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188 Des Voeux Road Central
Sheung Wan
Hong Kong

15 January 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS RENEWAL OF FINANCIAL SERVICES AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the provision of deposit services and bill discounting services under the 2023 Group Financial Services Agreement (including the relevant proposed annual caps) and deposit services, bill discounting services and loan services under the 2023 Parent Group Financial Services Agreement (including the relevant proposed annual caps), details of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular dated 15 January 2024 issued by the Company (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 29 December 2023, the Company and Finance Company entered into the 2023 Group Financial Services Agreement, and Shandong Zhaojin and Finance Company entered into the 2023 Parent Group Financial Services Agreement, on terms which are similar to those of the 2020 Group Financial Services Agreement and the 2020 Parent Group Financial Services Agreement, respectively. The Finance Company agreed to provide financial services, including but not limited to deposit services, loan services and bill discounting services to the Group under the 2023 Group Financial Services Agreement and to Shandong Zhaojin Group under the 2023 Parent Group Financial Services Agreement, respectively.

As at the Latest Practicable Date, Shandong Zhaojin is the controlling shareholder of the Company and is therefore a connected person of the Company. Finance Company, being a non-wholly-owned subsidiary of the Company held as to 40% by Shandong Zhaojin, is also a connected person of the Company given that it is a connected subsidiary of the Company and also an associate of Shandong Zhaojin. Accordingly, the transactions contemplated under the 2023 Group Financial Services Agreement and the 2023 Parent Group Financial Services Agreement (collectively the “**2023 Agreements**”) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of each of (i) the maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company to the Qualified Entities; and (ii) the maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the Qualified Entities under the 2023 Group Financial Services Agreement is more than 25%, respectively, the provision of deposit services and bill discounting services under the 2023 Group Financial Services Agreement constitutes (i) major transactions subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules; and (ii) non-exempt continuing connected transactions subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Given that the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of each of (i) the maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company to the Zhaojin Qualified Entities; (ii) the maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the Zhaojin Qualified Entities; and (iii) the maximum outstanding loan amount at any one point in time that may be provided by Finance Company to the Zhaojin Qualified Entities under the 2023 Parent Group Financial Services Agreement is more than 25%, respectively, the provision of deposit services, bill discounting services and loan services under the 2023 Parent Group Financial Services Agreement constitute (i) major transactions subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules; and (ii) non-exempt continuing connected transactions subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the provision of deposit services and bill discounting services under the 2023 Group Financial Services Agreement and deposit services, bill discounting services and loan services under the 2023 Parent Group Financial Services Agreement. We, Maxa Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence. We are not associated or connected with the Company, Shandong Zhaojin and Finance Company or their respective substantial shareholders or associates and, accordingly, are considered eligible to give independent advice on the transactions contemplated under the 2023 Agreements. Save for this appointment as the Independent Financial Adviser in respect of the 2023 Agreements, there was no other engagement between the Company and us in the last two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Shandong Zhaojin and Finance Company or their respective substantial shareholders or associates.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among other things: (i) the 2020 Group Financial Services Agreement, the 2020 Parent Group Financial Services Agreement and the 2023 Agreements; (ii) the annual reports of the Company for the two years ended 31 December 2022 (the “**2021 Annual Report**” and “**2022 Annual Report**”, respectively); (iii) the third quarterly report of the Company for the nine months ended 30 September 2023 (the “**2023 Third Quarterly Report**”); (iv) the audit report of Finance Company for the year ended 31 December 2022; (v) the management accounts of Finance Company for the eleven months ended 30 November 2022 and 2023; (vi) the audit report of Shandong Zhaojin for the year ended 31 December 2022; (vii) the unaudited third quarterly report of Shandong Zhaojin for the nine months ended 30 September 2023; (viii) the business license and financial licenses of Finance Company; (ix) the internal control policies of Finance Company and the Measures for the Administration of Information Disclosure of the Company; (x) sample receipts for the deposit services, bill discounting services and loan services with the principal amounts and relevant interest rate provided by Finance Company to the Group, Shandong Zhaojin and other members in the group and receipts for the deposit services, bill discounting services and loan services provided by commercial banks in the PRC to the Group and Shandong Zhaojin and (xi) the Administrative Measures for Enterprise Group Finance Companies (“**企業集團財務公司管理辦法**”) promulgated by CBRC. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date of this letter. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. Our opinion is based on the Directors’ representation and confirmation that no material facts have been omitted from the information provided and referred to in the Circular.

The Company confirmed that they have, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in the Circular nor do doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, conducted any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation into the business and affairs of the Company, Shandong Zhaojin and Finance Company and each of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the 2023 Agreements

1.1 Information on the Group

The Company is an integrated large-scale enterprise combining exploration, mining, processing and smelting operations. The Group primarily focuses on gold production business, especially the production of the two principal products Au9995 and Au9999 standard gold bullions. Taking advantage of its geographical superiority, advanced equipment and international standard technologies, the Company achieved to be one of the leading gold producers as well as one of the largest enterprises of gold smelting in the PRC.

Set out below is the financial information of the Group for the years ended 31 December 2021 and 2022 and for the nine months ended 30 September 2022 and 2023 prepared in accordance with Hong Kong Financial Reporting Standards and extracted from the Company's 2022 Annual Report and 2023 Third Quarterly Report:

	For the nine months ended 30 September		For the year ended 31 December	
	2023	2022	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	6,384,638	5,788,796	7,885,557	6,859,446
Gross profit	2,477,008	2,132,279	2,655,912	2,692,077
Net profit	538,090	414,784	560,186	191,033
	As at		As at 31 December	
	30 September		2022	2021
	2023		2022	2021
	RMB'000		RMB'000	RMB'000
	(unaudited)		(audited)	(audited)
Cash and cash equivalent	5,406,014		3,583,213	2,998,213
Total assets	48,763,478		45,887,495	43,022,606
Total liabilities	28,908,095		25,840,043	23,293,732
Net asset value	19,855,383		20,047,452	19,728,874

As illustrated in the above table, the Group's revenue amounted to approximately RMB7.89 billion for the year ended 31 December 2022 ("FY2022"), representing an increase of approximately 14.96% as compared to approximately RMB6.86 billion for the year ended 31 December 2021 ("FY2021"). According to the 2022 Annual Report, the increase in revenue was mainly due to the increase in the gold sales volume and the increase in gold prices of the Group. The Group's gross profit was approximately RMB2.66 billion, representing a decrease of approximately 1.34% as compared to approximately RMB2.69 billion FY2021. The decrease in gross profit was primarily due to the increase in the gold mining cost of the Group. The net profit amounted to approximately RMB560.19 million FY2022, representing a substantial increase of approximately of approximately 193.24% as compared to the previous year, which was mainly attributable to the increase in the output of mine-produced gold and increase in revenue of the Group.

