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May 20, 2025

To: the Independent Board Committee and the independent Shareholders

Dear Sirs,

CONNECTED AND DISCLOSEABLE TRANSACTION
PROPOSED ACQUISITION OF YINTECH FINANCIAL

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the independent Shareholders in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder (the "**Acquisition**"), details of which are contained in the letter from the Board in the circular issued by the Company to the Shareholders dated May 20, 2025 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On April 3, 2025, the Company announced the Acquisition of (i) 100% equity interest of Yintech Financial (i.e. the Target Company) at a cash consideration of HKD108.81 million and (ii) the Core Information Systems at a cash consideration of HKD18.16 million, subject to conditions. In addition, the Company agreed to (i) undertake the repayment of certain shareholders' loans in the total amount of not exceeding HKD51 million owed by the Target Company and its subsidiaries (namely the Target Group) to Yintech Holdings group, and (ii) provide a temporary loan of operating funds not exceeding HKD15 million (the "**Loan**") to the Target Group to maintain its operation, after obtaining the approval of the independent Shareholders at the AGM. Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the financial performance and position of the Target Group will be consolidated into those of the Company.

As at the Latest Practicable Date, (i) Yintech Holdings is ultimately held by Mr. CHEN Wenbin, Mr. YAN Ming and Ms. CHEN NINGFENG, all being Directors and controlling shareholders of the Company (together, the "**Controlling Shareholders**"), as to 36.14%, 23.72% and 21.10%, respectively; and (ii) each of Shanghai Feixiu and the Target Company is a subsidiary of Yintech Holdings. Accordingly, each of Yintech Holdings, Shanghai Feixiu and the Target Company is a connected person of the Company and the transactions contemplated under the Sale and Purchase Agreement constitute connected transactions pursuant to Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Acquisition, including (i) the proposed acquisition of 100% equity interest of the Target Company and the Core Information Systems pursuant to the Sale and Purchase Agreement, and (ii) the repayment of certain shareholders' loan and provision of a temporary loan of operating funds to the Target Group, is more than 5%, the Acquisition and the transactions contemplated under the Sale and Purchase Agreement shall be subject to the reporting, announcement, circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, the Acquisition constitutes a discloseable transaction for the Company pursuant to Chapter 14 of the Listing Rules.

The Company will seek approval from the independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder by way of a resolution taken by a poll at the AGM. In view of the interests above, the Controlling Shareholders and their associates are required to abstain from voting in respect of the ordinary resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the AGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Dr. ZHAO Guoqing, Mr. FAN Yonghong and Mr. TIAN Shu, has been formed to advise the independent Shareholders on whether the terms of the Sale and Purchase Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. We, Somerley, have been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in this regard.

During the past two years, there were no engagements between the Company and Somerley. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley and (b) the Group, Yintech Holdings, Shanghai Feixiu, the Target Company, or their respective substantial shareholders, subsidiaries and associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group, Yintech Holdings, Shanghai Feixiu, the Target Company or their respective substantial shareholders, subsidiaries or associates.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and have assumed that they are true, accurate and complete in all material aspects and will remain so up to the time of the AGM. We have reviewed (i) the Sale and Purchase Agreement, (ii) the annual reports of the Company for the years ended December 31, 2023 and 2024, (iii) the audited consolidated financial information of the Target Group, (iv) the valuation reports of 100% equity interest of the Target Company and the Core Information Systems (the "**Valuation Reports**") prepared by AVISTA Valuation Advisory Limited (the "**Valuer**"), an independent valuer appointed by the Company, as set out in Appendix V to the Circular, and (v) relevant information as set out in the Circular. We have discussed with the Valuer the valuation methodology, bases and assumptions used in the Valuation Reports. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been omitted or withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have, however, not conducted any independent investigation into the business, affairs and financial position of the Group, Yintech Holdings, Shanghai Feixiu, the Target Company and their respective subsidiaries or associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Group mainly provides equity investment tools, securities investment advisory, investor education and other services for individual investors with product offerings, such as stock quote software, Stock Learning Machine, Stock Navigator Series (股道領航系列), Super Investor (超級投資家) and Jiuyao Stocks (九爻股) (the Group's small-amount series products). The Group derives revenue primarily from (i) Stock Navigator Series, encompassing features such as text/video live streaming, exclusive insights, expert courses, smart investing tools and dedicated customer service, which is designed to help investors seize market opportunities, master stock selection methods and build up investment portfolios; (ii) Super Investor, encompassing features including simulated portfolios, video live streams, expert courses, software indicators, article columns and exclusive private investment advisory services, which is designed to help investors induce right investing concepts and develop scientific investment portfolios; and (iii) Jiuyao Stocks, which is designed to help investors identify risks and assist in rational and scientific decision-making in the course of investing based on advanced Artificial Intelligence (AI) technology and professional investment research analysis.

In the past year, the Group continued to implement "Technology + Investment Research" dual-driver strategy. It has expanded new business lines and accelerated the transformation and applications of "Digital Intelligence" and the development of AI-driven software systems. Since 2024, the Group has developed and launched a number of new digital intelligence products and other AI products, including JF Robo-Advisor (九方智能投顧數字人), a digital investment robo-advisor, FinSphere Agent (九方靈犀), a new-generation conversational stock investing assistant, and FinSphere Report (九方智研), an intelligent investment research product, aiming to explore AI-empowered business scenarios, creating user-centric products, and enhancing the Group's competitiveness.

The Group achieved growth in both number of paying users for its products and gross billings. In 2024, the number of paying users for the Group's financial software sales and services reached 181,543, representing an increase of approximately 149.4% compared to 2023. During the same period, gross billings amounted to approximately RMB3,505.9 million, representing an approximate 49.3% growth compared to 2023.

Shares of the Company have been listed on the Main Board of the Stock Exchange since March 2023, and the Company had a market capitalisation of approximately HKD18.6 billion as at the Latest Practicable Date.

