

15 August 2025

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

## **DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE FACTORING AGREEMENT**

### **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 terms of the Factoring Agreement, details of which are set out in the letter from the Board contained in this circular of the Company dated 15 August 2025 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to the announcement and circular of the Company dated 3 July 2023 and 14 August 2023 respectively, in relation to the Previous Factoring Agreement. As the Previous Factoring Agreement is expected to expire on 31 August 2025 and the Company would like to continue the factoring services, on 11 July 2025, the Company entered into the Factoring Agreement with Longding Huayuan, pursuant to which the Company has agreed to provide accounts receivable factoring service for Longding Huayuan, with a factoring principal amount of up to RMB22,900,000 for a term of two years from the Effective Date.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Liu Shengwen, Mr. Hon Leung and Mr. Tong Qiang, has been established to consider and advise the Independent Shareholders on whether the Factoring Agreement has been entered into in the ordinary and usual course of business of the Group and on normal commercial terms, the terms of which are fair and reasonable and in the interests of the Group and the Shareholders as a whole. We, Octal Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we were not connected with the Group and Longding Huayuan or, where applicable, any of their respective substantial shareholders, directors or chief executives, or any of their respective subsidiaries or associates pursuant to Rule 17.96 of the GEM Listing Rules. In the two years immediately preceding the date of the Factoring Agreement, we were engaged by the Company as the independent financial adviser to the Company in respect of the Previous Factoring Agreement (details as contained in the circular of the Company dated 14 August 2023) (the “Previous Engagement”).

Under the Previous Engagement, we were required to express our opinion on and give recommendations to the Independent Board Committee and the Independent Shareholders of the Company in respect of the relevant transaction. Apart from normal professional fee payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, the Group and Longding Huayuan, or any of their respective subsidiaries or associates that could reasonably be regarded as relevant to our independence. We are therefore considered independent and suitable to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Factoring Agreement pursuant to Rule 17.96 of the GEM Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and the management of the Company regarding the Group and the Factoring Agreement, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and its 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 Factoring Agreement, we have taken the following principal factors and reasons into consideration:

### 1. Background information of the Group

The Group is principally engaged in the provision of finance leasing, factoring, consultancy and customer referral services, supply of medical equipment, energy storage business and cross-border e-commerce business in the PRC. The consolidated statement of comprehensive income for the years ended 31 December 2023 ("FY2023") and 2024 ("FY2024") extracted from the annual report of the Company for FY2024 (the "2024 Annual Report") are summarized as below:

	FY2023 RMB'000 (audited) (restated)	FY2024 RMB'000 (audited)
Income from factoring business	16,175	19,028
Others	2,271	227
Financial and advisory business <sup>1</sup>	18,446	19,255
Trading operation business <sup>2</sup>	3,557	24,134
Energy storage business <sup>3</sup>	35,066	89,677
Total revenue	<u>57,069</u>	<u>133,066</u>
Gross profit	17,351	44,871
Other income and gains	10,884	5,111
Total reversal of impairment loss/ (impairment loss), net <sup>4</sup>	10,184	(9,621)
Other operating, finance costs and income tax expenses	<u>(37,506)</u>	<u>(49,767)</u>
Profit/(loss) after tax for continuing operations	913	(9,406)
(Loss)/profit after tax for discontinuing operations	<u>(284)</u>	<u>731</u>
Profit/(loss) for the year	<u>629</u>	<u>(8,675)</u>

*Notes:*

1. It comprises (a) direct finance leasing; (b) sale-leaseback transactions; (c) factoring; (d) advisory services; and (e) investment holding.
2. Being trading of electronic products.
3. It comprises (a) trading of energy storage systems; (b) energy storage solutions and general construction; and (c) provision of energy storage services.
4. Breakdown of total reversal of impairment loss/(impairment loss), net:

	FY2023 RMB'000	FY2024 RMB'000
Reversal of impairment loss/(impairment loss) on factoring receivables	6,478	(10,614)
Reversal of impairment loss on finance lease receivables, other accounts receivables and amounts due from related parties, net	3,706	993
Total reversal of impairment loss/(impairment loss), net	<u>10,184</u>	<u>(9,621)</u>

*Comparison between FY2023 and FY2024*

During FY2024, the revenue of the Group was amounted to approximately RMB133.1 million, representing an increase of approximately RMB76.0 million from approximately RMB57.1 million for FY2023. As disclosed in the 2024 Annual Report, the increase in revenue was mainly due to (i) the substantial growth in its energy storage business as the Group offered diversified products and expanded sales channels contributing to an increase in revenue from energy storage business from approximately RMB35.1 million for FY2023 to approximately RMB89.7 million for FY2024; and (ii) the increase in sale of the cross-border e-commerce business with 6 branded audio products introduced during FY2024 and 9 branded audio products with selling prices ranging from US\$30 to US\$200 per unit contributing to an increase in revenue from trading operation business from approximately RMB3.6 million for FY2023 to approximately RMB24.1 million for FY2024. Despite the increasing scale of income from factoring business, its proportion to the Group's total revenue declined from 28.3% in FY2023 to 14.3% in FY2024 due to the growth of trading and energy storage businesses. Factoring income from Longding Huayuan is accounted for 1.2% and 1.2% of the Group's total revenue in FY2023 and FY2024 respectively.

During FY2024, the Group's gross profit amounted to approximately RMB44.9 million, representing an increase of approximately RMB27.5 million compared to approximately RMB17.4 million for FY2023. Such increment is mainly due to the increase in revenue from energy storage business and trading operation business during FY2024. The gross profit margin of the Group increased from approximately 30.4% for FY2023 to approximately 33.7% for FY2024.



