered by the Group to independent third parties for providing similar services.

6. Annual review by the independent non-executive Directors and external auditors

As stated in the Letter from the Board, the independent non-executive Directors will conduct annual review of the continuing connected transactions under the Existing Factoring Service Framework Agreement and the New Factoring Service Framework Agreement as required under Rule 14A.55 of the Listing Rules and confirm in the Company's annual report whether the applicable revenue limit has been exceeded during the year under review and whether such transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreement(s) governing the transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

For compliance with Rule 14A.56 of the Listing Rules, the Company will also engage its external auditors to conduct an annual review of the continuing connected transactions under the Existing Factoring Service Framework Agreement and the New Factoring Service Framework Agreement to ensure that, among others, the transaction amounts are within the annual caps and the applicable revenue limit and the transactions are in accordance with the terms of the agreement(s) governing the transactions.

In light of the reporting requirements attached to the continuing connected transactions contemplated under the Existing Factoring Service Framework Agreement and the New Factoring Service Framework Agreement, in particular, (i) the restriction of the value of the continuing connected transactions contemplated under the Existing Factoring Service Framework Agreement and the New Factoring Service Framework Agreement by way of the annual caps and the applicable revenue limit; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the terms and the annual caps and the applicable revenue limit not being exceeded, we are of the view that appropriate measures are in place to monitor the conduct of the transactions and assist to safeguard the interests of the Independent Shareholders.

7. Analysis on the Proposed Annual Caps

Set out below are: (i) the existing annual caps; (ii) the highest daily balance of the aggregate outstanding principal amount of the Connected Factoring Loans; (iii) the utilisation of the maximum daily balance of the aggregate outstanding principal amount of the Connected Factoring Loans (i.e. the existing annual caps); and (iv) the Proposed Annual Caps.

Table 3: The existing annual caps and highest daily balance of the aggregate outstanding principal amount of the Connected Factoring Loans for FY2022, FY2023 and FY2024

	FY2022 *(RMB'million)*	**FY2023** *(RMB'million)*	**FY2024** *(RMB'million)*
Existing annual caps	400	450	500
Highest daily balance of the aggregate outstanding principal amount of the Connected Factoring Loans	400	404.3	479.5 [Note]
Utilisation of the maximum daily balance of the aggregate outstanding principal amount of the Connected Factoring Loans (i.e. the existing annual caps)	100%	89.8%	95.9% [Note]

Note: Covering the period from 1 January 2024 to 31 October 2024

Table 4: The Proposed Annual Caps for FY2025, FY2026 and FY2027

	FY2025 *(RMB'million)*	**FY2026** *(RMB'million)*	**FY2027** *(RMB'million)*
Proposed Annual Caps	550	600	650

As stated in the Letter from the Board, the Proposed Annual Caps were determined by reference to various factors, particularly:

(a) the historical transaction amounts and revenue recorded in respect of the Connected Factoring Loans and the size of the Group's Connected Factoring Loan portfolio for FY2022, FY2023 and 10M2024, especially that the historical highest daily balance of the aggregate outstanding principal amount of the Connected Factoring Loans increased from approximately RMB404.3 million for FY2023 to approximately RMB479.5 million for 10M2024, representing a significant increase of approximately 18.6%;

(b) the utilisation rate of the existing annual cap for FY2022 and FY2023 and 10M2024 reached approximately 100%, 89.8% and 95.9% respectively;

(c) the demand for factoring loans from the Connected Factoring Loan Borrowers under the New Factoring Service Framework Agreement. For GOME Holding, it is expected that the demand for the Group's factoring loans from Non-household Appliance Suppliers for FY2025, FY2026 and FY2027 will be RMB23 million, RMB27 million and RMB42 million respectively. For Zhongguancun Group, it is expected that the demand for the Group's factoring loans from Zhongguancun Group for FY2025, FY2026 and FY2027 will be RMB52 million, RMB70 million and RMB133 million; and

(d) the expected annual increment of the Group's commercial factoring loan business of 8% to 10% based on the demand for factoring loans from the Connected Factoring Loan Borrowers who are engaged in a broad range of industries and businesses such as trading, retail and logistics, as well as a sufficient buffer to cater for any surge in demand for factoring loans from such connected persons which may have significant growth in their existing business or expansion of new areas of business. For GOME Holding, it is expecting both a steady growth of approximately 3% to 5% in respect of Household Appliance Suppliers for its traditional business of wholesale of household appliances and electronic products as well as a significant growth according to its new development strategy for non-household appliance supply chain services. For Zhongguancun Group, its revenue amounted to approximately RMB2.28 billion and RMB1.93 billion for FY2023 and the nine months ended 30 September 2024 respectively. Given the large scale of Zhongguancun Group's existing business and its growth potential, the Company expects a significant growth of its factoring business with Zhongguancun Group as mentioned in (c) above.