Financial results

Set out below is a summary of the consolidated financial results of the Group for the two years ended December 31, 2023 and 2024, as extracted and summarised from the Company's annual reports:

	For the year ended December 31,	
	2024	**2023**
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Revenue	2,305,986	1,965,387
Gross profit	1,894,142	1,643,264
Profit for the year and profit attributable to equity shareholders of the Company	272,365	190,719

Revenue of the Group was primarily derived from the provision of financial software sales and services. As shown above, revenue of the Group exhibited a growing trend in recent years, increasing from approximately RMB1,965.4 million in 2023 to approximately RMB2,306.0 million in 2024. The increases were mainly attributable to the higher gross billings and number of paying users of the Group's main products, driven by the development of the Group's multi-dimensional product structure and its continued investment in research and development innovation. In addition, the Group benefited from the steady increase in securities market trading activities and the continuous strengthening of investor confidence following the introduction and implementation of a series of favourable policies by the PRC government in September 2024 to support the PRC economy.

The Group recorded a profit attributable to the Shareholders of approximately RMB272.4 million in 2024, representing an increase of approximately 42.8% as compared to approximately RMB190.7 million in 2023. The improvement in the Group's profitability in 2024 was mainly due to the reasons as explained above. We also noted that the Group achieved a turnaround from a loss attributable to the Shareholders of approximately RMB174.2 million for the first half of 2024 to a full-year profit of approximately RMB272.4 million.

In terms of cash flows, the Company stated in the 2024 annual report that the Group's business is primarily a cash flow business, mainly driven by the gross billings to users for its products, therefore the Group's cash flows from operating activities are closely related to and primarily driven by its profitability. In 2024, the Group continued to generate significant amount of net cash from its operating activities of approximately RMB1,627.8 million, representing an increase of approximately 266.6% as compared to approximately RMB444.0 million in 2023.

Financial position

Set out below is a summary of the consolidated financial position of the Group as at December 31, 2023 and 2024, as extracted and summarised from the Company's annual reports:

	As at December 31,	
	2024	**2023**
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Non-current assets	282,452	131,735
Current assets	3,506,937	2,326,871
Total assets	**3,789,389**	**2,458,606**
Current liabilities	2,183,294	943,775
Non-current liabilities	1,761	34
Total liabilities	**2,185,055**	**943,809**
Total equity and total equity attributable to equity shareholders of the Company	**1,604,334**	**1,514,797**

As at December 31, 2024, the Group had total assets of approximately RMB3,789.4 million, of which approximately RMB3,220.7 million or 85.0% represented cash and other liquid financial resources, comprising (i) cash and cash equivalents of approximately RMB2,208.7 million, (ii) financial assets measured at fair value through profit or loss of approximately RMB665.1 million, mainly representing funds, wealth management products and listed equity securities, and (iii) financial assets purchased under resale agreements of approximately RMB346.9 million.

As at December 31, 2024, the Group had total liabilities of approximately RMB2,185.1 million, of which approximately RMB1,488.9 million or 68.1% represented contract liabilities, mainly representing the unrecognised portions of the gross billings from the Group's main products that will primarily be recognised as revenue in 2025. Other liabilities of the Group include accrued expenses and other current liabilities of approximately RMB466.0 million, mainly representing accrued payroll and welfares and advances from customers.

On the same date, the Group did not have any bank borrowings or other interest-bearing borrowings, translating that the Group is in a net cash position. The Group's gearing ratio, calculated by dividing total liabilities by total assets, was approximately 57.7% as at December 31, 2024. As at December 31, 2024, the Group had capital commitments of approximately RMB15.6 million.

Equity attributable to the Shareholders was approximately RMB1,604.3 million as at December 31, 2024.

2. Information on Yintech Holdings, Shanghai Feixiu, the Target Company and the Core Information Systems

(i) Yintech Holdings and Shanghai Feixiu

Yintech Holdings is an exempted company established in the Cayman Islands with limited liability, whose American depositary receipts were previously listed on the NASDAQ (ticker symbol: YIN) and were delisted from the NASDAQ on 18 November 2020. Yintech Holdings was ultimately controlled by the Controlling Shareholders as at the Latest Practicable Date. The principal activities of Yintech Holdings are offering comprehensive investment and trading services primarily to individual customers through financial technology and mobile platforms.

Shanghai Feixiu is a company incorporated under the laws of the PRC and it is an indirect subsidiary of Yintech Holdings as at the Latest Practicable Date. The principal activities of Shanghai Feixiu are fintech software development and technical consultancy. Shanghai Feixiu is the developer and owner of the Core Information Systems.

(ii) Target Company

The Target Company is a company incorporated under the laws of the British Virgin Islands and it is a wholly-owned subsidiary of Yintech Holdings as at the Latest Practicable Date. The Target Company holds 100% equity interest in Forthright Financial Holdings Company Limited, a company incorporated in Hong Kong in 2015, which in turn holds 100% equity interest in a number of subsidiaries including, among others, Forthright Securities and Forthright Capital.

Forthright Securities is a company incorporated in Hong Kong and a licensed corporation under the SFO and permitted to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts). As a corporation licensed under the SFO, Forthright Securities' business activities are principally regulated by the SFC. Forthright Securities is principally engaged in providing clients with trading services in stocks, futures, funds and other different types of financial products covering markets in many countries around the world. In terms of licensed employees, Forthright Securities has five responsible officers and 21 licensed representatives (excluding an individual who is also a responsible officer) as at the Latest Practicable Date, according to the website of the SFC.

Forthright Capital is a company incorporated in Hong Kong and a licensed corporation under the SFO and permitted to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management). As a corporation licensed under the SFO, Forthright Capital's business activities are principally regulated by the SFC. Forthright Capital is principally engaged in providing asset management services to individual and institutional investors by forming different investment portfolios through investing in financial products, such as stocks, bonds and funds. In terms of licensed employees, Forthright Capital has two responsible officers and four licensed representatives as at the Latest Practicable Date, according to the website of the SFC.

As confirmed with the management of the Group, members of the Target Group have complied with the applicable rules and regulations, including those imposed by the SFC, since their incorporation.

Financial performance

The table below sets out the financial performance of the Target Group for the two years December 31, 2023 and 2024, prepared in accordance with the International Financial Reporting Standards, as extracted and summarised from the audited consolidated financial statements of the Target Group.

