SUNWAH KINGSWAY
新華滙富

19 February 2025

The Independent Board Committee and the Independent Shareholders of
Zall Smart Commerce Group Ltd.

Dear Sirs,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY ZALL HOLDINGS UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription, details of which are set out in the Letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 19 February 2025 issued to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular, unless otherwise specified.

On 27 January 2025 (after trading hours), the Company and Zall Holdings entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and Zall Holdings has conditionally agreed to subscribe for, 1,200,000,000 Subscription Shares in cash under the Specific Mandate at the Subscription Price of HK$0.26 per Subscription Share for an aggregate consideration of HK$312 million.

As at the Latest Practicable Date, Zall Holdings was interested in approximately 10.56% of the total issued share capital of the Company. Zall Holdings is wholly owned by Mr. Yan Zhi who in turn holds (i) approximately 0.60% of the total issued share capital of the Company directly; and (ii) 100% shareholding interest in Zall Development which is interested in approximately 59.07% of the total issued share capital of the Company. Mr. Yan Zhi, Zall Holdings and Zall Development are the controlling shareholders of the Company under the Listing Rules. Accordingly, the Subscription Agreement constitutes a connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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The Independent Board Committee comprising Mr. Cheung Ka Fai, Mr. Wu Ying and Mr. Zhu Zhengfu (all being the independent non-executive Directors), has been established to advise the Independent Shareholders as to whether (i) the terms of Subscription Agreement are entered into on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholders as a whole; and (ii) to vote in favour of the resolution(s) to be proposed at the EGM. We, Kingsway Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are independent from and not connected with the Group, its substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. During the last two years, we have not been engaged as any financial adviser to the Company. Accordingly we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the Circular; (ii) the Subscription Agreement; (iii) the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**"); (iv) the interim report of the Company for the six months ended 30 June 2024 (the "**2024 Interim Report**"); and (v) relevant market data and information available from public sources and the website of the Stock Exchange. We have also relied on all relevant information and representations supplied, and the opinions expressed, by the Directors and the management of the Company. We have assumed that all such information and representations contained or referred to in the Circular are true and accurate in all material respects as at the date thereof. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have also confirmed that, having made all reasonable enquiries and to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company, and they have confirmed that no material information have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, nor have we conducted an independent investigation into the business affairs, operations, financial position or future prospects of each of the Company, Zall Holdings, and any of their respective subsidiaries and associates and parties acting in concert with them.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Subscription, we have taken into consideration the following principal factors and reasons:

I. Information of the Company

The Company is incorporated in the Cayman Islands with limited liability, and the shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the construction and operation of B2B e-commerce platforms for the trading of, among others, consumer goods, agricultural products, chemicals, plastic raw materials, and black and non-ferrous metals, and the provision of related services such as finance, logistics, cross-border trading, warehousing and supply chain management in the PRC. The Group is also engaged in the development and operation of large-scale, consumer product focused wholesale shopping malls in the PRC.

The table below sets forth a summary of the financial highlights of the Group for each of the two years ended 31 December 2023 and for the six months ended 30 June 2023 and 2024 as extracted from the 2023 Annual Report and the 2024 Interim Report:

	For the year ended 31 December		**For the six months ended 30 June**	
	2022	**2023**	**2023**	**2024**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*
Revenue	110,906,215	125,290,479	54,931,545	68,276,396
Segment results				
– sales of properties and related services	106,751	157,657	64,112	54,321
– supply chain management and trading business	110,409,906	124,691,353	54,678,564	68,047,691
– rentals from investment properties	240,936	283,506	115,408	122,416
– financing income	87,236	59,262	34,924	31,029
– others	61,386	98,701	38,537	20,939
Profit/(loss) for the year/period	(2,981,191)	65,676	37,152	40,760

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Comparison between the six months ended 30 June 2024 and 2023

The Group recorded a total revenue of approximately RMB68,276.4 million for the six months ended 30 June 2024, representing an increase of approximately RMB13,344.9 million or approximately 24.3% as compared to the revenue of approximately RMB54,931.5 million for the six months ended 30 June 2023 which was primarily due to the increase in revenue from supply chain management and trading business.

The Group recorded a net profit of approximately RMB40.8 million for the six months ended 30 June 2024, representing an increase of approximately 9.7% as compare to the net profit of approximately RMB37.2 million for the six months ended 30 June 2023.

