27 June 2023

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF REMAINING EQUITY INTEREST IN DALIAN RONGXIN

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition. Details of the Acquisition are set out in the letter from the Board (the "**Letter from the Board**") contained in this circular of the Company dated 27 June 2023 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 29 May 2023 (the "**Announcement**"). On 29 May 2023, Xinche Investment (an indirect wholly-owned subsidiary of the Company), Beijing Bitauto and Dalian Rongxin entered into the Equity Transfer Agreement, pursuant to which Xinche Investment has conditionally agreed to acquire, and Beijing Bitauto has conditionally agreed to sell, 67.7966% equity interest of Dalian Rongxin at a total consideration of RMB640 million.

As at the Latest Practicable Date, Dalian Rongxin was owned as to approximately 67.7966% by Beijing Bitauto which is a subsidiary of Tencent (a Controlling Shareholder). Therefore, Beijing Bitauto is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

OPTIMA CAPITAL LIMITED
創越融資有限公司
Suite 1501, 15th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong
香港中環康樂廣場1號怡和大廈15樓1501室
Tel +852 3523 6288 Fax +852 3523 1318
www.optima-capital.hk

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the Acquisition is required to abstain from voting on the relevant resolutions at the EGM. As at the Latest Practicable Date, (i) Tencent and its associates control the voting rights in respect of an aggregate of 2,941,475,317 Shares (representing approximately 45.08% of the issued share capital of the Company); (ii) Mr. Richard Liu and his associates control the voting rights in respect of an aggregate of 1,028,731,921 Shares (representing approximately 15.77% of the issued share capital of the Company); and (iii) Mr. Rodney Tsang and his associates control the voting rights in respect of an aggregate of 650,691,044 Shares (representing approximately 9.97% of the issued share capital of the Company), and therefore, Tencent, Mr. Richard Liu, Mr. Rodney Tsang and each of their respective associates will abstain from exercising the voting rights attached to these Shares on the relevant resolution at the EGM. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as disclosed above, no Shareholder has a material interest in the resolution in respect of the above mentioned connected transaction or should be required to abstain from voting on the relevant resolution at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Tin Fan Yuen, Mr. Chester Tun Ho Kwok and Ms. Lily Li Dong, has been formed to consider and to advise the Independent Shareholders, among other things, whether the Acquisition is in the ordinary and usual course of business of the Company, fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. It will also advise the Independent Shareholders on how to vote in respect of the relevant resolution to be proposed at the EGM.

OUR APPOINTMENT AND INDEPENDENCE

We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. Our appointment has been approved by the Independent Board Committee.

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Group, Beijing Bitauto or any other parties that could reasonably be regarded as relevant to our independence. During the two years immediately prior to the date of our appointment, we have not (i) acted in the capacity as a financial adviser or as an independent financial adviser to the Company; (ii) provided any services to the Company; or (iii) had any relationship with the Company. Apart from the current appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Group, Beijing Bitauto or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation, we have reviewed, among other things, (i) the Announcement; (ii) the Circular; (iii) the annual reports of the Company for each of the three financial years ended 31 December 2020 ("**FY2020**"), 2021 ("**FY2021**") and 2022 ("**FY2022**"); (iv) the audited financial statements of Dalian Rongxin for each of FY2021 and FY2022; (v) the valuation report (the "**Valuation Report**") in respect of the total equity value of Dalian Rongxin (the "**Valuation**") as at 31 December 2022 (the "**Valuation Date**") prepared by the independent valuer, AVISTA Valuation Advisory Limited (the "**Valuer**") as set out in Appendix II to this Circular; (vi) the legal due diligence report (the "**Legal Due Diligence Report**") issued by the Company's PRC legal advisers, Shanghai Daopeng Law Firm (the "**PRC Legal Advisers**"); and (vii) other information obtained from the public domain. We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Group (collectively, the "**Management**").

We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with and for their consideration of the Acquisition as a connected transaction and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Acquisition, we have taken into account the following principal factors and reasons:

1. Background and financial information of the Group

(a) Background of the Group

The Group is principally engaged in (i) the provision of loan facilitation services, guarantee services, after-market services and other services (the "**Transaction Platform Business**"); and (ii) the provision of financing lease services and other self-operated services (the "**Self-operated Financing Business**') in the PRC.

(b) Financial information of the Group

Set out below is a summary of the financial performance of the Group for each of FY2020, FY2021 and FY2022.

	FY2020 *RMB'000* *(audited)*	**FY2021** *RMB'000* *(audited)*	**FY2022** *RMB'000* *(audited)*
Revenue	3,325,215	3,494,344	5,201,508
– Transaction Platform Business	1,338,850	2,302,279	3,984,259
– Self-operated Financing Business	1,986,365	1,192,065	1,217,249
Operating (loss)/profit	(1,481,111)	102,182	400,024
(Loss)/profit before income taxation	(1,497,934)	83,625	405,491
(Loss)/profit for the year attributable to the Shareholders	(1,155,749)	28,953	370,814
Net profit margin (%)	-34.8%	0.8%	7.1%

The Group recorded total revenue of approximately RMB3,325 million, RMB3,494 million and RMB5,202 million for FY2020, FY2021 and FY2022, respectively, representing an increase of approximately 5% from FY2020 to FY2021 and an increase of approximately 49% from FY2021 to FY2022. Such increase was mainly due to (i) the significant increase in revenue from loan facilitation services in FY2021 as a result of the Group's cooperation with 23 banks and financial institutions as its loan facilitation partners to facilitate approximately 434,000 financing transactions during the year, representing an increase of 47% compared to FY2020; and (ii) the rapid growth of Transaction Platform Business in FY2022 due to a higher percentage of high-yield business conducted during the year. The Transaction Platform Business accounted for approximately 40%, 66% and 77% of the Group's overall revenue for FY2020, FY2021 and FY2022, respectively, while the Self-operated Financing Business accounted for approximately 60%, 34% and 23% of the Group's overall revenue for the same years.

The Group recorded 556,000 financing transactions in FY2022, representing a 5% growth compared to FY2021. The financing amount was RMB53 billion in FY2022, representing an 18% growth compared to FY2021. Used car transactions accounted for 52% of the total financing amount for FY2022. Due to the continuous growth of China's car ownership and the various stimulus policies, the Group's used vehicle business is expected to embrace blooming opportunities.

The Group incurred a loss attributable to Shareholders of approximately RMB1,156 million for FY2020 and generated profits attributable to Shareholders of approximately RMB29 million and RMB371 million for FY2021 and FY2022, respectively.