The Group's total assets increased by 6.66% from approximately RMB43.02 billion as at 31 December 2021 to approximately RMB45.89 billion as at 31 December 2022, which was primarily due to the large increase in cash and cash equivalent. The total liabilities of the Group increased by 10.93% from approximately RMB23.29 billion at 31 December 2021 to approximately RMB25.84 billion as at 31 December 2022. Such increase in total liabilities of the Group was mainly due to the issue of corporate bonds of RMB3.0 billion in 2022. The Group's net asset value amounted approximately RMB20.05 billion as at 31 December 2022, representing an increase of 1.61% from approximately RMB19.73 billion as at 31 December 2021. The Group's cash and cash equivalent increased by 19.51% from RMB3.00 billion as at 31 December 2021 to approximately RMB3.59 billion as at 31 December 2022, which was mainly because the cash inflow from operating and financing activities of the Group was more than the cash outflow of investing activities and financing activities of the Group.

For the nine months ended 30 September 2023, the Group's revenue increased by 10.29% as compared with that for the same period in 2022 to approximately RMB6.38 billion, which was primarily due to the increase of gold price and effective organisation of production. Net profit of the Group recorded an increase of approximately 29.73% for the nine months ended 30 September 2023 as compared with that for the same period in 2022, from approximately RMB414.78 million to approximately RMB538.09 million. Such increase in net profit mainly benefited from the increase of gold price and the strengthening of operation management.

The Group's cash and cash equivalents recorded substantial increase by approximately 50.87% from approximately RMB3.58 billion as at 31 December 2022 to approximately RMB5.41 billion as at 30 September 2023, which is attributable to the cash inflow from operating and financing activities was more than the cash outflow of investing activities and financing activities. The total assets and total liabilities of the Group as at 30 September 2023 increased by approximately 6.27% and 11.87%, respectively, as compared with those as at 31 December 2022. The increase of total liabilities was mainly due to the increase of financial assets at fair value through profit or loss and the increase of total liabilities was mainly due to the increase of deposits from customers. The Group's net asset value as at 30 September 2023 maintained at a level similar with that as at 31 December 2022.

1.2 Information on Shandong Zhaojin

Shandong Zhaojin is principally engaged in gold exploration, mining and refinery business, as well as investing in gold exploration, mining, smelting and refinery, and other gold-related businesses. Shandong Zhaojin is the controlling shareholder of the Company, directly holding 34.74% of the Shares of the Company. The ultimate beneficial owner of Shandong Zhaojin is the People's Government of Zhaoyuan City (招遠市人民政府) which holds 90% of the Shares of Shandong Zhaojin. According to the website of Shandong Zhaojin (<http://www.gold-zhaoyuan.com>), Shandong Zhaojin Group recorded revenue of RMB72.3 billion in 2022 and maintained gold reserves of 1,200 tons.

We have obtained and reviewed a credit rating report of Shandong Zhaojin issued by China Lianhe Credit Rating Co., Ltd dated 20 July 2023. The credit rating of Shandong Zhaojin was AAA grade with a stable outlook, which indicates that Shandong Zhaojin has good capability for loan repayment.

Set out below is the financial information of Shandong Zhaojin Group for the years ended 31 December 2021 and 2022 and for the nine months ended 30 September 2022 and 2023 prepared in accordance with China Accounting Standards for Business Enterprises and extracted from the Shandong Zhaojin's 2022 annual report and 2023 unaudited third quarterly report:

	For the nine months ended		For the year ended	
	30 September		31 December	
	2023	2022	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	48,498,513	41,474,764	56,432,283	49,626,910
Operating profit	1,394,265	592,563	729,215	513,614
Net profit	1,210,439	344,685	477,763	142,178
	As at		As at 31 December	
	30 September		2022	2021
	2023			
	RMB'000		RMB'000	RMB'000
	(unaudited)		(audited)	(audited)
Cash and cash equivalent	6,156,002		5,221,299	3,810,853
Total assets	74,275,550		72,293,344	62,661,828
Total liabilities	54,680,388		50,490,391	43,761,933
Net asset value	19,595,162		21,802,952	18,899,894

As illustrated in the above table, Shandong Zhaojin Group recorded total revenue of approximately RMB56.43 billion for the year ended 31 December 2022, representing an increase of approximately 13.71% as compared with the previous year, which is mainly due to the increase of gold price. Net profit of Shandong Zhaojin Group recorded an impressive growth by 236.03% for the year ended 31 December 2022 as compared with that for the year ended 31 December 2021, from approximately RMB142.18 million to approximately RMB477.76 million. Such significant increase in net profit mainly due to the high profitability in gold smelting industry. As at 31 December 2022, the net asset value of Shandong Zhaojin Group increased by approximately 15.36% to approximately RMB21.80 billion from RMB18.90 billion as at 31 December 2021, which was mainly due to consolidation of Baoding Technology Co., Ltd.

For the nine months ended 30 September 2023, Shandong Zhaojin Group's revenue increased by approximately 16.93% as compared with the same period last year to approximately RMB48.50 billion, which is mainly due to the increased volume of gold production and the substantial increase of gold price. The net profit of Shandong Zhaojin Group for the nine months ended 30 September 2023 amounted approximately RMB0.34 billion, increased significantly by approximately 251.17% as compared with the same period last year, which is mainly due to the substantial increase of gold price. Shandong Zhaojin Group's total assets and total liabilities as at 30 September 2023 increased by approximately 2.74% and 8.30% to RMB74.28 billion and RMB54.68 billion respectively as compared with that as at 31 December 2022 while the net asset value of Shandong Zhaojin Group decreased by approximately 10.13%.

1.3 Information on Finance Company

The Finance Company, a non-wholly-owned subsidiary of the Company, is a limited liability company established in the PRC on 1 July 2015 and is operating in accordance with the Measures for the Administration of Finance Companies of Enterprise Groups as well as other applicable PRC laws and regulations. It is principally engaged in, among others, providing internal financial services to the Group and the Shandong Zhaojin Group. The Finance Company is a PRC non-bank financial institution and is regulated by the CBIRC.

Set out below is the financial information on Finance Company for the two years ended 31 December 2022 and the eleven months ended 30 November 2022 and 2023 prepared in accordance with China Accounting Standards for Business Enterprises and extracted from its 2022 audit report and its unaudited management accounts for the eleven months ended 30 November 2022 and 2023:

	For the eleven months ended		For the year ended	
	30 November		31 December	
	2023	2022	2022	2021
	(unaudited)	(unaudited)	(audited)	(audited)
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	47,938	108,467	107,608	78,826
Operating profit	76,598	66,112	64,333	45,908
Net profit	58,806	52,319	51,366	38,257
	As at		As at 31 December	
	30 November		2022	
	2023		2021	
	(unaudited)	(audited)	(audited)	(audited)
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets		5,490,140	6,652,202	6,658,844
Total liabilities		3,820,555	4,993,026	5,021,133
Net asset value		1,669,585	1,659,176	1,637,710

As illustrated in the above table, Finance Company recorded total revenue and net profit of approximately RMB107.61 million and RMB51.37 million for the year ended 31 December 2022, representing an increase of approximately 36.51% and 34.27% respectively as compared with the previous year, which was primarily attributable to increase in investment income by approximately RMB24.78 million and increase in foreign exchange gains by approximately RMB18.67 million respectively. As at 31 December 2022, the net asset value of Finance Company increased by approximately 1.31% to approximately RMB1.66 billion from RMB1.64 million as at 31 December 2021.

