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Huitongda Network Co., Ltd.

匯通達網絡股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 9878)

CONTINUING CONNECTED TRANSACTIONS – RENEWAL OF THE SALES FRAMEWORK AGREEMENT AND THE PURCHASE FRAMEWORK AGREEMENT

BACKGROUND

Reference is made to the Prospectus and the announcement of the Company dated August 23, 2022, in relation to, among others, the Existing Sales Framework Agreement and the Existing Purchase Framework Agreement entered into between the Company and Alibaba China on December 21, 2021 and the revision of the original annual caps under such framework agreements for the years ended/ending December 31, 2022 and December 31, 2023. Given that the framework agreements and the annual caps for these continuing connected transactions will expire on December 31, 2023, the Company entered into the New Sales Framework Agreement and the New Purchase Framework Agreement with Alibaba China on September 20, 2023 to renew these continuing connected transactions for a term commencing from January 1, 2024 and ending on December 31, 2026. Pursuant to these new framework agreements, the Group agreed to provide goods for, or purchase goods from, Alibaba China and/or its associates.

LISTING RULES IMPLICATIONS

As at the date of this announcement, as Alibaba China directly holds approximately 17.26% of the total issued share capital of the Company, it is a substantial shareholder of the Company. Therefore, according to Chapter 14A of the Listing Rules, Alibaba China is a connected person of the Company. Accordingly, the transactions contemplated under the New Sales Framework Agreement and the New Purchase Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the respective highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the New Sales Framework Agreement and the New Purchase Framework Agreement exceeds 0.1% but is less than 5%, such transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but are exempt from the independent Shareholders' approval requirement.

I. BACKGROUND

Reference is made to the Prospectus and the announcement of the Company dated August 23, 2022, in relation to, among others, the Existing Sales Framework Agreement and the Existing Purchase Framework Agreement entered into between the Company and Alibaba China on December 21, 2021 and the revision of the original annual caps under such framework agreements for the years ended/ending December 31, 2022 and December 31, 2023. Given that the framework agreements and the annual caps for these continuing connected transactions will expire on December 31, 2023, the Company entered into the New Sales Framework Agreement and the New Purchase Framework Agreement with Alibaba China on September 20, 2023 to renew these continuing connected transactions for a term commencing from January 1, 2024 and ending on December 31, 2026. Pursuant to these new framework agreements, the Group agreed to provide goods for, or purchase goods from, Alibaba China and/or its associates.

II. NEW SALES FRAMEWORK AGREEMENT

1. Date

September 20, 2023

2. Parties

(1) The Company; and

(2) Alibaba China

3. Main content of the continuing connected transactions under the New Sales Framework Agreement

Pursuant to the New Sales Framework Agreement, the Group agreed to provide Alibaba China and/or its associates with goods (including but not limited to household appliances and consumer electronics) for a term commencing from January 1, 2024 and ending on December 31, 2026. The New Sales Framework Agreement may be renewed upon the mutual agreement of the parties, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations.

Subject to the terms of the New Sales Framework Agreement, Alibaba China and/or its associates will enter into specific agreements or place purchase orders with the Group to set out specific terms and conditions in relation to the supply of goods. Pursuant to the New Sales Framework Agreement, the consideration payable by Alibaba China and/or its associates will be paid at the time and according to the method to be agreed in specific agreements or purchase orders.

4. Pricing basis

The prices of transactions contemplated under the New Sales Framework Agreement shall be determined on the basis of arm's length negotiations.

The price for selling goods to Alibaba China and/or its associates by the Group shall be determined with reference to the price that the Group may sell goods to independent third parties and the prevailing market price.

5. Pricing procedures

The parties shall negotiate the selling price separately for each sale of goods based on the principles that the selling price to be paid shall be determined on normal commercial terms after arm's length negotiations, and shall be no less favorable than the prevailing market price and the price offered to independent third parties. Pursuant to the terms of the New Sales Framework Agreement, the parties will enter into separate sales order for each sale.