In FY2021, the Group turned from net loss with net profit margin of negative 34.8% to net profit with net profit margin of 0.8%, primarily due to (i) the increase in revenue; and (ii) the increase in gross profit and gross profit margin mainly due to the decrease in funding costs associated with the Self-operated Financing Business, while partially offsetted by the increase in commissions associated with loan facilitation services which was greater than the increase in revenue. For FY2022, the Group recorded a net profit margin of 7.1%, which was mainly due to (i) the increase in revenue; and (ii) the increase in gross profit and gross profit margin as a result of the net effect of (a) a higher percentage of high-yield business of the Transaction Platform Business, and (b) the decrease of the yield of the net finance receivables of the Self-operated Financing Business, during the year.

Set out below is the summary of the Group's financial position as at 31 December 2022:

	As at 31 December 2022 *RMB'000* *(audited)*
Non-current assets	15,312,176
Current assets	16,852,216
Total assets	32,164,392
Current liabilities	11,116,350
Non-current liabilities	5,721,829
Total liabilities	16,838,179
Net assets	15,326,213

The total assets of the Group amounted to approximately RMB32,164 million as at 31 December 2022. The major components of the total assets of the Group were (i) finance receivables; (ii) trade receivables; (iii) cash and cash equivalents (not including restricted cash), representing approximately 43%, 13% and 11% of the total assets, respectively.

The total liabilities of the Group amounted to approximately RMB16,838 million as at 31 December 2022. The major components of the total liabilities of the Group were (i) borrowings; (ii) risk assurance liabilities; and (iii) other payables and accruals, representing approximately 74%, 7% and 7% of the total liabilities, respectively. As at 31 December 2022, the total borrowings of the Group amounted to approximately RMB12,512 million, of which RMB7,826 million are repayable within one year.

The Group mainly sources its funding from its operations and is committed to maintain its borrowings at an appropriate level. The majority of the Group's borrowings are collateralised by pledge of term deposits, the Group's finance receivables and/or the cash proceeds thereof, as the case may be, and certain unsecured loans are backed by a guarantee from the Company and/or its subsidiaries.

(c) Business prospects of the Group

In the year ended 31 December 2022, the Group recorded revenue and profit attributable to Shareholders of approximately RMB5,202 million and RMB371 million, respectively, representing year-on-year growth of approximately 49% and 11.81 times, respectively. The Group's revenue from the Transaction Platform Business and the Self-operated Financing Business increased by approximately 73% and 2% in FY2022, respectively, as compared to FY2021 and accounted for approximately 77% and 23% of the Group's total revenue in FY2022, respectively. The increase in the Group's revenue in FY2022 was mainly contributed by the rapid growth of loan facilitation services of the Transaction Platform Business because of an increase in total transaction volume and a larger proportion of used car transactions which provided a higher yield.

According to the "Guideline on expanding domestic demand for the 14th Five-Year Plan"* (「十四五」擴大內需戰略實施方案) released by the National Development and Reform Commission on 15 December 2022, the PRC government aims to expand domestic demand, foster a sound domestic demand system to promote its long-term development and promote green economy in accordance with "The 14th Five Year Plan and Outline of Long-term Goals for 2035"* (中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要), with respect to, among others, (i) facilitate cross-provincial registration of used car transactions to promote used car market; (ii) promote new energy vehicles ("**NEVs**") to attain carbon neutrality; and (iii) accelerate the electrification of vehicles in the public sector such as public transport, taxis and logistics.

According to China Association of Automobile Manufacturers, the number of sales of automobiles in the PRC recorded 26,864,000 and 8,235,000 for the year ended 31 December 2022 and four months ended 30 April 2023, respectively, representing a year-on-year growth of approximately 2.1% and 7.1% respectively. In particular, for the sales of NEVs, the number of sales of NEVs recorded 6,887,000 and 2,222,000 for the year ended 31 December 2022 and four months ended 30 April 2023 respectively, representing a year-on-year growth of approximately 93.4% and 42.8% respectively. The growth in sales of automobiles demonstrated the growing demand in the car market and the NEVs in the PRC.

* *For identification purpose only*

Based on the support of the abovementioned favourable policies in the PRC and the prevailing market conditions and demand for automobiles and NEVs, the Directors are of the view, and we concur, that the demand for retail auto financing and vehicle owner derivative financing in the PRC is expected to keep growing, particularly for NEV financing and used car financing, which will likely drive the demand of the loan facilitation services provided by the Group.

The Acquisition is expected to further expand the business scale and market share of the loan facilitation services of the Group, to the extent that Dalian Rongxin provides financing guarantee services to certain auto loans for which the Group provides loan facilitation services. It is also believed that the financing guarantee services of Dalian Rongxin will create synergy with the Group's Transaction Platform Business, which will be further discussed in the paragraphs headed "5. Reasons for and benefits of the Acquisition" below in this letter. As such, we consider the Acquisition represents an expansion of the existing business of the Group and to be in line with the Group's business strategy.

2. Information on Dalian Rongxin

Dalian Rongxin is a company established under the laws of the PRC on 6 June 2016 and subsisting with limited liability in the PRC. As at the Latest Practicable Date, its registered capital and paid-in capital were both RMB1,475,000,000. Dalian Rongxin is a licensed financing guarantee company which is principally engaged in providing financing guarantee services.

In August 2019, the Group entered into the Investment Agreement with the view to further strengthen the business cooperation with Dalian Rongxin while expanding its loan facilitation services. Pursuant to the Investment Agreement, Xinche Investment invested RMB475 million into Dalian Rongxin in September 2020 (the "**Investment**").

Dalian Rongxin provides financing guarantee services with respect to certain auto loans for which the Group provides loan facilitation services. As advised by the management of Dalian Rongxin, Dalian Rongxin guarantees the repayment obligations of customers with respect to the auto loans and receives guarantee service fee, representing certain percentages of the principal amount of the auto loans, from the customers. The guarantee service fees are typically payable by the financial institutions upon the execution of the relevant agreement in respect of the auto loans. According to the agreement entered into between Dalian Rongxin, members of the Group and the financial institution, the guarantee service fees will be collected by the Group on behalf of Dalian Rongxin from the financial institution, and the Group will pay such fees to Dalian Rongxin. The financial institution will generally pay the aggregate service fees (including the guarantee service fee to Dalian Rongxin) to the Group in the next month following the execution of the relevant agreement.

As set out in the Letter from the Board, during the past few years, there has been significant growth and expansion in the Group's loan facilitation services, therefore creating greater demand in the business cooperation with Dalian Rongxin in the provision of financing guarantee services.