For the eleven months ended 30 November 2023, Finance Company's revenue decreased by approximately 55.80% as compared with the same period last year to approximately RMB47.94 million, which is mainly due to the exchange gains and the investment income decreased by approximately RMB31.98 million and RMB17.58 million respectively. The net profit of Finance Company for the eleven months ended 30 November 2023 amounted approximately RMB58.81 million, increased by approximately 12.40% as compared with the same period last year, which is mainly due to provision of assets decreased by approximately RMB71.90 million. Finance Company's total assets and total liabilities as at 30 November 2023 decreased by approximately 9.22% and 12.92% to RMB5.49 billion and RMB3.82 billion respectively as compared with that as at 31 December 2022 while the net asset value of Finance Company increased slightly by approximately 0.58%.

As a licensed financial institution in the PRC, Finance Company is subject to stringent regulations and is regulated by PBOC and CBIRC. In accordance with the relevant requirements under the Measures for Administration of Finance Companies of Enterprise Groups promulgated by CBRC, group finance companies, including Finance Company:

- (a) are not allowed to engage in non-financial services business, including property investment or trading; and
- (b) must comply with the following ratio requirements: (i) the capital adequacy ratio shall not be lower than 10.5%; (ii) the inter-bank borrowing balance shall not exceed the total registered capital of the relevant finance company; (iii) the total amount of outstanding guarantees shall not exceed the total registered capital of the relevant finance company; (iv) the ratio of total amount of investment to total registered capital shall not exceed 70%; and (v) the ratio of self-owned fixed assets to total registered capital shall not exceed 20%.

We have obtained and reviewed the latest business licenses of the Finance Company issued in 2023 and has no concern on their validity. We have also obtained and reviewed the regulatory indicators reporting table of the Finance Company for three years ended 31 December 2022 and noted the Finance Company has complied with the Measures for Administration of Finance Companies of Enterprise Groups in this regard. According to the management of the Company, up to the Latest Practicable Date, there had been no record of non-compliance with relevant laws, rules and regulations of the PRC on Finance Company.

In assessing the financial risks of Finance Company, we have taken into consideration that:

- (a) the operations of Finance Company are subject to the supervision of CBIRC and PBOC and are regulated by the relevant PRC financial regulation and rules;
- (b) Finance Company has established internal control and risk management system in accordance with the relevant PRC financial services rules and regulations; and
- (c) Finance Company has solid financial track record, financial position and compliance record.

In light of the aforementioned, we believe that the financial risks involved in placing deposits with Finance Company is low and manageable.

1.3 Reasons for and benefits of entering into the 2023 Agreements

As stated in the Letter from the Board, the reasons for and possible benefits of entering into the 2023 Agreements are as follows:

- (i) The interest rate to be charged by/offered by Finance Company for the provision of deposit, bill discounting services and loans to the Qualified Entities will be similar to or even more favourable than those charged by/offered by other major commercial banks in the PRC.
- (ii) By entering into the 2023 Group Financial Services Agreement and the 2023 Parent Group Financial Services Agreement, the Qualified Entities and the Zhaojin Qualified Entities will be able to centralize control and management of their financial resources, promote wider uses and use efficiency of capital and accelerate capital turnover, so as to reduce the transaction costs and financial expenses, and further enhance the amount and utilization of capital. Meanwhile, diverse services can be provided under the 2023 Group Financial Services Agreement and the 2023 Parent Group Financial Services Agreement to satisfy the business needs of the Qualified Entities and the Zhaojin Qualified Entities.
- (iii) Finance Company is a non-wholly-owned subsidiary of the Company and the financial services it currently carries out will contribute to the Group in terms of revenue increase and new profit growth points.
- (iv) Subject to supervision and regulation of the PBOC and the CBIRC, Finance Company is a non-bank financial institute and provides services in accordance with rules and operation provisions of such regulatory bodies. In addition, capital risks may be reduced through risk control measures as stipulated in the 2023 Group Financial Services Agreement and the 2023 Parent Group Financial Services Agreement.

We concur with the Company that the transactions contemplated under the 2023 Group Financial Services Agreement facilitate the Group to optimize its financial management, increase the efficiency of fund utilisation, and reduce the cost of financing and financing risks. It will not be detrimental to the interests of the Group. The deposit services under the 2023 Parent Group Financial Services Agreement generates additional revenue for the Group and further strengthen the centralization of the Finance Company as a financial platform in the Group to facilitate treasury operations within the Group. The billing discounting services and loan services under the 2023 Parent Group Financial Services Agreement facilitate increase the efficiency of fund utilisation of Finance Company to increase the Group's revenue.

On the basis of the aforesaid reasons for and possible benefits of the 2023 Agreements as represented by Directors and given that (i) entering into the 2023 Group Financial Services Agreement with Finance Company is in line with the Company's need for future capital control; (ii) entering into the 2023 Parent Group Financial Services Agreement by Shandong Zhaojin with Finance Company benefits the Company's revenue; and (iii) the credit risks of Finance Company is likely to be low and manageable and Shandong Zhaojin has good credit capability concluded in the section headed "1.2 Information on Shandong Zhaojin and Finance Company", we are of the view that the transactions under the 2023 Agreements are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the 2023 Agreements

2.1 Deposit services and bill discounting services under the 2023 Group Financial Services Agreement

Major Terms

On 29 December 2023, the Company and Finance Company entered into the 2023 Group Financial Services Agreement pursuant to which Finance Company agreed to provide financial services to the Group, including but not limited to deposit services, loan services and bill discounting services, on terms which are similar to the 2020 Group Financial Services Agreement.

The term of the 2023 Group Financial Services Agreement is from 1 January 2024 to 31 December 2026. The deposit services and bill discounting services under the 2023 Group Financial Services Agreement is subject to the approval from the Independent Shareholders at the EGM. During the Transition Period, the Company and the Finance Company will monitor and keep the highest applicable percentage ratio in respect of each of (i) the maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company under the 2023 Group Financial Services Agreement; and (ii) the maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company under the 2023 Group Financial Services Agreement, less than 5%, respectively.

