
CONNECTED TRANSACTIONS

CONNECTED PERSON

Immediately following the completion of the [REDACTED], ZGC Group will hold [REDACTED] (assuming no exercise of the [REDACTED]) or approximately [REDACTED] (assuming full exercise of the [REDACTED]) of the total issued Shares. Therefore, ZGC Group is our connected person and the following transactions between our Group and ZGC Group will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Trademarks Licensing Agreement

On [●], 2019, we entered into a trademarks licensing agreement (the “Trademarks Licensing Agreement”) with ZGC Group, pursuant to which ZGC Group has granted us an irrevocable royalty-free license to use certain trademarks registered by ZGC Group for an initial term of ten years from the date of the Trademarks Licensing Agreement. Subject to applicable laws and regulations, the Trademarks Licensing Agreement can be renewed for another ten years by sending a written notice by us to ZGC Group, unless the parties agree otherwise.

Our Directors are of the view that the transactions contemplated under the Trademarks Licensing Agreement are on normal commercial terms and the ten-year term is normal business practice for agreements of this type.

As nil consideration is payable by us to ZGC Group under the Trademarks Licensing Agreement, the highest applicable percentage ratio under the Trademarks Licensing Agreement is less than 0.1%. Therefore, the continuing connected transaction under the Trademarks Licensing Agreement constitutes a de minimis transaction under Rule 14A.76 of the Listing Rules and is therefore fully exempt from the independent shareholders’ approval, annual review and all disclosure requirements.

2. Sharing of Administrative Service

On [●] 2019, we entered into an administrative services agreement with ZGC Group, pursuant to which we and ZGC Group agreed to provide each other administrative services, including but not limited to, shared secretarial, human resources management services and legal services. The fees to be paid by us to ZGC Group and vice versa will be calculated on a cost basis.

As the transactions contemplated under the administrative services agreement constitute the sharing of administrative services on a cost basis, and the cost are identifiable and can be allocated to the parties on a fair and equitable basis, such agreement is fully exempted from the independent shareholders’ approval, annual review and all disclosure requirements under Rules 14A.98 of the Listing Rules.

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NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Financial Lease Framework Agreement

On [●], we entered into a financial lease framework agreement (the “Financial Lease Framework Agreement”) with ZGC Group, pursuant to which, our Company and/or our subsidiaries (if any) will provide financial lease services and related advisory services to ZGC Group and/or its associates. The major terms of the Financial Lease Framework Agreement are as follows:

- ZGC Group and/or its associates will receive financial lease services and advisory services from our Company and/or our subsidiaries;
- with respect to specific financial lease projects, our Company and/or our subsidiaries shall enter into individual agreements with ZGC Group and/or its associates to prescribe specific terms and conditions, including principal, lease interest, advisory service fees, ownership and use right, lease period and other terms; and
- the Financial Lease Framework Agreement will be effective from the [REDACTED] to December 31, 2021 and may be renewed by mutual consent.

Pricing policy: Based on the lending interest rate for a similar term set by PBOC, we determine lease interest on normal commercial terms and taking into account our financing cost and risk premium based on assessment of the credit risk of the associates of ZGC Group involved to ensure that the terms of transaction will be no more favorable to them than the terms available to Independent Third Parties with similar credit in the same industry. See the section headed “—Internal control measures on the Financial Lease Framework Agreement”.

Reasons for the transactions

Certain of the associates of ZGC Group seek financial lease services and relevant advisory services from us from time to time to support their business developments. Since we are able to provide financial lease services and advisory services, and we are familiar with financial lease requirements of ZGC Group and its associates, we expect that ZGC Group and its associates will continue to seek financial lease services and relevant advisory services from us.

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Historical amount and annual caps

For the three years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2019, the total amount of lease principal provided by our Group to ZGC Group and/or its associates was approximately nil, RMB6.3 million, RMB9.1 million and nil, respectively, the total amount of lease interest received was approximately nil, RMB0.2 million, RMB0.9 million and RMB0.4 million, respectively, and the total amount of advisory services fee received was approximately nil, nil, RMB0.5 million and nil.

For the three years ending December 31, 2019, 2020 and 2021, the total amount of lease principal to be provided by our Group to ZGC Group and/or its associates is not expected to exceed RMB12.0 million, RMB12.0 million and RMB12.0 million, respectively, the total amount of lease interest to be received is not expected to exceed RMB0.9 million, RMB1.5 million and RMB1.6 million, respectively, and the total amount of advisory services fee received is not expected to exceed RMB1.2 million, RMB1.2 million and RMB1.2 million, respectively.