Financial information of Dalian Rongxin

The following major financial data is extracted from the audited financial information of Dalian Rongxin for FY2021 and FY2022 based on the latest financial information of the Dalian Rongxin available to the Company:

	FY2021 *RMB'000* *(audited)*	**FY2022** *RMB'000* *(audited)*
Revenue	73,543	53,316
Selling and marketing expenses	(1,537)	(2,096)
Administrative expenses	(55,979)	(13,590)
Credit impairment losses	(59,609)	(12,284)
Other income and other gains, net	1,036	(4)
Operating (loss)/profit	(42,546)	25,342
Finance income, net	5,994	4,038
Net (loss)/profit before taxation	(36,552)	29,380
Net (loss)/profit after taxation	(27,308)	19,934
Operating profit margin	N/A	47.5%
Net profit margin before taxation	N/A	55.1%

	As at 31 December	
	2021 *RMB'000* *(audited)*	**2022** *RMB'000* *(audited)*
Non-current assets		
Property and equipment	44	453
Right-of-use assets	235	78
Deferred income tax assets	92,114	82,668
Prepayments, deposits and other assets	12,768	1,646
Guarantee receivables	26,503	60,911
	131,664	145,756

	As at 31 December	
	2021	2022
	RMB'000	*RMB'000*
	(audited)	*(audited)*
Current assets		
Guarantee receivables	139,056	278,428
Prepayments, deposits and other assets	135,472	72,691
Restricted cash	795,712	555,930
Cash and cash equivalents	24,280	136,237
	1,094,520	1,043,286
Total assets	1,226,184	1,189,042
Non-current liabilities		
Lease liabilities	45	–
	45	–
Current liabilities		
Trade payables	26,505	171
Risk assurance liabilities	90,250	113,571
Other payables and accruals	72,784	19,534
Current income tax liabilities	644	–
Lease liabilities	169	45
	190,352	133,321
Total liabilities	190,397	133,321
Net asset value ("**NAV**")	1,035,787	1,055,721

As at 31 December 2022, the audited total liabilities, total asset and net asset of the Dalian Rongxin were approximately RMB133 million, RMB1,189 million and RMB1,056 million, respectively.

Financial performance

As set out in its audited financial statements for FY2021 and FY2022, Dalian Rongxin recorded revenue of approximately RMB53.3 million in FY2022, representing a decrease of approximately 27.5% as compared to RMB73.5 million in FY2021. As understood from the Management, the decrease in revenue was mainly due to a decrease in the number of customers and the average balance of individual customers for financing guarantee business in FY2022 as compared to FY2021.

On the other hand, Dalian Rongxin recorded turnaround to profit before tax of approximately RMB29.4 million in FY2022, compared to loss before tax of approximately RMB36.6 million in FY2021. It was primarily due to the decrease in administrative expenses and credit impairment losses by approximately RMB42.4 million and RMB47.3 million, representing a decrease of about 75.7% and 79.4%, respectively in FY2022 as compared to FY2021. As advised by Management, the decrease in administrative expenses was mainly a result of a reversal of impairment of other non-current assets of approximately RMB12.2 million, as the actual selling price of certain motor vehicles which had previously been pledged by the financing guarantee customers and subsequently seized by the Dalian Rongxin, was higher than their book values at the time these vehicles were sold.

As regards the decrease in credit impairment losses, it should be noted that there was a notable decrease in the amount of loans recognised as a result of payment under the guarantee (before impairment) ("**Customers Defaulted Loans**") of approximately RMB109.2 million, details of which are to be discussed in the paragraphs headed "Assets" below. This resulted in the corresponding decrease in the expected credit loss made by Dalian Rongxin for FY2022.

Assets

The total assets of Dalian Rongxin amounted to approximately RMB1,189 million as at 31 December 2022. The major components of the total assets of Dalian Rongxin were (i) restricted cash; (ii) guarantee receivables; (iii) cash and cash equivalents (not including restricted cash); (iv) deferred income tax assets; and (v) prepayment, deposits and other assets, which accounted for approximately 46.8%, 28.5%, 11.5%, 7.0% and 6.1% of the total assets, respectively.

Restricted cash represents cash that has been pledged for financing guarantee services. The decrease in restricted cash by approximately RMB239.8 million, or 30.1%, to approximately RMB555.9 million as at 31 December 2022 was in line with the decrease in the revenue for FY2022. Total cash, which consists of cash and cash equivalents and restricted cash, accounted for approximately 79.2% and 65.6% to NAV as at the end of FY2021 and FY2022, respectively.

Guarantee receivables represent the guarantee service fees recognised as revenue but not yet received by Dalian Rongxin. The total guarantee receivables increased by approximately RMB173.8 million, or 1.05 times, to approximately RMB339.3 million as at 31 December 2022. As discussed above, based on the agreement entered into between Dalian Rongxin, members of the Group and the financial institution, the guarantee service fees will be collected by the Group from the financial institution in the next month following the execution of the relevant agreement in respect of auto loans, and the Group will pay such fees to Dalian Rongxin. There is no fixed settlement schedule in respect of guarantee service fees between the Group and Dalian Rongxin, hence the increase in guarantee receivables as at 31 December 2022 was solely due to the timing difference in settlement by the Group. As such, no impairment assessment has been conducted on the guarantee receivables as at the end of FY2021 or FY2022.

Deferred income tax assets are recognised for deductible temporary differences to the extent that the realisation of the related tax benefits through future taxable profits is probable. As at 31 December 2022, the deferred income tax assets of Dalian Rongxin amounted to approximately RMB82.7 million.

Prepayments, deposits and other assets mainly represent the value of vehicles collected from financing guarantee customers, the value of Customers Defaulted Loans, net of impairments for these two items. Prepayments, deposits and other assets decreased by approximately RMB73.9 million, or 49.9%, to approximately RMB74.3 million as at 31 December 2022. Such decrease was mainly due to two factors. Firstly, the value of vehicles collected from financing guarantee customers (net of impairment) decreased by approximately RMB11.1 million as Dalian Rongxin disposed of more vehicles during FY2022. Secondly, the value of Customers Defaulted Loans (net of impairment) decreased by approximately RMB61.0 million as a result of the write-off of such balances as well as the settlements by the customers during FY2022.

Liabilities

The total liabilities of Dalian Rongxin amounted to approximately RMB133.3 million as at 31 December 2022. The major components of the total liabilities of Dalian Rongxin were (i) risk assurance liabilities; and (ii) other payables and accruals representing approximately 85.2% and 14.7% of the total liabilities, respectively.

Under the arrangements with financial institutions for financing guarantee services, Dalian Rongxin is obligated to repay the relevant loans upon certain specified events of default by customers. As advised by the management of Dalian Rongxin, the risk assurance liabilities are recognised at the time the loan agreements entered into by Dalian Rongxin. Dalian Rongxin recognises revenue from the provision of guarantees. The fair value of the guarantee is initially recognised as deferred income, which is also included in risk assurance liabilities.

According to the audited financial statements of Dalian Rongxin, the risk assurance liability is initially measured at fair value and subsequently at the higher of (i) the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments; and (ii) the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers. Risk assurance liabilities increased by approximately RMB23.3 million, or 25.8%, to approximately RMB113.6 million as at 31 December 2022. Such increase was mainly due to the addition of the loan agreements entered into by Dalian Rongxin during FY2022.

Dalian Rongxin did not have any borrowings as at 31 December 2021 and 2022. According to the audited financial statements of Dalian Rongxin, Dalian Rongxin did not have any material contingent liabilities as at 31 December 2021 and 2022.

