

29 May 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO TRADING FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Trading Framework Agreement (the “**Agreement**”), the respective transactions contemplated under the Agreement (the “**Transactions**”) and the proposed annual caps (the “**Cap(s)**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 29 May 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Trading Framework Agreement

The Company proposes to enter into the Agreement with SOHO Holdings, pursuant to which the Group would engage in commodity trading with SOHO Holdings Group whereby the Group would (a) purchase from and (b) sell to SOHO Holdings Group the Relevant Products on normal commercial terms in its ordinary course of business during the period up to 31 December 2026.

The Company will enter into the Agreement with SOHO Holdings after the approval from the Independent Shareholders is obtained. The Agreement shall take effect from the date of execution by the parties and remain in force until 31 December 2026.



Listing Rules implications

As at the Latest Practicable Date, as SOHO Holdings directly and indirectly holds approximately 49.17% of the equity interest of the Company, SOHO Holdings is a Controlling Shareholder and hence a connected person of the Company under Chapter 14A of the Listing Rules. As such, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios for the Caps exceed 5%, the Agreement, the Transactions and the Caps will be subject to the reporting, announcement, circular, annual review, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the Independent Non-executive Director(s) (namely Mr. Huang Dechun, Mr. Lo Wah Wai and Mr. Zhang Hongfa), who have no direct or indirect interest in the Agreement and the Transactions, has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions and the Caps are fair and reasonable; (ii) whether the entering into the Agreement and the Transactions are in the interests of the Company and the Shareholders as a whole and are on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to be proposed at the AGM. We, Caitong International Capital Co., Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE

In the past two years preceding the Latest Practicable Date, there was no engagement between us and the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests among us and the Company or any other parties that could be reasonably regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser. Accordingly, we are considered eligible to give independent advice on the Agreement, the Transactions and the Caps. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company, SOHO Holdings or their respective substantial shareholders or associates.



BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group (the “**Management**”). We have also relied on the information, facts and representations contained or referred to in the Circular and have assumed that the information, facts and representations provided, and the opinions expressed to us are true, accurate and complete in all material respects at the time they were made and will remain true, accurate and complete in all material respects up to the Latest Practicable Date. Independent Shareholders will be notified of material changes of such information provided and our opinion, if any, as soon as possible after the Latest Practicable Date and up to the date of the AGM. We have also assumed that all statements of beliefs and opinions made by the Directors in the Circular were reasonably made and the expectations and intentions made by the Management will be met or carried out as the case may be. The Company confirms that no material facts have been omitted from the information provided and the opinions expressed to us. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided to us. We have not, however, conducted any independent investigation into the business and affairs of the Group and/or SOHO Holdings in their respective existing state, nor have we carried out any independent verification of the information provided by the Management.

The Directors jointly and severally accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company and/or the Group. The Directors having made all reasonable enquires, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Agreement, the Transactions and the Caps. Except for its inclusion in the Circular, this letter may not be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.



PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Agreement, the Transactions and the Caps, we have considered the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Group is principally engaged in futures brokerage business, asset management business, commodity trading and risk management business, and financial asset investment. Set out below is the financial performance of the Company as extracted from the Company's annual report for the year ended 31 December 2023 (the "FY2023 Annual Report"):

<i>In RMB'000</i>	For the year ended 31 December	
	2023	2022
Net fee and commission income	203,143	245,849
Net interest income	101,599	92,222
Investment loss	(26,380)	(39,449)
Other gains	469	1,036
Gain/(loss) on changes in fair value	26,438	(19,733)
Foreign exchange gains	303	4,823
Income from other business activities	1,637,764	1,243,101
Loss from disposal of assets	(118)	(102)
Revenue	1,943,218	1,527,747
Futures risk reserve expenses	8,371	9,636
Taxes and surcharges	3,794	2,549
Operating and management expenses	289,502	242,448
Credit impairment gain/(loss)	555	(3,014)
Other operating cost	1,634,446	1,260,156
Operating expenses	1,936,668	1,511,775
Non-operating income	4,318	1,243
Non-operating expense	396	1,308
Total profit	10,472	15,907
Income tax expense	2,681	3,525
Net profit	7,791	12,381



For the year ended 31 December 2023, the Group's total revenue reached approximately RMB1,943.2 million, increased by approximately 27.2% as compared to that of the year ended 31 December 2022. The income from other business activities increased by approximately 31.7% from RMB1,243.1 million for the year ended 31 December 2022 to RMB1,637.8 million for the year ended 31 December 2023.