The Group shall choose Finance Company to provide deposit services to the Qualified Entities and the deposit services and deposit products to be provided shall comply with the requirements of the PBOC. According to the requirements under the Measures for the Administration of Finance Companies of Enterprise Groups issued by the CBRC, finance companies shall abide by the provisions on administration of interest rates of the PBOC. The interest rate on the deposit services provided by Finance Company under the 2023 Group Financial Services Agreement shall be based on the benchmark interest rate promulgated by the PBOC. Such interest rate shall not exceed the range of deposit interest rate promulgated by the PBOC from time to time, i.e., any adjustment on the deposit interest rate offered by Finance Company under the 2023 Group Financial Services Agreement shall be within the interest rate offered by the PBOC on comparable deposit. The interest rates for the deposit paid by Finance Company shall not be lower than the interest rates paid by other major independent financial institutions and commercial banks for the provision of the same or similar services in the PRC.

The Group shall choose Finance Company to provide bill discounting services to the Qualified Entities and the interest rates for the provision of bill discounting services to be charged by Finance Company shall not be higher than the interest rates charged by other major independent financial institutions and commercial banks for the provision of same or similar level of bill discounting services in the PRC.

The 2023 Group Financial Services Agreement is only a framework agreement and the parties shall enter into specific contracts setting out specific terms about the service arrangements in relation to the financial services to be provided under the 2023 Group Financial Services Agreement and such specific contracts shall be consistent with the principles and terms of the 2023 Group Financial Services Agreement.

Capital Risks Control Measures

Finance Company will ensure the safe and stable operation of the funds management system, which has undergone the security test in respect of connection to online commercial banking system and has reached the national security standards for commercial banks to ensure the security of the funds of the Qualified Entities.

Finance Company will ensure that it is in strict compliance with the risk monitoring indicators for financial institutions issued by the CBIRC and that its major regulatory indicators such as gearing ratio, interbank borrowing ratio and liquidity ratio will also comply with the requirements of the CBIRC.

Finance Company will monitor the transactions under the 2023 Group Financial Services Agreement and ensure that the transaction amount will not exceed the relevant annual caps under the 2023 Group Financial Services Agreement.

A monthly report of Finance Company and a “comprehensive table of continuing connected transactions” of the preceding month will be delivered by Finance Company to the Company before the tenth day of each month so that the Company can monitor and ensure the relevant transaction amounts will not exceed its respective annual caps under the 2023 Group Financial Services Agreement.

In assessing the fairness and reasonableness of the terms in the 2023 Group Financial Services Agreement, we have obtained and reviewed both the 2020 Group Financial Services Agreement and the 2023 Group Financial Services Agreement and we concur with the Board that the major terms in the 2023 Group Financial Services Agreement are similar with those in the 2020 Group Financial Services Agreement, which was approved by the independent shareholders in the extraordinary general meeting held on 29 January 2021. We have also obtained and reviewed three sets of monthly reports (covering deposit services, bill discounting services and loan services) setting out the utilisation of the annual caps provided by Finance Company to the Group from December 2021 to October 2023 which were randomly selected by the Company as per our request and found that all the utilisation amount are within the annual caps which was fully complied the internal control policy of the Finance Company. We consider that the Finance Company has an effective mechanism in place to monitor the transactions on an on-going basis under the 2023 Group Financial Services Agreement to ensure that the transaction amount under the 2023 Group Financial Services Agreement will not exceed the relevant annual caps.

In respect of the pricing policy, we have obtained and reviewed 4 sets of receipts for deposit services and 3 sets of receipts for bill discounting services provided by Finance Company to the Qualified Entities from 2021 to 2023 which were randomly selected by the Company as per our request and compared such interests rates with the interest rates for the same type of deposit for the same period provided by major commercial banks in the PRC to the Qualified Entities and announced by the PBOC, and noted that the pricing policies under the 2020 Group Financial Services Agreement, which are the same as those under the 2023 Group Financial Services Agreement, have been strictly complied. Please refer to the section headed “4. Internal Control Policies” below for further details in this regard. In other words, the interest rates for the deposit services offered by Finance Company will not be lower than the interest rate paid by other major independent commercial banks for the provision of the same services in the PRC and the interest rates for the bill discounting services offered by Finance Company will not be higher than the interest rate charged by other major independent commercial banks for the provision of same level of bill discounting services in the PRC, which we consider to be fair and reasonable.

In view of the above, we consider that the terms of the deposit services and bill discounting services under the 2023 Group Financial Services Agreement are on normal commercial terms, and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned.

2.2 Deposit services, bill discounting services and loan services under the 2023 Parent Group Financial Services Agreement

Major Terms

On 29 December 2023, Shandong Zhaojin and Finance Company entered into the 2023 Parent Group Financial Services Agreement pursuant to which Finance Company agreed to provide financial services, including deposit services, loan services, bill discounting services and settlement services to Shandong Zhaojin Group, on terms which are similar to the 2020 Parent Group Financial Services Agreement.

The term of the 2023 Parent Group Financial Services Agreement is from 1 January 2024 to 31 December 2026. The provision of deposit services, bill discounting services and loan services under the 2023 Parent Group Financial Services Agreement by Finance Company to the Zhaojin Qualified Entities is subject to the approval of the Independent Shareholders at the EGM. During the Transition Period, Shandong Zhaojin and the Finance Company will monitor and keep the highest applicable percentage ratio in respect of each of (i) the maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company; (ii) the maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company; and (iii) the maximum outstanding loan amount at any one point in time that may be provided by Finance Company under the 2023 Parent Group Financial Services Agreement less than 5%, respectively.

Shandong Zhaojin shall choose Finance Company to provide deposit services to the Zhaojin Qualified Entities and the deposit services and deposit products to be provided by Finance Company to the Zhaojin Qualified Entities shall comply with the requirements of the PBOC. According to the requirements under the Measures for the Administration of Finance Companies of Enterprise Groups issued by the CBRC, finance companies shall abide by the provisions on administration of interest rates of the PBOC. The interest rate on the deposit services provided by Finance Company under the 2023 Parent Group Financial Services Agreement shall be based on the benchmark interest rate promulgated by the PBOC. Such interest rate shall not exceed the range of deposit interest rate promulgated by the PBOC from time to time, i.e., any adjustment on the interest rate offered by Finance Company under the 2023 Parent Group Financial Services Agreement shall be within the interest rate offered by the PBOC on comparable deposit. The interest rates for the deposit paid by Finance Company shall be determined according to the negotiation between the parties with reference to the interest rates offered by other major independent financial institutions and commercial banks for the provision of same or similar deposit services in the PRC shall not be higher than the interest rate paid by Finance Company for the provision of the same deposit services to other parties.

Shandong Zhaojin shall choose Finance Company to provide bill discounting services to the Zhaojin Qualified Entities and the interest rates for the bill discounting services provided by Finance Company shall be determined according to the negotiation between the parties with reference to the interest rates offered by other major independent financial institutions and commercial banks for the provision of same or similar bill discounting services in the PRC and shall not be lower than the interest rates charged by Finance Company for the provision of same level of bill discounting services to other parties.