3. The Equity Transfer Agreement

Set out below are the principal terms of the Equity Transfer Agreement:

Date

29 May 2023

Parties

(i) Xinche Investment (as the purchaser);

(ii) Beijing Bitauto (as the vendor); and

(iii) Dalian Rongxin (as the target)

Subject matter

Pursuant to the Equity Transfer Agreement, Xinche Investment conditionally agreed to purchase, and Beijing Bitauto conditionally agreed to sell, 67.7966% equity interest of Dalian Rongxin, at a total consideration of RMB640 million.

Upon completion of the Acquisition, Dalian Rongxin will become a wholly-owned subsidiary of Xinche Investment and therefore an indirect wholly-owned subsidiary of the Company, and Dalian Rongxin's financial results be consolidated into the financial statements of the Group.

Conditions for payment of the consideration for the Acquisition

The total consideration for the Acquisition is RMB640 million, which shall be paid in cash to Beijing Bitauto's designated bank account and will be satisfied in the following manner:

(a) RMB384 million, being 60% of the total consideration (the "**First Instalment**"), shall be paid within 15 days upon the fulfilment or waiver in writing by Xinche Investment, as the case may be, of the following conditions (the "**First Conditions**"):

(i) each of Dalian Rongxin, Xinche Investment and Beijing Bitauto having obtained all necessary internal approvals (including but not limited to approvals from the board of directors and the shareholders, if applicable) in relation to the Acquisition and related matter (including but not limited to the amendment of the articles of association of Dalian Rongxin);

(ii) Xinche Investment and Beijing Bitauto having signed and delivered the Equity Transfer Agreement, and the Equity Transfer Agreement having become effective;

(iii) the Acquisition having been approved by the Independent Shareholders at the EGM in accordance with the relevant requirements under the Listing Rules;

(iv) the representations and warranties made under the Equity Transfer Agreement having remained true and accurate in all material respects, and any obligations and agreements that shall be observed or fulfilled by Dalian Rongxin, Xinche Investment and Beijing Bitauto having been observed or performed in all material aspects as at the payment date of the First Instalment;

(v) there has been no event or circumstance (including but not limited to any proceedings, arbitral proceedings, penalties or any investigation or punishment conducted by other government authorities which may has any material adverse effects on Dalian Rongxin's products and services) that has any material adverse effects on the legal registration, business license, product registration, intellectual property rights, business operations or other material aspects of Dalian Rongxin since the date of the Equity Transfer Agreement and up to the payment date of the First Instalment; and

(vi) the Equity Transfer Agreement complying with applicable laws and regulations of the registered location of the relevant party, and necessary government approvals (if any) for the transaction contemplated thereunder having been obtained.

(b) RMB256 million, being the remaining 40% of the total consideration (the "**Second Instalment**"), shall be paid within 15 business days upon the fulfilment or waiver in writing by Xinche Investment, as the case may be, of the following conditions (the "**Second Conditions**"):

(i) Dalian Rongxin having obtained the relevant filing notice (備案通知書) (the "**Filing Notice**") and PRC financial guarantee business operation permit (《中華人民共和國融資擔保業務經營許可證》) (the "**Operation Permit**") in relation to the subscription of equity interest in Dalian Rongxin by Xinche Investment at the consideration of RMB475 million in September 2020 from the relevant PRC authority;

(ii) The judicial freeze on the equity interest of Dalian Rongxin held by Beijing Bitauto (the "**Equity Freeze**") having been released and there are no other circumstances affecting the equity transfer;

(iii) Dalian Rongxin having completed all necessary government approval procedures and obtained all necessary approval documents, including but not limited to the business registration procedures for the transfer of equity interest in relation to the Acquisition, excluding the required filing and registration with the relevant financial regulatory authority for the transfer of equity interest in relation to the Acquisition;

(iv) the representations and warranties made under the Equity Transfer Agreement having remained true and accurate in all material respects, and any obligations and agreements that shall be observed or fulfilled by Dalian Rongxin, Xinche Investment and Beijing Bitauto having been observed or performed in all material aspects as at the Completion Date; and

(v) there has not been any material adverse changes on Dalian Rongxin since the date of the Equity Transfer Agreement and up to the Completion Date.

The conditions set out in paragraphs (a)(iii) and (b)(ii) above cannot be waived. All the other conditions are capable of being waived in writing by Xinche Investment. As at the Latest Practicable Date, the condition set out in paragraph (a)(i) above had been fulfilled; and none of the Second Conditions have been fulfilled and/or waived.

As understood from the Management, the Company has engaged the PRC Legal Advisers to perform legal due diligence on Dalian Rongxin including, among other things, opining on the Equity Freeze and the Filing Notice and Operation Permit. As set out in the Legal Due Diligence Report and advised by the Management, the Equity Freeze over the equity of Dalian Rongxin in the amount of RMB14,116,125 held by Beijing Bitauto was implemented by the Beijing First Intermediate People's Court (北京市第一中級人民法院) (the "**Court**") for the period commencing on 15 March 2021 and terminating on 14 March 2024 as a result of on-going litigation between Beijing Bitauto and a third party. Beijing Bitauto has informed the PRC Legal Advisers that it has submitted an application to the Court to replace the freezing of the subject equity with other assets. Beijing Bitauto has also requested to release the Equity Freeze upon completion of the replacement. As at the Latest Practicable Date, the relevant court procedures had yet to be completed and the matter remains pending. As further set out in the Legal Due Diligence Report, pursuant to the relevant PRC laws and regulations, financial guarantee companies in the PRC are required to file, among other things, changes in shareholding of more than 5% with the relevant financial regulatory authority within 30 days of such change (the "**Relevant Filing**"). Upon the completion of the Investment on 21 October 2020, Xinche Investment became a 32.2034% shareholder of Dalian Rongxin and Dalian Rongxin was required to make the Relevant Filing. As understood from the Management, due to reasons including but not limited to the various restrictions put in place by the relevant PRC authorities during the COVID-19 pandemic, Dalian Rongxin had failed to make the Relevant Filing. The PRC Legal Advisers opined in the Legal Due Diligence Report, that pursuant to the relevant PRC laws and regulations, failure to make the Relevant Filing may result in a fine of no less than RMB50,000 and no more than RMB100,000 and, in serious cases, the business may be ordered to be suspended for rectification. As further advised by the Management, the failure to make the Relevant Filing in 2020 was rectified and the Filing Notice was received on 16 June 2023. As at the Latest Practicable Date, Dalian Rongxin had not received any order for suspension of its business or penalty notice with respect to the failure to make the Relevant Filing. The PRC Legal Advisers are of the view that, given the failure to make the Relevant Filing had been rectified and the Filing Notice had been obtained, the legal risk to Dalian Rongxin in connection with the aforesaid failure has been extinguished and, from a regulatory perspective, there should be no risk of retroactive penalty or disciplinary action.

