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10 January 2025

To the Independent Board Committee

VCREDIT Holdings Limited
Suite 1918, 19/F
Two Pacific Place
88 Queensway,
Hong Kong

Dear Sir or Madam,

MANDATORY UNCONDITIONAL GENERAL CASH OFFER BY GET NICE SECURITIES LIMITED FOR AND ON BEHALF OF WEALTHY SURPLUS LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF VCREDIT HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY THE OFFEROR CONCERT GROUP (EXCLUDING THE RELEVANT PRESUMED CONCERT PARTIES))

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Offer, details of which are set out in the "Letter from the Board" contained in the composite document of the Company dated 10 January 2025 (the "**Composite Document**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

The Board was informed by the Offeror that the Offeror has acquired an aggregate of 20,500,000 Shares, representing approximately 4.19% of the total issued share capital of the Company in the following manner:

(a) on 10 December 2024 (after trading hours of the Stock Exchange), the Offeror and Vendor A entered into Sale and Purchase Agreement A, pursuant to which Vendor A agreed to sell, and the Offeror agreed to purchase, 17,000,000 Shares at a consideration of HK$30,600,000 (i.e. HK$1.80 per Share), representing approximately 3.47% of the total issued share capital of the Company as at the Latest Practicable Date; and

(b) on 10 December 2024 (after trading hours of the Stock Exchange), the Offeror and Vendor B entered into Sale and Purchase Agreement B, pursuant to which Vendor B agreed to sell, and the Offeror agreed to purchase, 3,500,000 Shares at a consideration of HK$6,300,000 (i.e. HK$1.80 per Share), representing approximately 0.72% of the total issued share capital of the Company as at the Latest Practicable Date.

Completion of Sale and Purchase Agreement A took place on 11 December 2024 and completion of Sale and Purchase Agreement B took place on 16 December 2024.

The Offeror is a company wholly-owned and controlled by Mr. Ma. Immediately before completion of Sale and Purchase Agreement A and Sale and Purchase Agreement B, the Offeror Concert Group (excluding the Relevant Presumed Concert Parties) beneficially owned an aggregate of 195,049,097 Shares, representing approximately 39.85% of the total issued share capital of the Company. Immediately following completion of Sale and Purchase Agreement A and Sale and Purchase Agreement B, the Offeror Concert Group (excluding the Relevant Presumed Concert Parties) owned an aggregate of 215,549,097 Shares, representing approximately 44.04% of the total issued share capital of the Company. As the Offeror Concert Group's (excluding the Relevant Presumed Concert Parties) aggregate shareholding in the Company increased from approximately 39.85% to 44.04%, the Offeror is obliged to make a mandatory general cash offer for all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror Concert Group (excluding the Relevant Presumed Concert Parties)), pursuant to Rule 26.1 of the Takeovers Code.

The Board was also informed by Mr. Stephen Liu that on 10 December 2024, Magic Mount, a company owned as to 50% by him and 50% by his mother, Madam Kwok Lim Ying, entered into Sale and Purchase Agreement C with Vendor A. Pursuant to Sale and Purchase Agreement C, Vendor A agreed to sell, and Magic Mount agreed to purchase, 7,000,000 Shares at a consideration of HK$12,600,000 (i.e. HK$1.80 per Share), representing approximately 1.43% of the total issued share capital of the Company as at the Latest Practicable Date.

Completion of Sale and Purchase Agreement C took place on 11 December 2024, whereupon Mr. Liu's Controlled Group (being Mr. Stephen Liu, Magic Mount and other entities controlled by Mr. Stephen Liu) owned an aggregate of 46,942,173 Shares, representing an increase from approximately 8.16% to approximately 9.59% of the total issued share capital of the Company as at the Latest Practicable Date.

As the Relevant Presumed Concert Parties have become members of the Offeror Concert Group upon completion of the Sale and Purchase Agreements and in respect of the Offer, and the Offeror Concert Group owns in aggregate approximately 60.63% of the total issued share capital of the Company, the Offer will be made on an unconditional basis.

The Offer

Get Nice Securities is making the Offer with the Offer Price of HK$1.80 per Offer Share in cash for and on behalf of the Offeror.

For the principal terms of the Offer, together with the information of the Offeror and the Offeror's intention regarding the Group, please refer to the "Letter from Get Nice Securities" contained in the Composite Document.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Chen Derek, Mr. Chen Penghui and Mr. Fang Yuan, has been established to make a recommendation to the Independent Shareholders in relation to the Offer as to whether the Offer is fair and reasonable and as to the acceptance of the Offer pursuant to Rule 2.1 of the Takeovers Code, after taking into account the recommendation of the Independent Financial Adviser.

Mr. Yip Ka Kay, a non-executive Director, is deemed to have an interest in Sale and Purchase Agreement B and Sale Shares B as he is the sole director and the sole shareholder of NM Strategic Partners, LLC which manages Vendor B, which has an interest in Sale Shares B and is a member of the Offeror Concert Group. He is therefore not considered independent to be a member of the Independent Board Committee and has declared his interest to the Board accordingly.

THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has approved our appointment as the Independent Financial Adviser to the Independent Board Committee. Our role is to give an independent opinion to the Independent Board Committee as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

We (i) are not associated or connected, financial or otherwise, with the Company or the Offeror, their respective controlling shareholders or any parties acting, or presumed to be acting, in concert with any of them; and (ii) have not acted as the financial adviser or independent financial adviser in relation to any transaction of the Company or the Offeror, their respective controlling shareholders or any parties acting in concert with any of them in the two years immediately prior to the date of the Composite Document.