In assessing the fairness and reasonableness of the Proposed Annual Cap, we have taken into account the following factors:

(i) given the historical highest daily balance of the aggregate outstanding principal amount of the Connected Factoring Loans increased from approximately RMB404.3 million in FY2023 to approximately RMB479.5 million in 10M2024, representing a significant increase of approximately 18.6%;

(ii) the utilisation rate of the existing annual cap for FY2022, FY2023 and 10M2024 reached to approximately 100%, 89.9% and 95.9% respectively. The historical actual transaction amount of the highest daily balance of the aggregate outstanding principal amount of the Connected Factoring Loans for 10M2024 amounted to approximately RMB479.5 million, representing approximately 95.9% of the existing annual cap for FY2024. Should such historical actual transaction amount for 10M2024 be annualised, the projected transaction amount of the aggregate outstanding principal amount of the Connected Factoring Loans for FY2024 would amount to approximately RMB575.4 million, which would significantly exceed the revenue limits for FY2024 by approximately 15.1%. This illustrates the reasonableness to set the Proposed Annual Caps with a year-on-year increment rate of approximately 10.0% and 8.3% for FY2025, FY2026 and FY2027 respectively; and

(iii) as advised by the Management, it is expected to have annual increments of 8% to 10% in the demand for Connected Factoring Loans throughout FY2025 to FY2027. As such, modest estimated growth rates of approximately 8% to 10% have been applied to the Proposed Annual Caps for each of FY2025 to FY2027 to cater for organic growth of the commercial factoring business.

After our enquiry and further discussion with the Management in relation to the calculation of the Proposed Annual Caps, we understand that:

(a) the expected annual increment rates of 8% to 10% in the demand for factoring loans from the Connected Factoring Loan Borrowers is in line with the average historical growth rate of the highest daily balance of the aggregate outstanding principal amount of the Connected Factoring Loans of approximately 9.9% during the period of FY2022, FY2023 and 10M2024. The Management expected that such demand for the Connected Factoring Loans from the Connected Factoring Loan Borrowers would persist in FY2025, FY2026 and FY2027;

(b) the Management estimates that there will be additional demand for the Connected Factoring Loans from the existing Connected Factoring Loan Borrowers based on the Management has received various enquiries from existing Connected Factoring Loan Borrowers to explore the feasibility of granting a larger amount of Connected Factoring Loans. In connection to the proposed demand for the Group's factoring loans from Non- household Appliance Suppliers for FY2025, FY2026 and FY2027, we understand from the Management that the estimated demand of approximately RMB23 million, RMB27 million and RMB42 million is mainly based on its business plan formulated by the Management, which in turn is based on, among others, the pre-deal negotiations held between the management of the Non-household Appliance Suppliers and the Company;

(c) the Management expects that there will be demand for Connected Factoring Loans from key Connected Factoring Loan Borrowers, namely GOME Holding and Zhongguancun Group, as a result a buffer is adopted by the Management for the Proposed Annual Cap. Based on our discussion with the Management, we understand that Gome Holding is expecting both a steady growth of approximately 3% to 5% for its traditional business of wholesale of household appliances and electronic products as well as a significant growth according to its new development strategy for non-household appliance supply chain services. At the same time, the revenue of Zhongguancun Group amounted to approximately RMB2.28 billion and RMB1.93 billion for FY2023 and nine months ended 30 September 2024 respectively. Given the large scale of Zhongguancun Group's existing business and its growth potential, the Company expects a significant growth of its factoring business with Zhongguancun Group; and

(d) given the strong historical track record of the commercial factoring business noted in the section headed "2. Reasons for and benefits of the Continuing Connected Transactions" above, we are of the view that having annual increments of 10.0% to 8.3% applied to the Proposed Annual Caps for each of FY2025 to FY2027 to cater for organic growth of the commercial factoring business, appears to be reasonable.