During FY2024, the Group recorded an impairment loss on factoring receivables of approximately RMB10.6 million, while the Group reported a reversal of impairment loss on factoring receivables of approximately RMB6.5 million in FY2023. The increase in impairment loss on factoring receivables was mainly due to the fact that three factoring customers, being Independent Third Parties as advised by the management of the Company, were overdue for more than six months and had not repaid their receivables, and the mismanagement or poor operating performance of these customers, which resulted in the revenues received by them not being able to cover their operating costs. The impairment loss on factoring receivables for FY2024 also included the general provision for Longding Huayuan amounting to approximately RMB10,000 in accordance with the accounting standards. As advised by the management of the Company, Longding Huayuan has maintained a repayment pattern as stipulated in the Previous Factoring Agreement without overdue as at the Latest Practicable Date.

The Group's gearing is considered not significant, with bank borrowings of approximately RMB10.0 million as at 31 December 2024 and incurred minimal interest expenses of approximately RMB238,000 in FY2024. As at 31 December 2024, the bank borrowings were denominated in RMB, bore interest at fixed rate ranged from 3.05% to 3.2% per annum and repayable within one year.

Despite the increase of gross margin, the Group recorded loss after tax for continuing operation of approximately RMB9.4 million for FY2024 while the Group recorded profit after tax for continuing operation of approximately RMB0.9 million for FY2023. The loss making position of the Group for FY2024 was mainly due to (i) the increase in impairment loss on factoring receivables in FY2024 as discussed above; (ii) the increase in administrative expenses due to increase in staff remuneration and related administrative expenses for cross border e-commerce business; and (iii) the increase in share of loss of an associate from approximately RMB1.0 million for FY2023 to approximately RMB5.0 million for FY2024.

As disclosed in 2024 Annual Report, the Group entered into asset transfer agreements with an independent third party on 16 May 2024, whereby the Group agreed to dispose all 5G base stations constructed by its subsidiaries at a total consideration of approximately RMB10.2 million (subject to the consideration adjustment under the assets transfer agreements). As at 31 December 2024, the disposal of certain base stations was completed and the remaining base stations are expected to be completed in coming twelve months. The Group recognised the consideration receivable of approximately RMB2.8 million for the disposed based stations and received the partial settlement of approximately RMB2.4 million during FY2024. The remaining base stations and their associated assets and liabilities as at 31 December 2024 were classified as assets and liabilities held for sale and the results of 5G base station business segment have been presented as loss from discontinued operations. The Group recorded profit after tax from discontinuing operations of approximately RMB0.7 million for FY2024, representing an increase of approximately RMB1.0 million as compared to loss after tax for discontinuing operations for FY2023. Such increase was mainly due to the Group recorded gain of disposal of plant and equipment of approximately RMB1.1 million for FY2024.

The consolidated statement of financial position of the Group as at 31 December 2024 extracted from the 2024 Annual Report is summarised below:

	As at 31 December 2024 RMB'000 (audited)
Non-current assets	
– Financial assets at fair value through profit or loss ("FVTPL")	71,075
– Interest in an associate	45,760
– Accounts receivables <sup>1</sup>	801
– Others	29,845
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Total non-current assets	147,481
Current assets	
– Accounts receivables <sup>1</sup>	313,150
– Cash and cash equivalents	26,077
– Assets classified as held for sales	7,977
– Others	62,851
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Total current assets	410,055
<b>Total assets</b>	<b>557,536</b>
Current liabilities	
– Trade and other payables	94,075
– Bank borrowings	10,000
– Liabilities associated with assets classified as held for sale	3,377
– Others	7,777
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Total current liabilities	115,229
Total non-current liabilities	56
<b>Total liabilities</b>	<b>115,285</b>
<b>Net assets</b>	<b>442,251</b>
<i>Note 1: Breakdown of account receivables</i>	
Receivables from sales-leaseback	7,854
Factoring receivables with recourse	205,351
Trade receivables	96,340
Receivables from operating leases	4,406
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Total account receivables	313,951
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The Group's assets as at 31 December 2024 mainly included (i) accounts receivables of approximately RMB314.0 million; (ii) financial assets at FVTPL, which represents the investment of several unlisted equity securities, with a carrying amount of approximately RMB71.1 million; and (iii) investment in an associate, namely Shanghai KYMS Cloud Technology Co., Ltd. which is principally engaged in leasing of serviced office in the PRC, with a carrying amount of approximately RMB45.8 million, which in aggregate represented approximately 77.3% of total assets of the Group.

As at 31 December 2024, the Group's factoring receivables was approximately RMB205.4 million, among which approximately RMB22.9 million was due from Longding Huayuan, representing approximately 11.1% of the total factoring receivables. The Group hold collateral of the factoring receivables with a carrying amount of approximately RMB334.1 million over the factoring receivables, among of which, approximately RMB34.1 million was provided by Longding Huayuan.

As at 31 December 2024, the Group's liabilities mainly included trade and other payables of approximately RMB94.1 million, representing approximately 81.6% of total liabilities of the Group.

## 2. Background information of Longding Huayuan

Longding Huayuan is a company established in the PRC with limited liability and is principally engaged in real estate development. Based on public information available, as at the Latest Practicable Date, Longding Huayuan is held as to 90% by Dayuan Tiandi (being 55% held by Mr. Zhao Dehua (趙得驊) and 45% held by Mr. Gong Liang (貢亮)), 9.17% by Beijing Huien Investment Consultancy Co., Ltd (北京匯恩投資顧問有限公司) (being 100% held by Mr. Ma Xiaosong (馬曉松)), 0.5% by Beijing Chengjian Real Estate Development Co., Ltd (北京城建房地產開發有限公司) (being 100% held by the People's Government of Beijing Municipality), 0.33% by Mr. Zhang Wanguo (張萬國). Save for Dayuan Tiandi, all other shareholders of Longding Huayuan and their ultimate beneficial owners are Independent Third Parties.