	For the year ended December 31,	
	2024	**2023**
	HKD'000	*HKD'000*
	(audited)	*(audited)*
Revenue and other income	51,139	55,589
Staff costs	(33,525)	(40,658)
Other operating expenses	(44,012)	(56,165)
Loss before income tax	(26,398)	(41,234)
Income tax	–	–
Loss for the year	(26,398)	(41,234)

Revenue and other income of the Target Group were mainly contributed from revenue generated under the relevant regulated activities carried out by Forthright Securities, accounting for over 60% of the total during the review period. Further details of the revenue and other income are as follows:

	For the year ended December 31,	
	2024	**2023**
	HKD'000	*HKD'000*
	(audited)	*(audited)*
Fee and commission income	22,787	35,481
Interest income	15,726	14,152
Investment income, net	8,785	934
Other income	3,841	5,022
Total revenue and other income	51,139	55,589

Revenue and other income of the Target Group decreased by approximately 8.0% year-on-year to approximately HKD51.1 million in 2024, mainly due to the reduced security distribution fee income of Forthright Securities, according to the management of the Group. In addition, (i) interest income was mainly earned from margin financing activities carried out by Forthright Securities and bank deposits held; (ii) investment income, net in 2024 mainly represented gains on disposal of equity interest in subsidiaries of approximately HKD8.4 million; and (iii) other income mainly represented the rental income and the inter-company management fee income arising from the provision of management services to companies controlled by Yintech Holdings group, which are not expected to continue following completion of the Acquisition.

Other operating expenses mainly comprised the information technology and systems expenses, office expenses, administrative and depreciation expenses. The decrease in other operating expenses in 2024 was mainly due to the decrease in information technology and systems expenses and office rental payments, mainly as a result of cost control measures.

The Target Group incurred net losses in the past two years, amounting to approximately HKD26.4 million in 2024, narrowing from a loss of approximately HKD41.2 million in 2023. The reduced loss in 2024 was mainly due to the reduction in staff costs and other operating expenses as explained above. Based on the information provided by the management of the Group, the Target Group also incurred negative earnings before interests, taxes, depreciation and amortization ("**EBITDA**") in 2023 and 2024, amounted to approximately negative HKD33.6 million and negative HKD19.4 million respectively.

Based on the unaudited consolidated management accounts of the Target Group for the three months ended March 31, 2025, the Target Group recorded revenue and other income of approximately HKD20.0 million, an increase of approximately 72.9% compared to the same period in 2024, and turned around into a net profit of approximately HKD3.0 million. As advised by the management of the Group, the improvement in the Target Group's profitability in the first quarter of 2025 was mainly due to (i) the over 80% increase in the average monthly trading volume of securities compared to those in the same period in 2024, and (ii) the over 20% increase in scale of consigned fund sales compared to those as at the end of 2024, and (iii) the over 100% increase in the asset management scale for fully entrusted asset management services, compared to those as at the end of 2024, leading to higher fee and commission income during the period.

Financial position

The table below sets out the financial position of the Target Group as at December 31, 2023 and 2024, prepared in accordance with the International Financial Reporting Standards as extracted and summarised from the audited consolidated financial statements of the Target Group and provided by the management of the Group.

	As at December 31,	
	2024	**2023**
	HKD'000	*HKD'000*
	(audited)	*(audited)*
Property, plant and equipment	1,277	2,341
Intangible assets	500	500
Right-of-use assets	1,776	2,076
Accounts receivables	77,593	82,314
Amounts due from related parties	61,163	9,933
Financial assets at fair value through profit or loss	11,158	11,961
Entrusted bank balances held on behalf of clients	287,934	237,938
Cash and cash equivalents	41,680	52,445
Other assets	17,041	7,719
Total assets	**500,122**	**407,227**
Accounts payables	300,561	245,235
Amounts due to related parties	116,352	192,647
Other payables and accrued expenses	3,187	3,798
Other liabilities	387	1,061
Total liabilities	**420,487**	**442,741**
Share capital	–	–
Capital reserves	141,864	–
Accumulated losses	(62,229)	(35,514)
Equity attributable to the shareholders	**79,635**	**(35,514)**

As at December 31, 2024, the Target Group had total assets of approximately HKD500.1 million, mainly including (i) entrusted bank balances held on behalf of clients of approximately HKD287.9 million, representing the monies received from the Target Group's clients and maintained in trust bank accounts during the course of its regulated activities. The corresponding payables to the respective clients have been recorded as accounts payables under current liabilities; (ii) an amount due from a related party of approximately HKD61.2 million, mainly relating to the balance with a company controlled by Yintech Holdings group; and (iii) cash and cash equivalents of approximately HKD41.7 million.

As at December 31, 2024, the Target Group had total liabilities of approximately HKD420.5 million, mainly including (i) accounts payable of approximately HKD300.6 million, mainly representing the amounts payable to its clients as discussed above, and (ii) shareholders' loans and amounts due to related parties of approximately HKD116.4 million, mainly relating to the balances with companies controlled by Yintech Holdings group. The Company has undertaken the repayment by the Target Group of certain shareholders' loan balances in the total amount of not exceeding HKD51 million, after obtaining the approval of the independent Shareholders at the AGM pursuant to the Sale and Purchase Agreement, and based on our discussions with the management of the Group, the Target Group's amounts due from and due to, and shareholders' loan from, companies controlled by Yintech Holdings group will be settled prior to the completion of the Acquisition.

On the same date, the Target Group had an available banking facility of approximately HKD50.0 million, for the support of Forthright Securities' margin financing business, which is secured by, among others, mortgages over certain of listed shares and other securities held by the Target Group on its clients behalf. As confirmed with the management of the Group, the Target Group did not utilise any such banking facilities and did not have any bank and other interest-bearing borrowings as at December 31, 2024.

Equity attributable to the shareholders of the Target Group amounted to approximately HKD79.6 million as at December 31, 2024, as opposed to net liabilities of approximately HKD35.5 million as at December 31, 2023. The substantial increase was mainly due to the waiver of the amounts owed by the Target Group to companies controlled by Yintech Holdings group of approximately HKD141.9 million in December 2024, which was credited to capital reserves, according to the management of the Group.

Based on the unaudited consolidated management accounts of the Target Group as of March 31, 2025, the Target Group had total assets and total liabilities of approximately HKD532.7 million and HKD449.2 million respectively as at March 31, 2025. Equity attributable to the shareholders of the Target Group improved to approximately HKD83.5 million as at March 31, 2025.