Shandong Zhaojin shall choose Finance Company to provide loan services to the Zhaojin Qualified Entities provided that the interest rates for the loan services charged by Finance Company shall be determined according to the negotiation between the parties with reference to the interest rates charged by other major independent financial institutions and commercial banks for the provision of same or similar loan services in the PRC and shall not be lower than the interest rates charged by Finance Company for the provision of the same loan services to other parties.

The 2023 Parent Group Financial Services Agreement is only a framework agreement and the parties shall enter into specific contracts setting out specific terms about the service arrangements in relation to the financial services to be provided under the 2023 Parent Group Financial Services Agreement provided that such specific contracts shall be consistent with the principles and terms of the 2023 Parent Group Financial Services Agreement.

Capital Risks Control Measures

Finance Company will ensure the safe and stable operation of the funds management system, which has undergone the security test in respect of connection to online commercial banking system and has reached the national security standards for commercial banks to ensure the security of the funds of the Zhaojin Qualified Entities.

Finance Company will ensure that it is in strict compliance with the risk monitoring indicators for financial institutions issued by the CBIRC and that its major regulatory indicators such as gearing ratio, interbank borrowing ratio and liquidity ratio will also comply with the requirements of the CBIRC.

Finance Company will monitor the transactions under the 2023 Parent Group Financial Services Agreement and ensure that the transaction amounts will not exceed the relevant annual caps under the 2023 Parent Group Financial Services Agreement.

A monthly report of Finance Company and a “comprehensive table of continuing connected transactions” of the preceding month will be delivered by Finance Company to the Company and Shandong Zhaojin before the tenth day of each month so that the Company and Shandong Zhaojin can monitor and ensure the relevant transaction amounts will not exceed its respective annual caps under the 2023 Parent Group Financial Services Agreement.

In assessing the fairness and reasonableness of the terms in the 2023 Parent Group Financial Services Agreement, we have obtained and reviewed both the 2020 Parent Group Financial Services Agreement and the 2023 Parent Group Financial Services Agreement and we concur with the Board that the major terms in the 2023 Parent Group Financial Services Agreement are similar with those in the 2020 Parent Group Financial Services Agreement, which was approved by the independent shareholders in the extraordinary general meeting held on 29 January 2021. We have also obtained and reviewed three sets of monthly reports (covering deposit services, bill discounting services and loan services) setting out the utilisation of the annual caps provided by Finance Company to Shandong Zhaojin from December 2021 to October 2023 which were randomly selected by the Company as per our request and found that all the utilisation amount are within the annual caps which was fully complied the internal control policy of the Finance Company. We consider that the Finance Company has an effective mechanism in place to monitor the transactions on an on-going basis under the 2023 Parent Group Financial Services Agreement to ensure that the transaction amount under the 2023 Parent Group Financial Services Agreement will not exceed the relevant annual caps.

In respect of the pricing policy, we have obtained and reviewed 4 sets of receipts for deposit services, 3 sets of receipts for bill discounting services and 1 set of receipt for loan services provided by Finance Company to Shandong Zhaojin from 2022 to 2023 which were randomly selected by the Company as per our request and compared such interest rates with the interest rates for the same type of deposit services, bill discounting services and loan services for the same period provided by Finance Company to other parties and provided by major commercial banks in the PRC to Shandong Zhaojin, and noted that the pricing policies under the 2020 Parent Group Financial Services Agreement, which are the same as those under the 2023 Parent Group Financial Services Agreement, have been strictly complied. Please refer to the section headed “4. Internal Control Policies” below for further details in this regard. In other words, the interest rates for the deposit services offered by Finance Company will not be higher than the interest rate paid by Finance Company for the provision of the same services to other parties and the interest rates for the bill discounting services and loan services offered by Finance Company will not be lower than the interest rate charged by Finance Company for the provision of same level of bill discounting services to other parties, which we consider to be fair and reasonable.

In view of the above, we consider that the terms of the deposit services, bill discounting services and loan services under the 2023 Parent Group Financial Services Agreement are on normal commercial terms, and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned.

3. The Proposed Annual Caps

3.1 Historical Transaction Amounts

3.1.1 Historical Transaction Amounts of the 2020 Group Finance Services Agreement

Deposit Services

The table below sets forth the maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company to the qualified entities which satisfy the members qualifications under the 2020 Group Financial Services Agreement (the “**2020 Qualified Entities**”) for each of the three years ended 31 December 2021, 31 December 2022 and 31 December 2023:

	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2023
Maximum daily outstanding balance of deposits placed by the 2020 Qualified Entities with Finance Company (including interest accrued thereon)	RMB2,078 million	RMB3,115 million	RMB4,113 million

The maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company to the 2020 Qualified Entities for the year ending 31 December 2023 contemplated under the 2020 Group Financial Services Agreement is RMB5,000 million which has not been exceeded as at the Latest Practicable Date and did not exceed as at 31 December 2023.

Bill Discounting Services

The table below sets forth the maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the 2020 Qualified Entities under the 2020 Group Financial Services Agreement for each of the three years ended 31 December 2021, 31 December 2022 and 31 December 2023:

	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2023
Maximum daily outstanding balance of funds provided by Finance Company to the 2020 Qualified Entities for bill discounting services (including interest accrued thereon)	RMB610 million	RMB520 million	RMB400 million

The maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the 2020 Qualified Entities for the year ending 31 December 2023 contemplated under the 2020 Group Financial Services Agreement is RMB2,500 million which has not been exceeded as at the Latest Practicable Date and did not exceed as at 31 December 2023.

3.1.2 Historical Transaction Amounts of the 2020 Parent Group Finance Services Agreement

Deposit Services

The table below sets forth the maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company to the qualified entities which satisfy the members qualifications under the 2020 Parent Group Financial Services Agreement (the “**2020 Zhaojin Qualified Entities**”) for each of the three years ended 31 December 2021, 31 December 2022 and 31 December 2023:

	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2023
Maximum daily outstanding balance of deposits placed by the 2020 Zhaojin Qualified Entities with Finance Company (including interest accrued thereon)	RMB2,315 million	RMB3,133 million	RMB1,730 million

The maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company to the 2020 Zhaojin Qualified Entities for the year ending 31 December 2023 contemplated under the 2020 Parent Group Financial Services Agreement is RMB6,000 million which has not been exceeded as at the Latest Practicable Date and did not exceed as at 31 December 2023.