Pursuant to the Equity Transfer Agreement, if there are any fines or penalties arising from the historical breach or non-compliance by Dalian Rongxin with the applicable laws and regulations, such fines or penalties shall be borne by Xinche Investment and Beijing Bitauto in accordance with its shareholding in Dalian Rongxin immediately before the execution of the Equity Transfer Agreement (that is, as to 32.2034% by Xinche Investment and 67.7966% by Beijing Bitauto), and Xinche Investment has the right to inform Beijing Bitauto in writing to claim deduction from the remaining unpaid Consideration and such deduction has to be approved by Beijing Bitauto.

The total consideration for the Acquisition shall be satisfied by the internal resources of the Group. It is noted the Group has approximately RMB3,433,182,000 in total bank balances and cash as at 31 December 2022 as disclosed in its latest annual report. The Group therefore has sufficient internal resources to fund the Acquisition.

Completion

Completion Date shall be the date on which Beijing Bitauto receives the full amount of the First Instalment and the Second Instalment regarding the transfer of equity interest in relation to the Acquisition.

Xinche Investment and Beijing Bitauto agreed that (i) after the payment of the First Instalment, Xinche Investment and Beijing Bitauto shall coordinate with Dalian Rongxin to complete the business registration in respect of the Acquisition (the "**Updated Business Registration**") as soon as possible; and (ii) within three months from the Completion Date, Xinche Investment and Dalian Rongxin shall complete the required filing and registration with the relevant financial regulatory authority.

Termination

If after three months has elapsed since the effective date of the Equity Transfer Agreement, any condition precedent of the First Conditions and the Second Conditions which are to be fulfilled solely by Beijing Bitauto (which, for the avoidance of doubt, refers to the relevant obligations of Beijing Bitauto under conditions (a)(i) and (b)(ii) set out in the subsection headed "Conditions for payment of the consideration for the Acquisition" above), and after being reminded by Xinche Investment, remain unfulfilled, Xinche Investment has the right to unilaterally terminate the Equity Transfer Agreement. In the event that the parties are unable to continue to carry out their obligations under the Equity Transfer Agreement for reasons such as internal business adjustments within their respective groups or due to the regulatory requirements of Dalian Rongxin (including but not limited to the required filing and registration with the relevant financial regulatory authority is ultimately not completed) or due to Listing Rules requirements etc., Xinche Investment and Beijing Bitauto may mutually agree to terminate the Equity Transfer Agreement by way of written notice to Dalian Rongxin. If Xinche Investment and Beijing Bitauto fail to reach an agreement on the termination of the Equity Transfer Agreement within one month after the discussion, Xinche Investment has the right to unilaterally terminate the Equity Transfer Agreement (the "**Termination**").

Upon Termination, Beijing Bitauto shall refund in full the amount of the consideration already paid by Xinche Investment (if any) within five business days after the Termination (the "**Consideration Refund**"). In the event that the Termination occurs after the Updated Business Registration having been completed, Xinche Investment shall, within 20 business days after receiving the Consideration Refund (if any), cooperate with Beijing Bitauto and Dalian Rongxin to restore the shareholding structure of Dalian Rongxin to that which was subsisting immediately prior to the execution of the Equity Transfer Agreement (including but not limited to executing necessary documents and cooperating with the filing of the further revised business registration, etc.).

Basis of determination of the Consideration

The consideration for the Acquisition was determined after arm's length negotiations among the parties to the Equity Transfer Agreement on normal commercial terms taking into account (i) the NAV of RMB1,055,721,000 as at 31 December 2022 and financial position of the Dalian Rongxin (and in particular, its key financial metrics for the latest financial year); (ii) the Valuation performed by the Valuer; and (iii) the synergies that already exist and are anticipated to be enhanced between the Group and Dalian Rongxin as detailed in, and the factors further contained in, the paragraphs headed "5. Reasons for and Benefits of the Acquisition" below.

Our view

The termination mechanism included in the Equity Transfer Agreement protects Xinche Investment (which in turn the Company) in situation where the Equity Freeze cannot be released within three months of the payment of the First Instalment or the Filing Notice and Operation Permit cannot be obtained. If the termination mechanism is triggered, Xinche Investment will receive the Consideration Refund from Beijing Bitauto, mitigating the risk of potential financial loss. In light of the above, we are of the view that the terms of the Equity Transfer Agreement are fair and reasonable.

4. Valuation of Dalian Rongxin

As disclosed in the Letter from the Board, the consideration for the Equity Transfer Agreement was determined after arm's length negotiations between Xingche Investment and Beijing Bitauto with reference to the Valuation, which was appraised by the Valuer using the market-based approach in the Valuation Report.

We have reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's background and qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer in conducting the Valuation. From the information provided by the Valuer and based on our discussion with them, we understand that the responsible person of the Valuer for the Valuation is a member of CFA Institute, a fellow member of Hong Kong Institute of Certified Public Accountants, a fellow member CPA Australia and a member of Royal Institution of Chartered Surveyors, who has over 20 years' experience in financial valuation in a variety of industries in Hong Kong and the PRC. Furthermore, the Valuer has provided a wide range of valuation services to numerous companies, including companies listed in Hong Kong, the PRC and the United States. In the past three years, the Valuer has provided valuation services in respect of a number of businesses similar to Dalian Rongxin in Hong Kong and the PRC. Therefore, we were satisfied with the Valuer's qualification for preparation of the Valuation Report.

In assessing the fairness and reasonableness of the consideration for the Acquisition, we have reviewed the Valuation Report and understood that the Valuer has adopted the market-based approach in arriving the appraised value of Dalian Rongxin after considering the following reasons as stated in the Valuation Report.

Selection of valuation approach

We understand that the generally accepted valuation approaches include the income approach, cost approach and market approach. As discussed with the Valuer, all three of the generally accepted approaches have been considered by the Valuer regarding the Valuation: (i) the income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset; (ii) the cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration the past and present maintenance policy and rebuilding history; and (iii) the market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset. Under the market approach, (a) the guideline company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset; and (b) the comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset.

As discussed with the Valuer, the market approach was applied in the Valuation Report for the following reasons:

- the cost approach is not appropriate in the current appraisal as it fails to consider the economic benefits of the ownership of the business. The Valuer considered the consolidated net book value of Dalian Rongxin as at the Valuation Date may not truly reflect the value of its total equity interest, as part of value will be attributed to future benefits of Dalian Rongxin;

- the income approach is also considered inappropriate as plenty of assumptions were involved in formulating the financial projection of Dalian Rongxin, and the assumptions might not be able to reflect the uncertainties in the future performance of Dalian Rongxin. Given that improper assumptions will impose significant impact on the market value, the income approach was not adopted in the Valuation; and

- the market value arrived at via the market approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. In respect of the guideline company method, the Valuer found public companies in a similar nature and business to that of Dalian Rongxin whose market values are good indicators of the industry. Meanwhile, in respect of the comparable transaction method, since there are several transactions closed and/or announced during the last few years with the acquisition target engaging in similar businesses as Dalian Rongxin in the PRC, the Valuer considered the price multiples implied in these transactions are good indicators as well.