Based on the unaudited financial statement, we noted that as at 31 December 2024, the net current assets and net assets of Longding Huayuan were approximately RMB2,378.3 million and RMB1,506.9 million, respectively. Longding Huayuan recorded net cash inflow from its operating activities of approximately RMB194.9 million for FY2024. We have also reviewed the unaudited financial statement of Longding Huayuan for the five months ended 31 May 2025 and noted that the net current assets and net assets of Longding Huayuan was approximately RMB2,368.3 million and RMB1,520.2 million, respectively.



Prior to entering into the Factoring Agreement, the Company has entered into the Previous Factoring Agreement pursuant to which the Company has agreed to provide accounts receivable factoring service for Longding Huayuan with a maximum factoring principal amount of up to RMB27.0 million (which was determined with reference to the underlying rental receivable from 12 lessees with a total value of approximately RMB34.1 million) for a term of two years and expected to expire on 31 August 2025. As disclosed in the circular of the Company in relation to the Previous Factoring Agreement, rental receivable of approximately RMB4.8 million of Longding Huayuan had become overdue and were unpaid by five tenants under five lease agreements, respectively. In response, the Company has adopted a prudent approach and subsequently reduced the actual factoring principal amount to RMB22.9 million (the “Actual Principal Amount”). As disclosed in the Letter from the Board, Longding Huayuan has taken follow-up actions with these five tenants and fully collected the overdue rental receivable before 31 December 2023. Pursuant to the Previous Factoring Agreement, the factoring interest was payable by Longding Huayuan to the Company on a monthly basis (which Longding Huayuan and the Company have subsequently entered into a supplemental agreement to amend the settlement period to a quarterly basis) and shall repay the principal and the interest due in a lump sum upon the maturity of the factoring period. As at the Latest Practicable Date, the outstanding amount due from Longding Huayuan to the Company under the Previous Factoring Agreement was RMB22.9 million. As discussed above, the Company has made an actual payment of RMB22.9 million to Longding Huayuan pursuant to the Previous Factoring Agreement, subject to the satisfaction of the terms and conditions as set out in the Factoring Agreement, no additional payment to Longding Huayuan is required upon effective of the Factoring Agreement.

### 3. Reasons and benefits for entering into the Factoring Agreement

The Group provides customised finance leasing and factoring services tailored for customers in a number of industries, including property development, property leasing, construction, architectural decoration, energy resources industries. As disclosed in 2024 Annual Report, the Company continues engaging in finance leasing and factoring business by adopting prudent financial management strategies and strengthening risk management measures to ensure the safety of funds. The entering into of the Factoring Agreement is in line with the Group’s business development.

The China Loan Prime Rate (“LPR”) announced monthly by the People’s Bank of China serves as the benchmark lending rate for commercial banks. The one-year LPR has been reduced from 3.45% in June 2024 to 3.00% in June 2025. According to the Central Economic Work Conference held in Beijing in December 2024, the Board considers it is the national agenda to adopt an accommodative monetary policy of low interest rate for the growth of overall economy and its financial and banking sectors in the PRC, which lead to a lower interest rate of 5% per annum in the Company’s recent factoring arrangements (to be detailed in “Historical Transactions of the Group” below). The default interest rate shall represent 1.5 times of the interest rate and thus has been reduced from 15% per annum to 7.5% per annum which is corresponding to the standard factoring interest rate being 5% per annum for the year ending 31 December 2025. After considering the continuous lower down of LPR and the accommodative monetary policy adopted in PRC for the year ending 31 December 2025, the Board is of the view that the reduction of interest rate is in line with the macro-environment and the industry norm.



Longding Huayuan was established in the PRC with principal businesses encompassing property development in the PRC. We understand that the Group has established a stable business relationship with Longding Huayuan since 2016. The Group have provided accounts receivable factoring services to Longding Huayuan under the Previous Factoring Agreement with the Actual Principal Amount. During FY2023 and FY2024, the Company recorded income from the Previous Factoring Agreement of approximately RMB672,000 and RMB1,554,000, representing approximately 4.2% and 8.2% of the factoring income of the Group for FY2023 and FY2024, respectively. We have obtained and reviewed the settlement record of Longding Huayuan from the effective date of the Previous Factoring Agreement (i.e. 31 August 2023) to the date of the Factoring Agreement and noted that the monthly (or, as supplemented, quarterly) interest payment from Longding Huayuan has been made on time, except for a two-days delay in October 2024. Since Longding Huayuan has a proven settlement record and business track record with the Group, it is commercially reasonable to continue the business relationship with Longding Huayuan.

There is a reduction of cash balance of the Group from RMB62.3 million as at 31 December 2023 to RMB26.1 million as at 31 December 2024. Having considered (i) the Group's net current asset position of RMB294.8 million; and (ii) the factoring principal of RMB22.9 million has been made and there is no other additional amount will be paid by the Group pursuant to the Factoring Agreement, we concur with the management of the Company that the Factoring Agreement would not adversely affect its liquidity and its working capital position.

Furthermore, entering into the Factoring Agreement enables the Company to secure stable interest income. The Company expected that the aggregate income from the Factoring Agreement would be approximately RMB2.2 million over the course of the Factoring Agreement which could provide the Group with a stable income and cash flow without significant credit risk based on the business track record with Longding Huayuan, which is in line with the Group's risk management perspective. Entering into the Factoring Agreement could also enable the Company to reduce the costs associated with soliciting new customers.

Based on the above, we are of the view that it is commercially justifiable to entering into the Factoring Agreement.