We also noted that the operating expenses of the Group for the year ended 31 December 2023 amounted to approximately RMB1,936.7 million, representing an increase of 28.1% as compared to that of the year ended 31 December 2022 amounting to approximately RMB1,511.8 million, which was roughly in line with the increase in the total revenue. The Group's net profit decreased by approximately 37.1% from approximately RMB12.4 million for the year ended 31 December 2022 to approximately RMB7.8 million for the year ended 31 December 2023. Such decrease was mainly caused by the increase in other operating cost.

Information on SOHO Holdings

SOHO Holdings, a state-owned enterprise wholly-owned by Jiangsu SASAC, was established as a limited liability company under the laws of the PRC on 29 April 1994 and is one of the promoters of the Company. As at the Latest Practicable Date, SOHO Holdings holds approximately 49.17% of equity interest in the Company, and hence is a controlling shareholder of the Company.

SOHO Holdings is an investment holding company principally engaged in (i) financial and industrial investment, authorised operation and management of state-owned assets; (ii) international trading; (iii) housing rental; and (iv) production, R&D and sales of mulberry silk, textiles and garments.

Reasons for and benefits of the Transactions

As part of commodity trading and risk management business, the Group conducts spot transactions of commodities with clients and makes use of the hedging functions and trading opportunities of the futures markets to manage the price risks of commodities and realise gains. The Group looks into price differences which may exist in (i) futures contracts of different settlement dates of a commodity; and/or (ii) spots price and futures price of a commodity or related types of commodities. With the movement of the price differences, together with the trend of market change of the commodities, the Group seeks for trading opportunities for the purpose of transaction, and design trading strategy and steps. Trading activities conducted by the Group on the spot and futures market are an integral part of basis trading (基差交易) and intended to manage commodity price risk while capturing gains in the market.

With reference to the prospectus of the Company dated 16 December 2015, the Group started the commodity trading and risk management business in June 2013 to provide futures and spot arbitrage, cooperative hedging and warehouse receipts services, which in turn complement the Group's business as a whole. With reference to the annual report of the Company for the year ended 31 December 2017 (the "**FY2017 Annual Report**"), the Group's commodity trading and risk management business entered a new stage. The Group determined to adopt the "variation basis trading(基差交易)" strategy as the development direction of its futures and spot commodity business. According to the Company's FY2017 Annual



Report and FY2023 Annual Report, the income from sales of commodities increased from approximately RMB183.9 million in 2017 to approximately RMB1,632.2 million in 2023, representing a compound annual growth rate of approximately 43.9%. The notable growth continued in 2023. The income from sales of commodities increased by approximately 31.4% from RMB 1,242.4 million in 2022 to RMB 1,632.2 million in 2023. It is noted that the basis trading and sales of commodities business of the Group has recorded significant growth from 2017 to 2023. As advised by the Management, the commodities traded in the commodity trading business of Group from 2021 to 2023 included but not limited to the Relevant Products.

As stated in the Board Letter, SOHO Holdings Group, with its state-owned background, possesses solid expertise in the supply and demand chains of commodities, engages in stable volume of domestic and international commodity trading, and has access to valuable resource and opportunities of commodity trading. Different subsidiaries of SOHO Holdings Group are engaged in trading of different types of commodities. For example, High Hope Group is primarily engaged in supply chain operations (including commodity, food and fresh, green circular, textile and garment supply chain and paper pulp and wood panels), asset management business and private equity business. As disclosed in the announcements dated 17 July 2023, 23 July 2023, 28 July 2023 and 3 August 2023, as a result of a reorganisation at the controlling shareholder level (the “**Reorganisation**”), several companies (the “**Reorganisation Companies**”), including, among others, High Hope (with its subsidiaries), have become part of the SOHO Holdings Group in August 2023. High Hope was established in October 1992 as a state-owned company listed on Shanghai Stock Exchange. With reference to the annual report of High Hope Group for the year ended 31 December 2023, High Hope was ranked among the top 500 Chinese enterprises, top 200 Chinese service industry enterprises, and top 100 Chinese foreign trade enterprises. For the year ended 31 December 2023, the operating revenue of the commodity business of High Hope was approximately RMB19,858.2 million, and the operating expenses were approximately RMB19,494.5 million. According to the announcement disclosed by High Hope on the Shanghai Stock Exchange website on 30 December, 2023, after the Reorganisation, SOHO Holdings will prudently promote the specialized division of labor among its subsidiaries and High Hope will focus primarily on bulk commodity-related businesses.

