



18 November 2024

To: *the Independent Board Committee and
the Independent Shareholders of China Foods Limited*

Dear Sirs and Madams,

CONTINUING CONNECTED TRANSACTIONS RELATING TO THE 2024 FINANCIAL SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services under the 2024 Financial Services Agreement and the Proposed Daily Deposit Cap thereunder, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular of the Company dated 18 November 2024 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

As the 2021 Financial Services Agreement will expire on 13 December 2024, with the intention to continue carrying out various types of transactions contemplated under the 2021 Financial Services Agreement, the Company and Supply Chain (Tianjin) have, on 28 October 2024, entered into the 2024 Financial Services Agreement with COFCO Finance, pursuant to which COFCO Finance shall provide, among others, the Deposit Services, the Fund Settlement Services and the Other Financial Services (including the Entrustment Loan Services) to the subsidiaries of the Company.

LISTING RULE IMPLICATIONS

COFCO Finance is an indirect wholly-owned subsidiary of COFCO, the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Accordingly, the 2024 Financial Services Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A the Listing Rules. The provision of the Deposit Services to the Group under the 2024 Financial Services Agreement also constitutes the provision of financial assistance by the Group to COFCO Finance under Rule 14.04(1)(e) of the Listing Rules. As highest applicable percentage ratio in respect of the Proposed Daily Deposit Cap of the Deposit Services is more than 5% but is less than 25%, the provision of the Deposit Services to the Group under the 2024 Financial Services Agreement constitutes discloseable transaction under Chapter 14 of the Listing Rules and continuing connected transaction of the Company subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios in respect of the estimated aggregate amount of the handling fees in connection with the Fund Settlement Services and the Other Financial Services (including the Entrustment Loan Services) is on an annual basis less than 0.1%, the Fund Settlement Services and the Other Financial Services (including the Entrustment Loan Services) are exempted from the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Li Hung Kwan, Alfred, Mr. Mok Wai Bun, Ben and Ms. Leung Ka Lai, Ada, *SBS* has been established to consider and make a recommendation to the Independent Shareholders on whether the terms of the Deposit Services and the Proposed Daily Deposit Cap are fair and reasonable so far as the Independent Shareholders are concerned, whether the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and how the Independent Shareholders should vote at the SGM. We, DL Securities (HK) Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

In the last two years, we did not have any engagement with the Group as an independent financial adviser. As at the Latest Practicable Date, we did not have any relationships or interests with the Group or any other parties that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the captioned transactions, and therefore we are considered to be eligible to give independent advice on the terms of the Deposit Services (including the Proposed Daily Deposit Cap).

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Board in relation to the terms of the 2024 Financial Services Agreement and the transactions contemplated thereunder, we have reviewed, amongst others, (i) the 2024 Financial Services Agreement, (ii) the 2021 Financial Services Agreement; (iii) the guarantee letter dated 28 October 2024 issued by COFCO to the Company (the “**COFCO Guarantee**”), (iv) the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”), (v) the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”), (vi) the interim report of the Company for the six months ended 30 June 2024, (vii) certain financial information of COFCO Finance and the information set out in the Circular. We have relied on the information, facts and representations contained or referred to in the Circular, the public information announced by the Company and the information, facts and representations provided by, and the opinions expressed by the Directors and management of the Company (the “**Management**”). We have assumed that all information, facts, opinions and representations made or referred to in the disclosed information and the Circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management. The Directors jointly and severally accept full responsibility for the accuracy of the Circular and public information disclosed and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular and public information disclosed have been arrived at after due and careful consideration and there are no other facts not contained in the public information disclosed, the omission of which would make any statement in the public information disclosed misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the public information disclosed or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Company or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the transactions contemplated under the Agreements, as referred to in Rule 13.80 of the Listing Rules (including the notes thereof) in formulating our opinion and recommendation. This letter is issued for the information for the Board solely in connection with their consideration of the terms of the 2024 Financial Services Agreement and the transactions contemplated thereunder, except for its inclusion in the Circular, is not to 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 on the terms of the Deposit Services (including the Proposed Daily Deposit Cap) under the 2024 Financial Services Agreement, we have taken the following principal factors and reasons into consideration:

1. Information on the parties

(i) Information on the Company and Supply Chain (Tianjin)

The Company is an investment holding company incorporated in Bermuda. Through its subsidiaries and associated companies, it is principally engaged in beverage business.