Pursuant to Rule 13.84 of the Listing Rules and Rule 2 of the Takeovers Code, and given that (i) remuneration for our engagement to opine on the Offer is at market level and not conditional upon the outcome of the Offer; (ii) no arrangement exists whereby we shall receive any fees or benefits from the Company (other than our said remuneration) or the Offeror, their respective controlling shareholders or any parties acting in concert with any of them; and (iii) our engagement is on normal commercial terms and approved by the Independent Board Committee, we are independent of the Company and the Offeror, their respective controlling shareholders and any parties acting in concert with any of them, we can act as the Independent Financial Adviser to the Independent Board Committee in respect of the Offer.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the annual report of the Company for the year ended 31 December 2023 (the "**2023 AR**"); (ii) the interim report for the six months ended 30 June 2024 (the "**2024 IR**"); (iii) the Joint Announcement; and (iv) other information contained or referred to in the Composite Document.

We have also relied on the statements, information, opinions and representations contained or referred to in the Composite Document and/or provided to us by the Company, the Directors and the management of the Company (collectively the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Composite Document and/or provided to us were reasonably made after due and careful enquiry and were true, accurate and complete in all material aspects at the time they were made and continued to be so as at the Latest Practicable Date. The Company will notify the Shareholders of any material changes to information contained or referred to in the Composite Document as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders will also be informed as soon as practicable when there are any material changes to the information contained or referred to herein as well as changes to our opinion, if any, after the Latest Practicable Date.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Composite Document and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

We have not considered the taxation implications on the Shareholders arising from acceptance or non-acceptance of the Offer, if any, and therefore we will not accept responsibility for any tax effect or liability that may potentially be incurred by the Shareholders as a result of the Offer. In particular, Shareholders who are subject to Hong Kong or overseas taxation on dealings in securities are urged to seek their own professional advisers on tax matters.

PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE OFFER

In arriving at our advice for the Offer, we have considered the following principal factors and reasons:

1. Business and financial information of the Group

1.1 Background of the Group

The principal activity of the Company is investment holding. The Group is principally engaged in providing consumer finance services in the PRC and Hong Kong. The Group primarily offers two credit products, being credit card balance transfer products and consumption credit products, both of which are instalment-based.

1.2 Historical financial performance of the Group

Set out below is a summary of (i) the audited consolidated financial information of the Group for the two years ended 31 December 2022 ("**FY2022**") and 2023 ("**FY2023**") as extracted from the 2023 AR; and (ii) the unaudited consolidated financial information of the Group for the six months ended 30 June 2023 ("**1H 2023**") and 2024 ("**1H 2024**") as extracted from the 2024 IR.

Extract of consolidated statement of profit or loss

	Year ended 31 December		**Six months ended 30 June**	
	2022	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Interest type income	*1,922,140*	*1,477,300*	*774,197*	*1,068,276*
Less: interest expenses	*(529,160)*	*(327,646)*	*(175,656)*	*(193,290)*
Net interest type income	1,392,980	1,149,654	598,541	874,986
Loan facilitation service fees	1,564,359	2,240,958	1,105,334	939,624
Other income/(expenses)	161,942	178,876	213,732	(76,253)
Total income	**3,119,281**	**3,569,488**	**1,917,607**	**1,738,357**
Origination and servicing expenses	(1,266,673)	(1,543,932)	(807,664)	(625,954)
Sales and marketing expenses	(35,611)	(53,374)	(21,443)	(24,082)
General and administrative expenses	(284,380)	(336,830)	(167,171)	(162,182)
Research and development expenses	(97,710)	(125,853)	(58,067)	(56,955)
Credit impairment losses	(129,548)	(344,558)	(148,258)	(144,149)
Fair value change of loans to customers	(571,879)	(574,077)	(333,450)	(592,304)
Other (losses)/gains, net	(38,360)	13,981	7,943	21,686
Profit for the year/interim period	**532,471**	**453,911**	**302,113**	**120,343**

FY2023 compared to FY2022

The Group's total income rose from RMB3,119.3 million in FY2022 to RMB3,569.5 million in FY2023, representing an increase of approximately 14.4%. This growth was primarily driven by a significant 43.3% surge in loan facilitation service fees, which climbed from RMB1,564.4 million in FY2022 to RMB2,241.0 million in FY2023 reflecting higher loan origination volume under the Group's credit-enhanced and pure loan facilitation structures.

In contrast, interest-type income from loans to customers originated under direct lending and trust lending structures declined by approximately 23.1% from RMB1,922.1 million in FY2022 to RMB1,477.3 million in FY2023 primarily due to a reduction in the average outstanding loan balance of the trust lending structure. Interest expenses also fell by 38.1%, reflecting a decrease in both the average borrowing balance and the weighted average interest rate in FY2023.

Other income, including non-operational gains, increased by 10.5% to RMB178.9 million. This increase was largely attributable to higher referral fees from expanding third-party platforms, as well as greater penalty and other charges and gains from guarantee driven by an increase in loan origination volume. Such gains were partially offset by a reduction in government grants, being local government incentives aimed at fostering economic activity, employment and tax contribution which varies annually.