Comparison between the year ended 31 December 2023 and 2022

The total revenue of the Group increased from approximately RMB110,906.2 million for the year ended 31 December 2022 to approximately RMB125,290.5 million for the year ended 31 December 2023, representing an increase of approximately 13.0%. According to the 2023 Annual Report, the increase was primarily due to the increase in revenue from supply chain management and trading business.

The Group recorded a net loss of approximately RMB2,981.2 million for the year ended 31 December 2022 and recorded net profit of approximately RMB65.7 million for the year ended 31 December 2023.

Set out below is a summary of the consolidated financial position of the Group, as extracted and summarised from the 2023 Annual Report and 2024 Interim Report:

	As at 31 December 2022 *(RMB'000)* *(Audited)*	**As at 31 December 2023** *(RMB'000)* *(Audited)*	**As at 30 June 2024** *(RMB'000)* *(Unaudited)*
Total assets	60,359,070	63,778,674	63,899,098
Total liabilities	46,210,964	49,571,989	49,654,447
Net assets	14,148,106	14,206,685	14,244,651

The net assets of the Group slightly increased from approximately RMB14,148.1 million as at 31 December 2022 to approximately RMB14,206.7 million as at 31 December 2023 and further increased to approximately RMB14,244.7 million as at 30 June 2024.

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II. Information of Zall Holdings

Zall Holdings is incorporated in the British Virgin Islands with limited liability, and the shares of which are wholly owned by Mr. Yan Zhi. The principal activity of Zall Holdings is investment holding.

III. Reasons for and benefits of the Subscription

According to the Letter from the Board, the Company considers that the Subscription will (i) strengthen the collaboration between the Company and the controlling shareholders; (ii) demonstrate the commitment of the controlling shareholders to the Company and the confidence of the controlling shareholders towards the prospects of the Group; and (iii) strengthen the liquidity and capital base of the Group. The Group has been recorded net current liabilities for consecutive five years. Due to the credit tightening measures imposed against real estate-related businesses, there may be uncertainties and increasing difficulties in obtaining external financing through bank borrowings to fund the Group's projects and operation. We have reviewed the historical financial position of the Group and noted the same.

As advised by the management of the Company, the Company considers that the Subscription, which will increase the cash of the Company, and in turn will enhance its working capital, liquidity positions, net assets and the Group's credit indicators.

As stated in the Letter from the Board, the Group has considered various fund raising methods, including bank borrowings, the offering of debt securities, rights issue or open offer.

Bank borrowings may not be achievable on favourable terms or on a timely basis, as it would inevitably require a longer negotiation and processing time with the relevant banks. Bank borrowings may require pledge of assets and/or other kind of securities acceptable to banks. It would also cause additional interest burden on the Group and increase the gearing ratio of the Group. It is also likely that the banks would impose more stringent conditions or offer less favourable terms, in light of the recent market volatility, on the loans which may affect the Group's flexibility in its operations.

Fund raising through the offering of debt securities may as well be unfeasible in that, through the Company's preliminary contacts with potential investors, there seemed to be a lack of market enthusiasm for, and interest in, any such offerings by the Company in light of the general market condition.

In respect of rights issue or open offer to existing Shareholders, although the existing Shareholders would be able to maintain their pro rata shareholding in the Company, these fund raising methods would need a relatively longer timeframe to complete, as there would be relatively lengthy and heavy preparation work for issuing of a more detailed listing document. Furthermore, given (i) the relatively low trading volume of the Shares; (ii) the prevailing market prices of the Shares; and (iii) investors' fastidious preference due to the prevailing stock market conditions, recent market sentiment and the current adverse market environment due to external economic

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downward pressure, it would be difficult for the Company to pursue sizeable equity financing alternatives in the stock market without providing considerable discount to subscription prices for shares and/or underwriting fees as an incentive to attract prospective investors.

As compared to the above fund raising methods, when balanced against the merits of the Subscription, the Company considers that the Subscription is the most efficient method to strengthen the Company's capital base and raise further capital.

Furthermore, the Subscription reflects the confidence and commitment of the controlling Shareholder towards the long term and sustainable development of the Company, and that the continuing support of the controlling Shareholder is crucial to ensure the business stability and long term development of the Group.