As advised by the Management, after the Reorganisation, the commodity-related business of SOHO Holdings expanded and involves the transactions of various commodities, including but not limited to the Relevant Products. SOHO Holdings has integrated a strong commodity trading business, with abundant supplier resources and customer resources.

Subject to the market conditions and demands of relevant commodities, the Group may purchase Relevant Products in the market. When the commodity price fluctuates and trading opportunities in the market arise for the purchase of Relevant Products, and if the prices offered by SOHO Holdings Group are no less favourable than that of similar products sold by independent third parties, the Group will sign separate purchase contracts with the companies in SOHO Holdings Group to purchase the Relevant Products. It is expected that the Group would seize favorable opportunities of prevailing market conditions and secures stable amount of commodities in favourable prices from SOHO Holdings Group, which is in the interest of the Company and Shareholders as a whole.



Upon taking into account the gains earned or offsetting the losses in both the futures market and spot part market, the Group may sell Relevant Products in the market. When trading opportunities in the market arise for the sale of Relevant Products, and if the prices offered by SOHO Holdings Group are no less favourable than that of similar products sold to independent third parties, the Group will sign separate sales contracts with subsidiaries of SOHO Holdings Group to sell the Relevant Products. It is expected that the Group would have access to stable and reliable sales channels, seize market opportunities and acquire stable profit margin from SOHO Holdings Group, and is in the interest of the Company and Shareholders as a whole.

The detailed reasons for and benefits of entering into the Agreement are set out under the section headed “Reasons for and benefits of the transactions” of the Board Letter.

Having considered the above, we concur with the view of the Directors that the entering into the Agreement and the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

PRINCIPAL TERMS OF THE AGREEMENT

Set out below are the key terms of the Agreement, details of which are set out under the section headed “Details of the Trading Framework Agreement” of the Board Letter.

Parties:	(a) the Company (b) SOHO Holdings
Term:	For the period up to 31 December 2026 Subject to compliance with the Listing Rules, the SZSE Listing Rules and other applicable laws and regulations, the Trading Framework Agreement may be renewed by the parties for a term of three years.
Subject matter:	The Group would (a) purchase from and (b) sell to SOHO Holdings Group the Relevant Products.
Separate agreements:	The parties shall, based on the terms of the Agreement, enter into separate trading agreements in respect of each transaction under the Agreement. The entering into each of separate trading agreements shall be subject to the relevant requirements of the Listing Rules and relevant rules of the Shenzhen Stock Exchange (if applicable).



The terms of each separate trading agreements shall specify the details of each transaction and shall be consistent in all material respects with the provisions of the Agreement.

Conditions precedent:

The Agreement and the Transactions are subject to the Independent Shareholders' approval having been obtained and/or compliance with other applicable securities regulatory requirements.

Pricing policy

With reference to the Board Letter, the amount payable of the Relevant Products between the Group and SOHO Holdings Group under the Agreement shall be determined at arm's length negotiation between the parties with reference to, among others, the prevailing market price of the Relevant Products, and the purchase prices and the selling prices shall be not less favorable than prices available from suppliers/ customers who are independent third parties, in order to ensure that the Transactions are in normal commercial terms or better and the prices are no less favourable than that offered by independent third parties.

According to the Board Letter and FY2023 Annual Report, the Company has adopted the internal management procedures to ensure that any continuing connected transactions, including the Transactions, would be conducted in a fair and reasonable basis and on normal commercial terms. For further details, please refer to the section headed "Internal control procedures and corporate governance measures" below.