Choice of valuation multiples

In carrying out the Valuation, the valuation multiple adopted by the Valuer was the price-to-book ("**P/B**") multiple. As discussed with the Valuer, they also considered other valuation multiples, namely the price-to-earnings ("**P/E**'), enterprise value-to-sales ("**EV/S**") and enterprise value-to-earnings before interests, taxes, depreciation and amortization ("**EV/EBITDA**") multiples.

We understand that the Valuer did not adopt the EV/S multiple as they considered it was not appropriate for the Valuation because it does not consider the profitability of Dalian Rongxin. As the EV/S multiple focuses on the sales amounts but not the margin, the results will be easily distorted if the cost structure is not being taken into account.

As informed by the Management, the profitability of Dalian Rongxin has been fluctuating in recent years amid the pandemic situation; and the increasing regulatory requirements imposed on the industry in which Dalian Rongxin operates may also cause uncertainty on the stability of its earnings. As a result, this would affect the reliability of using the historical earnings of Dalian Rongxin as a reference in conducting the Valuation. Therefore, despite Dalian Rongxin was profit making in FY2022, the Valuer considers that the EV/EBITDA and P/E multiples are not appropriate for the Valuation.

Nevertheless, we understand from the Valuer that the P/B multiple is one of the most commonly used valuation multiples for capital-intensive businesses such as financial institutions and intermediary service firms. It relates the market value of the company's equity value to its net assets. Since the scale of capital is the key value and profit driver for Dalian Rongxin, which provides financing guarantees services, the Valuer considers the P/B multiple to be the most appropriate valuation multiple for the Valuation.

Having considered the above, we are of the view that the P/B multiple adopted by the Valuer is fair and reasonable.

Comparable companies selection

We understand from the Valuer that, pursuant to the guideline companies method, as Dalian Rongxin is principally engaged in operations of financial guarantee in the PRC, they reviewed public companies which have certain business exposure in financial guarantee and have identified four comparable companies (the "**Comparable Companies**") based on the following criteria:

- The company is listed on the stock markets of Hong Kong, the PRC or the United States;
- The company is engaged in financing guarantee or financial guarantee related business in the PRC;
- A significant portion of total revenue (i.e. 30%) is attributable to financial guarantee and related business; and
- The financial information of the company is available to public.

As all of Dalian Rongxin's revenue are generated from financing guarantee business and derived from operating in the PRC for FY2021 and FY2022, we consider the selection criteria adopted by the Valuer are fair and reasonable.

Details of the Comparable Companies based on the above selection criteria above are as follows:

Company name	Stock code	Exchange	Business description	Revenue contribution	Market capitalisation (Notes 1&2)
China Success Finance Group Holdings Limited ("China Success")	3623	The Stock Exchange of Hong Kong ("SEHK")	China Success, an investment holding company, provides financial and non-financial guarantee, financial leasing and factoring, and financial consultancy services in the PRC.	Guarantee revenue 31.8% Pig selling 66.9% Service fee from consulting services 1.3%	RMB391 million (equivalent to approximately HK$442 million)
Guangdong Join-Share Financing Guarantee Investment Co., Ltd. ("Guangdong Join-Share")	1543	SEHK	Guangdong Join-Share, together with its subsidiaries, provides credit-based financing solutions to small and medium-sized enterprises (SMEs) for their financing and business needs in the PRC.	Net guarantee fee income 55.7% Net interest income 34.6% Service fee from consulting services 9.7%	RMB2,278 million (equivalent to approximately HK$2,575 million)
Hanhua Financial Holding Co., Ltd. ("Hanhua")	3903	SEHK	Hanhua, together with its subsidiaries, provides financial services in the PRC.	Net guarantee and consulting fee income 55.6% Net interest and handling fee income 38.5% Other 5.9%	RMB1,506 million (equivalent to approximately HK$1,702 million)
Greater China Financial Holdings Limited ("Greater China")	431	SEHK	Greater China and its subsidiaries are principally engaged in investment holding, industrial property development and loan financing operations including the provision of loan financing, financial guarantee services, loan referral and consultancy services.	Industrial property development 7.1% Loan financing I 59.5% Loan financing II 30.5% Other 2.9%	HK$1,026 million

Notes:

1. Data sourced from S&P Capital IQ database as at 31 December 2022.

2. Amounts in RMB have been translated into HK$ at the exchange rate of RMB0.885 to HK$1.

As confirmed by the Valuer, the above sample list is exhaustive based on the selection criteria set out above. We have also performed our own search for comparable companies based on the selection criteria adopted by the Valuer and obtained the same results of comparable companies as chosen by the Valuer.

As such, we are of the view that, in respect of the Comparable Companies, (i) the selection criteria is fair and reasonable; and (ii) the list of Comparable Companies is fair and representative for the purpose of valuation multiples analysis by the Valuer.

Based on the respective financial reports published by the Comparable Companies, we note that each of them are principally engaged in, among others, providing financial guarantee services and generate a substantial portion of revenue, i.e. 30% or more, from financial guarantee income. As each of the Comparable Companies is principally engaged in the same business as Dalian Rongxin, we concur with the view of the Valuer that the Comparable Companies, together with Dalian Rongxin, might be similarly subject to fluctuations in the economy and performance of the industry, among other factors and thus confronted with similar industry risks and rewards. Although the business scale of the Comparable Companies varied from Dalian Rongxin, they shared several comparable features such as business nature, domicile and location of operation. Given there are only a limited number of listed companies engaging in the same business as Dalian Rongxin in the PRC, the Valuer advised and we agree that it is common to consider a comprehensive set of comparable companies that are engaged in similar businesses as opposed to stripping down the already limited sample size of the Comparable Companies, which may adversely affect the accuracy of the Valuation. Despite that no two companies are ever exactly alike in business model, scale/size of operation and profitability; and each of the Comparable Companies has its own respective prospects and operational performance, we understand from the Valuer that behind the differences there are certain business universals such as required capital investments and overall perceived risks and uncertainties that guide the market in reaching the expected returns for companies with certain similar attributes. In light of the above, we concur with the view of the Valuer that the selection basis is reasonable, and the list of Comparable Companies (including in terms of their business scale/size) is fair and representative.