As stated in the Letter from the Board, the Group intends to utilise all net proceeds from the Subscription for repayment of borrowings from an independent third party which amounted to approximately RMB317.3 million and shall be repayable on or before 30 August 2025.

Based on the above, we concur with the view of the Directors that although the Subscription is not conducted in the ordinary and usual course of business of the Company, the Subscription is in the interests of the Company and the Shareholders as a whole.

IV. Principal terms of the Subscription Agreement

Please refer to the Letter from the Board for the detailed terms of the Subscription Agreement.

Subscription Price

The Subscription Price of HK$0.26 per Subscription Share represents:

(i) a discount of approximately 21.21% to the closing price of HK$0.330 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 10.34% to the closing price of HK$0.290 per Share as quoted on the Stock Exchange as at 24 January 2025, being the last trading date immediately preceding the date of the Subscription Agreement;

(iii) a discount of approximately 9.72% to the average closing price of HK$0.288 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Subscription Agreement; and

(iv) a discount of approximately 77.39% to the unaudited consolidated net asset value per Share of approximately HK$1.15 as at 30 June 2024.

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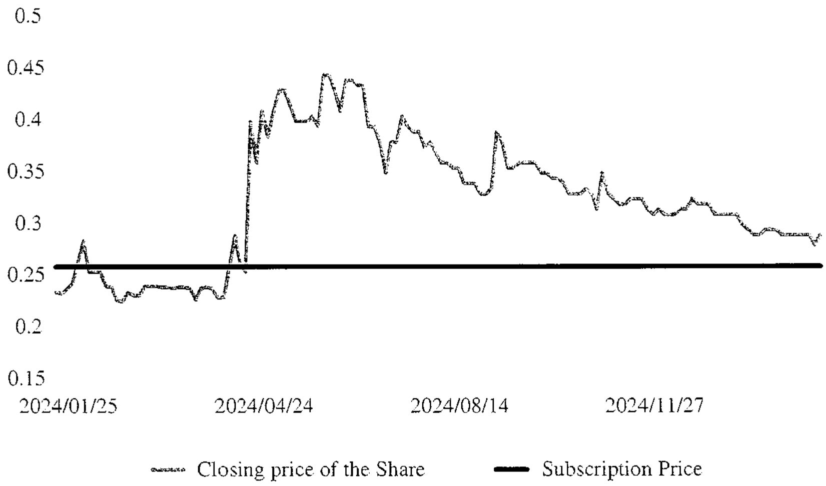
To assess the fairness and reasonableness of the Subscription Price, we have taken into account the following factors:

(a) Historical price movement of Share

Set out below is the diagram demonstrating the daily closing price of Share as quoted on the Stock Exchange during the period (the "**Review Period**") commencing from 25 January 2024 to 24 January 2025 (the "**Last Trading Day**").



Source: website of the Stock Exchange

During the Review Period, the lowest closing price and highest closing price of Share as quoted on the Stock Exchange was HK$0.223 recorded on 14 March 2024 and HK$0.465 recorded on 2 May 2024, respectively. The average closing price of Share during the Review Period is approximately HK$0.338. The Subscription Price will be HK$0.26 which lies within the lowest and the highest of the closing price of Share during the Review Period.

As discussed with the management of the Company, the market price of the Shares has been consistently trading below the then consolidated net asset value per Share since January 2024, which implies that potential investors (including Zall Holdings) may not be willing to subscribe for new Shares at a price as high as the said unaudited consolidated net asset value per Share, and also indicates that such investors have the option to acquire Shares on market at a substantially discounted price to the unaudited consolidated net asset value per Share.

We have reviewed the closing price of the Shares since January 2024 and up to the Latest Practicable Date and noted that the Shares had been trading below the net asset value per share.

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(b) Trading volume and liquidity of the Shares

Set out below is (i) the average daily trading volume of Share in each month during the Review Period; and (ii) the respective percentages of the average daily trading volume of Share as compared to the total number of issued Shares as at the Last Trading Day.

	average daily trading volume of Share	**% of the average daily trading volume to the total number of issued Shares as at Last Trading Day** *(Note)*
2024		
January (starting from 25 January 2024)	144,400	0.0012%
February	152,263	0.0012%
March	181,800	0.0015%
April	1,303,800	0.0105%
May	693,191	0.0056%
June	596,684	0.0048%
July	179,318	0.0014%
August	124,136	0.0010%
September	640,526	0.0052%
October	280,381	0.0023%
November	160,952	0.0013%
December	223,200	0.0018%
2025		
January (up to and including 24 January 2025)	54,000	0.0004%

Source: website of the Stock Exchange

Note: The total number of issued Shares as at Last Trading Day was 12,399,505,800 Shares.