(iii) The Core Information Systems

The Core Information Systems include:

(i) Forthright Global Securities Integrated Trading Software (方德環球證券綜合交易管理軟件). This system directly connects with institutions including the Stock Exchange, enabling real-time trading in major global stock markets, and provides securities companies with a management system that integrates trading, settlement and risk control;

(ii) Forthright Global Futures Integrated Trading Software (方德環球期貨綜合交易管理軟件). This system supports trading of all varieties in major global futures markets and integrates functions of fund management and risk control compliance, and provides centralised trading and settlement services; and

(iii) Forthright Global Fund Management Software (方德環球基金寶管理軟件). This system connects with fund companies to introduce multi-currency, multi-category fund products, enabling functions such as fund subscription, application and redemption, share management and income calculation. This provides wealth management institutions with a one-stop trading management platform to expand their fund business and diversify their product offerings metrics.

As confirmed with the management of the Group, all of the above business and operation information systems and software are developed and owned by Shanghai Feixiu, and the Core Information Systems have been licensed for the use by Forthright Securities for its core business operation for over five years.

(iv) Industry prospects

According to the website and publications of the Hong Kong Exchanges and Clearing Limited, there were 73 and 68 newly listed companies on the Stock Exchange in 2023 and 2024 respectively, and the total equity funds raised on the Stock Exchange amounted to approximately HKD192.2 billion in 2024, reflecting an increase of approximately 23.2% compared to approximately HKD156.0 billion in 2023. The average daily turnover on the Stock Exchange in 2024 was approximately HKD131.8 billion, an increase of approximately 25.5% compared to approximately HKD105.0 billion in 2023. As at December 31, 2024, there were a total of 2,631 listed issuers on the Stock Exchange (including both Main Board and GEM board), and the market capitalisation of these listed companies reached HKD35,320 billion, an increase of approximately 13.8% compared to December 31, 2023.

In 2024, Hong Kong continued to be one of the world's most active initial public offerings ("**IPO**") fundraising hubs. The IPO, trading and fundraising activities stepped up since the second half of 2024, following the announcement of economic stimulus measures in Mainland China, as well as the monetary easing policies adopted by major central banks. An improvement in market sentiment is noted since the beginning of 2025, as reflected in the advancement of the Hang Seng Index from 20,059.95 points at the end of 2024 to 23,119.58 points at the end of March 2025, and the much higher average daily turnover on the Stock Exchange during the first quarter of 2025 of approximately HKD242.7 billion, representing an increase of approximately 144.2% when compared with approximately HKD99.4 billion in the same period of 2024. Despite the Hang Seng Index experiencing significant volatility since April 2025, the average daily turnover on the Stock Exchange in April 2025 of approximately HKD274.7 billion is higher than the above average daily turnover during the first quarter of 2025. As a brokerage service and asset management service provider primarily focusing on the Hong Kong securities market, Forthright Securities and Forthright Capital are expected to benefit from the abovementioned improved market sentiment and trading activities.

The data published by the SFC showed that the total income of all securities dealers and securities margin financiers (i.e. corporations licensed for dealing in securities or securities margin financing) grew by approximately 11.0% to approximately HKD222.6 billion in 2024. The growth was partly driven by the 18.0% increase in net securities commission income, from approximately HKD17.1 billion in 2023 to approximately HKD20.2 billion in 2024, and the 14.2% increase in net commission income arising from futures and options dealing, leveraged foreign exchange trading and virtual assets dealing, from approximately HKD3.1 billion in 2023 to approximately HKD3.6 billion in 2024. Furthermore, in 2024, the total net profits of all securities dealers and securities margin financiers reached approximately HKD44.4 billion, an increase of approximately 56.7% from 2023.

In terms of the financial related policies, the Hong Kong SAR Government has implemented a number of measures to consolidate Hong Kong's status as an international financial centre. For example, in early January 2025, the Hong Kong Monetary Authority ("**HKMA**") and the People's Bank of China ("**PBOC**") announced several new policy measures to further deepen mutual access between the financial markets of Hong Kong and Mainland China, such as the introduction of the HKMA RMB Trade Financing Liquidity Facility for banks in Hong Kong, supporting them in providing RMB trade finance services to their corporate customers. All of the above statistics and measures indicate a positive outlook and promising market potential for the securities industry in which the Target Group operates in.

Independent Shareholders should note that the Target Group was in a loss-making position in the past two years, primarily due to the unsatisfactory performance of the general market and the lower level of trading volume in the Hong Kong market during this period. The 2024 market statistics showed improvements compared to those of 2023, as discussed earlier, and the first quarter of 2025 continued to reflect enhanced market sentiment and a substantial growth in market indices such as the Hang Seng Index, which may induce needs for brokerage services and asset management services. Nevertheless, sustainability of such positive momentum will depend on a variety of factors, including the macro-economic environment, the monetary and trade policies of major markets, and ongoing geopolitical risks that may affect Hong Kong, the PRC and international economies.

3. Reasons for and benefits of the Acquisition

The key reasons for and benefits of the Acquisition are set out in the letter from the Board in the Circular and are summarised below:

- *Overseas Strategic Plan*: Forthright Securities and Forthright Capital provide customers with leading comprehensive financial investment and wealth management services. As the first step in the Company's overseas expansion, the Acquisition integrates licensed business to realise cross-border financial service layout, strengthens coverage capabilities in key markets such as the Stock Exchange, US stock exchanges, and northbound trading through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, and enhance industry competitiveness and influence of the Group.

- *Diversification of Revenue*: In 2024, the Hong Kong stock market, after years of decline, has been bouncing from the bottom. Accompanied by a series of domestic policy releases, trading activity has steadily climbed and investor confidence has continuously strengthened. The Target Group is actively pursuing a diversified business layout. The Acquisition could bring long-term benefits to the Company, expand revenue sources, optimise revenue structure, mitigate potential risks associated with concentrating business in a single market, and enhance resilience in a complex and changing financial market environment.

- *Empowering advantages*: The Company adheres to the dual-driven strategy of "Technology + Investment Research", holding core advantages in technology research and development as well as professional investment research:

  - The Company continually strengthens its investment in the research and development of advanced technologies like AI, promoting "Artificial Intelligence+" and accelerating application deployment. With an in-depth understanding of AI, the Group is expected to provide technical cooperation to the Target Group, such that the Target Group will achieve product and service intelligence, business operation digitalisation, and efficient management, thereby constructing a more comprehensive and efficient smart ecosystem to enhance competitiveness and meet diverse customer needs, reducing costs, increasing efficiency and creating a new engine for the Target Group's future growth.