Based on the above and on the basis that:

- (a) the purchase prices and the selling prices of the Relevant Products between the Group and SOHO Holdings Group under the Agreement shall be determined at arm's length negotiation between the parties and the purchase prices and the selling prices shall be not less favorable than prices available from suppliers/customers who are independent third parties;
- (b) when determining the actual prices of services or products provided by the Group to SOHO Holdings Group, the Group will provide SOHO Holdings Group with a proposed price for consideration first. In order to ensure that the pricing terms under the agreements of continuing connected transactions are fair and reasonable, the proposed price will be evaluated and approved by the finance department, audit department and various relevant business departments of the Company. In addition, the Group usually makes enquiries on relevant prices to not less than two other independent third party, and makes reference to the pricing and terms it offered to independent third parties for similar products, to make sure that the pricing and terms offered by the Group to SOHO Holdings Group are fair, reasonable and are not more favorable than those offered to independent third parties; and



- (c) the Company has adopted the internal management procedures to ensure that any continuing connected transactions, including the Transactions, would be conducted in a fair and reasonable basis and on normal commercial terms,

we are of the view that the pricing terms under the Agreement are fair and reasonable.

Proposed Caps

As disclosed in the announcements dated 17 July 2023, 23 July 2023, 28 July 2023 and 3 August 2023, as a result of the Reorganisation, Reorganisation Companies, including, among others, High Hope (with its subsidiaries) have become part of SOHO Holdings Group in August 2023, and hence, connected persons of the Company. Therefore, future transactions with SOHO Holdings Group (including the Reorganisation Companies) will be covered under the Agreement and constitute continuing connected transactions of the Company under the Listing Rules. The Group has been trading Relevant Products with the Reorganisation Companies, respectively, during the three years ended 31 December 2023 before the Reorganisation. The historical transaction amount of these transactions with SOHO Holdings Group and the Reorganisation Companies as disclosed above were incurred before the Reorganisation.

(1) Purchase of Relevant Products by the Group from SOHO Holdings Group

Set out below are the historical purchase amounts of Relevant Products by the Group from the SOHO Holdings Group for the three years ended 31 December 2023:

	For the year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Purchases of Relevant Products	11,267	218,851	18,648

Set out below are the Caps for the purchases of Relevant Products by the Group from SOHO Holdings Group for the three years ending 31 December 2026:

	For the year ending 31 December		
	2024	2025	2026
	RMB'000	RMB'000	RMB'000
Caps for the purchases of Relevant Products	500,000	700,000	900,000

With reference to the Board Letter, the relevant Caps for the purchase of Relevant Products by the Group from SOHO Holdings Group contemplated under the Agreement are determined with reference to:

- (i) the historical transaction amounts paid by the Group to SOHO Holdings Group (including the Reorganisation Companies) for the purchase of Relevant Products from SOHO Holdings Group (including the Reorganisation Companies) for the three years ended 31 December 2021, 2022 and 2023;



- (ii) the estimation of trading transactions to be conducted based on arm's length negotiation between the parties;
- (iii) the potential increase in the transaction volume between the parties in the coming three years as potential trading opportunities may arise depending on the trend of market change of different products; and
- (iv) the potential launch of any other products for trading from SOHO Holdings Group in the coming three years as potential trading opportunities may arise depending on the trend of market change of different products.

The Management considered that when determining the relevant Caps for the purchases of Relevant Products by the Group from SOHO Holdings Group under the Agreement, it is necessary to consider the historical amounts of the commodities by all suppliers to the Group, rather than solely making reference to the historical transaction amounts with SOHO Holdings Group (including the Reorganisation Companies) in the past. As advised by the Management, during 2021 to 2023, the commodities transacted by the Group included mineral products, metal raw materials, chemical raw materials, textile raw materials, agricultural products, rubber, and wood pulp. There were no fixed commodities traded. Instead, the Group would engage in negotiations with counterparties whenever there are market opportunities or demand from upstream or downstream enterprises. The decision to conduct specific trading activities would depend on market conditions, variation between spot commodity price and future commodity price, and the commodity trade opportunities. Therefore, the Group does not have a fixed major commodity trading category at present, and the composition of commodity trading categories varied from 2021 to 2023. In the future, the Management intends to expand the types of commodities transacted due to the wide range of commodities currently traded by SOHO Holdings.