#### 4. Factoring Agreement

The principal terms of the Factoring Agreement are summarised below:

<b>Date of agreement:</b>	11 July 2025
<b>Parties:</b>	The Company (as factor)  Longding Huayuan (as seller)
<b>Type of facility:</b>	One-off and with recourse
<b>Financing term:</b>	A term of two years commencing from the Effective Date (or of a term until the date on which the factoring principal amount and factoring expenses are fully settled, whichever is the later but in any event will not be later than 30 August 2027)
<b>Transfer of accounts receivables:</b>	<p>Subject to the terms and conditions of the Factoring Agreement, the accounts receivables of Longding Huayuan as referred to in the underlying transaction documents entered into between the parties pursuant to the Factoring Agreement shall be assigned to the Company.</p> <p>The accounts receivable to be assigned under the Factoring Agreement are rental receivable of Longding Huayuan in relation to its commercial premises located in various blocks of residential buildings within 3 residential projects developed by Longding Huayuan in Tiancun Road, Haidian District, Beijing, the PRC (北京海澱區田村路) under 13 lease agreements with a total rental receivable of approximately RMB29.0 million as at 11 July 2025. Under the respective lease agreements, the tenants shall make upfront rental payments to Longding Huayuan, among which 5 tenants shall pay on an annual basis, 5 tenants shall pay on a bi-annual basis, 1 tenant shall pay on a quarterly basis and 2 tenants shall pay on a monthly basis.</p>



Factoring principal  
amount:

A maximum amount of up to RMB22,900,000 (the  
"Factoring Limit").

The factoring principal amount will normally be calculated by the aggregate amount of accounts receivables to be assigned to the Company times the factoring ratio in accordance with the terms of the Factoring Agreement and, in any event, shall not exceed the Factoring Limit.

The maximum factoring principal amount of RMB22,900,000 for the Factoring Agreement was determined after arm's length negotiations with reference to (i) the lending capacity of the Group for the provision of the funding under the Factoring Agreement after considering the Group's working capital requirement; (ii) the funding need of Longding Huayuan; (iii) the repayment capability of Longding Huayuan given the Group's historical transactions conducted with Longding Huayuan as evidenced by the Previous Factoring Agreement, and its settlement record and noting that Longding Huayuan has always made payments under the Previous Factoring Agreement with good repayment history; (iv) the business performance and business development of Longding Huayuan bears a stable trend; (v) the stable operating cash inflow of Longding Huayuan will guarantee its repayment of the factoring principal amount and factoring interest under the Factoring Agreement; (vi) the underlying accounts receivable of the Factoring Agreement are rental receivable from 13 lessees with a total value of approximately RMB29.0 million, of which (1) approximately RMB17.4 million is attributable to existing lease agreements between Longding Huayuan and the lessees; and (2) approximately RMB11.6 million is attributable to written confirmations provided by the existing lessees who have confirmed their intention to renew the lease agreements with Longding Huayuan upon expiry of their current agreements; and (vii) the repayment capability of the guarantor under the Factoring Agreement is adequate to fulfill the relevant repayment liabilities of Longding Huayuan in the event of default by Longding Huayuan.

**Payment of factoring principal amount:**

As the Company has made an actual payment of RMB22,900,000 to Longding Huayuan pursuant to the Previous Factoring Agreement, subject to the satisfaction of the terms and conditions as set out in the Factoring Agreement, no additional payment will be made to Longding Huayuan.

**Factoring ratio:**

The factoring ratio, which represents the ratio of the maximum factoring principal amount to the accounts receivables being assigned, under the Factoring Agreement shall not exceed 80%.

**Factoring interest:**

The factoring interest shall be calculated based on the following formula:

$$(A \times B) \div 360 \times C$$

A = the outstanding balance of the factoring principal amount

B = the interest rate of 5% per annum

C = the actual number of days of the advancement

The factoring interest under the Factoring Agreement shall be payable by Longding Huayuan to the Company on a quarterly basis pursuant to the terms of the Factoring Agreement.

The factoring interest was determined after taking into account (i) the prevailing interest rate for factoring transactions in the PRC factoring industry; (ii) the standard factoring interest rate being 5% per annum currently set by the Company for the year ending 31 December 2025 which is equally applicable to Independent Third Parties and connected persons; and (iii) the risk associated with the factoring activities under the Factoring Agreement, including but not limited to, the credit assessment of Longding Huayuan based on its business, financial position and repayment capability reflected by the due diligence conducted by the Company, the value of the underlying accounts receivable and the repayment capability of the guarantor.



**Repayment of the  
factoring principal  
amount:**

The factoring principal amount is repayable in full on or before 30 August 2027 pursuant to the terms and conditions of the Factoring Agreement.

**Factoring expenses:**

The factoring expenses comprise (i) the factoring interest as set out above; (ii) the default interest in respect of the outstanding factoring principal amount and the factoring interest due but not repaid, as set out in the paragraphs under "Default interest rate and default payment mechanism" in the Letter from the Board; and (iii) other expenses, such as administrative fees, legal fees and disbursements, as incurred by the Company in the course of rendering the accounts receivable factoring services and shall be payable by Longding Huayuan pursuant to the terms of the Factoring Agreement.

The payment of the factoring interest and the default interest in respect of the outstanding factoring principal amount and the factoring interest due but not repaid shall be payable by Longding Huayuan to the Company on a quarterly basis.

Other expenses incurred by the Company (if any) in the course of rendering the accounts receivable factoring services shall be repayable together with the repayment of the factoring principal on or before 30 August 2027.

**Guarantee:**

Mr. Gong Liang (貢亮) entered into a guarantee in favour of the Company in respect of all debt payable by Longding Huayuan to the Company under the Factoring Agreement.

Details of the Factoring Agreement can be referred to the Letter from the Board.