  - The Company owns a professional financial research institute with more than a hundred seasoned professional team and has established an "1 institute + N business lines" investment research system. After completion of Acquisition, the Company will offer research cooperation and support to the Target Group's business operations, focusing on actual application of operational content to aid the Target Group in delivering more intuitive, personalised service to customers, enhancing user experience, and supporting revenue growth.

- The Company has abundant cash resources, and can provide sufficient financial assurance for the Target Group's licensed business.

- *Meeting market demands*: The demand for cross-border asset allocation from global high-net-worth clients continues to rise, coupled with the positive influence of Hong Kong's investment immigration policies on comprehensive financial investment and wealth management services, as well as investors' real need to hedge currency fluctuation risks. Leveraging its diverse business layout, rich product matrix and exclusive customer service system, the Target Group has occupied favorable market position and built differentiated advantages, and continuously attracted such customers.

The Core Information Systems are specifically designed and iteratively upgraded for the Target Group according to its business needs. The acquisition of the Core Information Systems ensures that the business operations of Target Group remain continuous and stable, helping to avoid costs and risks associated with system transitions. The provision of the Loan is to aid the Target Group in expanding its licensed business operations.

Our comments

In our opinion, the Acquisition represents a strategic move to enter the securities industry in Hong Kong. Such expansion will broaden the Group's scope of services, enabling it to cover cross-border financial services, in addition to its existing financial technology and information software services. In arriving at our view, we have considered the above facts, in particular: (i) the Group has been providing equity investment tools, securities investment advisory, investor education and other services for individual investors with product offerings. The Acquisition allows the Group to realise cross-border financial service layout and broaden its product and service offerings to meet the diverse needs of individual customers; (ii) there are signs of rebound in the Hong Kong stock market, as detailed in the section above headed "2. Information on Yintech Holdings, Shanghai Feixiu, the Target Company and the Core Information Systems – Industry prospects". The Target Group has benefited from the improved trading and market activities, narrowing its operating loss in 2024, and achieved profitability for the first quarter of 2025; and (iii) following completion of the Acquisition, the Group would be able to provide technical cooperation and funding support to drive the future growth of the Target Group, diversifying the Group's revenue sources and mitigating potential risks associated with concentrating business in a single market; (iv) the consideration for the Acquisition has been primarily determined with reference to the fair values as assessed by an independent valuer; and (v) the Group has a healthy balance sheet with substantial cash and other liquid financial resources, and that the consideration for the Acquisition and the amount of the Loan are not considered significant compared to the scale of the Group's financial position. We therefore concur with the management of the Group that the Acquisition represents a strategic opportunity to expand the Group's business and may create synergetic benefit to the Company and the Shareholders as a whole.

4. Principal terms of the Sale and Purchase Agreement

Set out below is a summary of the principal terms of the Sale and Purchase Agreement. Independent Shareholders are advised to read in full further details of the Sale and Purchase Agreement set out in the letter from the Board in the Circular.

Parties

The parties to the Sale and Purchase Agreement are (i) The Company (as the purchaser); (ii) Yintech Holdings (as the seller of 100% equity interest of the Target Company); (iii) Yintech Financial (as the Target Company); and (iv) Shanghai Feixiu (as the developer and owner of the Core Information Systems).

Subject Matter

Pursuant to the Sale and Purchase Agreement, the Company agreed to acquire (i) 100% equity interest of the Target Company at a consideration of HKD108,810,000, and (ii) the Core Information Systems at a consideration of HKD18,160,000 (or converted to an equivalent amount in RMB) in cash. Upon completion of the Acquisition, the Target Company will be held as to 100% by the Company and will be consolidated as a subsidiary of the Company, and the Company will obtain the ownership of the Core Information Systems.

The consideration payable by the Company for the acquisition of 100% equity interest of the Target Company was determined by the parties after arm's length negotiations with reference to, among others, (i) the appraised fair value of equity interest of the Target Company assessed by the Valuer, as of January 31, 2025, based on market approach being HKD108,819,000, (ii) the business development and future prospects of the Target Company, and the synergy of the Target Group with the Company, and (iii) the reasons for and benefits of the Acquisition.

The consideration payable by the Company for the acquisition of the Core Information Systems was determined by the parties after arm's length negotiations with reference to the appraised fair value of the Core Information Systems, being HKD18,160,200 assessed by the Valuer.

Payment terms

The consideration payable for the 100% equity interest of the Target Company will be settled in the following schedule:

i. 10% within ten business days of the approval of the Board and signing of the Sale and Purchase Agreement;

ii. 40% within ten business days of the approval of independent Shareholders (the "**Second Payment**");

iii. 40% within ten business days of the approval by the SFC of the change in controlling shareholder of Target Group (the "**Third Payment**"); and

iv. 10% within ten business days of the satisfaction or waiver of all completion conditions of the Acquisition and the completion of relevant registration filings for the change of the shareholding under the Acquisition (the "**Fourth Payment**").

The consideration payable for the Core Information Systems will be settled in the following schedule:

i. 10% within ten business days of the approval of the Board and signing of the Sale and Purchase Agreement;

ii. 40% within ten business days of the approval of independent Shareholders;

iii. 40% within ten business days of the satisfaction of the conditions for the third instalment payment of the acquisition of 100% equity interest of the Target Company; and

iv. 10% within ten business days of completion of the transfer registration of Core Information Systems and the satisfaction of the conditions for the instalment payment of the acquisition of 100% equity interest of the Target Company.

As stated in the letter from the Board, the payment terms were determined by the parties after arm's length negotiations with reference to key milestones of internal and external approvals during the Acquisition, providing safeguards for both parties while maintaining pragmatic framework that helps manage risks.

Completion

The completion of the Acquisition shall be subject to satisfaction of all the conditions (or subject to the Company's waiver of other parties' obligations, as applicable). The major ones are summarised as follows:

i. The Target Group has the qualifications and licenses to continue its business operations;

ii. Before the completion of the Acquisition, the net assets of the Target Group shall not be lower than HKD78,887,000, being its audited net assets as of January 31, 2025;

iii. The Target Group has completed settlement of all its related party debts and any residual accounting issues and has no undisclosed external liabilities, contingent liabilities or guarantees;

iv. Shanghai Feixiu has transferred all the intellectual property rights, software source code and database of the Core Information Systems to the Company;

v. The independent Shareholders have approved by way of ordinary resolutions the Acquisition and the transactions contemplated under the Sale and Purchase Agreement;

vi. SFC has approved the Company (and its beneficial owners) to become the controlling shareholder of the Target Group as a result of the Acquisition;

vii. all other relevant approvals, consents and/or exemptions from the relevant contracting parties and the SFC have been obtained and are effective, and all necessary procedures for the transactions have been carried out in accordance with the Sale and Purchase Agreement;

viii. there are no material adverse changes to the business, assets, financial status, performance and prospects of the Target Group; and

ix. the completion of the registration of the transfer of shares of the Target Company with the relevant companies registry.