We understand from Management that the fair value change of loans to customers reflects the Group's upfront assessment of default risk when the loan is granted. This is typical for consumer finance businesses, as the nature of the business involves inherent risks of borrower non-repayment. In both FY2023 and FY2022, this assessment remained stable.

Profit for the year decreased from RMB532.5 million in FY2022 to RMB453.9 million in FY2023, a decline of approximately 14.8%. This decrease was primarily attributable to higher operating expenses and rising credit-related costs through an uneven macro environment. The key cost contributors included origination and servicing expenses, which rose by 21.9% from RMB1,266.7 million in FY2022 to RMB1,543.9 million in FY2023; credit impairment losses, which surged by approximately 166.0%, increasing from RMB129.5 million in FY2022 to RMB344.6 million in FY2023; and research and development expenses, which grew by 28.8%.

1H2023 compared to 1H2024

Total income declined by approximately 9.3% from RMB1,917.6 million in 1H2023 to RMB1,738.4 million in 1H2024. This decrease was primarily driven by a 15.0% drop in loan facilitation service fees, which fell from RMB1,105.3 million in 1H2023 to RMB939.6 million in 1H2024, reflecting lower loan origination volumes under the Group's credit-enhanced and pure loan facilitation structures.

The decline was partially offset by the growth in interest-type income from loans under direct lending and trust lending structures, supported by an increase in average outstanding loan balance of the Group's trust lending structure. Interest expenses rose by 10.0% during 1H2024 compared to 1H2023, largely due to an increase in the average borrowing balance, although this was somewhat mitigated by a reduction in the weighted average interest rate in 1H2024.

Other income/expenses totalled an expense of RMB76.2 million in 1H2024, a sharp reversal from an income of RMB213.7 million in 1H2023. This shift was mainly attributable to an increase in the M3+ ratio[1], resulting in higher losses from guarantees. The rise in the M3+ ratio was driven by reduced loan demand from high-quality borrowers and the adverse effects of unfavourable macroeconomic conditions.

As noted earlier, the fair value loss of loans to customers reflects the Group's assessment of default potential. Typically, as the loan portfolio increases, so does the risk of default. The fair value loss rose from RMB333.5 million in 1H2023 to RMB592.3 million in 1H2024 due to (i) higher loan origination volume during the period; and (ii) a more conservative approach on provisioning given ongoing macroeconomic uncertainties.

Profit for the interim period fell by 60.2% from RMB302.1 million in 1H2023 to RMB120.3 million in 1H2024. This decline was primarily due to (i) a reduction in loan volumes during 1H2024, reflecting weaker consumer credit demand and the Group's cautious approach amid an uncertain macroeconomic environment; (ii) initial losses incurred during the early stages of new business ventures; and (iii) the aforementioned higher M3+ ratio driven by diminished loan demand from high-quality borrowers, lower loan volumes overall, and the adverse effects of challenging macroeconomic conditions on existing loans.

1 M3+ ratio is calculated by dividing (i) the outstanding balance of online loans which have been delinquent for more than 3 months and have not been written off, by (ii) the total outstanding balance of loans to customers which have not been written off (excluding offline credit products, which had a negligible balance of RMB2.7 million as at 30 June 2024).

Extract of consolidated statement of financial position

	As at 31 December		As at 30 June
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
Assets			
Cash and cash equivalents	1,592,365	896,534	1,390,228
Restricted cash	514,941	652,241	694,542
Loans to customers at fair value through profit or loss	5,230,471	6,504,421	6,637,053
Contract assets	443,146	465,408	381,500
Guarantee receivables	787,396	1,317,024	998,698
Total assets	**10,103,436**	**11,934,463**	**11,741,462**
Liabilities			
Guarantee liabilities	1,140,754	1,533,883	1,023,571
Borrowings	4,331,326	5,471,888	5,691,001
Senior notes	176,236	89,989	90,929
Total liabilities	**6,277,695**	**7,765,873**	**7,498,234**
Net asset value	**3,825,741**	**4,168,590**	**4,243,228**

31 December 2022 compared with 31 December 2023

Notable trends on the Group's balance sheet items as of 31 December 2023 compared to that as of 31 December 2022 were primarily driven by the aforementioned increased loan origination activity. Loans to customers at fair value through profit or loss rose by 24.4% to RMB6,504.4 million (from RMB5,230.5 million as of 31 December 2022), reflecting a significant increase in the Group's trust lending loan origination volume during the second half of 2023. Similarly, contract assets saw a modest increase of 5.0%, underpinned by a sustained 60.8% growth in credit-enhanced and pure loan origination volume. Growth in guarantee receivables and liabilities also aligned with the 60.0% increase in credit-enhanced loan origination activity.

On the liabilities side, total borrowings and senior notes displayed mixed trends. Payables to trust plan holders rose by 20.8%, driven by the increase in trust lending loan origination volume. Meanwhile, the balance of senior notes decreased due to the Group's repurchase of HK$100 million principal amount on 16 June 2023. Overall, these changes highlight the Group's focus on scaling its lending operations while actively managing its debt obligations, with no significant change to the overall balance sheet composition.