Basis for annual caps

The above proposed annual caps are based on the following factors: (i) the historical transaction amounts of financial lease services and relevant advisory services provided by us to ZGC Group and its associates. We estimate the financial lease demand from ZGC Group and its associates will remain at the same level based on the average lease principal for the three years ended December 31, 2018 and will increase at a rate of approximately 10% from 2019 to 2021 taking into account the general trend in macroeconomic conditions; (ii) our existing financial lease contractual arrangement with ZGC Group and its associates; and (iii) the expected changes in our financing cost.

Internal control measures on the Financial Lease Framework Agreement

The provision of financial lease services to ZGC Group and/or its associates will be included in our overall risk management system for management according to our risk management policy, credit approval process and credit evaluation standards applicable to all of our customers. For details on our risk management system, policy and process, please refer to the section headed “Risk Management” in this document. We screen the associates of ZGC Group according to differentiated industry standards and conduct credit assessment on them according to our credit approval process, and ultimately our Project Assessment Committee will approve individual financial lease projects. The factors we consider in risk assessments include customer reputation, customer base, growth trend, existing debt conditions, operating cash flows and the forecast cash flows to be generated by the relevant leased equipment, and we determine the lease interest based on the risk premium assessed by these factors. In addition, the individual financial lease agreements entered into between us and certain of the associates of ZGC Group also provide that if there is any change in the benchmark lending interest rate for a similar term set by the PBOC, we are entitled to change the lease interest to ensure that the interest collected by us from the associates of ZGC Group timely reflects the change in our financing cost.

CONNECTED TRANSACTIONS

Financial Services Framework Agreement

On [●], we entered into a financial services framework agreement (the “Financial Services Framework Agreement”) with ZGC Group, pursuant to which, ZGC Group shall provide the following services to our Group on normal commercial terms no less favorable to us than those available from Independent Third Parties for similar or comparable services, in accordance with the following principles:

1. Credit Services

Our Group may from time to time request ZGC Group to provide credit services (including, without limitation, entrusted loan) with security over the assets of our Group (including, without limitation, pledge of trade receivables) acceptable to ZGC Group. ZGC Group shall provide such credit services to us at an interest rate not higher than the interest rate of similar credit services for a similar term provided by an independent third party commercial bank to our Group.

2. Deposit Services

Our Group may from time to time deposit money with ZGC Group. ZGC Group shall provide deposit services to us at an interest rate not lower than the interest rate of similar deposits for a similar term provided by an independent third party commercial bank to our Group.

The Financial Services Framework Agreement will be effective from the [REDACTED] to December 31, 2021 and may be renewed by mutual consent.

According to the Financial Services Framework Agreement, for specific services, our Group may enter into individual agreements with ZGC Group as needed, which will be subject to the terms and conditions stipulated in the Financial Services Framework Agreement, to stipulate specific terms and conditions, including service scope, security, loan interest, deposit interest, service fee and other terms.

Reasons for the transactions

As our Controlling Shareholder, ZGC Group has a more thorough understanding of the business development and capital needs of our Company and is able to provide financial services and capital support in a more convenient and efficient manner as compared to other third parties.

The credit services will provide us an alternative source of finance (in addition to the general banking facilities, and debt and equity securities) on normal commercial terms. In addition, ZGC Group established its fund clearing center in December 2017, and since then we have used ZGC Group as a fund management platform to help centralize our cash management and increase the efficiency of capital utilization. For the sake of convenience and mutual benefit, we deposited the funds that we obtained from ZGC Group but had not utilized in the fund clearing center of ZGC Group during the Track Record Period.

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Our Group also has discretion in selecting other major and independent PRC commercial banks as its financial service provider as it thinks fit and appropriate for the benefits of the Group. As a result, the legitimate interests of the Group in selecting financial service providers will not be jeopardized and will be safeguarded by such condition and discretion.

Historical amount and annual caps

The following chart sets forth the breakdown of the historical amounts and annual caps by types of financial services under the Financial Services Framework Agreement.

Financial Services	Historical Amount (RMB million)				Proposed Annual Cap (RMB million)		
	For the year ended December 31,			For the six months ended June 30,	For the year ending December 31,		
	2016	2017	2018	2019	2019	2020	2021
Credit services (daily maximum outstanding balances including accrued interest and handling fee) with security over assets of our Group	1,454.9	1,565.8	1,865.2	1,637.7	1,683.3	1,268.4	1,268.4
Deposit services (daily maximum outstanding balances including accrued interest and handling fee)	⁽¹⁾	⁽¹⁾	300.2	297.6	401.6	403.0	403.0

Note:

- (1) The deposit balances for the year of 2016 and 2017 were nil because our Group started to deposit with ZGC Group after the fund clearing center was established in December 2017.

Basis for caps

The caps of the credit services are determined with reference to (i) our historical transaction amounts with ZGC Group during the Track Record Period; (ii) the outstanding amount of the secured entrusted loans from ZGC Group; and (iii) the expected growth of our business and financing needs in the future.