As illustrated in the above table, the average daily trading volume of Share ranged from approximately 54,000 shares to 1,303,800 shares, representing approximately 0.0004% to 0.0105% of the total number of issued Shares. The average daily trading volume of Shares among the Review Period was approximately 376,898 shares, representing approximately 0.0030% of the total number of issued Shares.

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In addition, among 246 trading days of the Review Period, 138 out of 246 days had the trading volume of Share below 100,000 shares. Taking into account (i) 1,200,000,000 Subscription Shares and (ii) the highest and lowest average daily trading volume of approximately 1,303,800 Shares and 54,000 Shares respectively during the Review Period, the number of trading days required for the disposal of the Subscription Shares will be approximately 920 trading days and 22,222 trading days respectively.

(c) Market Comparables analysis

In assessing the fairness and reasonableness on the Subscription, we have conducted a search on the website of the Stock Exchange for all the transactions involving subscription of new shares of listed companies (but excluding debt capitalization and long-suspended companies i.e. over 6 months) which were announced from 25 December 2024 to the Last Trading Day, being one month period prior to the date of the Subscription Agreement (the "**Comparable Period**"). We have considered the proposed subscription of new shares by either connected persons or independent third parties in our research, since the terms of such subscriptions are arrived at based on prevailing market conditions regardless of whether the respective subscribers are connected persons or not and represent an unbiased reference on market terms, therefore providing a good reference in our evaluation of the terms of the Subscription Agreement. We considered the Comparable Period as sufficient and appropriate for the analysis based on the following basis (a) the comparable transactions during such period are close to the date of the Subscription Agreement and therefore reflecting the latest market prevailing conditions and considered to be conducted under similar and recent market conditions and sentiments; and (b) there are sufficient comparable companies in this period such that the average figures calculated are not likely to be significantly affected by any individual comparable transaction for our analysis.

Based on the said criteria, we have identified 26 comparable transactions (the "**Subscription Comparables**") which we consider to be exhaustive and sufficient to assess the fairness and reasonableness of the Subscription Price. Although the circumstances surrounding the Subscription Comparables may be different from those relating to the Company, we consider that the Comparable Period is adequate and fair and reasonable to capture the prevailing market conditions in relation to the Subscription transactions which the Subscription Comparables, serving as a general market information and reference to prevailing market practices in relation to recent transactions involving subscription of new shares conducted by the companies listed on the Stock Exchange and may help us to assess and evaluate the fairness and reasonableness of the Subscription Price. Set out below is a comparison of the Subscription Comparables:

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Date	Company	Stock code	Premium/ (discount) of the subscription price over/to closing price per share on the last trading day prior to the date of the respective agreement %	Premium/ (discount) of the subscription price over/to average closing price for the last five trading days prior to the date of the respective agreement %
24 January 2025	Allied Sustainability and Environmental Consultants Group Limited	8320	(10.71)	(7.58)
24 January 2025	Ficus Technology Holdings Limited	8107	1.69	0.67
22 January 2025	Gudou Holdings Limited	8308	(26.83)	(10.04)
22 January 2025	Winshine Science Company Limited	209	(19.08)	(19.10)
22 January 2025	Zijing International Financial Holdings Limited	8340	(10.71)	(12.59)
21 January 2025	Kantone Holdings Limited	1059	(9.95)	(10.70)
21 January 2025	China In-Tech Limited	464	50.00	45.35
20 January 2025	Crown International Corporation Limited	727	14.29	10.55
18 January 2025	XtalPi Holdings Limited	2228	(7.96)	(4.93)
17 January 2025	New City Development Group Limited	456	(18.75)	(18.75)
16 January 2025	Tianjin TEDA Biomedical Engineering Company Limited	8189	(15.87)	(13.96)
15 January 2025	CHK Oil Limited	632	(14.44)	(19.60)
15 January 2025	EPI (Holdings) Limited	689	(10.53)	(14.14)
10 January 2025	Adtiger Corporations Limited	1163	(10.89)	(11.07)
10 January 2025	Zhongshen Jianye Holding Limited	2503	(13.79)	(15.25)