Supply Chain (Tianjin) is a limited liability company established in the PRC and a non-wholly owned subsidiary of COFCO Coca-Cola, which is in turn a 65%-owned subsidiary of the Company. The Company holds as to 63.8% beneficial interest in Supply Chain (Tianjin). Supply Chain (Tianjin) is mainly engaged in the wholesale and retail of pre-packaged foods, raw and auxiliary materials, supply chain information consultation, management services and others.

The tables below set forth a summary of the consolidated financial information of the Group for the year ended 31 December 2022 (“FY2022”) and the year ended 31 December 2023 (“FY2023”) as extracted from the 2023 Annual Report:

<i>RMB million</i>	For the year ended/as at	
	31 December	
	2022	2023
Revenue	20,967.84	21,446.44
Profit attributable to owners of the Company	659.84	832.58
Total assets	15,062.96	16,225.61
Total liabilities	6,200.74	6,538.65
Net assets attributable to owners of the Company	5,520.21	6,015.43

Revenue

The revenue of the Group slightly increased from approximately RMB21.0 billion for FY2022 to approximately RMB21.4 billion for FY2023, which was mainly due to the normal management of epidemic prevention and control in the PRC which the domestic daily economic activities and consumptions gradually returned to normal.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased from approximately RMB659.8 million for FY2022 to approximately RMB832.6 million for FY2023, which was mainly due to the increase in other income and other gains attributable to increase in government grants and gains from disposal of investments.

Total assets

The consolidated total assets of the Group increased from approximately RMB15.1 billion as at 31 December 2022 to approximately RMB16.2 billion as at 31 December 2023, which was mainly due to the increase in cash and cash equivalents from approximately RMB1.0 billion as at 31 December 2022 to approximately RMB2.3 billion as at 31 December 2023.

Total liabilities

The consolidated total liabilities of the Group increased from approximately RMB6.2 billion as at 31 December 2022 to approximately RMB6.5 billion as at 31 December 2023, which was mainly due to the combined effect of (i) increase in deferred income from approximately RMB232.7 million as at 31 December 2022 to approximately RMB412.4 million as at 31 December 2023; (ii) increase in contract liabilities from approximately RMB987.0 million as at 31 December 2022 to approximately RMB1.3 billion as at 31 December 2023; and (iii) decrease in amounts due to related parties from approximately RMB439.2 million as at 31 December 2022 to approximately RMB222.3 million as at 31 December 2023.

Net assets

The net assets attributable to owners of the Company increased from approximately RMB5.5 billion as at 31 December 2022 to approximately RMB6.0 billion as at 31 December 2023 as a result of the change in the assets and liabilities of the Group.

(ii) Information on COFCO Finance

COFCO Finance is a non-banking financial institution and an indirect wholly-owned subsidiary of COFCO established in the PRC since 2002 with the approval of PBOC. As at the Latest Practicable Date, COFCO Finance is an indirect wholly-owned subsidiary of COFCO. It is subject to the supervision of the PBOC and NFRA.

(a) *Scope of business*

According to its business licence, COFCO Finance is authorised to provide services such as (a) the provision of financial and financing consultation services, credit appraisal and relevant consulting services and agency business services; (b) assisting implementation of payables and receivables of the transaction amounts; (c) handling of deposits, loans and bills acceptance and discounting; (d) conduct settlements and other relevant settlements; and (e) the provision of loans and financing leases. Therefore, COFCO Finance is authorised to provide to the Group all services set out in the 2024 Financial Services Agreement.