Billing Discounting Services

The table below sets forth the maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the 2020 Zhaojin Qualified Entities under the 2020 Parent Group Financial Services Agreement for each of the three years ended 31 December 2021, 31 December 2022 and 31 December 2023:

	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2023
Maximum daily outstanding balance of funds provided by Finance Company to the 2020 Zhaojin Qualified Entities for bill discounting services (including interest accrued thereon)	RMB725 million	RMB940 million	RMB900 million

The maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the 2020 Zhaojin Qualified Entities for the year ending 31 December 2023 contemplated under the 2020 Parent Group Financial Services Agreement is RMB2,500 million which has not been exceeded as at the Latest Practicable Date and did not exceed as at 31 December 2023.

Loan Services

The table below sets forth the maximum daily outstanding loan amount (including interest accrued thereon) at any one point in time provided by Finance Company to the 2020 Zhaojin Qualified Entities under the 2020 Parent Group Financial Services Agreement for each of the three years ended 31 December 2021, 31 December 2022 and 31 December 2023:

	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2023
Maximum outstanding loan amount provided by Finance Company to the 2020 Zhaojin Qualified Entities (including interest accrued thereon)	RMB1,517 million	RMB1,655 million	RMB1,941 million

The maximum outstanding loan amount (including interest accrued thereon) at any one point in time provided by Finance Company to 2020 Zhaojin Qualified Entities for the year ending 31 December 2023 contemplated under the 2020 Parent Group Financial Services Agreement is RMB5,000 million which has not been exceeded as at the Latest Practicable Date and did not exceed as at 31 December 2023.

3.2 Proposed Caps

3.2.1 Proposed Annual Caps of the 2023 Group Finance Services Agreement

Deposit Services

The maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company to the Qualified Entities pursuant to the 2023 Group Financial Services Agreement for the three years ending 31 December 2026 are as follows:

	For the year ended 31 December 2024	For the year ended 31 December 2025	For the year ended 31 December 2026
Maximum daily outstanding balance of deposits placed by the Qualified Entities with Finance Company (including interest accrued thereon)	RMB5,000 million	RMB5,500 million	RMB6,000 million

Bill discounting Services

The maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the Qualified Entities pursuant to the 2023 Group Financial Services Agreement for the three years ending 31 December 2026 are as follows:

	For the year ended 31 December 2024	For the year ended 31 December 2025	For the year ended 31 December 2026
Maximum daily outstanding balance of funds provided by Finance Company to the Qualified Entities for bill discounting services (including interest accrued thereon)	RMB1,000 million	RMB1,500 million	RMB2,000 million

Assessment on the proposed caps

In assessing the fairness and reasonableness of the proposed caps under the 2023 Group Financial Services Agreement, we have reviewed and noted the proposed caps for deposit services increase as compared with the existing annual caps under the 2020 Group Financial Services Agreement (“**Existing Deposit Caps**”) and the proposed caps for bill discounting services decrease as compared with the existing annual caps under the 2020 Group Financial Services Agreement (“**Existing Bill Discounting Caps**”).

We have discussed with the management of the Company about the basis and assumptions in setting the proposed caps for deposit services and bill discounting services under the 2023 Group Financial Services Agreement. We have reviewed the Company’s 2022 annual report and 2023 Third Quarterly Report and noted that there is a continued expansion in the Group’s business scale. The Group’s revenue and net profits achieved growth of 10.29% and 29.73% for nine months ended 30 September 2023 as compared with the same period last year. Also, the Group’s total assets increased by 13.34% from approximately RMB43.02 billion as at 31 December 2021 to RMB48.76 billion as at 30 September 2023 and the Group’s cash and cash equivalents increased by 80.31% from approximately RMB3.00 billion as at 31 December 2021 to approximately RMB5.41 billion as at 30 September 2023. According to (i) the highest historical utilisation rate of the Existing Deposits Caps reached 89.74%; (ii) the expected increase in cashflow of the Group resulting from the possible implementation of financing plan of the Group in the ensuing three years and (iii) the revenue and the net profits achieved grow resulting from the Group’s business scale and cash balance is continued to expand, we concur with the Board that the proposed caps for deposit services with a yearly growth under the 2023 Group Financial Services Agreement are reasonable.

We noted the highest historical utilisation rate of Existing Bill Discounting Caps reached 40.67%. Although we have advised by the management of the Company, following the obtaining of the relevant regulatory authorisations, the methods for settlement of debt between Finance Company and the Qualified Entities were gradually changed from cash settlement to settlement by electronic bill discounting according to the policy of the PBOC, the use of electronic bill discounting enables Finance Company to obtain a lower interest rate in re-discounting or forward-discounting of the electronic bills, so that the Finance Company lowers its financing cost and provides bill discounting services to the Qualified Entities in a more cost-efficient manner. Based on the above, it is expected that the proportion of settlement by Qualified Entities using electronic bill discounting will further increase in the three years ending 31 December 2026, leading to an increase in the number of electronic bills issued by the Qualified Entities through Finance Company. Upon issuing the electronic bills, the Qualified Entities may hold the bills, endorse the bills or apply for discounting with Finance Company. If they choose to apply for discounting with Finance Company, it will lead to an increase in the maximum daily outstanding balance of funds provided by Finance Company to the Qualified Entities for bill discounting services. Accordingly, a further increase in the proportion of use of electronic bill for settlement by Finance Company and the Qualified Entities will increase the probability of an increase in the maximum daily outstanding balance of funds provided by Finance Company to the Qualified Entities for bill discounting services. But due to the 2020 Qualified Entities' actual maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the 2020 Qualified Entities under the 2020 Group Financial Services Agreement for each of the two years ended 31 December 2021 and 31 December 2022, and the eleven months ended 30 November 2023 were lower than the annual caps under the 2020 Group Financial Services Agreement. Accordingly, the proposed maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the Qualified Entities pursuant to the 2023 Group Financial Services Agreement for the three years ended 31 December 2026 has been adjusted downwards, with a view to better aligning with the actual demand of the 2020 Qualified Entities' business for bill discounting services. We concur with the Board that the proposed caps for bill discounting services under the 2023 Group Financial Services Agreement are reasonable.