To ensure that the selling prices offered to Alibaba China and/or its associates are fair and reasonable and comparable to those offered to independent third parties, the Group will compare the prices offered by at least two other independent companies for similar product types and quantities so as to know the prevailing market prices before entering into sales orders with Alibaba China and/or its associates. The above procedures can ensure that the transactions contemplated under the New Sales Framework Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

6. Historical transaction amounts and proposed annual caps and their basis of determination

(1) Historical transaction amounts

Given that the H Shares were listed on the Hong Kong Stock Exchange on February 18, 2022, no relevant annual cap is required to be set under Chapter 14A of the Listing Rules for the transactions in respect of the sales of goods by the Group to Alibaba China and/or its associates for the year ended December 31, 2021 prior to the Listing Date. The annual caps for the transactions under the Existing Sales Framework Agreement for the years ended/ending December 31, 2022 and December 31, 2023 are RMB500 million and RMB800 million, respectively.

The historical transaction amounts of the transactions under the Existing Sales Framework Agreement for the years ended December 31, 2021 and December 31, 2022 and the six months ended June 30, 2023 were RMB74.7 million, RMB209.6 million and RMB28.9 million, respectively.

(2) Proposed annual caps

The proposed annual caps for the transactions contemplated under the New Sales Framework Agreement for the years ending December 31, 2024, December 31, 2025 and December 31, 2026 are RMB400 million, RMB500 million and RMB600 million, respectively.

(3) Basis of determination of the proposed annual caps

In determining the above proposed annual caps, the Company has taken into account the following factors:

- i. The Group has implemented an omni-channel and full-chain strategy to expand diversified sales channels and product types.
- ii. Historical transaction amounts and trends of the sales of goods by the Group to Alibaba China and/or its associates:

For details, please refer to the above. In particular, in the first half of 2023, affected by the macro environment and periodic fluctuations in certain industries, the Group actively adjusted its strategies and scaled back certain business. As a result, for the six months ended June 30, 2023, the transaction amount of the sales of goods by the Group to Alibaba China and/or its associates decreased as compared with the same period of last year and was lower than the Company's expectation when revising the annual caps for the transactions under the Existing Sales Framework Agreement.

- iii. Expected sales volume of the goods to Alibaba China and/or its associates:

Due to the improvement of the Group's supply chain capabilities and the strategic cooperation with many leading brands in the upstream of industries such as household appliances and consumer electronics, the Group's market competitiveness has been considerably enhanced. In terms of the timely supply of certain household appliances and consumer electronics categories, as well as in the best-selling categories, the Group will realize mutual complement with Alibaba China and/or its associates. The Group cooperates with Alibaba China and/or its associates in certain categories/branded goods based on the high-quality upstream supply chain resources, becoming one of its suppliers.

With the gradual recovery of consumption and the launch of new goods in categories such as consumer electronics in the second half of the year, the Company expects that the transaction amount in the second half of 2023 will rise. For the year ending December 31, 2023, the transaction amount of the Group's sales of goods to Alibaba China and/or its associates may exceed RMB200 million.

Based on the potential cooperation currently under negotiation, assuming that the relevant cooperation will eventually implement, for the year ending December 31, 2024, the transaction amount of the Group's sales of goods to Alibaba China and/or its associates may increase by RMB150 million on the basis of the expected sales amount for 2023, and there may be a year-on-year growth trend in 2025 and 2026.

Based on the above factors, according to the Group's current internal feedbacks on the intended orders and potential cooperation, the Company has appropriately lowered the future annual caps. However, taking into account the improvement of the overall consumption environment in the PRC, the Company expects that the transaction amount of sales of goods to Alibaba China and/or its associates will still show a year-on-year growth trend.

7. Reasons for and benefits of entering into the New Sales Framework Agreement

Alibaba China and/or its associates have been purchasing certain goods from the Group in their ordinary course of business given the price advantage of such goods offered by the Group compared to other market players. In addition, the Group is authorized as designated agents or sellers of certain types and/or brands of goods in certain areas. As such, Alibaba China and/or its associates could only purchase such goods from the Group. The transactions contemplated under the New Sales Framework Agreement are conducted in the ordinary and usual course of business of the Group and on normal commercial terms.

