South China Capital Limited 南華融資有限公司
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23 February 2024

To the Independent Board Committee and
the Independent Shareholders

Wisdom Education International Holdings Company Limited
No. 68 Guangming Da Dao
Dongcheng District
Dongguan
Guangdong Province
The PRC

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS
CASH ADVANCES TO THE AFFECTED ENTITIES

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to (i) cash advances intended for the bidding of land (the "**Subject Transaction A**"); (ii) cash advances relating to construction costs of the Proposed Zhongshan High School (the "**Subject Transaction B**"); (iii) cash advances made pursuant to the FY2023 Framework Agreement (the "**Subject Transaction C**"); and (iv) cash advances made pursuant to the FY2022 Framework Agreement (the "**Subject Transaction D**") (collectively, the "**Subject Transactions**"), details of which are contained in the letter from the Board (the "**Letter from the Board**") as set out in the circular dated 23 February 2024 (the "**Circular**"). Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

Reference is made to the December Announcement in relation to the Subject Transactions.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Guangdong Guangzheng is a company beneficially owned as to (i) 62% by Mr. Liu, an executive Director and a controlling shareholder of the Company; and (ii) 38% by Ms. Li, an executive Director, the Chairperson of the Board and a controlling shareholder of the Company. Accordingly, each of the Affected Entities is a connected person of the Company.

As the Affected Entities were accounted for as wholly-owned subsidiaries of the Company prior to the Deconsolidation, the Subject Transactions, but for the Deconsolidation, would not constitute any transaction of the Company under Chapter 14 or Chapter 14A of the Listing Rules requiring the Company to specifically comply with the applicable requirements under such chapters (other than the requirements applicable to contractual arrangements, which had already complied with by the Company for the Previous Contractual Arrangements). By virtue of the Deconsolidation, the Company notes that the cash advances by a member of the Group to any of the Affected Entities, whether made pursuant to the Previous Loan Agreement or otherwise, would be subject to the applicable requirements under Chapter 14 and Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Subject Transactions exceeds 25%, the Subject Transactions constitute major transactions of the Company and are therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Further, as one or more the applicable percentage ratios (as defined under the Listing Rules) in respect of the Subject Transactions exceeds 5%, the Subject Transactions constitute a non-exempted connected transactions for the Company under Chapter 14A of the Listing Rules and are therefore subject to reporting, announcement and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Prof. Sun Kai Lit Cliff, BBS, J.P., Mr. Tam King Ching Kenny and Mr. Huang Weiguo, has been established to make recommendation to the Independent Shareholders regarding the Subject Transactions.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the Subject Transactions are (i) conducted in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; (iii) fair and reasonable so far as the Independent Shareholders are concerned; and (iv) in the interests of the Company and the Shareholders as a whole, and to further give independent advice to the Independent Board Committee and the Independent Shareholders as to whether they should vote in favour of the Subject Transactions.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interests in the Company that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this engagement, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transaction(s) that could reasonably be regarded as relevant to our independence. During the past two years, we did not have any engagement with the Company or the Directors, chief executive of the Company and substantial Shareholders or any of their associates. Therefore, we consider that we are independent from the Company pursuant to the Listing Rules.

BASIS OF OUR OPINION

In arriving at our recommendation, we have reviewed, among other things, the agreements including the contractual agreement, the 2022 Framework Agreement and the 2023 Framework Agreement, the prospectus of the Company dated 16 January 2017 (the "**Prospectus**"), the Company's annual reports for each of the three financial year ended 31 August (the "**FY(s)**") 2021 (the "**2021 Annual Report**"), the FY 2022 and the FY 2023 (the "**2023 Annual Report**"). We have also discussed with the management of the Company (the "**Management**") regarding the commercial implications of the Subject Transactions. In addition, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the Management. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the Management for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information which forms a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe that there are no other facts or representations whose omission would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group and the Affected Entities.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Subject Transactions, we have taken into consideration the following principal factors and reasons:

1. Background information

1.1 Information of the Group

The Group is mainly engaged in the provision of school-related supply chain business and comprehensive educational services to its customers in the PRC.