(b) *Financial Information*

The table below sets out a summary of the basic financial information of COFCO Finance based on the audited accounts of COFCO Finance prepared in accordance with PRC accounting principles for the three years ended 31 December 2023:

<i>RMB million</i>	For the year ended/As at		
	31 December 2021	31 December 2022	31 December 2023
Operating revenue	308.1	287.6	265.0
Profit before tax	209.9	193.2	284.7
Profit after tax	163.3	153.5	222.1
Net assets	4,376.2	4,530.2	4,763.4

(c) *Regulatory environment*

COFCO Finance is subject to stringent regulations and is regulated by PBOC and NFRA (formerly known as the China Banking and Insurance Regulatory Commission). In particular, it only provides financial services to group members of COFCO in accordance with the Measures for the Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法) (the “**Administrative Measures**”). Pursuant to the Administrative Measures, COFCO Finance is required to submit annual audited financial statements and regularly report its operation status to the NFRA. NFRA’s supervision includes regular examination of the audited financial statements and other relevant materials required to be filed by group finance companies as well as on-site inspections and interviews with the senior management of group finance companies. To ensure compliance with the applicable laws and regulations, NFRA has power to issue corrective and/or disciplinary orders and to impose penalties and/

or fines on a group finance company. Pursuant to the relevant requirements under the latest version of the Administrative Measures promulgated by the NFRA on 13 October 2022 with effect from 13 November 2022, finance companies of enterprise groups are required to operate in compliance with certain compliance and risk control requirements/measures, including but not limited to maintaining certain regulatory ratios set by NFRA. Therefore, COFCO Finance must comply with certain financial ratio requirements set by NFRA from time to time.

As part of our due diligence, we have obtained and reviewed the risk management internal control review reports of COFCO Finance issued by an external auditor. The below table sets out the key financial ratios of the COFCO Finance as required under the 2021 Financial Services Agreement, and the corresponding requirements set by NFRA (to the extent if applicable) as at 31 December 2021, 2022, 2023 and 30 June 2024 as set out in the review reports, respectively:

Financial ratios	Requirements of NFRA (formerly known as the China Banking and Insurance Regulatory Commission)*	Requirements under 2021 Financial Services Agreement	As at			30 June 2024
			31 December 2021	31 December 2022	31 December 2023	
Capital adequacy ratio	Not less than 10%/(Not less than the percentage prescribed by NFRA from time to time (currently: 10.5%))	Not less than 12%	18.76%	17.89%	19.99%	16.25%
Non-performing asset ratio	Not more than 4%/(N/A)	Not more than 2%	Nil	Nil	N/A	N/A
Bad loan ratio	Not more than 5%/(N/A)	Not more than 3%	Nil	Nil	N/A	N/A
Total amount of investment to net capital ratio	Not more than 70%/(Not more than 70%)	Not more than 70%	2.18%	6.89%	6.83%	62.87%
Self-owned fixed assets to total capital ratio	Not more than 20%/(Not more than 20%)	Not more than 10%	0.06%	0.04%	0.25%	0.22%
Liquidity ratio	N/A/(Not less than 25%)	N/A	N/A	115.72%	47.33%	29.19%
Loan balance to the sum of the deposit balance/paid-in capital	N/A/(Not more than 80%)	N/A	N/A	74.23%	65.04%	74.47%

Financial ratios	Requirements of NFRA (formerly known as the China Banking and Insurance Regulatory Commission)*	Requirements under 2021 Financial Services Agreement	As at			
			31 December 2021	31 December 2022	31 December 2023	30 June 2024
Total external liabilities/ net capital	N/A/(Not more than 100%)	N/A	N/A	Nil	Nil	Nil
Acceptance of negotiable instruments balance/ total assets	N/A/(Not more than 15%)	N/A	N/A	Nil	Nil	Nil
Acceptance of negotiable instruments balance/ inter-bank deposit	N/A/(Not more than 300%)	N/A	N/A	Nil	Nil	Nil
Acceptance of negotiable instruments balance + transfer/discounting of negotiable instruments selling balance/ net capital	N/A/(Not more than 100%)	N/A	N/A	Nil	Nil	Nil
Acceptance of negotiable instruments margin balance/total deposits	N/A/(Not more than 10%)	N/A	N/A	Nil	Nil	Nil

Note: the then requirements of the China Banking and Insurance Regulatory Commission (currently known as NFRA) at the time of entering into the 2021 Financial Services Agreement/(the new financial ratios requirements prescribed by NFRA which are effective upon 13 November 2022)

As shown in the table above, COFCO Finance complied with the key financial ratio requirements set out in the 2021 Financial Services Agreement as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively.