5. Assessment of the principal terms of the Agreement

*Accounts Receivables of Longding Huayuan*

The underlying accounts receivables comprise of (i) rental receivables of approximately RMB17.4 million based on eight existing lease agreements (the “Ongoing Lease Agreements”); and (ii) potential rental receivables of approximately RMB11.6 million based on nine written confirmations received from the respective tenants confirming their intension for renewal of the existing lease agreements which are going to be expired during the terms of the Factoring Agreement (the “Written Confirmations”). We noted that the accounts receivables involved 13 properties (the “Properties”) which Longding Huayuan have obtained the property ownership certificates. We further noted that the Properties has been pledged by Longding Huayuan to a bank for a loan of approximately RMB200 million which Longding Huayuan has made normal repayment and has no overdue record. The tenants of the Properties include national’s banks, beauty service provider, oral care clinic and kindergarten, etc. We have also obtained the existing lease agreements of the Properties (the “Existing Lease Agreements”) and the rental settlement records of the Existing Lease Agreements from 1 January 2024 to 30 June 2025 and noted that the tenants have fully settled the rental and have no overdue rental as at Latest Practicable Date.

We further noted that among the Existing Lease Agreements, two will be expired in 2025, five will be expired in 2026 and two will be expired in 2027. Longding Huayuan has provided to the Company the Written Confirmations from these nine tenants to confirm their intention to renew the lease agreements, for a further two or three years terms while the renewed lease agreements will be signed within two months prior to the end of the relevant lease agreements. Based on the Written Confirmations, each of the tenants has confirmed the major term of the lease renewal agreement, including the rental and payment method, will be same as the respective Existing Lease Agreements and the rental will not be less than the latest rental under the respective Existing Lease Agreements. The Company further advised that Longding Huayuan has established a long term relationship with these nine tenants and they have been leased the respective Properties from Longding Huayuan over five years.

As disclosed in the Letter from the Board, and we concur with the Directors that it is impracticable to require such nine tenants to renew their lease agreements with Longding Huayuan long before expiry. We further noted the PRC counsel has considered that the Written Confirmations are legally binding under the PRC law and the tenants are obliged by PRC law to enter into the renewed lease agreements pursuant to the terms and conditions as specified under the Written Confirmations.



Based on the calculation prepared by the Company, the estimated rental receivables of Longding Huayuan for a term of two years commencing from the Effective Date amounted to approximately RMB29.0 million, among of which the rental receivables based on the Ongoing Lease Agreements are amounted to RMB17.4 million, representing approximately 60.0% of the total estimated rental receivables and the remaining rental receivables based on the Written Confirmations are amounted to RMB11.6 million. We further reviewed the expected cash inflow of the rental under the Ongoing Lease Agreement and the Written Confirmations, in which approximately RMB4.2 million, RMB14.5 million and RMB10.4 million will be realised during the four months ending 31 December 2025, the year ending 31 December 2026 and the eight months ending 31 August 2027, respectively. As advised by the management of the Company, should Longding Huayuan fail to renew the lease agreements with the tenants, the Company could demand Longding Huayuan to immediately and unconditionally repurchase the relevant portion of the accounts receivables, repay the outstanding factoring principal amount and pay the factoring expenses. Thus, if Longding Huayuan fails to renew the lease agreements with any of these nine tenants within two months prior to the expiry of the relevant lease agreements, the Company will on the same day issue a written notice to demand repurchase pursuant to the Factoring Agreement. Longding Huayuan shall immediately and unconditionally repurchase the relevant portion of the accounts receivables, repay the outstanding factoring principal amount and pay the factoring expenses within three days upon receiving the notice from the Company so that the actual factoring ratio of the Factoring Agreement shall not exceed 80%.

#### *Factoring Ratio*

The maximum amount of factoring principal is RMB22.9 million, and the aggregate amount of the accounts receivable to be assigned under the Factoring Agreement is RMB29.0 million, thus the actual factoring ratio of the Factoring Agreement is approximately 79%.

The factoring ratio of the Historical Agreements (as defined in the section headed “Historical Transactions of the Group”) are ranged from approximately 70% to 85% with an average factoring ratio of approximately 79% and median factoring ratio of approximately 80%. The actual factoring ratio of 79% under the Factoring Agreement falls within the range of the Historical Agreements and same as the average factoring ratio of the Historical Agreements and is determined based on the overall strength and competitiveness of the customer as well as its financial condition, business operation, repayment capability and credit status, and the Company is of the view that the actual factoring ratio of 79% is therefore fair and reasonable and it presents a lower credit risk to the Company.

*Longding Huayuan*

For our due diligence purpose, we have reviewed the due diligence and credit assessment result performed by the business department and the risk management department of the Company. The Company performed on-site visit and reviewed lease agreements, settlement records of rental and status of the Properties. We also reviewed the assessment result in relation to business background, shareholding structure, senior management structure, pledged assets, litigation search of Longding Huayuan and noticed that the assessment result concluded by the Company was satisfactory.

Regarding the background and shareholding structure of Longding Huayuan, we have retrieved the company report from the online platform and checked to its shareholder, shareholder structure, directorship and legal representative, we noted that the information disclosed in the said report are same as those disclosed in the Company's own assessment report. We have performed a research on the public domain and the information available on the website of Beijing Municipal Commission of Housing and Urban Rural Development\* ("北京市住房和城乡建设委員會") and noted that there were no administrative penalties imposed to Longding Huayuan. We have further obtained and reviewed a corporate credit report issued by People's Bank of China – Credit Reference Center ("中國人民銀行－徵信中心") in June 2025 in relation to the credit activities of Longding Huayuan. Based on this report, we noticed that Longding Huayuan made repayment according to the respective terms of all of its previous loans and existing loans with different financial intuitions and there is no overdue record in relation to its historical credit activities. We also obtained the financial information of Longding Huayuan for FY2023 and FY2024 and noticed that Longding Huayuan recorded net asset of approximately RMB1,506.9 million as at 31 December 2024 and its gearing ratio (calculated by total bank borrowings divided by total assets) was approximately 24.8% for FY2024, which has been improved by 3.0% as compared to 27.8% for FY2023.