Calculation of the adjusted P/B multiple for the Comparable Companies

We understand from the Valuer that the adjusted P/B multiple of each of the Comparable Companies is arrived at by (i) first deriving the P/B multiple before adjustments of each Comparable Company based on its market capitalisation and its net asset value set out in the latest financial statements published by such Comparable Company as at the Valuation Date; and then (ii) applying the following adjustments to the P/B multiples: (a) a lack of marketability discount ("**LOMD**"), which reflects the fact that there is no ready market for shares in a closely held company and are typically not readily marketable compared to similar interests in publicly listed companies, thus impacting its value. The P/B multiples of the Comparable Companies are calculated based on listed companies. Given Dalian Rongxin is a private company, equity interest in Dalian Rongxin is not readily marketable compared to similar interests in listed companies. Thus, a LOMD was adopted by the Valuer to adjust the marketable interest fair value to non-marketable interest fair value. We understand that the LOMD applied by the Valuer in the Valuation Report was 20.5% with reference to the average discount of 772 private placement transactions published in the 2022 edition of the Stout Restricted Stock Study Companion Guide, a research study to assist the valuation profession in determining LOMD; and (b) a control premium ("**Control Premium**"), which represents the amount a buyer is willing to pay over the minority equity value of the company in order to acquire a controlling interest in that company. Thus, a Control Premium was adopted by the Valuer to adjust the minority interest market value to controlling interest market value. We understand that the Control Premium applied by the Valuer in the Valuation Report was 26.7%, being the median equity control premium classified by finance, insurance and real estate industry in the Control Premium Study 2022Q4 Report sourced from Mergerstat CP Study.

The calculation of the adjusted P/B multiple for each of the Comparable Companies is as follows:

Adjusted P/B multiple = P/B multiple x (1 – LOMD) x (1 + Control Premium)

The information in respect of the Comparable Companies including, among others, the market capitalisations, net asset values and the adjusted P/B multiples is set out below:

Company name	**Market capitalisation**^(Note 1)^	**Net assets/ (liabilities)**^(Note 2)^	**adjusted P/B multiples**
China Success	RMB391 million	RMB366 million	1.08x
Guangdong Join-Share	RMB2,278 million	RMB2,049 million	1.12x
Hanhua	RMB1,506 million	RMB7,329 million	0.21x
Greater China	HK$1,026 million	HK$71 million	N/A^(Note 3)^
		Maximum	1.12x
		Minimum	0.21x
		Average	0.80x
		Median	**1.08x**

Notes:

1. Data sourced from S&P Capital IQ database as at 31 December 2022.

2. Data sourced from financial statements published by the Comparable Companies as at 31 December 2022.

3. According to the annual report of Greater China for the year ended 31 December 2022, its net asset value has subsequently become negative as of the Valuation Date, hence the Valuer considered to be more appropriate to have the subject company being excluded in the analysis.

The adjusted P/B multiples of the Comparable Companies range from 0.21 times to 1.12 times, with an average of 0.80 times and a median of 1.08 times. We understand from the Valuer that median is preferred over average as it could minimise the impact of outliers. Therefore, the median adjusted P/B multiple derived by the guideline company method of 1.08 times is adopted by the Valuer in arriving at the Valuation.

Comparable transactions selection

We understand from the Valuer, pursuant to the comparable transactions method, they reviewed market transactions similar to the Acquisition and have identified three comparable transactions (the "**Comparable Transactions**") on the following selection basis:

- The business of the acquiree includes financial guarantee;
- The transaction was announced between December 2019 and December 2022; and
- The financial information of the acquiree is available to the public.

Details of the Comparable Transactions identified by the Valuer and their respective P/B multiples are set out below:

Acquisition date	Target	Acquirer(s)	Total consideration	Interest acquired	P/B multiple
4 January 2020	Ningbo Haishu District Xiangyi Financing Guarantee Co., Ltd. ("**Ningbo Haishu**") *(Note 1)*	Sunny Loan Top Co. Ltd. ("**Sunny Loan**") *(Note 2)*	RMB75.93 million	75%	1.00x
2 June 2020	Jvranzhijia (Tianjin) Financing Guarantee Co., Ltd ("**Jvranzhijia**") *(Note 3)*	Easyhome New Retail Group Corporation Limited ("**Easyhome**") *(Note 4)*	RMB100 million	100%	0.99x
4 November 2020	Zhejiang Zhongqing Financing Guarantee Co., Ltd. ("**Zhejiang Zhongqing**") *(Note 5)*	(i) Shaoxing County Old Village Reconstruction Investment Development Co., Ltd.; (ii) Shaoxing County State-owned Assets Investments Operation Co., Ltd.; and (iii) Shaoxing Keqiao Water Group Co., Ltd. (collectively, the "**Shaoxing Companies**")	RMB159.72 million	100%	1.27x
				Maximum	1.27x
				Minimum	0.99x
				Average	1.09x
				Median	**1.00x**

Notes:

1. Ningbo Haishu is mainly engaged in the financing guarantee business and is also engaged in non-financing guarantee business, financial advisory and consulting intermediary services related to guarantee business.

2. Sunny Loan is a company incorporated in the PRC and listed on the Shanghai Stock Exchange (stock code: 600830).

3. Jvranzhijia has business scope of financing guarantee business (including loan guarantee business, issuance of bond guarantee business and other financing guarantee business).

4. Easyhome is a company incorporated in the PRC and listed on the Shenzhen Stock Exchange (stock code: 000785).

5. Zhejiang Zhongqing was a wholly-owned subsidiary of Zhejiang China Textile City Group ("**Zhejiang China**"), a company listed on the Shanghai Stock Exchange (stock exchange: 600790), before the disposal of its entire equity interest to the Shaoxing Companies. Zhejiang Zhongqing is mainly engaged in financing guarantee business.

As understood from the Valuer, the acquisition targets in respect of the Comparable Transactions are principally engaged in financial guarantee business and represent an exhaustive list based on their selection criteria. We did not have access to professional databases in respect of relevant commercial transactions and were therefore unable to perform an independent search in respect of comparable transactions. Nevertheless, we have reviewed the relevant announcements of Sunny Loan, Easyhome and Zhejiang China published on the websites of the Shanghai Stock Exchange and Shenzhen Stock Exchange in respect of the acquisition of Ningbo Haishu, Jvranzhijia and Zhejiang Zhongqing, respectively. We did not note any information which would cause us to doubt the accuracy of the information in respect of the Comparable Transactions set out in the Valuation Report. In light of the above, we are of the view that, in respect of the Comparable Transactions, (i) the selection criteria is fair and reasonable; and (ii) the sample list is exhaustive for the purpose of valuation multiples analysis by the Valuer.

Calculation of the median P/B multiple for the Comparable Transactions

According to the Valuation Report, the median P/B multiple calculated by the Valuer in respect of the Comparable Transactions is 1.00 times. We understand from the Valuer that the P/B multiple of each of the Comparable Transactions is arrived at by (i) first deriving the implied total equity value of the acquisition target based on (a) the total consideration for the acquisition; and (b) the percentage interest in the acquisition target acquired pursuant to the Comparable Transaction; and then (ii) deriving the P/B multiple based on the implied total equity value and the net asset value of the acquisition target based on publicly available information.