Based on the above and given the 2023 Group Financial Services Agreement will be on a non-exclusive basis and the proposed caps provides the Group the right but not the obligation to utilise the deposit services and the bill discounting services under such agreement, we consider that the proposed caps for deposit services and bill discounting services under 2023 Group Financial Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.2.2 Proposed Annual Caps of the 2023 Parent Group Finance Services Agreement

Deposit Services

The maximum daily outstanding balance of deposits (including interest accrued thereon) in relation to the provision of deposit services by Finance Company to the Zhaojin Qualified Entities pursuant to the 2023 Parent Group Financial Services Agreement for the three years ending 31 December 2026 are as follows:

	For the year ended 31 December 2024	For the year ended 31 December 2025	For the year ended 31 December 2026
Maximum daily outstanding balance of deposits placed by Zhaojin Qualified Entities with Finance Company (including interest accrued thereon)	RMB5,000 million	RMB5,500 million	RMB6,000 million

Bill Discounting Services

The maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the Zhaojin Qualified Entities pursuant to the 2023 Parent Group Financial Services Agreement for the three years ending 31 December 2026 are as follows:

	For the year ended 31 December 2024	For the year ended 31 December 2025	For the year ended 31 December 2026
Maximum daily outstanding balance of funds provided by Finance Company to the Zhaojin Qualified Entities for bill discounting services (including interest accrued thereon)	RMB1,500 million	RMB2,000 million	RMB2,000 million

Loan Services

The maximum outstanding loan amount (including interest accrued thereon) at any one point in time to be provided by Finance Company to the Zhaojin Qualified Entities pursuant to the 2023 Parent Group Financial Services Agreement for the three years ending 31 December 2026 are as follows:

	For the year ended 31 December 2024	For the year ended 31 December 2025	For the year ended 31 December 2026
Maximum outstanding loan amount provided by Finance Company to the Zhaojin Qualified Entities (including interest accrued thereon)	RMB4,000 million	RMB4,500 million	RMB5,000 million

Assessment on the proposed caps

In assessing the fairness and reasonableness of the proposed caps under the 2023 Parent Group Financial Services Agreement, we have reviewed and note the proposed caps for deposit services and loan services are remaining the same with those caps in the 2020 Parent Group Financial Services Agreement, which were approved by the independent shareholders in the extraordinary general meeting held on 29 January 2021 (“**Parent Group Existing Deposit Caps**” and “**Parent Group Existing Loan Caps**”, respectively) and the proposed caps for bill discounting services decrease as compared with the caps in the 2020 Parent Group Financial Services Agreement (“**Parent Group Existing Bill Discounting Caps**”).

We have discussed with the management of the Group the basis and assumptions in setting the proposed caps for deposit services and bill discounting services under the 2023 Parent Group Financial Services Agreement. We have reviewed Shandong Zhaojin’s 2022 annual report and 2023 Third Quarterly Report and noted that there is a continued expansion in Shandong Zhaojin’s business scale. Shandong Zhaojin’s revenue and net profits achieved growth of 16.93% and 251.17% for nine months ended 30 September 2023 as compared with the same period last year. Also, Shandong Zhaojin’s total assets increased by 18.53% from approximately RMB62.66 billion as at 31 December 2021 to RMB74.28 billion as at 30 September 2023 and the Group’s cash and cash equivalents increased by 61.54% from approximately RMB3.81 billion as at 31 December 2021 to approximately RMB6.16 billion as at 30 September 2023. We have also reviewed Notice of Acceptance of Registration release by the National Association of Financial Market Institutional Investors on 9 March 2023 and noted Shandong Zhaojin was approved to issue RMB2.0 billion medium-term notes and RMB6.0 billion super-short-term notes in the coming two years. In addition, as advised by the management of the Company, the potential large amount sales of gold affected by the increasing gold price may also significantly increase the overall assets scale of Shandong Zhaojin. Although the highest historical utilisation rate of the Parent Group Existing Deposits Caps only reached 56.96%, given (i) the proposed caps will be remaining the same as the Parent Group Existing Deposits Caps; (ii) Zhaojin Qualified Entities’s business scale is continued to expand; (iii) Zhaojin Qualified Entities’s cash balance will increase in line with its business scale, we concur with the Board that the proposed caps for deposit services under the 2023 Parent Group Financial Services Agreement are reasonable.

We noted the highest historical utilisation rates of Parent Group Existing Bill Discounting Caps only reached 39.27%. Although we have advised by the management of the Company, following the obtaining of the relevant regulatory authorisations, the methods for settlement of debt between Finance Company and the Qualified Entities were gradually changed from cash settlement to settlement by electronic bill discounting since under the policy of the PBOC, the use of electronic bill discounting enables Finance Company to obtain a lower interest rate in re-discounting or forward-discounting of the electronic bills, so that the Finance Company lowers its financing cost and provides bill discounting services to the Qualified Entities in a more cost-efficient manner. Based on the above, it is expected that the proportion of settlement by Zhaojin Qualified Entities using electronic bill discounting will further increase in the next three years ending 31 December 2026, leading to an increase in the number of electronic bills issued by the Qualified Entities through Finance Company. Upon issuing the electronic bills, the Qualified Entities may hold the bills, endorse the bills or apply for discounting with Finance Company. If they choose to apply for discounting with Finance Company, it will lead to an increase in the maximum daily outstanding balance of funds provided by Finance Company to the Qualified Entities for bill discounting services. Accordingly, a further increase in the proportion of use of electronic bill for settlement by Finance Company and the Qualified Entities will increase the probability of an increase in the maximum daily outstanding balance of funds provided by Finance Company to the Qualified Entities for bill discounting services. But due to the 2020 Zhaojin Qualified Entities' actual maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the 2020 Zhaojin Qualified Entities under the 2020 Parent Group Financial Services Agreement for each of the two years ended 31 December 2021 and 31 December 2022, and the eleven months ended 30 November 2023 were lower than the annual caps under 2020 Parent Group Financial Services Agreement. Accordingly, the proposed maximum daily outstanding balance of funds (including interest accrued thereon) in relation to the provision of bill discounting services by Finance Company to the Zhaojin Qualified Entities pursuant to the 2023 Parent Group Financial Services Agreement for the three years ending 31 December 2026 has been adjusted downwards, with a view to better aligning with the actual demand of the Zhaojin Qualified Entities' business for bill discounting services. We concur with the Board that the proposed caps for bill discounting services under the 2023 Parent Group Financial Services Agreement are reasonable.

We noted the highest historical utilisation rates of Parent Group Existing Loan Caps only reached 42.35%. As advised by the management of Shandong Zhaojin Group, (i) approximately RMB1,500 million for the import of refined gold for recruitment and gold processing in the coming three years; (ii) the construction of the Phase II project of the Golden Vocational College will require around RMB0.5 billion liquid capital; (iii) the acquisition of non-ferrous domestic and foreign mining investment projects by Shandong Zhaojin will require around RMB1.0 billion liquid capital; and (iv) the real estate development projects will require around RMB0.5 billion liquid capital in the coming three years. In addition, there is a continued expansion of Shandong Zhaojin's business scale as mentioned above, which indicates Shandong Zhaojin may have more capital needs in the future development. Although the highest historical utilisation rates of Parent Group Existing Loan Caps only reached 42.35%, given (i) the proposed caps will be remaining the same as the Parent Group Existing Loan Caps; and (ii) the capital need of Shandong Zhaojin would increase due to its future business development, we concur with the Board that the proposed caps for loan services under the 2023 Parent Group Financial Services Agreement with a yearly growth are reasonable.