Set out below is a summary of the consolidated financial information of the Company for the two FYs 2022 and 2023 as extracted from the 2023 Annual Report:

	For the FY	
	2022	**2023**
	RMB'000	*RMB'000*
Revenue	277,587	319,269
Profit for the year	95,095	163,120

	As at 31 August	
	2022	**2023**
	RMB'000	*RMB'000*
Non-current assets	395,309	595,220
Current assets	1,079,920	844,318
Current liabilities	(778,390)	(571,604)
Net current assets	301,530	272,714
Non-current liabilities	(245,238)	(255,725)
Net assets	451,601	612,209
Cash and cash equivalents	328,749	242,226

Revenue of the Group amounted to approximately RMB319,269,000 for the FY 2023, which represents an increase of about 15% from approximately RMB277,587,000 for the FY 2022. Such increase was mainly attributable to the increase in total revenue from school-related supply chain business.

The profit for year of the Group increased by about 72% from approximately RMB95,095,000 for the FY 2022 to RMB163,120,000 for the FY 2023. Such increase was mainly attributable to (i) the increase in total revenue of the Group; and (ii) the reversal of expected credit loss for financial guarantee contracts.

As at 31 August 2023, the Group's cash and cash equivalents amounted to approximately RMB242,226,000, and the Group recorded net current assets and net assets of approximately RMB272,714,000 and RMB612,209,000, respectively.

1.2 Information of Guangdong Guangzheng

As at the Latest Practicable Date, Guangdong Guangzheng is a company beneficially owned as to 62% by Mr. Liu and as to 38% by Ms. Li. Through the Affected Entities, it is principally engaged in the provision of premium primary and secondary education in the PRC.

2. Reasons for the Subject Transactions

As disclosed in the Letter from the Board, the Company considers that the Subject Transactions and the delay in complying with the requisite requirements under the Listing Rules are due to the Deconsolidation as a result of the Implementation Regulations and the Company being inadvertent in continuing to treat the Subject Transactions as part of the intra-group transactions between wholly-owned subsidiaries of the Company at the time. Taking into account such background, the Directors (including the independent non-executive Directors) are of the view that, at the time, the Subject Transactions were intended to be conducted as part of the ordinary and usual course of business of the Group, are on normal commercial terms and on a fair and reasonable basis as far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

3. The Subject Transactions

3.1 Details of the Subject Transaction A – Cash Advances relating to land bidding

As disclosed in the Letter from the Board, during the period from March to April 2023, the Group made total cash advances of approximately RMB268,480,000 to Guangdong Guangzheng, which represented funds intended as the purchase price for a parcel of land located in Dongguan (plot no. 2023WG002), Guangdong Province, the PRC taking into account the expected valuation at the time. The Company intended to participate in the bidding for such land for the purpose of constructing a new high school through Guangdong Guangzheng. At that time, the Company intended that, if Guangdong Guangzheng were successful in bidding for such land, the operation of the new high school to be constructed thereon would be controlled by the Group by way of a contractual arrangement (please refer to the August Announcement in relation to the proposed establishment and operation of a high school in Zhongshan, Guangdong Province, the PRC for a similar arrangement with respect to the Zhongshan High School for further details). The bidding process took place in August 2023, but Guangdong Guangzheng ultimately withdrew from the bid following communication with the local government and also taking into account the market landscape at that time. The full amount of such cash advances had been repaid to the Group as of 31 August 2023.

Our view

As part of our due diligence, we have reviewed the feasibility study report prepared by the Company regarding the evaluation of the new high school in Dongguan, Guangdong Province, the PRC.

Based on our discussion with the Management, we understand that (1) the location of the new high school to be constructed was prime and as disclosed in the Prospectus, focusing on Guangdong Province, the PRC was one of the Group's major development strategies; (2) the market size of the education industry and population in that area was favourable; and (3) the cost and return of the project was reasonable, we consider that the commercial rationale behind and reasons for entering into the Subject Transaction A were commercial justifiable, fair and reasonable.

Based on the above, we consider that despite the Subject Transaction A is capital expenditure in nature, but which shall be regarded as falling within the ordinary and usual course of business of the Group for its long term business development and on normal commercial terms, the rationale and substance of the Subject Transaction A are considered to be fair and reasonable and in the interests of the Group and the Shareholders as a whole.