As at the Latest Practicable date, the aforementioned conditions (i) and (ii) have been fulfilled and none of the above conditions have been waived.

Other terms

In connection with the Acquisition, subject to approval of the independent Shareholders at the AGM, the Company agreed to (i) undertake the repayment of certain shareholders' loan in the total amount of not exceeding HKD51 million owed by members of the Target Group prior to the completion of the Acquisition, including (a) amount of not exceeding HKD27 million to be paid along with the Second Payment; (b) amount of not exceeding HKD17 million to be paid along with the Third Payment; and (c) amount of not exceeding HKD7 million to be paid along with the Fourth Payment, subject to fulfillment of relevant conditions under the respective payments; and (ii) provide the Loan to the Target Group to maintain its operation, in total amount of not exceeding HKD15 million, to be paid in two phases upon fulfillment of payment conditions of the Second Payment and the Third Payment, respectively.

The Loan is for a term of one year from the date of actual disbursement of funds. The interest of fund utilisation is calculated based on the one-year Hong Kong Interbank Offered Rate (HIBOR) plus 0.6% divided by 365 days, multiplied by the number of days the funds are utilised. Such interest was determined after taking into account the offers obtained by the Target Group from third-party financial institutions. At maturity, the principal and interest are to be repaid. Yintech Holdings, Target Company or the Target Group, as applicable, shall also repay the principal and the interest of fund utilisation in accordance with the terms of termination and indemnity as set out in the Sale and Purchase Agreement.

Termination

If Acquisition does not receive the approval from the SFC regarding the change in the controlling shareholder of the Target Group due to reasons not attributable to any party to the Sale and Purchase Agreement, unless otherwise agreed, the parties could sign a written agreement to terminate the Sale and Purchase Agreement. Yintech Holdings shall return any consideration already paid by the Company within 10 business days from the date of termination as agreed in the termination agreement and shall pay interest of utilization of the consideration.

5. Independent valuation and evaluation

The 100% equity interest of the Target Company and the Core Information Systems have been valued by AVISTA Valuation Advisory Limited, an independent valuer appointed by the Company. Details of the valuations are set out in Appendix V to the Circular. According to the Valuation Reports, the estimated fair values of the 100% equity interest of the Target Company and the Core Information Systems as of January 31, 2025 were HKD108,819,000 and HKD18,160,200 respectively.

We have conducted work as required under note (1)(d) to Rule 13.80 of the Listing Rules in relation to the Valuer and its work as regards the valuations. In particular, we have conducted interviews with the Valuer, covering its expertise in equity and asset valuation particularly in Hong Kong and the PRC. We understand that the Valuer is an established independent valuer with extensive experience, having completed a number of valuation assignments for listed companies in Hong Kong and the PRC. We note that the valuer-in-charge of the Valuation Reports has over 20 years of experience in the financial valuation and business consulting in Hong Kong, the PRC and other various regions.

We have reviewed the terms of engagement of the Valuer, having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer. We have also discussed the Valuation Reports with the Valuer, covering key aspects, such as (i) the Valuer's overall approach to the equity and asset valuation, (ii) the bases and assumptions adopted, including trading multiples based on comparable public companies, and (iii) the due diligence work performed by the Valuer. We have also obtained from the Valuer the relevant supporting materials that it used to substantiate the conclusions contained in the Valuation Reports.

(i) Valuation of 100% equity interest of the Target Company

In assessing the fair value of the 100% equity interest of the Target Company, the Valuer adopted the comparable company method under market approach, which computes the trading multiples for publicly listed companies that are comparable to the subject company and then applies the result to a base of the subject company. The Valuer confirmed that the comparable company method under market approach is commonly used for this type of business valuation.

Since there were only two recent comparable transactions that met the selection criteria during the review period from January 2023 to January 2025, and the wide range of multiples observed, the Valuer considered that the multiples derived based on such two comparable transactions limit their representativeness, and accordingly the comparable transaction method under the market approach was not regarded as an appropriate valuation method. We are advised by the Valuer that the comparable transactions during the abovementioned review period better reflect recent economic conditions while avoid distortions caused by, among others, pandemic. In this connection, we note that normal travel between Hong Kong and Mainland China was resumed in phases since January 8, 2023, together with the lifting of mandatory mask-wearing requirement in Hong Kong later on March 1, 2023. We therefore concur with the Valuer's view of using January 2023 as the start date of the review period, providing a period of at least two years of relevant data while avoiding the negative impact on the capital market during the period of COVID-19. We have also performed our own independent research on comparable transactions between January 2023 and the day before the Latest Practicable Date based on transaction target(s) with businesses and scales similar to those of the Target Group in Hong Kong, and have also arrived at the same conclusion that comparable transaction method is not appropriate due to the wide range of multiples. We therefore consider the use of the comparable company method under market approach to be reasonable.