Based on the above, we consider that the proposed caps for deposit services, bill discounting services and loan services under the 2023 Parent Group Financial Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. Internal Control Policies

The Company has adopted certain internal control procedures in relation to its utilisation of Finance Company's services, details of which are included in section headed "INTERNAL CONTROL ON PRICING" under the section headed "2023 Group Financial Services Agreement" and "2023 Parent Group Financial Services Agreement" in the Letter from the Board. We have also obtained and reviewed the Company's Measures for the Administration of Information Disclosure, which includes the measures for administration of continuing connected transactions of the Group.

Finance Company is a non-financial institution subject to supervision of the CBIRC, and Finance Company shall operate business in accordance with the Measure for the Administration of Finance Companies of Enterprise Groups issued by the CBIRC for the purpose of overseeing the operation and reducing the possibility of financial risks of finance companies of enterprise groups. Such administrative measures set forth measures on supervision, management, and risk control in accordance to operating finance companies of enterprise groups, including but not limited to maintaining certain financial ratios and reports to the CBIRC. We have obtained and reviewed the operating license of Finance Company issued by CBIRC and reviewed the internal control policies and procedures and risk management measures of Finance Company.

4.1 Internal Control on Pricing under the 2023 Group Financial Services Agreement

We have obtained and reviewed 4 sets of receipts for the deposit services (covering demand deposits, agreement deposits and time deposits with the principal amounts and relevant interest rate) provided by Finance Company to the Group from June 2023 to July 2023 which were randomly selected by the Company as per our request. As the 4 sets of depository receipts consist of all types of deposit, we believe the random selected samples obtained and reviewed by us are fair and representative samples of the historical terms offered by Finance Company to the Group. We have obtained and compared the interest rates offered by two independent commercial banks in respect of 2 sets of demand deposit services and time deposit services provided to the Group for the same period, which were provided by the Company as per our request, and noted that the interest rates of such deposit services provided are not higher than the interest rates of the deposit services provided by Finance Company to the Group. We have discussed with the management of the Company and understood that the Company collected quotations from other commercial banks via phone and confirmed that the interest rates for time deposits provided by Finance Company to the Group were not lower than the interest rates provided by any other major commercial banks for the same type of deposits. In addition, we also checked and noted that the interest rates for the deposits services provided by Finance Company to the Group were not lower than the interest rates for the same type of deposits announced by the PBOC for the same period.

We have obtained and review 3 sets of receipts for the bill discounting services provided by Finance Company to the Group from December 2021 to January 2023, and we believe such randomly selected samples are fair and representative samples of the historical terms offered by Finance Company to the Group. We understood from the management of the Company that the Company has made phone quotations with commercial banks to confirm the interest rates provided by Finance Company for bill discounting services to the Group were not higher than the interest rates provided by commercial banks, and the Group has not conducted any historical bill discounting transactions with independent third parties.

4.2 Internal Control on Pricing under the 2023 Parent Group Financial Services Agreement

We have obtained and reviewed 4 sets of receipts for the deposit services (covering demand deposits, agreement deposits and time deposits with the principal amounts and relevant interest rate) provided by Finance Company to Shandong Zhaojin from April 2023 to June 2023 which were randomly selected by the Company as per our request. As the 4 sets of depository receipts consist of all types of deposit, we believe such randomly selected samples are fair and representative samples of the historical terms offered by Finance Company to Shandong Zhaojin. We have also obtained and compared the interest rates offered by 2 major commercial banks in the PRC in respect of deposit services provided to Shandong Zhaojin for the same period, which were randomly selected by the Company as per our request, and noted that the interest rates offered by Finance Company to Shandong Zhaojin were not higher than that offered by major independent commercial banks. We also obtained and compared the interest rates offered by Finance Company for 3 sets of deposit services to other parties for the same period, and noted that the interest rates of such deposit services were the same as the interest rates provided by Finance Company to Shandong Zhaojin. In addition, we also checked and noted that the interest rates for the deposits services provided by Finance Company to Shandong Zhaojin were not lower than the interest rates for the same type of deposits announced by the PBOC for the same period.

We have obtained and reviewed 3 sets of receipts for the bill discounting services provided by Finance Company to Shandong Zhaojin from May 2022 to December 2022 which were randomly selected by the Company as per our request, and we believe such randomly selected samples are fair and representative samples of the historical terms offered by Finance Company to Shandong Zhaojin. We have also obtained and compared the interest rates offered by Finance Company for 3 sets of bill discounting services to other parties for the same period and noted that the interest rates of bill discounting services were not higher than the interest rates provided by Finance Company to Shandong Zhaojin.

We have obtained and reviewed 1 set of receipt for the loan services provided by Finance Company to Shandong Zhaojin in May 2022 which was the only one loan services offered by Finance Company to Shandong Zhaojin from 2021 to 2023. The currency is USD for such loan services. We have also obtained and compared the interest rates offered by an major independent commercial bank for 1 set of loan services to Shandong Zhaojin with USD currency for the same period and noted that the interest rates of loan services were 0.38% higher than the interest rates provided by Finance Company to Shandong Zhaojin. As advised by the management of the Company, the higher interest provided by the major independent commercial bank is attributable to the loan period for the loan services provided by Finance Company to Shandong Zhaojin is a very short-term loan for one and half months while the loan period for the loan services provided by the major independent commercial bank to Shandong Zhaojin is one year. The Company will provide a higher interest rate to long period loan services than the short term one.

Pursuant to Rules 14A.55 and 14A.56 of the Listing Rules, the independent non-executive Directors and auditor of the Company will conduct annual review and issue confirmations regarding the continuing connected transactions of the Company each year. We have reviewed the 2021 Annual Report and the 2022 Annual Report and noted that the independent non-executive Directors and the auditor of the Company have reviewed the non-exempt continuing connected transactions, including the 2020 Group Financial Services Agreement and the 2020 Parent Group Financial Services Agreement, during such years and provided the relevant confirmations. As confirmed with the Company, the Company will continue to comply with the relevant annual review requirement under the Listing Rules on an on-going basis.

Based on the above, we concur with the Directors' view that the Group has effective internal policies in place to continue to monitor the continuing connected transactions under the 2023 Agreements and relevant proposed annual caps, and hence the interest of the Independent Shareholders would be safeguard.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the provision of deposit services and bill discounting services under the 2023 Group Financial Services Agreement (including the relevant proposed annual caps) and the provision of deposit services, bill discounting services and loan services under the 2023 Parent Group Financial Services Agreement (including the relevant proposed annual caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and (ii) the entering into of the 2023 Agreements is in the interests of the Company and the Shareholders as a whole and conducted in the ordinary and usual course of business of the Group. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the provision of deposit services and bill discounting services and relevant proposed caps under the 2023 Group Financial Services Agreement and the provision of deposit services, bill discounting services and loan services under the 2023 Parent Group Financial Services Agreement and their respective annual caps.

Yours faithfully,
For and on behalf of
Maxa Capital Limited



Michael Fok
Managing Director

Mr. Michael Fok is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 23 years of experience in the corporate finance industry.