3.2 Details of Subject Transaction B – Cash Advances relating to construction costs of the Proposed Zhongshan High School

As disclosed in the Letter from the Board, during the period from March to August 2023, the Company made total cash advances of approximately RMB180,090,000 to Guangdong Guangzheng, which represented funds intended for payment of the construction costs of the Proposed Zhongshan High School. The Group has obtained control of the entity which owns the land use right of the Proposed Zhongshan High School on 30 August 2023 through a contractual arrangement, as disclosed in the August Announcement. The Company has estimated that the construction costs in the Proposed Zhongshan High School is approximately RMB833 million (the "**Construction Costs**"). The funds advanced by the Group to Guangdong Guangzheng for such purpose will be applied to pay the relevant contractors for the construction of the Proposed Zhongshan High School (which is expected to take place in tranches shortly).

Our view

As part of our due diligence, we have reviewed the cost budget report for the construction project prepared by a consultancy firm regarding the evaluation of the Proposed Zhongshan High School.

Based on our discussion with the Management, we understand that (1) the location of the new high school to be constructed was prime and as disclosed in the Prospectus, focusing on Guangdong Province, the PRC was one of the Group's major development strategies; (2) the market size of the education industry and population in that area was favourable; and (3) the cost and return of the project was feasible, we consider that the commercial rationale behind and reasons for entering into the Subject Transaction B were commercially justifiable, fair and reasonable.

Based on the above, we consider that despite the Subject Transaction B is capital expenditure in nature, but which shall be regarded as falling within the ordinary and usual course of business of the Group for its long-term business development and on normal commercial terms, the rationale and substance of the Subject Transaction B are considered to be fair and reasonable and in the interests of the Group and the Shareholders as a whole.

3.3 Details of Subject Transaction C – Cash advances pursuant to the FY2023 Framework Agreement

As disclosed in the Letter from the Board, the Management has identified a copy of a framework agreement dated 1 September 2022 entered into between the Company and Guangdong Guangzheng, pursuant to which the Group and the Affected Entities shall provide interest-free financial assistance to each other upon request. According to the terms of the FY2023 Framework Agreement: (a) the maximum amount of financial assistance provided by one party to the other shall not exceed RMB1,000 million for the FY 2023; (b) the term of each loan advanced under the FY2023 Framework Agreement shall be unsecured, interest free and repayable on demand; and (c) if a party fails to repay on demand, such party shall be liable to pay a penalty. The FY2023 Framework Agreement has a term of one year, commencing on 1 September 2022 until 31 August 2023, which is subject to automatic renewal unless terminated earlier by either party.

The following table sets out a summary of the amount of cash flows between the Group and the Affected Entities under the FY2022 Framework Agreement and the FY2023 Framework Agreement, according to the information available to the Management:

Period/ Date	**Gross cash outflow from the Group during the period**	**Gross cash inflow to the Group during the period**	**Net amount due (to)/ from the Affected Entities under the FY2022 Framework Agreement and the FY2023 Framework Agreement as at the end of the period**
	RMB'000	*RMB'000*	*RMB'000*
As at 31 August 2021			–
During September 2021 to August 2022	1,128,714	1,196,131	(67,417)
As at 31 August 2022			(67,417) *(Notes 1 and 2)*
As at 31 August 2022 (Restated)			(67,247) *(Notes 1 and 2)*
During September 2022 to August 2023	603,619	539,097	(2,725)
As at 31 August 2023			(2,725)
During September 2023	230,478	5,435	222,318
During October 2023	2,000	7,380	216,938
During 1 to 28 November 2023	441	146,534	70,845
As at 28 November 2023			70,845 *(Note 2)*

Notes:

1. The amount represents the net amounts due to the Affected Entities pursuant to the FY2022 Framework Agreement

2. The balance amount included those trades in nature, collection and advance payment on behalf of each other and other items.

Our view

As disclosed in the Prospectus and the 2021 Annual Report, prior to the Deconsolidation, the Affected Entities were 100% controlled by the Company through the Previous Contractual Arrangements and the Affected Entities were the subsidiaries of the Company, therefore the Subject Transaction C was treated as part of the Group's ordinary and usual intra-group transactions for its operation and such transactions (i.e. the financial assistance within the Group and the Affected Entities) were part of normal treasury management within the Group. In addition, it is common market practice for better and more effective utilization of cash resources among the intra-group current accounts of group companies without bearing interest.