31 December 2023 compared with 30 June 2024

As of 30 June 2024, the Group's balance sheet exhibited modest changes compared to that of 31 December 2023, reflecting shifts in loan origination activities. Loans to customers at fair value through profit or loss increased by 2.0% to RMB6,637.1 million, primarily due to a rise in trust lending loan origination volume. In contrast, contract assets decreased by 18.0%, corresponding with a 37.4% decline in credit-enhanced and pure loan origination volume during 1H2024 compared to the six months ended 31 December 2023. Similarly, guarantee receivables and liabilities declined, aligning with a 36.2% reduction in credit-enhanced loan origination volume.

On the liabilities side, borrowings remained stable, with payables to trust plan holders increasing by 3.1%, consistent with the uptick in loans originated through the trust lending structure. Overall, there was no significant changes to the Group's overall balance sheet composition with net asset recording an approximately 1.8% increase as of 30 June 2024 compared to that as of 31 December 2023.

1.3 Dividends

We note the Group adheres to a dividend policy targeting a payout ratio of 20-30% of its consolidated net profits, contingent on factors such as financial results, distributable reserves, and cash position. Both interim and final dividends ranging from HK10 cents per Share to HK15 cents per Share have been declared consistently since the year ended 31 December 2021. However, the Board has not recommended an interim dividend for FY2024, a decision that, according to Management, reflects the need to strengthen cash reserves to support ongoing business operations in light of the uncertain macroeconomic environment. Shareholders should carefully consider these factors, alongside the Group's performance amidst macroeconomic challenges, when making any investment decisions.

1.4 Industry Overview

Based on our discussion with Management, we understand that new regulations are being introduced which sets stricter supervisory standards for existing consumer finance companies. While these regulations may pose certain operations challenges in the short term, they are seen as a step toward long-term industry stability. This aligns with our research, which highlights that the PRC's consumer finance industry is navigating significant regulatory changes, with short term challenges expected to promote long term stability and growth.

In particular, the report "*China Consumer Finance Company Development Report 2024*" dated 24 June 2024 published by the China Banking Association[2], a national non-profit organisation approved by the People's Bank of China and registered with the Ministry of Civil Affairs, notes that the sector reached total assets of RMB1,208.7 billion and a loan balance of RMB1,153.4 billion by end of 2023, reflecting strong consumer demand and technological advancements. However, the revised "Consumer Finance Company Management Measures," which came into effect on 18 April 2024, have introduced stricter requirements. Notably, the minimum registered capital for consumer finance companies has increased to RMB1 billion from RMB300 million, and the shareholding threshold for major investors has been raised to 50.0%. These changes are designed to enhance the financial stability of consumer finance companies and align with broader regulatory directions under the National Administration of Financial Regulation.

Fitch Ratings estimated in April 2024 that around one-third of existing companies currently do not meet these requirements, which may lead to capital injections and shareholding restructurings in the near future. The regulatory environment is also placing stronger emphasis on risk management, with new caps on credit-enhanced loans and requirements for major shareholders to provide liquidity support as part of a broader push to limit systemic risk and ensure that companies focus on maintaining higher-quality loan portfolios. As a result, while the regulatory shift introduces certain operational and compliance challenges as companies face heightened compliance and operational costs, it is expected to benefit companies that can adapt, with strong capital and governance frameworks leading to enhanced credit profiles in the long run.

1.5 Outlook

We note that Management remains cautiously optimistic despite regulatory and macroeconomic challenges. The implementation of stricter supervisory standards under the March 2024 "Management Measures for Consumer Finance Companies" presents short-term hurdles but is viewed by Management as a step toward sustainable industry growth. In response, the Group has enhanced its post-loan collection processes, strengthened consumer protection measures, and prioritised regulatory compliance, which Management believes are critical for maintaining its competitive position.

Looking ahead, Management has outlined strategies to pursue high-quality growth, including optimising risk management, leveraging artificial intelligence and technology, and strengthening partnerships with financial institutions. Management also plans to explore opportunities in new markets, including Hong Kong, Southeast Asia, and Europe, through investments, collaborations, or acquisitions. These initiatives reflect Management's focus on aligning with evolving market trends and ensuring sustainable business operations.

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2 China Banking Association serves for the common interest of its members through the functions of self-regulation, rights protection, coordination and service so as to safeguard lawful rights and maintain market order of the banking sector, enhance the overall capability of banking employees and promote the healthy and sustainable development of the industry.

1.6 Section conclusion

While Management is actively aligning its strategies with evolving market trends and pursuing initiatives aimed at long-term growth, the impact of these efforts has yet to be fully reflected in the Group's recent financial performance. Although dividends were declared for the past three years, the absence of an interim dividend for the year ending 31 December 2024 may indicate caution in response to ongoing macroeconomic uncertainties and regulatory changes. As a result, while the Group has outlined proactive steps for future growth, the outlook remains contingent upon the effectiveness of these strategies and broader market conditions. Independent Shareholders are therefore advised to consider these factors, alongside the fairness and reasonableness of the Offer Price (as further analysed in this letter), when deciding whether to accept the Offer, in light of their own investment criteria and risk appetite.

2. Background information of the Offeror

2.1 The Offeror

The Offeror, principally engaged in investment holding, is a company wholly-owned and controlled by Mr. Ma, who is also an executive Director, the Chairman of the Company and the chairman of the nomination committee of the Company. Mr. Ma is responsible for the overall strategic planning and business direction of the Group, as well as the management of the Company.