We also checked to the repayment record in relation to the Previous Factoring Agreement and noted that the repayment has been made on a timely basis. The Company advised that there is no overdue amount from Longding Huayuan as at the Latest Practicable Date.

#### *Guarantee*

In the event of default, Mr. Gong Liang, being the guarantor, is responsible in respect of all debt payable by Longding Huayuan to the Company pursuant to the Factoring Agreement. Mr. Gong Liang is also the guarantor for the Previous Factoring Agreement.

To assess the financial competency of Mr. Gong Liang, we understood that Mr. Gong Liang owns 45% equity interest in Dayuan Tiandi, which is a substantial Shareholder of the Company. Mr. Gong Liang is the director and the legal representative of Dayuan Tiandi as at the Latest Practicable Date. We reviewed the unaudited management accounts of Dayuan Tiandi for FY2024 and noted that Dayuan Tiandi had total assets and net assets of approximately RMB1,534.0 million and RMB160.1 million respectively as at 31 December 2024 and recorded net profit of approximately RMB1.3 million for FY2024.

We obtained and reviewed a credit report issued by People's Bank of China – Credit Reference Center (“中國人民銀行－徵信中心”) in May 2025 regarding credit activities of Mr. Gong Liang. Based on his credit report, we noticed that Mr. Gong Liang made timely repayment on his personal loans and did not have loan default record. As at the date of the report, Mr. Gong Liang has no outstanding personal loans.

Considering Mr. Gong Liang's investments and indirect interest in the Company, as well as Mr. Gong Liang's credit report, we concur with the Directors that Mr. Gong Liang is financially competent to be the guarantor under the Factoring Agreement.

Despite that (i) among the rental receivables of approximately RMB29.0 million, there are approximately RMB11.6 million has not been secured and is subject to the renewal of the lease agreements by Longding Huayuan with its tenants; and (ii) the Properties has been pledged by Longding Huayuan to a bank, risk management department of the Company further take into account of the following factors:

1. Longding Huayuan has received the Written Confirmations from its tenants to confirm their intension to renew the lease agreements for a further two or three years and the rental will be not less than the current rental under the Existing Lease Agreements;
2. the Written Confirmations are legal binding according to the PRC legal adviser;
3. Longding Huayuan has established a long term relationship with its tenants;

4. Longding Huayuan has no overdue record under the Previous Factoring Agreement;
5. there were no material negative findings in relation to the creditability of Longding Huayuan and those tenants based on the public information available;
6. Longding Huayuan recorded net asset of approximately RMB1,506.9 million as at 31 December 2024 and its gearing ratio for FY2024 has been improved;
7. the Factoring Agreements include repurchase mechanisms which provided safeguard to the Company should Longding Huayuan fail to renew the lease agreements; and
8. Mr. Gong Liang is financially competent to be the guarantor under the Factoring Agreement;

we concur with the Company that the credit assessment of Longding Huayuan conducted by the Company was satisfactory.

#### *Historical Transactions of the Group*

In assessing the fairness and reasonableness of the terms of the Factoring Agreement, we have identified 10 factoring transactions which (i) were announced by the Company during the period from 1 January 2023 to the date of the Factoring Agreement; and (ii) the factoring transactions are in relation to the factoring agreements entered into by the Group with the Independent Third Parties. We consider that these 10 factoring transactions (the “**Historical Transactions**”) represent an exhaustive list based on such criteria and would provide a benchmarking comparison for our analysis. The principal terms of the Historical Transactions are set out below:

Date of Announcement	Customer of the Company	Principal (RMB)	Ratio	Interest p.a.	With Year recourse	With guarantee
19 May 2023	Jiangsu Laihui Construction Group Co., Ltd	30,000,000	70%	5% <sup>1</sup>	1 <sup>2</sup> Yes	Personal guarantee
16 June 2023	Beijing Yinte Nadi Construction Material Trading Co., Ltd.	31,000,000	80%	5% <sup>1</sup>	1 <sup>2</sup> Yes	Personal guarantee



Date of Announcement	Customer of the Company	Principal (RMB)	Ratio	Interest p.a.	Year	With recourse	With guarantee
4 August 2023	Beijing Tongnan Decoration Co., Ltd.	10,000,000	75%	5% <sup>1</sup>	1 <sup>2</sup>	Yes	Personal guarantee
23 December 2023	Beijing Zhisheng Shiye Decoration Engineering Co., Ltd.	28,000,000	85%	5% <sup>1</sup>	1 <sup>3</sup>	Yes	Personal guarantee
22 March 2024	Zhongheng Yingzao Construction Technology (Beijing) Group Co., Ltd.	20,000,000	80%	5% <sup>1</sup>	1 <sup>3</sup>	Yes	Personal guarantee
12 April 2024	Beijing Dongsheng Xilian Stone Co., Ltd.	10,000,000	80%	5% <sup>1</sup>	1 <sup>3</sup>	Yes	Personal guarantee
7 June 2024	Beijing Tongdahang Building Decoration Engineering Co., Ltd.	10,000,000	80%	5% <sup>1</sup>	1 <sup>3</sup>	Yes	Personal guarantee
17 June 2024	Beijing Dongfang Gelaimai Wallpaper Co., Ltd.	5,000,000	80%	5% <sup>1</sup>	1 <sup>3</sup>	Yes	Personal guarantee
5 July 2024	Decheng Laite International Trading Co., Ltd.	7,000,000 <sup>4</sup>	80%	10%	1 <sup>3</sup>	Yes	Personal guarantee
23 May 2025	Beijing Kuaiyi Tiandi Enterprise Management Co., Ltd. <sup>5</sup>	8,000,000	83.4%	5%	2	Yes	Corporate guarantee
		Maximum	85%	10%	2		
		Minimum	70%	5%	1		
		Average	79%	N/A	N/A		
		Median	80%	N/A	N/A		
	Factoring Agreement	22,900,000	80%	5%	2	Yes	Personal guarantee