The caps of the deposit services are determined with reference to (i) our historical deposit amount with ZGC Group during the Track Record Period; (ii) the increase in our cash flows from our expected financing activities; and (iii) the expected growth of our business and cash flows from our operating activities.

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Internal control measures for the Financial Services Framework Agreement

We have adopted the following internal procedures on the Financial Services Framework Agreement to safeguard the interest of our Shareholders as a whole:

- Our financial market team will obtain the relevant interest rate or fee rate quotations from ZGC Group and independent commercial banks from time to time;
- Our financial market team will compare quotation from ZGC Group with quotation from independent commercial banks for credit and/or deposits of a similar type and maturity. If the interest rates and terms offered by ZGC Group are no less favorable than the pricing criteria as disclosed above, our Financial Market Team will submit an application to the general manager of our Company for review; and
- After the general manager of our Company has reviewed an individual transaction and confirmed that the above pricing criteria and other terms in the Financial Services Framework Agreement have been followed, the transactions will be submitted to the Board for approval.

Confirmation of Directors

Our Directors (including independent non-executive Directors) consider that the non-exempt continuing connected transactions has been and will be entered into in our ordinary and usual course of business and on normal commercial terms, are fair and reasonable and in the interest of our Company and Shareholders as a whole. The proposed annual caps mentioned above in respect of the non-exempt continuing connected transactions are also fair and reasonable and in the interest of our Company and our Shareholders as a whole.

According to the requirements of Rule 14A.52 of the Listing Rules, the term of agreement for continuing connected transactions shall not exceed three years, unless the nature of transaction requires a longer period under special circumstances. The individual financial lease agreements and/or financial services agreements entered into or to be entered into by us with ZGC Group or its associates under the Financial Lease Framework Agreement and/or the Financial Services Framework Agreement may exceed three years and would range between three to five years. Due to the nature of financial services transactions, the term for financial lease agreements and financial services agreements entered into between us and independent third parties may range from three to five years. Therefore, our Directors (including independent non-executive Directors) consider that the individual financial lease agreements and financial services agreements entered into or to be entered into by us with ZGC Group or its associates under the Financial Lease Framework Agreement and/or the Financial Services Framework Agreement for a period of not more than five years are in line with our usual business practice for a similar type of agreements.

CONNECTED TRANSACTIONS

Confirmation of the Sole Sponsor

The Sole Sponsor considers that the non-exempt continuing connected transactions has been and will be entered into in our Group's ordinary and usual course of business and on normal commercial terms or better, are fair and reasonable and in the interest of our Company and the Shareholders as a whole. The proposed annual cap mentioned above in respect of the non-exempt continuing connected transactions are also fair and reasonable and in the interest of our Company and our Shareholders as a whole.

The Sole Sponsor considers that due to the nature of financial lease industry, the individual financial lease agreements and/or financial services agreements entered into or to be entered into by our Group with associates of ZGC Group under the Financial Lease Framework Agreement and/or the Financial Services Framework Agreement with a term of more than three years are consistent with the general practice in the financial lease industry.

Waiver from the Stock Exchange

For each of the three financial years ending December 31, 2019, 2020 and 2021, the highest applicable percentage ratio for the transactions contemplated under the Financial Lease Framework Agreement is expected to exceed 0.1% but less than 5%. Accordingly, the transactions contemplated under the Financial Lease Framework Agreement are subject to the announcement and the annual reporting requirement under Chapter 14A of the Listing Rules.

For each of the three financial years ending December 31, 2019, 2020 and 2021, the highest applicable percentage ratio for the transactions contemplated under the Financial Services Agreement is expected to exceed 5%. Accordingly, the transactions contemplated under the Financial Services Agreement are subject to the announcement, independent shareholders' approval and the annual review requirements under Chapter 14A of the Listing Rules.

We have applied for and the Stock Exchange [has granted] a waiver from strict compliance with (i) the announcement requirement under the Listing Rules in respect of the transactions under Financial Lease Framework Agreement; and (ii) the announcement, circular and independent shareholders' approval requirements under the Listing Rules in respect of the transactions under Financial Service Framework Agreement, provided that the total transaction amount for each of the three years ending December 2019, 2020 and 2021 will not exceed the proposed annual caps set forth above.

In addition, our Directors confirm that we will comply with the applicable requirements under Chapter 14A of the Listing Rules and will immediately inform the Stock Exchange if any of the proposed annual caps set forth above are exceeded, or when there is a material change in the terms of the transactions.

If the Listing Rules impose more stringent requirements in respect of the transactions contemplated under the Financial Services Agreement in the future, we will promptly adopt measures within a reasonable time to ensure compliance with such new requirements.