As discussed with the Management, pursuant to the terms of the FY2023 Framework Agreement, the Group and the Affected Entities shall provide interest-free financial assistance to each other upon request, the Management considered that the Group could obtain interest-free financial assistance from the Affected Entities based on its liquidity needs, thus the Management considered that the Group could benefit from such financial assistance.

Based on the above, we understand that (i) the Subject Transaction C was treated as part of the Group's ordinary and usual intra-group transactions prior to the Deconsolidation; and (ii) the Group's revenue from school-related supply chain business are mainly generated from customers through the schools operated by the Affected Entities, as such, we consider the rationale and substance of the Subject Transaction C are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Based on the above observation and analyses, we consider that the Subject Transaction C is conducted in the ordinary and usual course of business of the Group and on normal commercial terms, the rationale and substance of the Subject Transaction C are considered to be fair and reasonable and in the interests of the Group and the Shareholders as a whole.

3.4 Details of Subject Transaction D – Cash advances pursuant to the FY2022 Framework Agreement

As disclosed in the Letter from the Board, the Management has noted that there existed a similar framework agreement dated 1 September 2021 entered into between the Company and Guangdong Guangzheng, pursuant to which the Group and the Affected Entities shall provide interest-free financial assistance to each other upon request up to 31 August 2022. Save for the absence of an auto-renewal clause, the terms of the FY2022 Framework Agreement are the same as those of the FY2023 Framework Agreement.

Throughout the FY 2022, the Group had a net amount of approximately RMB67.2 million due to the Affected Entities pursuant to the FY2022 Framework Agreement.

Our view

As disclosed in the Prospectus and the 2021 Annual Report, prior to the Deconsolidation, the Affected Entities were 100% controlled by the Company through the Previous Contractual Arrangements and the Affected Entities were the subsidiaries of the Company, therefore the Subject Transaction D was treated as part of the Group's ordinary and usual intra-group transactions for its operation and such transactions (i.e. the financial assistance within the Group and the Affected Entities) were part of normal treasury management within the Group. In addition, it is common market practice for better and more effective utilization of cash resources among the intra-group current accounts of group companies without bearing interest.

As discussed with the Management, pursuant to the terms of the FY2022 Framework Agreement, the Group and the Affected Entities shall provide interest-free financial assistance to each other upon request, the Management considered that the Group could obtain interest-free financial assistance from the Affected Entities based on its liquidity needs, thus the Management considered that the Group could benefit from such financial assistance.

Based on the above, we understand that (i) the Subject Transaction D was treated as part of the intra-group transactions prior to the Deconsolidation; and (ii) the Group's revenue from school-related supply chain business are mainly generated from customers through the schools operated by the Affected Entities, as such, we consider the rationale and substance of the Subject Transaction D are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Based on the above observation and analyses, we consider that the Subject Transaction D is conducted in the ordinary and usual course of business of the Group and on normal commercial terms, the rationale and substance of the Subject Transaction D are considered to be fair and reasonable and in the interests of the Group and the Shareholders as a whole.

4. *Financial impact on the Group*

As disclosed on page 2 of the Company's announcement dated 4 January 2022, barring unforeseeable circumstances and assuming all things remain largely equal, at the time the Company expected that the net receivables from the Affected Entities of approximately RMB455.8 million as of 31 August 2021 would be settled within two years from commencement of the Deconsolidation.

Subsequent to 31 August 2021, there have been cash advances between the Group and the Affected Entities (including that the Affected Entities made cash advances to the Group to reduce certain net receivables at the time). The net receivables due from the Affected Entities were approximately (i) RMB456.3 million (including the prepayment construction costs of approximately RMB180.1 million) as of 31 August 2023; and (ii) RMB529.9 million (including the prepayment construction costs of approximately RMB180.1 million) as of 28 November 2023. As advised by the Management, there has not been any cash advance between the Group and the Affected Entities afterwards. As disclosed in the Letter from the Board, the Company expects that such net receivables will not increase (and there will be no creation of new receivables due from the Affected Entities), unless the relevant requirements of the Listing Rules are complied with, and such net receivables will be reduced and eventually cleared up by way of utilising such amount by the Affected Entities on the Group's behalf for the construction of the Proposed Zhongshan High School in tranches.