As mentioned above, whenever there are market opportunities or demand from upstream or downstream enterprises, the Group considers the current market conditions and seeks suitable supplier channels. When considering suppliers, the Management evaluates factors such as the price offered, product quality, reputation, timeliness of product delivery, and credit risk etc. In the past, the Group has relied on independent third parties for the relevant supply of commodities. Whenever there are trading opportunities, the Group engages in the process of sourcing and obtaining price quotations from various suppliers and arranging the procurement logistic accordingly. As detailed in the section headed "Reasons for and benefits of the transactions" of the Board Letter, SOHO Holdings Group, with its state-owned background, possesses solid expertise in the supply and demand chains of commodities, engages in stable volume of domestic and international commodity trading, and has access to valuable resource and opportunities of commodity trading. Furthermore, after the Reorganisation, the commodity-related business of SOHO Holdings expanded and involves the transactions of various commodities, including but not limited to the Relevant Products. Different subsidiaries of SOHO Holdings Group are engaged in trading of different types of commodities. The enlarged SOHO Holdings has integrated a strong commodity trading business, with abundant supplier resources and customer resources, achieving economies of scale and a diversified range of commodities. Instead of individually sourcing from Independent Third Parties, the Management considers that the Group could benefit from trading with SOHO Holdings Group by obtaining stable



and reliable procurement channels to secure a more stable profit margin. The Group could also leverage the advantages of scale and diversification that SOHO Holdings Group brings to the commodity trading business. With a wider range of commodities available, the Group can optimize its procurement strategy and enhance overall efficiency. Additionally, by increasing its procurement through SOHO Holdings Group, the Group may negotiate more favorable terms, including competitive pricing and improved product quality. The Group had already conducted commodity trading business with SOHO Holdings Group. The Management expects that increasing the procurements from SOHO Holdings enable the Group to have access to stable and reliable sales channels, seize market opportunities and acquire stable profit margin from SOHO Holdings Group, and is in the interest of the Company and Shareholders as a whole. The cost of commodities of the Group for the year ended 31 December 2023 was RMB1,631.3 million. Based on aforementioned benefits, it is estimated by the Company that the chances of purchase of Relevant Products from SOHO Holdings Group will substantially increase and the annual cap of the Transactions in FY2024 be RMB500 million. We agree increasing proportion of procurement from SOHO Holdings in the Group's commodity trading cooperation is reasonable and in the interest of the Company and Shareholders as a whole.

As advised by the Management, future growth of commodity trading is expected. According to the above table, the proposed annual caps regarding the sales of commodities by SOHO Holdings Group for FY2025 and FY2026 represented increases of 40% and approximately 29% as compared to those for FY2024 and FY2025 respectively.

With reference to the FY2017 Annual Report of the Company, the Group's commodity trading and risk management business entered a new stage. The Group determined to adopt the "variation basis trading (基差交易)" strategy as the developments direction of its futures and spot commodity business in 2017. In the past few years, the basis trading business has recorded significant growth. According to the Company's FY2017 Annual Report and FY2023 Annual Report, the cost of commodities increased from RMB177.6 million in 2017 to RMB1,631.3 million in 2023, representing a compound annual growth rate of 44.7%. The cost of commodities slightly decreased from RMB1,248.7 million in FY2021 to RMB1,260.2 million in FY2022. As advised by the Management, the commodity trading business was affected by the COVID-19 pandemic prevention and control period in 2022 and therefore, the Management considers the decrease in business to be temporary and not representative when determining the annual cap and the future potential growth from FY2024 to FY2026. The growth resumed in FY2023. The cost of commodities increased by 29.4% from RMB1,260.2 million in FY2022 to RMB1,631.3 million in 2023. As mentioned above, the Group when conducting the variation basis trading business, whenever there are market opportunities or demand from upstream or downstream enterprises, the Group assesses the prevailing market conditions and identifies suitable supplier channels. As advised by the Management, the Company does not have a fixed major commodity trading category, nor does it designate a specific supplier for any particular commodity. The Management evaluates various factors when considering suppliers. Therefore, the trading amounts between the Group and SOHO Holdings Group (including the Reorganisation Companies) for the three years ended 31 December 2021, 2022 and 2023 may not be indicative of and may not have a direct correlation to the scale and trend of the Company's overall variation basis trading business for those respective years.