2.2 The Offeror's intention in relation to the Group and board composition

Following the close of the Offer, the Offeror intends to continue with the Group's existing principal business and does not intend to introduce any major changes to the existing business and operation of the Group. Specifically, the Offeror has no intention to (i) discontinue the employment of any employees of the Group; or (ii) dispose of or re-deploy the fixed assets of the Company other than those in its ordinary and usually course of business. The Offeror will continue to ensure good corporate governance, monitor and review the Group's business and operations from time to time, and may take steps that it deems necessary or appropriate to optimise the value of the Group.

Furthermore, it is intended that there will be no change to the Board composition following the close of the Offer.

2.3 *Listing status of the Company and public float*

The Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offer. The Offeror will, together with the Company, use reasonable endeavours to maintain the listing status of the Shares on the Stock Exchange and procure that not less than 25% of the entire issued share capital of the Company (excluding treasury shares) be held by the public in compliance with the Listing Rules. The sole director of the Offeror has undertaken to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that sufficient public float exists in the issued Shares.

We further note that note that each Non-Accepting Shareholder has irrevocably undertaken to the Offeror not to accept the Offer in respect of its respective Non-Accepting Shares and, until the close of the Offer Period, not to sell, transfer, charge, pledge or otherwise dispose of any of its respective Non-Accepting Shares or any interests in its respective Non-Accepting Shares. The Non-Accepting Shareholders are beneficially interested in 129,186,242 Non-Accepting Shares in aggregate, representing approximately 26.39% of the total issued share capital of the Company as at the Latest Practicable Date as set out in the table below. Please refer to the "Letter from the Board" in the Composite Document for details.

Name of Non-Accepting Shareholders	Number of Non-Accepting Shares	Approximate shareholding percentage (%)
Mr. Stephen Liu	1,200,000	0.24
Perfect Castle	7,523,810	1.54
Union Fair	4,124,505	0.84
Magic Mount	34,093,858	6.97
Mr. Thomas Liu	600,000	0.12
International Treasure Limited	6,828,585	1.40
Vendor B	4,074,714	0.83
High Loyal Management Limited *(Note)*	70,740,770	14.45
Total:	**129,186,242**	**26.39**

Note:

High Loyal Management Limited borrowed 20,000,000 Shares under securities lending agreements from Perfect Castle with an obligation to return the Shares on 1 December 2025, during which High Loyal Management Limited is the legal and beneficial owner of the said 20,000,000 Shares.

3. The Offer Price

The Offer Price of HK$1.80 per Offer Share equals to the purchase price per Sale Share A and Sale Share B under the Sale and Purchase Agreement A and Sale and Purchase Agreement B, respectively. It is also the same purchase price per Sale Share C under Sale and Purchase Agreement C. The Offeror will not increase the Offer Price. The table below sets out the discount of the Offer Price compared to various benchmarks, including historical trading prices of the Shares and the audited and unaudited consolidated net asset values attributable to Shareholders:

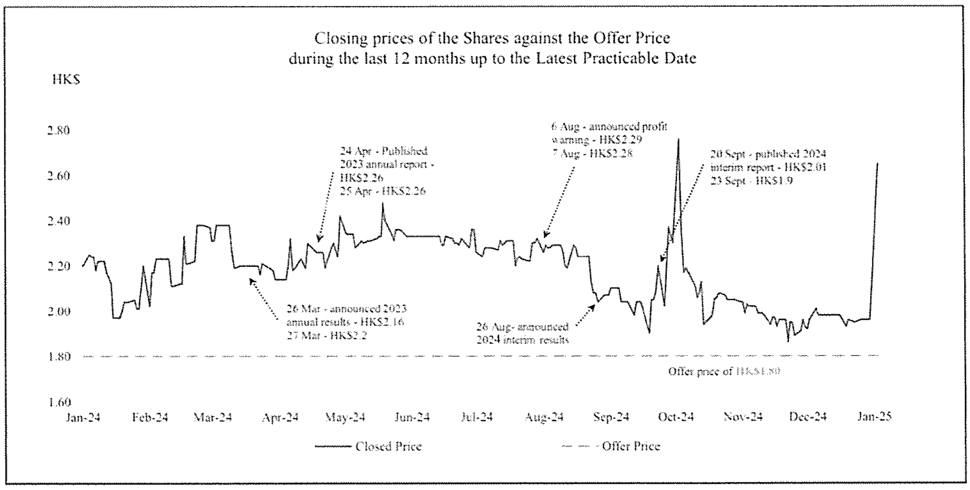
Comparison Metric	**Price/value per Share**	**Discount at approximately**
Closing price on the Latest Practicable Date	HK$2.65	32.08%
Closing price on the Last Trading Day	HK$1.98	9.09%
Average closing price for the last five (5) consecutive trading days immediately prior to and including the Last Trading Day	HK$1.96	8.16%
Average closing price for the last ten (10) consecutive trading days immediately prior to and including the Last Trading Day	HK$1.95	7.50%
Average closing price for the last thirty (30) consecutive trading days immediately prior to and including the Last Trading Day	HK$1.98	8.91%
Audited net asset value per Share as at 31 December 2023	RMB8.52 (~HK$9.13)	80.28%
Unaudited consolidated net asset value per Share as at 30 June 2024	RMB8.67 (~HK$9.30)	80.65%

4. Evaluation of the Offer Price

To assess the fairness and reasonableness of the Offer Price, our analysis makes reference to (i) the historical price performance of the Shares; (ii) the historical price performance against NAV per Share; (iii) the historical trading liquidity of the Shares; and (iv) market comparables.