As the Construction Costs of the Proposed Zhongshan High School is estimated to be approximately RMB833.0 million, The Group will advance funds to Guangdong Guangzheng in tranches for such purpose. Guangdong Guangzheng is expected to cover approximately RMB529.9 million of the Construction Costs, which shall offset the amount due from the Affected Entities to the Group (the "**Receivables**"). According to the project engineering budget report for the Proposed Zhongshan High School, 90% of the Construction Costs should be settled by December 2026 and the remaining 10% shall be settled after the Proposed Zhongshan High School commences operations. As a result, the Company expects that (i) the trade receivables, deposits, prepayments and other receivables of the Group would decrease by approximately RMB558.0 million; (ii) the trade and other payables and accrued expenses of the Group would decrease by approximately RMB28.1 million; and (iii) the construction in progress of the Group in relation to the Proposed Zhongshan High School would increase by approximately RMB529.9 million as a result of the Subject Transactions. The Proposed Zhongshan High School will be completed by December 2026 as envisaged according to the following indicative timetable, and the Receivables will be utilised throughout the period from February 2024 to December 2026 and should be fully utilised and offset by December 2026:

		% of the Construction Costs	**Payment of the Construction Costs**
			RMB
February 2024	Commencement of construction	20%	166.6 million
August 2024	Completion of phase 1	20%	166.6 million
October 2025	Completion of phase 2	10%	83.4 million
December 2026	Completion of phase 3	40%	333.0 million
After 2026	Filing for completion and operations commenced	10%	83.4 million
		100%	833.0 million

As disclosed in the Letter from the Board, the Company formulated a calculation basis with Guangdong Guangzheng for the Interest Payment based on (i) the net amount due from/to the Affected Entities under the Subject Transactions as at the end of each month; and (ii) the loan prime rate (the "**LPR**") published by the People's Bank of China (the "**PBOC**") for such month. The amount of interest for each month is aggregated up to November 2023, and according to the Company's calculation, interest amounting to approximately RMB10.5 million is payable by the Affected Entities to the Group. The earnings of the Group would correspondingly increase by approximately RMB10.5 million as a result of the Interest Payment to be received from the Affected Entities.

Based on our review of the Group's historical payment modes and calculations, the calculation of Interest Payment based on the net amount due from/ to the Affected Entities under Subject Transactions as at the end of each month was more favourable to the Company as compared to the same based on the date of drawdown/ repayment under the Subject Transactions. As such, we consider the basis of the above calculation is more favourable to the Company, and therefore in the interests of the Group and the Shareholders as a whole.

Based on our independent research from the public website, we have identified at least two companies, which (1) are currently listed on the Main Board of the Stock Exchange; (2) provided financial assistance to its respective connected person in the last twelve months prior to the date of the December Announcement; (3) used the LPR as their reference rates for the calculations of the interest payments in respect thereof, we are of the view that using the LPR as the reference rate for the calculations of the Interest Payment for our present case is not uncommon in the PRC's financial market. In addition, we noted that the LPR used for the calculations of the Interest Payment was equivalent to the then prevailing LPR published by the PBOC and understand that the LPR, which was introduced in August 2019, is calculated by the National Interbank Funding Center and is the most preferential lending rate published by the PBOC. The LPR serves as (i) the pricing reference for bank lending; (ii) the lending rate provided by commercial banks to their prime clients; and (iii) the benchmark for rates provided for other loans. As such, we consider that the calculations of Interest Payment based on the LPR are generally adopted in the PRC's financial market, and therefore fair and reasonable between the Company and the Affected Entities.

Based on our independent review of the 2023 Annual Report, (i) the Group's cost of funding were ranging from 2.5% to 3.7% whilst the LPR during the period were ranging from 3.45% to 3.65%; and (ii) the Group has been operating profitably and has strong capability to generate meaningful operating cash inflow to finance its daily operation over the past two years, and had cash and cash equivalents of approximately RMB242,226,000 as at 31 August 2023, on such basis, we consider that the Subject Transactions would not deteriorate or be detrimental to the Group's financial and liquidity positions.

5. *Remedial measures*

The Company has taken the following preliminary remedial measures in respect of the Subject Transactions:

(a) The Company took steps to terminate the FY2022 Framework Agreement and the FY2023 Framework Agreement on 28 November 2023. A substantial amount of RMB146,500,000 had been repaid by Guangdong Guangzheng to the Group during 1 November 2023 to 28 November 2023.