The growth of the Group's variation basis trading business was also benefited from the expansion of the Chinese futures market and the increase in the scale of basis trading by risk management companies. With reference to the FY2023 Annual Report of the Company, in 2023, the scale of China's futures market has been steadily expanding and the variety of product categories has been enriched, and its pace has been accelerating to match the China's massive market scale and risk management needs as a trading power, and continuing to enhance its ability and level of service to the real economy. According to China Futures Industry Association, in 2023, China's futures market realised a cumulative trading volume of 8,501 million lots and a cumulative trading turnover of RMB568.51 trillion, representing a year-on-year increase of 25.60% and 6.28%, respectively. Furthermore, according to the data from the China Futures Association (<https://www.cfachina.org>), the total value of spot purchases and sales in the basis trading business of risk management companies increased from RMB167.2 billion yuan to RMB482.8 billion between 2017 and 2022, representing a compound annual growth rate of 24%. The Management expects the market transaction volume will continue to grow and anticipates a positive growth trend in the future.

Taking into account the above, and in consideration of (1) the possibility of the Group trading new types of commodities in the future; (2) benefits of entering into commodity trading business with SOHO Holdings, a state-owned enterprise with well-established credibility and reliability in the commodity trading business; and (3) the growth of commodity trading business of the Group in recent years, we are of the view that the proposed annual caps for purchase of Relevant Products by the Group from SOHO Holdings and/or its associates for FY2024–2026 is fair and reasonable.

(2) Sales of Relevant Products by the Group to SOHO Holdings Group

Set out below are the historical sales amounts of sales of Relevant Products by the Group to SOHO Holdings Group for the three years ended 31 December 2023.

	For the year ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Sales of Relevant Products	2,650	2,530	nil



Set out below are the Caps for the sales of Relevant Products by the Group to SOHO Holdings Group for the three years ending 31 December 2026:

	For the year ending 31 December		
	2024	2025	2026
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Caps for the sales of Relevant Products	50,000	100,000	150,000

With reference to the Board Letter, the relevant Caps for the sales of Relevant Products by the Group to SOHO Holdings Group contemplated under the Agreement are determined with reference to:

- (i) the historical transaction amounts paid by SOHO Holdings Group (including the Reorganisation Companies) to the Group for the sale of Relevant Products to SOHO Holdings Group (including the Reorganisation Companies) for the three years ended 31 December 2021, 2022 and 2023;
- (ii) the potential increase in the transaction volume of between the parties in the coming three years as potential trading opportunities may arise depending on the trend of market change of different products; and
- (iii) the potential launch of any other products by the Group in the coming three years as potential trading opportunities may arise depending on the trend of market change of different products.

According to the FY2023 annual report of High Hope, one of the key subsidiaries of SOHO Holdings engaging in commodity trading business, it recorded operating revenue of approximately RMB 19,858.2 million in its commodities trading business. According to the Management, based on past trading experience with SOHO Holdings Group, the Group possesses certain upstream resources that can meet the demands of their customers. As stated in the Board Letter, the scale of SOHO Holdings Group has been substantially enlarged as a result of the Reorganisation. As such, the Group considers that there is a great potential to utilize SOHO Holdings Group' vast customer resources to broaden its sales channels and to expand the types of commodities the Group traded in the past. The Management considers it is beneficial for the Group's development by obtaining a stable and reliable sales channels and securing a more stable profit margin. Also, the default risk of SOHO Holdings is low. Furthermore, as stated in the Board Letter, the enhanced cooperation in commodity trading with the increase in annual caps will enable the Group to develop a deeper understanding in the operations of SOHO Holdings Group (such as the types of commodities and period of commodity tradings), which in turn will render the Group provide more expedient and efficient risk management services to SOHO Holdings Group to manage the risks of price fluctuation of commodities. The Management considers that engaging in commodity trading business with SOHO Holdings, based on past experience, is conducted as ordinary and usual course of business, and that the current and future transactions in this regard are in the interest of the Company and Shareholders as a whole. The income from sales of commodities of the Group for the year ended 31 December 2023 was RMB1,632.2 million. It is estimated by the Company that the chances of sale of Relevant Products