The Valuer has considered the price-to-sales ("**P/S**"), price-to-earnings ("**P/E**"), price-to-book ("**P/B**"), enterprise value/sales ("**EV/S**") and enterprise value/EBITDA ("**EV/EBITDA**") multiples. Based on our discussions with the Valuer, (i) as the Target Group recorded net losses and negative EBITDA over the past two years, the earning-based multiples of the Target Group are not applicable, and the P/E and the EV/EBITDA multiples have not been adopted; (ii) the P/B multiple is most commonly adopted for asset-heavy companies, and the P/B multiple does not account for a company's specific intangible competencies and advantages. Hence, the Valuer did not consider the P/B multiple to be a good measurement of the fair value of the Target Group; and (iii) the enterprise value calculations generally require normalised adjustments on debts and/or non-operating assets/liabilities, which may be subjective, therefore the EV/S multiple has not been adopted. Given that the Target Group's adjusted revenue is relatively stable in the past two years, and the factors as discussed above, the Valuer concluded that the P/S multiple of comparable companies under market approach is the most appropriate in valuing the equity interest of the Target Company. As disclosed in the section above headed "2. Information on Yintech Holdings, Shanghai Feixiu, the Target Company and the Core Information Systems – Target Company", the Target Group incurred net losses and negative EBITDA in 2023 and 2024, and only turned around to a net profit in the first quarter of 2025, such that it is not appropriate to assess the value of the Target Company based on the P/E and EV/EBITDA multiples. In addition, the largest source of the Target Group's revenue is fee and commission income, which are mainly derived from clients' trading of stocks and futures, but not directly related to assets on its balance sheet (which are mostly financial assets). As such, we also concur with the Valuer that the P/B multiple is less desirable as a metric for assessing the value of the Target Company. Lastly, we note the recent waiver of the amounts owed by the Target Group to companies controlled by Yintech Holdings group in December 2024, and the remaining amounts due to related parties as at December 31, 2024.

Any adjustment on such transaction and balances with related parties in arriving at the enterprise value of the Target Group may also involve judgment, which is an example that support the Valuer's view that the EV/S multiple may require subjective adjustments. Considering the above, we consider the adoption of the P/S multiple of comparable companies under market approach to be acceptable.

The Valuer has identified ten comparable companies (the "**Comparable Companies**") that are listed on the Stock Exchange and engaged in business that is similar to the Target Group, with annual revenue of not exceeding HKD100 million and over 50% of total revenue derived from security brokerage (excluding security underwriting) and interest income from brokerage related business, according to their published financial information in the latest fiscal year. We understand from the Valuer that they have excluded companies that are either suspended from trading or in the process of group reorganisation (for example under a merger transaction). We consider the Valuer's selection criteria represent an appropriate approach to identify the Comparable Companies for the valuation purposes. The Valuer also confirmed that the ten Comparable Companies identified represent an exhaustive list, based on the above selection criteria. We have performed our own independent research on the Comparable Companies based on the stated selection criteria, and have arrived at the same set of Comparable Companies identified by the Valuer.

For the calculation of the fair value of the equity interest of the Target Company, the Valuer made adjustments to the Target Group's 2024 revenue and other income, of approximately HKD51.1 million, excluding those unrelated to its core business operations, i.e. gains on disposal of equity interest in subsidiaries of approximately HKD8.4 million and the rental revenue and inter-company management fee income of approximately HKD3.8 million in aggregate. The adjusted 2024 revenue of the Target Group of approximately HKD38.9 million was multiplied by the median P/S multiple of the Comparable Companies of approximately 2.92 times, in order to arrive at the equity value of the Target Company on marketable basis. The Valuer further adjusted the above valuation by applying a "control premium" of approximately 20.4%, reflecting the acquisition of the controlling stake in the Target Company, and a "lack of marketability discount" of approximately 20.4%, based on the fact that the Target Company is not publicly traded. We have obtained and reviewed the underlying historical statistics (sourced from Bloomberg) and research studies (sourced from Stout Restricted Stock Study Companion Guide 2024) in relation to the "control premium" and "lack of marketability discount" adopted by the Valuer. Given that that these historical statistics and research studies were produced by global database provider and advisory firm respectively, we consider that it is appropriate for the Valuer to make reference to them in determining the "control premium" and "lack of marketability discount". We consider the application of a "control premium" and a "lack of marketability discount" to be a reasonable approach, given the Group is acquiring 100% equity interest in the Target Company (rather than a minority stake), and that the Target Company is not traded on any stock exchange and therefore its shares have limited liquidity, unlike the Comparable Companies.

(ii) Valuation of the Core Information Systems

In assessing the fair value of the Core Information Systems, the Valuer adopted the asset-based approach, which takes into account the estimated total cost to recreate or replace the subject assets, based on current market prices for similar assets, with allowance for accrued depreciation. The Valuer confirmed that the assets-based approach is commonly used for this type of systems and software valuation. Based on our discussions with the Valuer, (i) due to the non-standardized and unique nature of the Core Information Systems which are customised for the business and operations of the Target Group, no comparable assets with similar form, functionality, medium, or transaction terms could be identified, and (ii) the Core Information Systems form an integral component of the Target Group's operational function, it is not feasible to segregate and quantify the revenue contributions or cost-savings directly attributable to the Core Information Systems from other tangible or intangible assets. Furthermore, the projection of future income relating to the Core Information Systems involves a number of parameters and subjective judgements. As a result, the market approach and the income approach were not considered suitable for the valuation purposes. Shanghai Feixiu, as the developer and owner of the systems and software, maintains detailed records of development and purchase, effective lines of code, and transparent research and development cost data relating to the Core Information Systems. The Valuer therefore concluded that the asset-based approach, which takes into account the cost to reproduce or replace, is the most suitable method against this background. We consider it not practicable for the Core Information Systems to be valued based on market approach or income approach due to the fact that (i) the Core Information Systems are uniquely and specifically designed for the Target Group and consequently would not have "comparable" transaction or systems, and (ii) as part of the Target Group's business operation, the Core Information Systems are not regarded as revenue-generating assets, and they do not have separately identifiable revenue stream or profit for the purpose of valuation under income approach. We therefore concur with the Valuer's conclusion that the asset-based approach is the most suitable approach in valuing the Core Information Systems.

The Valuer has assessed the costs associated with the reproduction or replacement of the Core Information Systems. The Valuer has discussed with representatives of Shanghai Feixiu to understand the development procedures, core functionalities and operational metrics, and conducted research on relevant market data. The key parameters considered include: (i) the number of source code lines, (ii) the daily output (in terms of lines of code) by a software developer, (iii) the software code reuse factor, (iv) the average monthly staff costs (including salary and contributions to social insurance and housing funds); (v) the estimated office and administrative support expenses, and (vi) a reasonable pre-tax profit margin. We have discussed with the Valuer the underlying bases and assumptions, and obtained and reviewed the relevant supporting documents and/or calculations to ascertain the abovementioned key parameters adopted, which are largely supported by market statistics and research. We have also reperformed the calculations of the replacement cost for each of the Core Information Systems based on the key parameters and formula provided and arrived at the same results. We have further enquired about the depreciation rate, the Valuer informed us that there have been periodical updates to the Core Information Systems, which they can continue to be used by the

Target Group for its business in the future. As advised by the Valuer, the Core Information Systems have been regularly updated, and that the resulting lines of code have been reflected in key valuation parameters as described above. As such, the Valuer confirmed to us that the costs of the previous regular updates and maintenance have been considered in the valuation of the Core Information Systems, and that the depreciation rate was not considered applicable.