(b) The Company also formulated a calculation basis with Guangdong Guangzheng for the net amount of interest payable by the Affected Entities to the Group (in respect of the Subject Transactions) for each month since September 2021 until the termination of the FY2023 Framework Agreement on 28 November 2023 (the "**Interest Payment**") based on (i) the net amount due from/to the Affected Entities under the Subject Transactions as at the end of each month; and (ii) the LPR published by the PBOC for such month, ranging from 3.45% to 3.85%. The amount of interest for each month is aggregated up to November 2023, and according to the Company's calculation, interest amounting to approximately RMB10.5 million is payable by the Affected Entities to the Group. Guangdong Guangzheng has agreed to such calculation and such amount will be settled by Guangdong Guangzheng after the resolutions approving the Subject Transactions are passed at the EGM, by no later than 30 June 2024. In respect of the calculation basis of the Interest Payment, the Board believes that:

    (1) it is fair and reasonable to calculate the Interest Payment based on the month end balance with the Affected Entities given that from a practical point of view, the month end balance is readily verifiable and reconcilable by both parties. Also, the Board considers that any fluctuations during the months are commercially justifiable, not unreasonable in nature and not significant for the purpose of determining a fair and reasonable amount of Interest Payment taken as a whole. Therefore the Board consider that the month end balance is a reasonable cut-off date for determining the monthly net amount involved in the Subject Transactions; and

    (2) it is common practice in the PRC to calculate interests bases on the LPR for the relevant month.

Both the Board and the Independent Board Committee are of the view that the Interest Payment is fair and reasonable.

As the 2023 Framework Agreement was terminated on 28 November 2023 but the Receivables will only be fully utilised and offset in December 2026, the Company considers the Receivables to be a form of financial assistance from the Company to the Affected Entities during the relevant period. The Company intends to calculate interests during the relevant period based on the (i) net amount due from/to the Affected Entities under the Subject Transactions as at the end of each month; and (ii) the LPR published by the PBOC for such month (the "**Future Interest Payment**").

Going forward, the Company will continue to calculate the interests payable by applying the future monthly LPR to be announced by the PBOC to the balance of the Receivables as at the end of each month, until the Receivables are fully offset. Guangdong Guangzheng has agreed to such calculation and will settle payment in accordance with the terms and repayment timeline set out by the Company after the resolutions approving the Subject Transactions are passed at the EGM.

(c) A special committee of the Company was established on 29 November 2023 to conduct a review ("**Review**") of the internal control procedures of the Group. Members of such special committee at establishment consisted of Ms. Li, (an executive Director), all the three independent non-executive Directors, the financial controller of the Company, and the team head of the finance operation team at the Dongguan head-quarter of the Company.

(d) The Company will disclose the findings and results of the Review upon its completion by way of an announcement.

(e) The Board has directed the Management to prepare update reports on the operations of the Group bi-monthly (including an update on the balance of receivables from related parties, if any), and report to the audit committee of the Company. The Company's management team provided the first update report to the audit committee of the Company in February 2024 and reported that, as of 31 December 2023, the net receivables due from the Affected Entities was approximately RMB485.3 million.

We have discussed with the Management on the abovementioned measures. Considering the Subject Transactions and the delay in complying with the requisite requirements under the Listing Rules are due to the Deconsolidation as a result of the Implementation Regulations and the Company being inadvertent in continuing to treat the Subject Transactions as part of the intra-group transactions between wholly-owned subsidiaries of the Company at that time. The Management believes that the abovementioned measures are adequate and sufficient to prevent any incidents of similar nature from happening again, and we concur with the Management's views in this regard.

RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that the Subject Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolutions to be proposed at the EGM to approve the Subject Transactions.

Yours faithfully,
For and on behalf of
South China Capital Limited

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Nicholas Cheng
Managing Director

Felix Leung
Associate Director

Note: Mr. Nicholas Cheng and Mr. Felix Leung are licensed persons registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. Mr. Nicholas Cheng has extensive experience in corporate finance industry and has participated in, and completed, the provision of independent financial advisory services for numerous connected transactions involving listed companies in Hong Kong. Mr. Felix Leung has over ten years of experience in corporate finance industry.