8. Listing Rules Implications

As at the date of this announcement, as Alibaba China directly holds approximately 17.26% of the total issued share capital of the Company, it is a substantial shareholder of the Company. Therefore, according to Chapter 14A of the Listing Rules, Alibaba China is a connected person of the Company. Accordingly, the transactions contemplated under the New Sales Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the New Sales Framework Agreement exceeds 0.1% but is less than 5%, such transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but are exempt from the independent Shareholders' approval requirement.

III. NEW PURCHASE FRAMEWORK AGREEMENT

1. Date

September 20, 2023

2. Parties

(1) The Company; and

(2) Alibaba China

3. Main content of the continuing connected transactions under the New Purchase Framework Agreement

Pursuant to the New Purchase Framework Agreement, the Group agreed to purchase goods (including but not limited to household appliances and consumer electronics) from Alibaba China and/or its associates for a term commencing from January 1, 2024 and ending on December 31, 2026. The New Purchase Framework Agreement may be renewed by mutual consent, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations.

Subject to the terms of the New Purchase Framework Agreement, the Group will enter into specific agreements or place purchase orders with Alibaba China and/or its associates to set out specific terms and conditions in relation to the supply of goods. Pursuant to the New Purchase Framework Agreement, the consideration payable by the Group will be paid at the time and according to the method to be agreed in specific agreements or purchase orders.

4. Pricing basis

The prices of transactions contemplated under the New Purchase Framework Agreement shall be determined on the basis of arm's length negotiations.

The price for purchasing certain goods from Alibaba China and/or its associates by the Group shall be determined with reference to the price that the Group may purchase goods from independent third parties and the prevailing market price.

5. Pricing procedures

The parties shall negotiate the purchase price separately for each purchase of goods based on the principles that the purchase price payable shall be determined on normal commercial terms after arm's length negotiations, and shall be no less favorable than the prevailing market price and the price offered by independent third parties. Pursuant to the terms of the New Purchase Framework Agreement, the parties will enter into separate purchase order for each purchase.

To ensure that the purchase prices offered by Alibaba China and/or its associates are fair and reasonable and comparable to those offered by independent third parties, the Group will compare the prices offered by at least two other independent companies for similar product types and quantities so as to know the prevailing market prices before entering into purchase orders with Alibaba China and/or its associates. The above procedures can ensure that the transactions contemplated under the New Purchase Framework Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

6. Historical transaction amounts and proposed annual caps and their basis of determination

(1) Historical transaction amounts

Given that the H Shares were listed on the Hong Kong Stock Exchange on February 18, 2022, no relevant annual cap is required to be set under Chapter 14A of the Listing Rules for the transactions in respect of the purchase of goods by the Group from Alibaba China and/or its associates for the year ended December 31, 2021 prior to the Listing Date. The annual caps for the transactions under the Existing Purchase Framework Agreement for the years ended/ending December 31, 2022 and December 31, 2023 are RMB80 million and RMB150 million, respectively.

The historical transaction amounts of the transactions under the Existing Purchase Framework Agreement for the years ended December 31, 2021 and December 31, 2022 and the six months ended June 30, 2023 were nil, RMB77.5 million and RMB18.1 million, respectively.

(2) Proposed annual caps

The proposed annual caps for the transactions contemplated under the New Purchase Framework Agreement for the years ending December 31, 2024, December 31, 2025 and December 31, 2026 are RMB250 million, RMB300 million and RMB350 million, respectively.

(3) Basis of determination of the proposed annual caps

In determining the above proposed annual caps, the Company has taken into account the following factors:

- i. Historical transaction amounts and trends of the purchase of goods by the Group from Alibaba China and/or its associates:

Since January 2021, due to business change, the Group has ceased the purchase transactions with Alibaba China and/or its associates. Therefore, the Group did not have transactions of purchase of goods from Alibaba China and/or its associates for the year ended December 31, 2021 and the six months ended June 30, 2022. The Group has resumed trade orders for purchasing goods from Alibaba China and/or its associates since the second half of 2022, to satisfy the better-than-expected demands for popular goods and the temporary demand of member stores for goods. In the first half of 2023, much affected by the macro environment, the Group actively scaled back certain business. As a result, for the six months ended June 30, 2023, the transaction amount of the purchase of goods by the Group from Alibaba China and/or its associates decreased and was lower than the Company's expectation when revising the annual caps for the transactions under the Existing Purchase Framework Agreement.