*Notes:*

1. The Company has subsequently entered into a supplemental agreement with the customer to reduce the interest rate from 10% p.a. to 5% p.a.
2. The Company has subsequently entered into a supplemental agreement with the customer to extend the terms for two years. As at the Latest Practicable Date, the factoring agreement has not yet expired.
3. The Company has subsequently entered into a supplemental agreement with the customer to extend the terms for one year. As at the Latest Practicable Date, the factoring agreement has not yet expired.
4. The Company has subsequently entered into a supplemental agreement with the customer to reduce the principal amount to RMB5.0 million.
5. Beijing Kuaiyi Tiandi Enterprise Management Co., Ltd. is owned as to 51% by Shanghai Kuaiyi Mingshang Cloud Technology Co., Ltd. and the Company indirectly owned as to 20.81% of the shares of Shanghai Kuaiyi Mingshang Cloud Technology Co., Ltd. To the best of the knowledge, information available and belief of the Directors having made all reasonable enquiry, except for the equity interests indirectly held by the Company, Beijing Kuaiyi Tiandi Enterprise Management Co., Ltd. and its ultimate beneficial owners are Independent Third Parties.

*Factoring Ratio*

The factoring ratio of the Historical Transactions are ranged from approximately 70% to 85% with an average factoring ratio of approximately 79% and median factoring ratio of approximately 80%. The factoring ratio of 80% under the Factoring Agreement falls within the range of the Historical Transactions and same as the median factoring ratio of the Historical Transactions.

Based on the rental receivable to be assigned by Longding Huayuan of RMB29.0 million and the actual factoring principal amount of RMB22.9 million, the corresponding factoring ratio is 79.0% which is lower than the prescribed factoring ratio of 80%.

*Factoring Interests*

The factoring interests from the Historical Transactions are ranged from approximately 5% to 10%. The factoring interest of the Factoring Agreement of 5% therefore falls at the low end of the said range of the Historical Transactions and is in line with most of the Historical Transactions.

*Factoring Terms*

The factoring terms of the Historical Transactions are ranged from approximately 1 year to 2 years. The term of the Factoring Agreement is 2 years which is in line with the general business practice of the Group.

*Guarantee*

All Historical Transactions are covered with either personal guarantee or corporate guarantee which offers additional protection to the Company. The Factoring Agreement is also covered by a personal guarantee in relation to all debts payable by Longding Huayuan to the Company.



### Comparable Transactions

We have also conducted research on the companies listed on the Stock Exchange and identified 21 factoring transactions (the “Comparable Transactions”) based on the criteria (i) the factoring agreement entered into during the period from 1 July 2024 to the date of the Factoring Agreement; and (ii) the listed company is the factoring services provider of the relevant transaction. The Comparable Transactions set forth in the below table represent an exhaustive list based on such criteria and are relevant and comparable to the Factoring Agreement. We are of the view that the review period covered one year prior to the date of the Factoring Agreement is appropriate since it provided a reasonable number of recent samples for our analysis and the Comparable Transactions as a whole can provide a general reference of key terms for similar factoring transactions conducted by the listed companies under the current market conditions.

The table below illustrates the major terms of the Comparable Transactions:

Date of announcement	Company Name	Stock code	Principal (RMB)	Ratio	Interest p. a.	Year	With guarantee
29 July 2024	Zhongguancun Science-Tech Leasing Co., Ltd.	1601	80,000,000	75%	3.5%	3.0	No
2 September 2024	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
9 September 2024	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
11 September 2024	Shanghai Dazhong Public Utilities (Group) Co., Ltd	1635	50,000,000	Not Disclosed <sup>1</sup>	4.9%	1.0	No
24 September 2024	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
25 September 2024	Metropolis Capital Holdings Limited	8621	7,000,000	95%	12.0%	1.0	No

Date of announcement	Company Name	Stock code	Principal (RMB)	Ratio	Interest p. a.	Year	With guarantee
15 November 2024	Yue Da International Holdings Limited	629	45,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
20 November 2024	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
22 November 2024	Yue Da International Holdings Limited	629	40,000,000	Not Disclosed <sup>1</sup>	7.8% <sup>3</sup>	1.0	Corporate guarantee
13 December 2024	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
19 December 2024	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	6.0% <sup>4</sup>	1.0	Corporate guarantee
26 December 2024	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
27 December 2024	Yue Da International Holdings Limited	629	47,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
27 December 2024	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
17 January 2025	Yue Da International Holdings Limited	629	40,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.0	Corporate guarantee
28 February 2025	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	8.0% <sup>2</sup>	1.9	Corporate guarantee
14 March 2025	Metropolis Capital Holdings Limited	8621	8,000,000	95%	8.0%	1.0	No



Date of announcement	Company Name	Stock code	Principal (RMB)	Ratio	Interest p. a.	Year	With guarantee
18 March 2025	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	8.2% <sup>5</sup>	2.1	Corporate guarantee
26 March 2025	Yue Da International Holdings Limited	629	45,000,000	Not Disclosed <sup>1</sup>	8.2% <sup>5</sup>	2.0	Corporate guarantee
27 March 2025	Yue Da International Holdings Limited	629	50,000,000	Not Disclosed <sup>1</sup>	7.0% <sup>6</sup>	1.1	Corporate guarantee
11 June 2025	Yue Da International Holdings Limited	629	35,000,000	Not Disclosed <sup>1</sup>	8.2% <sup>5</sup>	2.1	Corporate guarantee
			Maximum	95%	12.0%	3.0	
			Minimum	75%	3.5%	1.0	
			Average	88%	7.7%	1.3	
			Median	95%	8.0%	1.0	
	The Factoring Agreement		22,900,000	80%	5.0%	2.0	Personal guarantee

*Notes:*

1. The announcement does not disclose relevant factoring ratio thus excluded from the calculation of average and median.
2. The factoring interest was in a range of 8.0% to 9.0%. We have taken 8.0% in this analysis.
3. The factoring interest was in a range of 7.8% to 8.2%. We have taken 7.8% in this analysis.
4. The factoring interest was in a range of 6.0% to 6.8%. We have taken 6.0% in this analysis.
5. The factoring interest was in a range of 8.2% to 9.2%. We have taken 8.2% in this analysis.
6. The factoring interest was in a range of 7.0% to 8.0%. We have taken 7.0% in this analysis.