4.1 Historical price performance of the Shares

The chart below depicts the closing price level of the Shares as quoted on the Stock Exchange from 10 December 2023 (being the date falling 12 months preceding the Last Trading Day) and up to and including the Latest Practicable Date (the "**Review Period**").



Source: The website of the Stock Exchange (www.hkex.com.hk)

Throughout the Review Period, the closing price of the Shares experienced notable fluctuations roughly between HK$1.86 on 26 November 2024 and HK$2.76 on 7 October 2024. Announcements, such as the release of the FY2023 annual results and the 1H2024 interim results, appeared to have a modest influence on the price of the Shares. Notably, the Offer Price of HK$1.80 consistently remained below the observed trading prices during the Review Period.

On 26 March 2024, the Shares were trading at HK$2.20, following a relatively stable trajectory in the preceding three weeks. The announcement of annual results for the year ending 31 December 2023, coupled with the declaration of a final dividend, likely contributed to enhanced investor confidence. This stability continued, with the publication of the 2023 AR on 24 April 2024, keeping the share price within a tight range of HK$2.26 on 25 April 2024 to HK$2.30 on 18 April 2024.

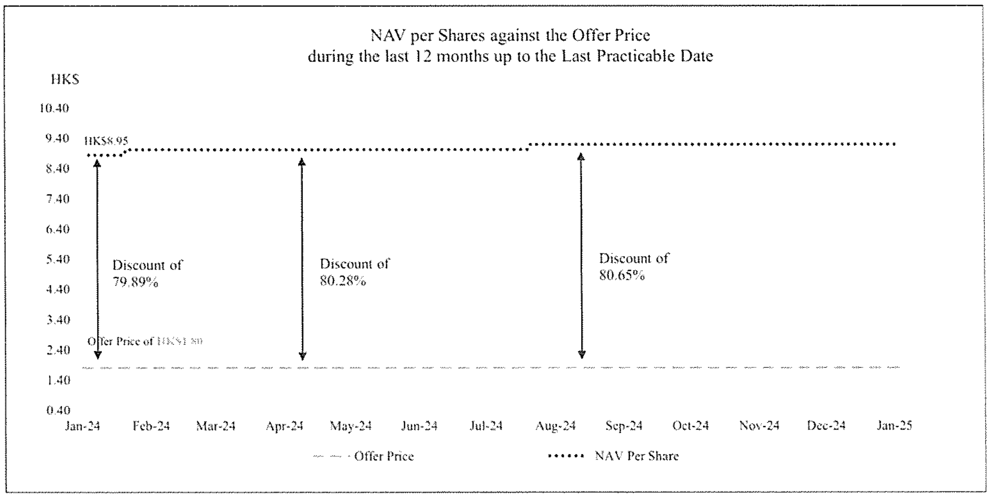
Following the issuance of a profit warning on 6 August 2024, the prices of the Shares declined modestly, falling from HK$2.29 on 5 August 2024 to HK$2.26 by 8 August 2024. Subsequent to release of the interim results for 1H2024 on 26 August 2024, the prices of the Shares declined further to HK$2.24 by the end of August 2024. In September 2024, the release of the 2024 IR likely contributed to continued investor caution, resulting in a gradual decline in the price of the Shares to HK$2.01 by month-end.

On 7 October 2024, the share price experienced a sudden surge, climbing sharply from HK$2.35 to HK$2.76 within a single trading day. This movement was not accompanied by any significant announcement or material developments. Discussion with Management indicated that no substantial reasons to account for this abrupt increase. Despite this surge, the share price returned to the HK$2.20 range shortly thereafter.

In light of (i) the historical price performance of the Shares during the Review Period; (ii) the discount of 9.09%, 8.16%, 7.50%, and 8.91% represented by the Offer price of the Shares to the closing price of the Shares on the Last Trading Day, the average closing price for the last five (5), ten (10) and thirty (30) consecutive trading days up to and including the Last Trading Day respectively; and (iii) while the share price has exhibited volatility, it has consistently traded above the Offer Price, we are of the view that the Offer Price is unattractive and therefore, not fair and reasonable when compared to historical price performance.

4.2 NAV per Share

The chart below depicts the net asset value ("**NAV**") per Share during the Review Period against the Offer Price:



Source: The website of the Stock Exchange (www.hkex.com.hk)

We note that the Offer Price of HK$1.80 represents a notable discount to the Group's NAV. Specifically, it reflects:

(i) a discount of approximately 80.65% to the unaudited NAV per Share of approximately RMB8.67 (equivalent to HK$9.30) as of 30 June 2024. This calculation is based on the Group's unaudited consolidated net asset value of RMB4,243,228,000 (equivalent to HK$4,550,437,707 based on the exchange rate of HK$1.07 to 1 RMB) divided by 489,459,789 issued Shares;

(ii) a discount of approximately 80.28% to the audited NAV per Share of approximately RMB8.52 (equivalent to HK$9.13) as of 31 December 2023. This is derived from the audited consolidated net asset value of RMB4,168,590,000 (equivalent to HK$4,470,395,916 based on the same exchange rate) divided by the same number of issued Shares; and

(iii) a discount of approximately 79.89% to the unaudited NAV per Share of approximately RMB8.34 (equivalent to HK$8.95) as of 30 June 2023. This calculation is based on the Group's unaudited net asset value of RMB4,084,155,000 reported in the interim report for the six months ended 30 June 2023 (the "**2023 IR**") (equivalent to HK$4,370,045,850 based on the same exchange rate) divided by the same number of issued Shares.