- ii. Expected purchasing volume of goods from Alibaba China and/or its associates:

The Group now serves more than 210 thousand member stores and boasts strong channel extension capacity. With the growing per capita disposable income of rural residents, the consumption potential of the lower-tier markets will be further unleashed. The Group adopts a multi-channel supply chain strategy at the supply chain end to meet the diversified product demands of member stores in lower-tier markets. Based on the price advantage of Alibaba China and/or its associates in certain goods, the Group will purchase certain goods from Alibaba China and/or its associates to solve the temporary demand of certain member stores for goods.

With the recovery of consumption and the implementation of potential cooperation, the Company expects that for the year ending December 31, 2023, the overall transaction amount of the Group's purchase of goods from Alibaba China and/or its associates may exceed RMB100 million.

Based on the potential cooperation currently under negotiation, assuming that the relevant cooperation will eventually implement, for the year ending December 31, 2024, the transaction amount of the Group's purchase of goods from Alibaba China and/or its associates may increase by RMB100 million on the basis of the expected purchases amount for 2023, and there may be a year-on-year growth trend in 2025 and 2026.

Based on the above factors, taking into account the Company's current expected revenue growth rate and the temporary goods demand data of member stores in previous periods as well as the improvement of the overall consumption environment in the PRC, the Company expects that the transaction amount of purchasing goods from Alibaba China and/or its associates will increase in certain extent.

7. Reasons for and benefits of entering into the New Purchase Framework Agreement

The Group has been purchasing certain goods from Alibaba China and/or its associates given the price advantage of such goods offered by Alibaba China and/or its associates compared to other market players. The transactions contemplated under the New Purchase Framework Agreement are conducted in the ordinary and usual course of business of the Group and on normal commercial terms.

8. Listing Rules Implications

As at the date of this announcement, as Alibaba China directly holds approximately 17.26% of the total issued share capital of the Company, it is a substantial shareholder of the Company. Therefore, according to Chapter 14A of the Listing Rules, Alibaba China is a connected person of the Company. Accordingly, the transactions contemplated under the New Purchase Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the New Purchase Framework Agreement exceeds 0.1% but is less than 5%, such transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but are exempt from the independent Shareholders' approval requirement.

IV. INTERNAL CONTROL MEASURES

In order to safeguard the interests of the Shareholders (including the minority Shareholders) as a whole, the Company implements internal approval and monitoring procedures for the continuing connected transactions contemplated under the New Sales Framework Agreement and the New Purchase Framework Agreement, including the following measures:

- The Company has adopted and implemented a management system on connected transactions. Under such system, the Audit Committee of the Board is responsible for reviewing the compliance of the continuing connected transactions with relevant laws, regulations, the Company's policies and the Listing Rules. In addition, the Audit Committee of the Board, the Board and various other internal specialized departments are jointly responsible for evaluating the terms under framework agreements for the continuing connected transactions, particularly the fairness of the pricing policies and annual caps under each agreement;

- The Company has established a transaction review and alert mechanism. The relevant specialized departments of the Company, such as the finance department, the securities affairs department and various business departments, will track and control the connected transaction matters, review the relevant connected transactions on a case-by-case basis, and temporarily enable the transaction permission after the review is completed. In this process, the finance department of the Company will regularly collect and monitor the transaction amounts of the connected transactions under framework agreements for the continuing connected transactions on a monthly basis, and will suspend the transactions if necessary to ensure that the actual transaction amounts do not exceed the annual caps; and
- The independent non-executive Directors and the external auditors of the Company will conduct annual reviews of the continuing connected transactions in accordance with the Listing Rules, and provide annual confirmations that the individual transactions have been conducted in accordance with the terms of the relevant agreements, on normal commercial terms and in accordance with relevant pricing policy and are in the interests of the Shareholders as a whole.