The P/B multiples of the Comparable Transactions range from 0.99 times to 1.27 times, with an average of 1.09 times and a median of 1.00 times. We understand from the Valuer that median is preferred over average as it could minimise the impact of outliers. Therefore, the median P/B multiple derived by the comparable transaction method of 1.00 times is adopted by the Valuer in arriving at the Valuation.

Calculation of the Valuation

According to the Valuation Report, the total equity value of Dalian Rongxin is RMB1,098 million based on (i) the net asset value of Dalian Rongxin of approximately RMB1,056 million as at 31 December 2022 based on its audited financial statements for FY2022; multiplied by (ii) the weighted average P/B multiple of 1.04 times, which is in turn based on (a) the median adjusted P/B multiple derived by the guideline company method of 1.08 times; (b) the median P/B multiple derived by the comparable transaction method of 1.00 times; and (c) the weighting of the guideline company method and comparable transaction method of 50% and 50% respectively, which as understood from the Valuer, is considered to be fair and reasonable as both methods are similarly reliable and have similar valuation multiples.

Valuation assumptions

We have also reviewed the assumptions in the Valuation Report as set out in Appendix II to this Circular and confirm that the assumptions are fair and reasonable and appropriate for the Valuation.

We have enquired with the Valuer on the applicability of the abovementioned assumptions and we understand that such assumptions are generally and consistently adopted in other business valuation exercises and are in line with the market practices. The Valuation is also made on the assumption that Dalian Rongxin has obtained the relevant licenses in conducting financial guarantee and related business. As (i) the assumptions are generally and consistently adopted in other business valuation exercises and in line with market practices; and (ii) obtaining the Operation Permit are conditions precedent to the payment of the First Instalment and Second Instalment, as the case may be, and, in turn, completion of the Acquisition, we are therefore of the view that the assumptions adopted in the Valuation are reasonable. During the course of our discussion with the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the valuation methodology and the principal basis and assumptions adopted in arriving at the Valuation.

Our view

Based on the above and having considered that (i) the Valuer is qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation Report competently; (ii) the adoption of the market approach for the Valuation is fair and reasonable; and (iii) methodologies so applied on assessing the total equity value of Dalian Rongxin are fair and reasonable, we concur with the view of the Directors that the Valuation Report is an appropriate reference in determining the consideration of the Acquisition of approximately RMB640 million, which made reference to and is at a discount of approximately 14.0% to the 67.7966% equity value of Dalian Rongxin of RMB744.4 million as at the Valuation Date, is fair and reasonable so far as the Independent Shareholders are concerned.

5. Reasons for and benefits of the Acquisition

Immediately following completion of the Acquisition, Dalian Rongxin will become a wholly-owned subsidiary of the Company. The financial results of Dalian Rongxin will be consolidated into the consolidated financial statements of the Company.

As stated in the Letter from the Board, the Group is principally engaged in (i) the provision of loan facilitation services, guarantee services, after-market services and other services; and (ii) the provision of financing lease services and other self-operated services in the PRC. Dalian Rongxin is a licensed financing guarantee company which is principally engaged in providing financing guarantee services.

In August 2019, the Group entered into the Investment Agreement with the view to further strengthen the business cooperation with Dalian Rongxin while expanding its loan facilitation services, to the extent that Dalian Rongxin provides financing guarantee services to certain auto loans for which the Group provides loan facilitation services. During the past few years, there has been significant growth and expansion in the Group's loan facilitation services, therefore creating greater demand in the business cooperation with Dalian Rongxin in the provision of financing guarantee services. Given the past business cooperation between the Group and Dalian Rongxin, the Group believes that the proposed acquisition of the remaining 67.7966% equity interest in Dalian Rongxin will be a meaningful step in realizing the Company's strategy of creating greater value and also further strengthening the industry position of the Company. In addition, with the view to further expand its loan facilitation services, the Group is of the view that the Acquisition enables the Company to explore and leverage the synergy between Dalian Rongxin and the Group, and will be complementary to the Group's existing operation and business layout, consolidate its existing advantageous position, generate synergies and accelerate the Company's development.

In particular, we understand from discussion with the Management that Dalian Rongxin (i) holds a financing guarantee license that the Company considers valuable to the Group's future business direction; and (ii) has established strong business relationships with financial institutions in the PRC, including being one of the few selected financing guarantee companies admitted into the financial institution's credit inquiry platform with system-to-system connection. Accordingly, by bringing Dalian Rongxin (and its business) into the Group, the Group can streamline and integrate its existing and future business collaborations with Dalian Rongxin and the Acquisition would enable the enlarged Group to expand into new business opportunities in the future.

In light of the above, we concur with the Company's view that the Acquisition would allow the Group to obtain the financing guarantee license and the strong business relationships Dalian Rongxin developed with financial institutions in the PRC and streamline their existing and future business collaborations. We consider that the well-established business of Dalian Rongxin could immediately bring benefits to the Group upon completion of the Acquisition and potentially create synergies by leveraging the respective advantages of the Group and Dalian Rongxin. After considering that (i) the Acquisition is in line with the business strategy of the Group to expand its financing guarantee and loan facilitation services; (ii) the Investment Agreement and the existing mutually beneficial cooperation between the Group and Dalian Rongxin; and (iii) the expected benefits and synergies to the Group as a result of the Acquisition, we consider that the Acquisition is a fair and reasonable investment to the Company and the Shareholders as a whole.

OPTIMA CAPITAL

CONCLUSION AND RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

(i) the terms of the Equity Transfer Agreement are fair and reasonable;

(ii) the Valuation Report is an appropriate reference in determining the consideration of the Acquisition of RMB640 million, which made reference to and is at a discount of approximately 14.0% to the 67.7966% equity value of Dalian Rongxin of RMB744.4 million as at the Valuation Date;

(iii) a substantial portion of the assets of Dalian Rongxin comprise high-quality assets such as cash (including restricted cash based on the need of provision of financing guarantee services), which totalled approximately RMB692.2 million as at 31 December 2022 representing approximately 58.2% and 65.6% of the total assets of approximately RMB1,189.0 million and NAV of approximately RMB1,055.7 million, respectively; and

(iv) considering the background of Dalian Rongxin, the cooperation between Dalian Rongxin and the Group, and the expected benefits and synergies to be accrued to the Group pursuant to the completion of the Acquisition, including but not limited to the financing guarantee license which is difficult to obtain and the existing business and relationships with customers and financial institutions in the PRC of Dalian Rongxin,

we are of the view that (i) although the entering into of the Equity Transfer Agreement is not conducted in the ordinary and usual course of business of the Group, the terms of the Equity Transfer Agreement (including the consideration) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED

Ng Ka Po
Managing Director
Corporate Finance

Mr. Ng is a responsible officer of Optima Capital and a licensed person registered with the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Ng has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.