Having considered (i) the reasons and benefits of the Acquisition as discussed in the section above headed "3. Reasons for and benefits of the Acquisition", (ii) the recent improvement in financial performance of the Target Group and the industry prospects as discussed in the section above headed "2. Information on the Yintech Holdings, Shanghai Feixiu, the Target Company and the Core Information Systems", (iii) the consideration for the Acquisition, determined primarily with reference to the fair values of 100% equity interest of the Target Company and the Core Information Systems as at January 31, 2025, which were reasonably assessed by the Valuer as discussed above, and (iv) our independent work performed as described above on the valuations of 100% equity interest of the Target Company and the Core Information Systems as assessed by the Valuer, we concur with the Directors' view that the consideration for the Acquisition of 100% equity interest of the Target Company and the Core Information Systems are fair and reasonable.

(iii) The Loan

In respect of the Loan, we understand from the management of the Group that the amount is intended to expand the Target Group's licensed business operations, in view of the anticipated increase in working capital requirements mainly driven by the enhanced IPO, trading and fundraising activities in the Hong Kong market. Having considered (i) the fact that the Loan will only be provided to the Target Group after obtaining the independent Shareholders' approval at the AGM and before the completion date of the Acquisition, which is subject to, among others, the SFC's approval of the change of the Target Group's controlling shareholder to the Group, (ii) the Target Company will become a wholly-owned subsidiary of the Company following completion of the Acquisition, such that the connected nature of the Loan will only last for a short period between the time of actual provision of the Loan and the completion date of the Acquisition, (iii) the interest rate applicable to such HKD Loan will be based on the 1-year HIBOR plus 0.6%, which is comparable to the interest rate of comparable loan as quoted by Forthright Securities from an independent third party commercial bank that we have obtained from the management of the Group and reviewed, (iv) the 1-year HIBOR plus 0.6% of approximately 3.6% is higher than the current interest rates earned by the Group on HKD fixed deposits, ranging from approximately 1.9% to 2.2% as advised by the management of the Group as at the Latest Practicable Date, such that the Group would be able to earn additional interest income from the provision of the Loan, and (v) the size of the Loan, capped at HKD15.0 million, is not significant as compared to the Group's total assets and cash and cash equivalents of approximately HKD3,789.4 million and RMB2,208.7 million respectively, we concur with the Directors' view that the terms of the Loan are fair and reasonable.

6. Financial effect on the Group

Following completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company, and accordingly, the operating results and the financial position of the Target Group will be consolidated into the financial statements of the Group. Set out below are the estimated financial effects on the Group arising from the Acquisition according to our discussions with the Group.

(i) Earnings

As set out in the section above headed "2. Information on Yintech Holdings, Shanghai Feixiu, the Target Company and the Core Information Systems", the Target Group has been generating a relatively stable revenue and other income in the past two years, amounting to approximately HKD51.1 million and HKD55.6 million in 2024 and 2023 respectively. It is expected that the Acquisition would bring immediate revenue contribution to the Group following completion of the Acquisition.

Independent Shareholders should note that the Target Group has recorded operating losses over the past two years, amounting to approximately HKD26.4 million and HKD41.2 million in 2024 and 2023 respectively. On a historical pro forma basis and for illustrative purposes only, the Acquisition would have a negative impact on the profitability of the Group, which recorded profits attributable to the Shareholders of approximately RMB272.4 million and RMB190.7 million in 2024 and 2023 respectively. Nevertheless, the Target Group recorded an unaudited net profit of approximately HKD3.0 million in the first quarter of 2025, showing a significant improvement when compared to prior financial years. While there is an uncertainty as to whether such level of profitability will persist in the long run, the management of the Group anticipates that the Target Group will benefit from the technical cooperation and funding supports from the Group following completion of the Acquisition, which may enhance the operating and financial performance of the Target Group in the future. For avoidance of doubt, the financial performance of the Target Group prior to completion of the Acquisition will not be reflected in the Group's financial results.

(ii) Net assets

Independent Shareholders should note that the consideration for the acquisition of 100% equity interest of the Target Company of HKD108.81 million is higher than the net assets of the Target Group of approximately HKD79.6 million as at December 31, 2024. It is expected that goodwill may potentially be recognised arising from the Acquisition, if the aforesaid consideration is higher than the estimated fair value of the identifiable net assets of the Target Group on the completion date. The Core Information Systems will be accounted for as intangible assets based on its estimated fair value on the Group's book, while the provision of the Loan would become intra-group assets and liabilities upon completion of the Acquisition and would be eliminated in full on the Group's consolidation.

The actual impact on the net assets of the enlarged Group will be subject to change as such amount will be calculated based on carrying values of the assets and liabilities of the Target Group as of the date on which completion of the Acquisition takes place.

(iii) Working capital and gearing ratio

The Group currently intends to finance the acquisition of (i) 100% equity interest of the Target Company at a consideration of HKD108.81 million and (ii) the Core Information Systems at a consideration of HKD18.16 million, as well as the Loan not exceeding HKD15.0 million, by its internal resources. In this respect, we note that as at December 31, 2024, the Group had cash and cash equivalents of approximately RMB2,208.7 million, while it had no bank borrowings or other interest-bearing borrowings. Capital commitments of the Group on the same date amounted to approximately RMB15.6 million.

Having considered (i) the financial position of the Group as at December 31, 2024, in particular its strong cash and other liquid financial resources as discussed above, (ii) the Group has no significant capital commitment as compared to its total assets scale, and (iii) the net cash generated from the Group's operating activities of approximately RMB444.0 million and RMB1,627.8 million in 2023 and 2024 respectively, we concur with the Directors' view that there will not be any material adverse impact on the working capital and gearing ratio of the Group immediately following completion of the Acquisition.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned. We consider the entering into of the Sale and Purchase Agreement, while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole.

We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the independent Shareholders to vote in favour of the ordinary resolution to be proposed at the AGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

John Wong
Director

Mr. John Wong is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over fifteen years of experience in the corporate finance industry.