to SOHO Holdings Group will substantially increase, and the annual cap of the Transactions in FY2024 be RMB50 million. Based on aforementioned benefits, we agree increasing proportion of sales to SOHO Holdings in the Group's commodity trading is reasonable and are in the interest of the Company and Shareholders as a whole.

With reference to the FY2017 Annual Report of the Company, the Group's commodity trading and risk management business entered a new stage. The Group determined to adopt the "variation basis trading (基差交易)" strategy as the developments direction of its futures and spot commodity business in 2017. In the past few years, the basis trading business has recorded significant growth. According to the Company's FY2017 Annual Report and FY2023 Annual Report, the income from sales of commodities increased from RMB183.9 million in 2017 to RMB1,632.2 million in 2023, representing a compound annual growth rate of 43.9%. The income from sales of commodities slightly decreased from RMB 1,259.2 million in 2021 to RMB1,242.4 million in 2022. As advised by the Management, the variation basis business and sales of commodities was affected by the COVID-19 pandemic prevention and control period in 2022 and therefore, the Management considers the decrease in business to be temporary and not representative when determining the annual cap and the future potential growth from FY2024 to FY2026. The growth resumed in FY2023. The income from sales of commodities increased by 31.4% from RMB1,242.4 million in FY2022 to RMB1,632.2 million in FY2023. As mentioned above, the Group when conducting the variation basis trading business, whenever there are market opportunities or demand from upstream or downstream enterprises, the Group assesses the prevailing market conditions and identifies suitable supplier channels. As advised by the Management, the Company does not have a fixed major commodity trading category, nor does it designate a specific customer for any particular commodity. Therefore, the trading amounts between the Group and SOHO Holdings Group (including the Reorganisation Companies) for the three years ended 31 December 2021, 2022 and 2023 may not be indicative of and may not have a direct correlation to the scale and trend of the Company's overall variation basis trading business for those respective years.

The growth of the Group's variation basis trading business was also benefited from the expansion of the Chinese futures market and the increase in the scale of basis trading by risk management companies. With reference to the FY2023 Annual Report of the Company, in 2023, the scale of China's futures market has been steadily expanding and the variety of product categories has been enriched, and its pace has been accelerating to match the China's massive market scale and risk management needs as a trading power, and continuing to enhance its ability and level of service to the real economy. According to China Futures Industry Association, in 2023, China's futures market realised a cumulative trading volume of 8,501 million lots and a cumulative trading turnover of RMB568.51 trillion, representing a year-on-year increase of 25.60% and 6.28%, respectively. Furthermore, according to the data from the China Futures Association (<https://www.cfachina.org>), the total value of spot purchases and sales in the basis trading business of risk management companies increased from RMB167.2 billion yuan to RMB482.8 billion between 2017 and 2022, representing a compound annual growth rate of 24%. The Management expects the market transaction volume will continue to grow and anticipates a positive growth trend in the future.



The Management believes that due to the larger scale of SOHO Holdings in the commodity trading business compared to the Group, even with increased collaboration with SOHO Holdings, there may be less immediate need for the Group's upstream resources. The annual cap of the Transactions in FY2024 represents 3.1% of the Group's income from sales of commodities in FY2023. As the Group's variation basis trading business and sales of commodities continues to develop, the Management anticipates that there will be a growing number of scenarios where they can meet the customer demands of SOHO Holdings. As such, the Management expects the increase in the proposed annual caps regarding the purchase of commodities by SOHO Holdings and/or its associates from the Group for FY2025 and FY2026. We consider the growth in proposed annual caps from FY2024 to FY2026 are justifiable.