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Date	Company	Stock code	Premium/ (discount) of the subscription price over/to closing price per share on the last trading day prior to the date of the respective agreement %	Premium/ (discount) of the subscription price over/to average closing price for the last five trading days prior to the date of the respective agreement %
09 January 2025	Emperor Watch & Jewellery Limited	887	(1.76)	0.12
08 January 2025	China Tianbao Group Development Company Limited	1427	82.96	76.62
08 January 2025	China Fortune Holdings Limited	110	44.44	43.60
07 January 2025	Zhongshi Minan Holdings Limited	8283	(9.10)	(13.42)
07 January 2025	Champion Technology Holdings Limited	92	(16.95)	(14.63)
07 January 2025	Yeahka Limited	9923	(13.82)	(15.30)
07 January 2025	Mindtell Technology Limited	8611	(7.14)	(7.14)
	Minimum		(26.83)	(19.60)
	Maximum		82.96	76.62
	Average		(3.40)	(3.33)
	The Subscription		**(10.34)**	**(9.72)**

As illustrated in the table above, the discount of the Subscription Price was (i) within the range of the Subscription Comparables from discount of approximately 26.83% to premium of approximately 82.96% and is below the average discount of the Subscription Comparables of approximately 3.40% as compared with their respective closing prices on the date of their respective agreement; and (ii) within the range of the Subscription Comparables from discount of approximately 19.60% to premium of approximately 76.62% and is below the average discount of the Subscription Comparables of approximately 3.33% as compared with their respective average closing price for the last five trading days prior to the date of their respective agreement.

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Although the Subscription Price is below the average of the closing price of Share during the Review Period and is below the average discount of the Subscription Comparables, taking into account that (i) the Company has a need to raise funding from the Subscription for the repayment of the debt, however, it may be uncertainties and increasing difficulties in obtaining external financing or create additional interest burden on the Group due to the net current liabilities position of the Group of approximately RMB2,405 million, RMB3,668 million, RMB447 million, RMB1,442 million and RMB2,830 million respectively for each of the five years ended 31 December 2023; (ii) the Subscription Price falls within the range of the lowest closing prince and the highest closing price of Share during the Review Period; (iii) 21 out of 26 Subscription Comparables offered discount; and (iv) the liquidity of the Shares during the Review Period was low and over 50% of the Review Period had trading volume below 100,000 Shares per day, in particular, the ratio of the Subscription Shares to the average daily trading volume, we consider the Subscription Price is fair and reasonable.

V. Financial effects of the Subscription

Liquidity

Upon the completion of the Subscription, the Group's working capital and liquidity positions will be improved as the cash and bank balances will be increased by the net proceeds of approximately HK$311.7 million. Accordingly, the cash position, gearing ratio and current ratio of the Group are expected to be improved upon the completion of the Subscription.

Net assets

Upon completion of the Subscription, the net assets of the Group are expected to increase as a result of the availability of the proceeds from the Subscription.

Shareholders should note that the financial effect set out in the above is for illustrative purpose only.

VI. Effects on shareholding structure of the Company

With reference to the shareholding table in the section headed "Effects on shareholding structure of the Company" in the Letter from the Board, upon completion of the Subscription, the shareholding interests of the existing public Shareholders in the Company would decrease from approximately 28.89% at the Latest Practicable Date to approximately 26.34%, assuming no other change in the issued share capital of the Company other than the issue of Subscription Shares. In this regard, taking into account (i) the reasons for and benefits of the Subscription; and (ii) the terms of the Subscription Agreement, including the allotment and issue of the Subscription Shares under the Specific Mandate and transaction contemplated thereunder being fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders as a result of the Subscription is acceptable.

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RECOMMENDATION

Having considered the principal factors and reasons discussed above, although the Subscription is not in the ordinary and usual course of business of the Group, we are of the view that the entering into the Subscription Agreement is entered into on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Kingsway Capital Limited

Stanley Chung	**Jack Wan**
Managing Director	*Responsible Officer*

Note: Mr. Stanley Chung has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance since 2006. Mr. Jack Wan is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than nine years of experience in corporate finance and investment banking. Both Mr. Stanley Chung and Mr. Jack Wan have participated in and completed various advisory transactions (including connected transactions of listed companies in Hong Kong).

Sunwah Kingsway Capital Holdings Limited
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