

Stock code: 002032

Short form: Supor

Announcement No.:2022-049

Announcement of Implementation of Advance Payment Financing Business to Undertake Responsibility of Making up Difference

This Company and all members of the Board of Directors hereby warrant that all information disclosed here are true, accurate and complete, and contain no fictitious statement, misleading information or significant omission.

Special Notes:

Guarantors: The distributors of Zhejiang Supor Co., Ltd. (hereinafter referred to as "Company", "the Company" or "Supor") who meet requirements set by the Company. There is no connected relationship between distributors and the Company and no connected guarantee involved.

Whether there is a counter-guarantee: The actual controller or its connected parties of each distributor shall sign the Guarantee Contract in line with the credit line with the Company and undertake joint guarantee liability.

Cumulative number of overdue external guarantees: No.

I. Overview of external guarantee

The 10th Session of the Seventh Board of Directors and the Third Interim General Meeting of Shareholders 2021 adopted the *Proposal on Advance Payment Financing Business* and agreed the Company to continue to carry out advance payment financing business in 2022 with a maximum limit of no more than CNY700 million and a total scale of no more than CNY1.4 billion after rolling use of the credit line to help solve the capital demand problems encountered by high-quality distributors in the operation process and to better develop marketing of the Company. On August 30, 2022, the 14th Session of the Seventh Board of Directors adopted the proposal to extend the term of validity of above business to Annual General Meeting of Shareholders for 2022 Fiscal Year, and other contents remain the same. This proposal is to be submitted to the First Interim General Meeting of Shareholders 2022 for approval.

1. Business mode

The operation mode of the business is that the bank, the Company and the distributor sign the "cooperation agreement" and "advance payment financing cooperation agreement" respectively. As agreed

in the above agreements, the actual controller or its connected parties of each distributor who uses the tripartite acceptance business shall sign the Maximum Guarantee Contract in line with the credit line with the banks, and then the distributor shall deposit a deposit security no less than 30% of the amount of the acceptance bill in the cooperative banks; meanwhile, the Company shall deposit a certain amount of deposit or certificate of deposit used as risk mitigation funds in the cooperative banks as set forth the agreements. As agreed in the above agreements, banks shall bear a part of losses if distributor fail to repay the difference between the security and the amount of the acceptance bill after the maturity of the acceptance bill, and they independently fulfill the duties for verifying and approving credit line according to their internal management regulations. If all the above conditions are met, the banks shall issue an electronic acceptance bill of no more than six months according to the distributor's capital demands for goods replenishment. The acceptance bill was directly paid to the Company for goods replenishment as agreed and will be stated in financial statements according to Accounting Standards or others regulations issued by Ministry of Finance.

2. Potential risks

If distributor fails to repay the difference between the security and the amount of the acceptance bill after the maturity of the acceptance bill, the Company shall bear the following losses:

The banks may deduct the corresponding amount of the Company's risk mitigation funds as agreed. Should the Company and the banks cooperate with each to successfully recover all the difference, the banks will return the temporarily deducted risk mitigation funds of the Company in full; if only part of the difference is recovered (or all of it is not recovered), the banks will only return part of the temporarily deducted risk mitigation funds, which shall include the recovered part and the part of the unrecovered amount that the banks undertake to bear as agreed, and the remaining unrecovered amount shall be borne by the Company. The acceptance bill issued by the distributor to the Company shall remain valid. Its validity will not be affected by the distributor's failure to pay the difference between the security and the bank acceptance bill as agreed and shall still be endorsed and cashed.

3. Implementation in previous

In 2021, the credit line in the agreement signed with dealers and banks amounts to CNY800 million. By the end of 2021, the Company received outstanding bank acceptance bills of CNY 760.02 million, of which CNY 758.02 million was endorsed. The maximum potential net risk exposure of this business was CNY323.74 million at the end of 2021.

In 2022, the credit line in the agreement signed with dealers and banks amounts to CNY700 million. By the end of July 2022, the Company received outstanding bank acceptance bills of CNY494.35 million, of which CNY469.05 million was endorsed. The maximum potential net risk exposure of this business was CNY224.88 million at the end of July 2022.

All distributors engaged in this business were in good standing and no circumstance that any of them failed to repay upon the maturity of the acceptance bill and led to losses against the Company occurred in 2021 and 2022.

II. Introduction to guarantors

The guarantors who plan to engage in advance payment financing business with the Company this year are those non-connected distributors included in the scope of credit customers who are recommended by the Company and confirmed by the bank. The Company will select distributors based on the sales scale, operation conditions and creditworthiness. Those distributors with strong funds, good business reputation, compliance with the Company's marketing discipline and sales settlement system, and willingness to maintain long-term cooperative relationships will be chosen. Above distributors are not subject to enforcement for trust-breaking.