The Caps for the sales of Relevant Products by the Group to SOHO Holdings Group for the three years ending 31 December 2026 are smaller than Caps for the purchases of Relevant Products by the Group from SOHO Holdings Group. As stated in the Board Letter, the purchase of Relevant Products from SOHO Holdings Group and the sale of Relevant Products to SOHO Holdings Group are not correlated nor corresponding. Each transaction shall be subject to the trading opportunities arise from the relevant industries and markets. As a state-owned enterprise with established presence in Jiangsu Province and 30 years of operating history, SOHO Holdings Group has the resources to access to quality upstream commodity suppliers and possesses sound credibility and strong performance capabilities in the supply chain side of commodities. After the Reorganisation, the number of subsidiaries under SOHO Holdings Group increased substantially from around 120 to 380. As advised by the Management, the enlarged business scale, coupled with the abundant experience in its commodity trading, provides SOHO Holdings Group with more opportunities to supply Relevant Products that have a relatively high degree of market acceptance to the Group. In contrast, there would be comparatively less opportunities to rely on the Group's suppliers' resources to fulfill the customer demands of SOHO Holdings Group. We are of the view that the volume of Relevant Products to be sold to SOHO Holdings Group from the Group be much less compared with the volume of Relevant Products to be purchased by the Group from SOHO Holdings Group is reasonable.

Having considered (1) the possibility of the Group trading new types of commodities in the future; (2) benefits of entering into commodity trading business with SOHO Holdings, a state-owned enterprise with well-established credibility and reliability in the commodity trading business; and (3) the growth of commodity trading business of the Group in recent years, we are of the view that the proposed annual cap regarding the sale of Relevant Products by the Group to SOHO Holdings and/or its associates for FY2024– FY2026 is fair and reasonable.

Shareholders should note that as the Caps for the three years ending 31 December 2026 are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2026, and they do not represent forecasts of revenue/cost to be recorded/ incurred from the Transactions contemplated under the Agreement. Consequently, we express no opinion as to how closely the actual revenue/cost to be recorded/incurred from the Transactions contemplated under the Agreement will correspond with the Caps for the three years ending 31 December 2026.



Internal control procedures and corporate governance measures

According to the Board Letter, the Company has adopted various internal management procedures to ensure that any continuing connected transactions, including the Transactions, would be conducted in a fair and reasonable basis and on normal commercial terms. For further details, please refer to the section “ Internal Control Procedures and Corporate Governance Measures” in the Board Letter.

As stated in the FY2023 Annual Report, the Group conducted its connected transactions in strict compliance with the Listing Rules and the administrative measures on Connected Transactions. The Directors (including the Independent Non-executive Director(s)) have confirmed that the continuing connected transactions of the Group during the year were conducted on normal or better commercial terms and such transactions were conducted in accordance with the terms of relevant agreements, and such terms were fair and reasonable and in the interest of the shareholders of the Company as a whole. We also note that the auditors’ confirmation regarding the continuing connected transaction during the year and nothing has come to its attention that may cause it to believe that these transactions were not, in all material respects, in accordance with the pricing policy of the Group and nothing has come to its attention that may cause it to believe that these transactions were not entered into, in all material respects, in accordance with the relevant agreements governing these transactions.

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of transactions contemplated under the Agreement must be restricted by their respective Caps for the period concerned under the Agreement; (ii) the terms of Transactions (including their respective Caps) must be reviewed by the Independent Non- executive Director(s) annually; (iii) details of Independent Non-executive Director(s) annual review on the terms of the Transactions contemplated under the Agreement must be included in the Company’s subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing terms of the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the Transactions; and (iv) have exceeded the Caps.

In the event that the total amounts of the Transactions are anticipated to exceed the annual caps, or that there are any proposed material amendment to the terms of the Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Agreement and thus the interest of the Independent Shareholders would be safeguarded.



RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions and the Caps are fair and reasonable; and (ii) the entering into the Agreement and the Transactions are in the interests of the Company and the Shareholders as a whole and are on normal commercial terms and in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the AGM to approve the Agreement, the Transactions and the Caps. We also recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Caitong International Capital Co., Limited

Wilson Lo
Managing Director

Note: Mr. Wilson Lo has been a responsible officer registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and has participated in the provision of independent financial advisory services for various transactions across different categories involving companies listed in Hong Kong.

* *For identification purpose only*