Based on the above, we are of the view that the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

8. Analysis on the Proposed Revenue Limits

Set out below are: (i) the aggregate revenue generated from the Connected Factoring Loans under the Existing Factoring Service Framework Agreement; (ii) the utilisation of the existing revenue limits under the Existing Factoring Service Framework Agreement; and (iii) the Proposed Revenue Limits under the New Factoring Service Framework Agreement.

Table 5: The aggregate revenue generated from the Connected Factoring Loans for FY2022, FY2023 and FY2024

	FY2022 *(RMB'000)*	**FY2023** *(RMB'000)*	**FY2024** *(RMB'000)*
Existing revenue limit	24,000	27,000	30,000
The aggregate revenue generated from the Connected Factoring Loans	23,300	26,840	27,199[Note]
Utilisation of the existing revenue limits	97.1%	99.4%	90.7%[Note]

Note: Covering the period from 1 January 2024 to 31 October 2024.

Table 6: The Proposed Revenue Limits for FY2025, FY2026 and FY2027

	FY2025 *(RMB'000)*	**FY2026** *(RMB'000)*	**FY2027** *(RMB'000)*
Proposed Revenue Limits	34,000	36,000	39,000

As stated in the Letter from the Board, the Proposed Revenue Limits were determined by reference to various factors, particularly:

(a) the proposed annual caps for the grant of the Connected Factoring Loans under the New Factoring Service Framework Agreement;

(b) the factoring loans will generally mature within 60 days to 365 days;

(c) the interest rate for the factoring loan under the New Factoring Service Framework Agreement in the range between 6% and 9% per annum;

(d) certain buffer to cater for unforeseen circumstances such as a surge in demand for factoring loans and increase in interest rates.

In assessing the fairness and reasonableness of the Proposed Revenue Limits, we have taken into account the following factors:

(i) the aggregate revenue generated from the Connected Factoring Loans increased from approximately RMB23.3 million for FY2022 to approximately RMB26.8 million for FY2023, representing an increase of RMB3.5 million or approximately 15.0% which showed the increase in the business needs of the Group;

(ii) the utilisation rate of the existing revenue limit reached to approximately 97.1% for FY2022 and 99.4% for FY2023 which showed that the existing revenue limit is insufficient to meet the business needs of the Group as stated in the Letter from the Board. The historical actual transaction amount of the revenue generated from the Connected Factoring Loans for 10M2024 amounted to approximately RMB27.2 million, representing approximately 90.7% of the existing revenue limit for FY2024. Should such historical actual transaction amount for 10M2024 be annualised, the projected transaction amount of the revenue generated from the Connected Factoring Loans for FY2024 would amount to approximately RMB32.6 million, which would significantly exceed the revenue limits for FY2024 by approximately 8.7%. This illustrates the reasonableness to set the Proposed Revenue Limits with a year-on-year increment rate of approximately 13.3%, 5.9% and 8.3% for FY2025, FY2026 and FY2027 respectively;

(iii) as mentioned in the section headed "7. Analysis on and the Proposed Annual Caps" above, the estimated demand for the factoring loans from Connected Factoring Loan Borrowers; and

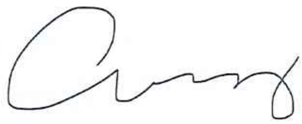
(iv) the Proposed Revenue Limits of RMB34 million, RMB36 million and RMB39 million for FY2025, FY2026 and FY2027 respectively represent a mild year-on-year increase of approximately 3.0%, 5.8% and 8.3% respectively which, when taken into account the strong historical track record and outlook of the commercial factoring business noted in the section headed "2. reasons for and benefits of the Continuing Connected Transactions" above, appears to be reasonable.

Based on the above, we are of the view that the Proposed Revenue Limits are fair and reasonable so far as the Independent Shareholders are concerned.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Continuing Connected Transactions and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
CHINA SUNRISE CAPITAL LIMITED



Anthony Fong
Managing Director

Mr. Anthony Fong is a licensed person registered with the SFC and a responsible officer of China Sunrise Capital Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO who has over 15 years of experience in corporate finance industry.

* *For identification purposes only*