III. Main contents of external guarantee

The Company plans to carry out advance payment financing business with a maximum limit of no more than CNY700 million in new valid period and the credit line within the limit can be used by rolling. The actual scale of this model is subject to the needs of the business but the maximum amount is CNY1.4 billion and the maximum potential net risk exposure of this business at any time is not allowed to exceed the credit limit.

1. Guarantee method: provide risk mitigation funds and undertake the responsibility of making up difference
2. Term of validity and guarantee scope: The Company is allowed to carry out advance payment financing business from the date of approval by the First Interim General Meeting of Shareholders 2022 to the date when resolutions of Annual General Meeting of Shareholders for 2022 Fiscal Year taking effective. The guarantee scope: under the business, the Company will undertake responsibility of making up difference between the security and the amount of the acceptance bill the distributor fails to repay after the maturity of the acceptance bill deducted the agreed part the bank shall bear.

3. The amount for deposit security: the Company plans to provide risk mitigation funds with the banks, amounting to CNY58 million in new valid period to carry out this business.

4. Counterparties: the Company has carried out this advance payment financing business with Minshen Bank and Guangfa Bank in previous years, both of them enjoy good reputation and maintain stable cooperative relationship with the Company. The counterparties of the advance payment financing business to be carried out by the Company should be large commercial banks with domestic credit rate AAA or international credit rate at least A-. The Company will continue to select Minshen Bank and Guangfa Bank to carry out this business at this stage or other banks meeting credit rating described therebefore.

5. The risk countermeasures undertaken by the Company

In order to strengthen the management of working capital and standardize the release and management of distributors' credit line, the Company has developed Credit Policy Management Rules. These Rules explicitly stipulate the management measures for the "advance payment financing" business. The detailed management measures established by the Company are prerequisites (entry criteria) for customers to apply for "advance payment financing", credit line evaluation standards, limits for examining and approving authority. The Company established strict follow-up management, which includes:

1) Our company supervises the connection between the banks and customers at regular and irregular intervals and checks the customer's redemption.

2) The marketing finance department collects and counts the information about outstanding goods of last month at the beginning of each month according to the monthly report submitted by the banks and reminds distributors of the amount of goods to be redeemed within 30 days.

3) Where a distributor fails to redeem the goods according to the time agreed in the contract, the marketing finance and the capital group of the headquarters will require the banks to state the reasons for such a distributor's failure to redeem the goods in time and internally assess any potential repayment risk. Where a distributor fails to redeem the goods as scheduled without proper reasons, he/she shall not be permitted to use the tripartite acceptance to replenish goods within half a year, and the company's credit line will be suspended accordingly.

4) Our company requires distributors to provide a letter of commitment for repayment upon expiry of advance payment financing exposure every quarter and reports the joint and several liability of the actual controller.

5) The capital group of the headquarters regularly reports distributors' credit line and exposure to the

chief financial officer on a monthly basis.

IV. Opinions from Board of Directors

The purpose of advance payment financing is to solve the capital demand problems encountered by high-quality distributors in the operation process and to better develop marketing of the Company.

The Company has already implemented the corresponding control measures in previous process in a rather strict and standardized way. Therefore, the risks in this business shall be relatively put under control. Up to the end of July 2022, all distributors engaged in this business were in good standing and do not incur any circumstance that any of them fails to repay upon the maturity of the acceptance bill and leads to losses against the Company. In a word, the marketing will be benefited from this business and the risk or loss of bad debts will be reduced to some extent after carrying out this business. There is no significant impact on financial conditions and business results of the Company.

V. Opinions from independent directors

The Company intends to extend the term of validity of above business based on Proposal on Advance Payment Financing Business adopted previously, and other contents remain the same. Up to now, all distributors engaged in this business were in good standing and no circumstance that any of them fails to repay upon the maturity of the acceptance bill and leads to losses against the Company occurred.

We agree the Company to continue to carry out advance payment financing business before the date when resolutions of Annual General Meeting of Shareholders for 2022 Fiscal Year taking effective.

VI. Cumulative number of external guarantees and number of overdue guarantees

As of the date of this disclosure, the Company has unexpired guarantee amounted CNY845.44 million for wholly-owned subsidiaries, accounting for 11.09% of the latest audited total net assets. Due to the prepayment financing business, the Company has unexpired guarantee amounted CNY230.26 million for non-related distributors included in the scope of credit, which are recommended by the Company and confirmed by the bank, accounting for 3.02% of the latest total net assets. The Company and its wholly-owned subsidiaries have no overdue guarantee, or guarantee involved in litigation or loss due to the judgment of losing the guarantee.

Board of Directors of Zhejiang Supor Co., Ltd.

August 31, 2022