V. OPINIONS OF THE BOARD

Mr. Wang Ran, a non-executive Director, is a director designated by Alibaba China and is therefore considered to be connected with the New Sales Framework Agreement and the New Purchase Framework Agreement and the transactions thereunder. As such, he has abstained from voting on the Board resolution approving the entering into of the New Sales Framework Agreement and the New Purchase Framework Agreement. Save as disclosed above, none of the other Directors has any material interest in the relevant Board resolution and shall abstain from voting on the relevant Board resolution.

Having considered the above pricing basis, the basis of determination of the annual caps, the reasons for and benefits of entering into the New Sales Framework Agreement and the New Purchase Framework Agreement and the internal control measures, the Board (including the independent non-executive Directors) is of the view that the New Sales Framework Agreement and the New Purchase Framework Agreement are conducted on normal commercial terms in the ordinary and usual course of business of the Company, and their terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

VI. INFORMATION ON THE RELEVANT PARTIES

The Company is a joint stock company with limited liabilities established under the laws of the PRC on December 6, 2010. It is a leading trading and service platform in China dedicated to serving enterprise customers in the retail industry in the lower-tier markets, providing customers with a stable one-stop supply chain and SaaS. The service business has also become a new high-speed growth point of the Company.

Alibaba China is an indirect subsidiary of Alibaba Group. Alibaba China is owned as to 57.59% by Taobao (China) Software Co., Ltd., 35.75% by Zhejiang Tmall Technology Co., Ltd. and 6.66% by Alibaba.com China Limited, all of which are subsidiaries of Alibaba Group. Alibaba China is principally engaged in the operations of the wholesale marketplaces of Alibaba Group.

Alibaba Group is a company incorporated in the Cayman Islands and the American depositary shares of which are listed on the New York Stock Exchange (stock code: BABA), and the shares of which are listed on the Hong Kong Stock Exchange (stock code: 9988). Alibaba Group's businesses include China commerce, international commerce, local consumer services, Cainiao logistics services, cloud services, digital media and entertainment, and innovation business and others.

VII. DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Alibaba China”	Alibaba (China) Network Technology Co., Ltd., one of the Company’s substantial shareholders
“Alibaba Group”	Alibaba Group Holding Limited and, where the context so requires, its consolidated subsidiaries and its consolidated affiliated entities, including its variable interest entities and their subsidiaries from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“China” or “PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macao Special Administrative Region and Taiwan
“Company”	Huitongda Network Co., Ltd. (匯通達網絡股份有限公司), a joint stock company with limited liabilities established under the laws of the PRC on December 6, 2010, whose H Shares are listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 9878)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Purchase Framework Agreement”	the purchase framework agreement entered into between the Company and Alibaba China on December 21, 2021
“Existing Sales Framework Agreement”	the sales framework agreement entered into between the Company and Alibaba China on December 21, 2021
“Group”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require)
“H Share(s)”	overseas listed foreign Shares in the share capital of the Company with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“independent third party(ies)”	has the meaning ascribed to it under the Listing Rules
“Listing Date”	Friday, February 18, 2022, on which dealings in the H Shares first commence on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“New Purchase Framework Agreement”	the purchase framework agreement entered into between the Company and Alibaba China on September 20, 2023
“New Sales Framework Agreement”	the sales framework agreement entered into between the Company and Alibaba China on September 20, 2023
“Prospectus”	the prospectus of the Company dated January 31, 2022
“RMB”	Renminbi, the lawful currency of the PRC
“SaaS”	software as a service
“Shareholders”	the shareholders of the Company
“subsidiary(ies)”	has the meaning ascribed to it in Section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“%”	per cent

By order of the Board
Huitongda Network Co., Ltd.
Wang Jianguo
Chairman

Nanjing, the PRC
September 20, 2023

As at the date of this announcement, the Board comprises the Chairman and non-executive Director, namely Mr. Wang Jianguo; the executive Directors, namely Mr. Xu Xiuxian, Mr. Zhao Liangsheng and Mr. Sun Chao; the non-executive Directors, namely Mr. Cai Zhongqiu and Mr. Wang Ran; and the independent non-executive Directors, namely Ms. Yu Lixin, Mr. Liu Xiangdong and Mr. Cheng Zichuan.