#### *Factoring Ratio*

Based on the above table, we noted that the factoring ratio of the Comparable Transactions ranged from approximately 75% to 95% with an average of approximately 88% and median ratio of 95%. The factoring ratio of the Factoring Agreement is within the range of the Comparable Transactions and lower than the average of the Comparable Transactions. We consider that it is favourable to the Company from the risk-control perspective to have a lower factoring ratio.

#### *Factoring Interests*

Based on the above table, we noted that the factoring interest per annum of the Comparable Transactions ranged from approximately 3.5% to 12.0% with an average and median of approximately 7.7% and 8.0%. The factoring interest rate of 5.0% per annum under the Factoring Agreement is within the range of the Comparable Transactions.

Although the factoring interest rate under the Factoring Agreement is below the average and median rates of the Comparable Transactions, it aligns with the majority of the Historical Transactions which are considered more relevant than the Comparable Transactions as the former reflects the terms of factoring arrangements that the Company have offered to its clients.

#### *Factoring Term*

The term of the Factoring Agreement is approximately 2 years, which falls within the range of factoring terms of the Comparable Transactions.

#### *Guarantee Arrangement*

Majority of the Comparable Transactions has provided corporate guarantee in the factoring agreements. We consider that the personal guarantee arrangement is offering an additional protection to mitigate the default and credit risk in relation to the Factoring Agreement.



Having considered, in particular that (i) the factoring ratio, the factoring interest and the duration of the Factoring Agreement are within the range of Comparable Transactions; (ii) the factoring interest of the Factoring Agreement is in line with most of the Historical Transactions; and (iii) the guarantee under the Factoring Agreement provided extra protection against credit risk, we are of the view that the terms of the Factoring Agreement are on normal commercial terms.

#### 6. Internal control

As disclosed in the Letter from the Board, the Company conducted the due diligence and credit assessment on Longding Huayuan by the business department and the risk management department of the Company in accordance with the Group's internal assessment policy before entering into the Factoring Agreement. The relevant assessment covered the areas in relation to Longding Huayuan's management team, financial position, credit records, verification of the authenticity of the accounts receivable, verification of the performance and payment ability of the debtors of the accounts receivable, business operation and future prospects.

We have reviewed the assessment report prepared by the risk management department of the Company in relation to the due diligence and credit assessment for Longding Huayuan and noted that the risk management department (i) examined the terms of the Factoring Agreement; (ii) performed on-site visit to confirm the existence and status of the Properties; (iii) reviewed the business and the financial status of Longding Huayuan; (iv) conducted background check and litigation check to assess creditworthiness of Longding Huayuan; (v) examined the lease agreements, background and rental payment of selected tenants of the underlying lease agreements to verify the ownership and existence of the rental receivables; and (vi) reviewed the recent corporate credit report of Longding Huayuan and the credit report of Mr. Gong Liang.

Based on the due diligence work performed by the Company, the Company is of the view that the credit assessment of Longding Huayuan is satisfactory and the credit risk on the Factoring Agreement is relatively low. Further, we noted that the assessment report was subsequently circulated to the review committee for review and approved by all five committee members and was reviewed by the Board. We consider that there are internal control procedures in place to assess the quality and risk of the potential factoring customers before the execution of factoring agreement.

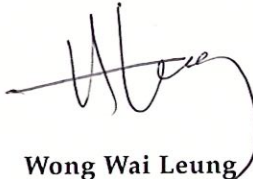
## RECOMMENDATION

Having considered the following:

1. the PRC counsel has considered that the Written Confirmations are legally binding under the PRC law and the tenants are obliged by PRC law to enter into the renewed lease agreements pursuant to the terms and conditions as specified under the Written Confirmations;
2. the Factoring Agreements include repurchase mechanisms and personal guarantee from Mr. Gong Liang which provided safeguard to the Company should Longding Huayuan fail to renew the lease agreements, Longding Huayuan shall immediately and unconditionally repurchase the relevant portion of the accounts receivables, repay the outstanding factoring principal amount and pay the factoring expenses;
3. terms of the Factoring Agreement are comparable to the Historical Transactions and the Comparable Transactions;
4. as per the unaudited financial statement of Longding Huayuan for the five months ended 31 May 2025, Longding Huayuan has sufficient assets to support its operations and meet its debt obligations and has no overdue record under the Previous Factoring Agreement and other borrowings; and
5. the principal amount of RMB22.9 million representing approximately 11.1% of the total factoring receivables of the Group as at 31 December 2024 and the expected income of approximately RMB2.2 million is not significant to the Group's total revenue,

we are of the view that the entering of the Factoring Agreement is in the ordinary and usual course of business of the Group, is on normal commercial terms, and the terms of which are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed for approving the Factoring Agreement at the EGM.

Yours faithfully  
For and on behalf of  
Octal Capital Limited



Wong Wai Leung  
Executive Director

*Note:* Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer Type 9 (asset management) regulated activities, accumulated experience in corporate finance and investment banking and has completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.