While we note it is not uncommon for Hong Kong listed companies principally engaged in credit services and lending activities to trade at a discount to NAV (with Comparables (as defined below) fetching an average price-to-book ("**P/B**") ratio of at 0.85 times as at the Last Trading Day, as detailed in the paragraph headed "4.4 Comparables analysis" below), the discount of over 80.0% to the NAV per Share as of 30 June 2024 is outside of the range of the P/B Ratio of the Comparables (as defined below). Given the above, we are of the view that the Offer Price is not fair and not reasonable based on the comparison with NAV per Share.

4.3 Historical trading liquidity of the Shares

The table below sets out the trading volume of the Shares and the percentages of average daily trading volume to the total number of issued Shares and Shares held by public Shareholders, respectively during the Review Period:

Month/Period	Trading days	Average daily trading volume per month	Average daily trading volume as a percentage to the total number of issued Shares as at the end of the month/ period (Note 1)	Average daily trading volume as a percentage to the total number of issued Shares held by public Shareholders (Note 2)
Pre-Joint Announcement Period				
2023				
December	13	6,046	0.001%	0.004%
2024				
January	22	18,609	0.004%	0.013%
February	19	10,168	0.002%	0.007%
March	20	16,330	0.003%	0.011%
April	20	3,600	0.001%	0.002%
May	21	11,438	0.002%	0.008%
June	19	3,495	0.001%	0.002%
July	22	24,645	0.005%	0.017%
August	22	23,082	0.005%	0.016%
September	19	27,021	0.006%	0.019%
October	21	396,467	0.081%	0.272%
November	21	33,562	0.007%	0.023%
December (up to 10 December)	7	209,314	0.043%	0.144%
10 December (up to the Latest Practicable Date) (Note 3)	9	514,724	0.105%	0.353%

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Based on the total number of issued Shares as at each month end.

2. Based on the total number of issued Shares held by the public Shareholders of the Company as at each month end.

3. Trading of the Shares was suspended from 11 December 2024 to 23 December 2024.

During the Review Period, the average daily trading volume ranged from approximately 3,495 Shares (in June 2024) to approximately 396,467 Shares (in October 2024), representing approximately 0.001% to 0.081% of the total number of issued Shares, and representing approximately 0.002% to 0.272% of the total number of issued Shares held by public Shareholders as at the end of the respective month/period. It is noted that the highest trading volume occurred on 7 October 2024, representing approximately 0.35% of the total number of issued Shares. We have discussed with Management and were informed that they were not aware of any particular reason that led to such higher trading volume on those dates as no particular news was announced by the Group immediately before the dates, apart from the publication of the interim results announcement for 1H 2024. Save and except for October 2024 and December 2024, the average daily trading volume of the Shares was below 0.023% of the total number of issued Shares held by public Shareholders from time to time during the entire Review Period.

In view of the above, while the Offer presents an opportunity for Independent Shareholders to dispose of a significant number of Shares without exerting downward pressure on the market price, it is important to note that the Offer Price of HK$1.80 is lower than the recent market prices observed during the Review Period. As such, Shareholders may find the Offer less attractive in comparison to prevailing market levels.

4.4 Comparables analysis

In order to assess the fairness and reasonableness of the Offer Price, we have performed analysis on the price-to-book ratios ("**P/B Ratio(s)**") and price-to-earnings ratios (the "**P/E Ratio(s)**") of companies which are listed on the Main Board of the Stock Exchange and that are engaged in similar businesses to those of the Group for comparison purposes. As aforementioned, the Group has derived over 85.0% of its revenue from the provision of consumer finance services during FY2022, FY2023, 1H2023 and 1H2024. With this in mind, we have sought to identify comparable companies for peer comparison based on the criteria that the comparable companies (i) are listed on the Main Board of Stock Exchange; (ii) conduct credit services and lending business constituting more than 50.0% of its total revenue for the latest financial year; and (iii) are of comparable size to the Company with closing market capitalisation as at the Last Trading Day of between HK$400.0 million to HK$1.5 billion.

Based on such criteria, we identified five companies ("**Comparables**"). Whilst no companies have identical business models, scale of operations, trading prospects, target market, product mix and capital structure as the Company, and it being understood that we have not conducted an in-depth investigation into the business and operations of the Comparables beyond the aforesaid criteria, we believe the selected Comparables are appropriate as a benchmark reference for our analysis. Based on our research, the Comparables are exhaustive within the criteria set out above and we are of the view that they would serve as a fair and representative sample for drawing a meaningful comparison to the Offer Price. Our findings are summarised in the table below:

Stock code	Company name	Principal businesses	Market cap *(HK$'000)* *(Note 1)*	P/B Ratio *(times)* *(Note 2)*	P/E Ratio *(times)* *(Note 3)*
00668.HK	Doyen International Holdings Limited	Investment holding company engaged in investment property holding in the PRC, provision of financing to customers in the PRC and distressed assets management segments.	433,173	0.47	32.69
01319.HK	Oi Wah Pawnshop Credit Holdings Limited	Investment holding company engaged in secured financing, including pawn loans and mortgage loans, operating under the brand "Oi Wah".	437,483	0.40	5.06
02483.HK	K Cash Corporation Limited	Investment holding company engaged in loan businesses, including unsecured owner loans and personal loans.	925,000	1.02	14.23
03623.HK	China Success Finance Group Holdings Limited	Investment holding company principally engaged in the provision of financial and non-financial guarantees services, financial leasing and financial consultancy services.	480,620	1.64	N/A
03848.HK	Haosen Fintech Group Limited	Investment holding company engaged in micro credit, loan services, finance leasing, factoring, and securities brokerage. Operates through micro credit and loan facilitation, finance lease and factoring, and securities dealing and broking.	433,386	0.70	18.47
			High	**1.64**	**32.69**
			Low	**0.40**	**5.06**
			Average	**0.85**	**17.61**
02003.HK	**The Company**	**Investment holding company principally engaged in the provision of consumer financial services. The Group mainly provides credit products through pure online loan origination processes. The products are credit cards balance transfer products and consumption credit products.**	*Based on the Offer Price (Note 4)*		
			881,028	**0.19**	**1.80**
			Based on market price as at Latest Practicable Date		
			1,297,068	**0.28**	**2.65**

Notes:

1. Market capitalisation is calculated based on the closing share price and the number of shares in issue as at the Last Trading Day based on information from the website of the Stock Exchange.

2. P/B Ratios of the Comparables are calculated based on their respective closing price as at the Last Trading Day and the net asset values attributable to owners of the Comparables as at their latest year/period end dates as extracted from their latest annual/interim reports published on the Stock Exchange's website, divided by the total number of issued shares as at the Last Trading Day.

3. P/E Ratios of the Comparables are calculated based on their respective closing price as at the Last Trading Day and earnings per share of the Comparables of the latest audited financial year as extracted from their respective latest annual reports published on the Stock Exchange's website.

4. The implied market capitalisation, P/E Ratio and P/B Ratio of the Company are calculated based on the Offer Price.

As shown in the table above, the historical P/E Ratios of the Comparables ranged from approximately 5.06 times to 32.69 times, with an average of approximately 17.61 times. The implied P/E ratio of the Company based on the Offer Price is approximately 1.80 times, which is below the lower bound of the range commanded by the Comparables. The P/B ratios of the Comparables ranged from 0.40 times to 1.64 times, with an average of approximately 0.85 times. The implied P/B ratio of the Company based on the Offer Price is approximately 0.19 times, which is also below the lower bound of the range commanded by the Comparables. On this basis, we are of the view that from the Offer Price is not fair and not reasonable.

RECOMMENDATIONS

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

(i) the Offer Price is unattractive, as it represents a discount of 9.09%, 8.16%, 7.50%, and 8.91% to the closing price of the Shares on the Last Trading Day and, the average closing price of the Shares for the last five (5), ten (10) and thirty (30) consecutive trading days up to and including the Last Trading Day respectively. Furthermore, it represents a significant discount of 80.65%, 80.28%, and 79.89% to the unaudited net asset value per Share as at 30 June 2024, 31 December 2023, and 30 June 2023, respectively. The implied P/E Ratio and P/B Ratio of the Offer Price are also below the lower bounds of those commanded by the Comparables as well as what the Company is currently priced in the market;

(ii) while Management has outlined proactive strategies for long-term growth, the absence of an interim dividend for FY2024 suggests a conservative stance in response to market uncertainties. The Offeror has also expressed its intention to continue the Group's principal business with no significant changes to the Board composition or operations. Independent Shareholders should consider the risks and rewards of retaining their Shares in the context of the Group's evolving financial and operational trajectory; and

(iii) the Shares have exhibited low trading liquidity during the Review Period. Save and except for October 2024 and December 2024, the average daily trading volume of the Shares was below 0.023% of the total number of issued Shares held by public Shareholders from time to time during the entire Review Period. This low liquidity indicates that Independent Shareholders with substantial holdings might face difficulties in realising their investments in the open market without significantly impacting the market price.

We are of the view that, on balance, the Offer is not fair and not reasonable so far as the Independent Shareholders are concerned, with the unattractiveness of the Offer Price being the overriding factor in our assessment. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders not to accept the Offer.

Independent Shareholders are encouraged to carefully evaluate all relevant factors before deciding whether to accept the Offer. As the Share price closed above the Offer Price from 10 December 2023 (being the date falling 12 months preceding the Last Trading Day) up to the Latest Practicable Date, those looking to realise their investments may find it more beneficial to sell their Shares in the open market, provided the net proceeds from such a sale exceed the net amount receivable under the Offer. Unlike the fixed Offer Price, selling in the open market carries uncertainties, particularly for Shareholders with larger holdings, who may face challenges in offloading a substantial number of Shares in a single transaction at a fixed cash price. The closing price of the Shares remains subject to fluctuations influenced by market demand and supply, which could result in upward or downward movements.

As different Independent Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and behalf of
Altus Capital Limited

Arnold Ip
Responsible Officer

Charlotte Khoo
Responsible Officer

*Mr. Arnold Ip ("**Mr. Ip**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Ip has over 30 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Ms. Charlotte Khoo ("**Ms. Khoo**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. Ms. Khoo has over 10 years of experience in corporate finance and advisory in Hong Kong, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser and independent financial adviser in various corporate finance transactions. Ms. Khoo is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*