With reference to the latest version of the Administrative Measures, we notice that there are additional financial ratios requirements to which a finance company is required to comply. We have obtained and noted from the risk assessment reports of COFCO Finance for FY2022 and FY2023 that, COFCO Finance fulfilled the applicable new regulatory indicators, including but not limited to, the capital adequacy ratio, liquidity ratio, ratio restriction on loan balances and the sum of deposit balance and paid-in capital.

We have been advised by the management of the Company that, to the best of their knowledge up to the Latest Practicable Date, COFCO Finance has no record of material non-compliance with the relevant laws, rules and regulations in the PRC.

2. Background to and reasons for the 2024 Financial Services Agreement and the Proposed Daily Deposit Cap

As set out in the Letter from the Board, the Board is of the view that there are a number of advantages of utilising the financial services provided by COFCO Finance over similar services provided by other independent commercial banks in the PRC, and that it is in the interests of the Group to use the financial services offered by COFCO Finance under the 2024 Financial Services Agreement.

In order to assess and conclude whether the entering into of the 2024 Financial Services Agreement is in the interest of the Company and the Independent Shareholders as a whole, we have taken into consideration the following factors:

- (i) ***Sound and reliable relationship between the Company and COFCO Finance:*** COFCO Finance has been providing the Deposit Services to members of the Group for more than 10 years since 2014 and a sound and long-term reliable relationship has been established between COFCO Finance and the Group ever since. Having a good working relationship with the Group and its members over the years, COFCO Finance is more familiar with the capital structure, business operations, funding needs and cash flow pattern of the Group as compared to other commercial banks in the PRC.
- (ii) ***Centralised fund management with better fund management efficiency:*** The use of COFCO Finance as a vehicle to manage the funds of the Group would also allow more efficient deployment of funds between members of the Group. By maintaining accounts with COFCO Finance by the Group and leveraging on COFCO Finance as the settlement platform which allow prompt and accurate monitoring and regulation of the application of funds within the Group, fund transmission time can be reduced to expedite the turnaround of funds, and thus strengthen the Company's centralised fund management. In addition, enabling the members of the Group to access a centralised fund pool can provide flexibility to the Group in making timely intra-group transfer from time to time and better utilisation of idle cash balances among the members the Group.

- (iii) ***Favourable commercial terms on non-exclusive basis:*** The Deposit Services contemplated under the 2024 Financial Services Agreement are conducted on a non-exclusive basis. The Group is not obliged to engage COFCO Finance for any particular services under the 2024 Financial Services Agreement. Only when the interest rates or the other relevant transaction terms offered by COFCO Finance are equivalent to or more favorable than those offered by the major cooperative commercial banks of the Group, the Group may enter into transactions with COFCO Finance at its discretion. Therefore, the Deposit Services offered by COFCO Finance represent a stable source of deposit services to place its deposits on terms equivalent to or more favourable than those offered by major commercial banks in the PRC.
- (iv) ***Better risk control and lowered risk exposure:*** As restricted by the Administrative Measures, the customers of COFCO Finance are limited to the group members of COFCO only, which effectively reduces the risks that COFCO Finance may otherwise be exposed to if its customers include other entities unrelated to COFCO. We also noted that COFCO Finance has appointed an external auditor to perform audit on the internal controls, risk management, completeness and impartiality of the operational system and to provide relevant risk management reports on a regular basis. Moreover, COFCO has provided the COFCO Guarantee to the Company in connection with the 2024 Financial Services Agreement which provides additional security and comfort to the Company by reducing the risks which the Group may be exposed to in the event of default of COFCO Finance under the 2024 Financial Services Agreement.

Having considered the reasons for and benefits of the Deposit Services above, we concur with the Directors' view that the provision of the Deposit Services by COFCO Finance under the 2024 Financial Services Agreement is in the ordinary and usual course of the business of the Group and in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Deposit Services

Major terms of the Deposit Services as extracted from the 2024 Financial Services Agreement are as follows:

Date:	28 October 2024
Effective Date and the Term:	The 2024 Financial Services Agreement shall be for a term of three years commencing from 14 December 2024 and expiring on 13 December 2027 and shall become effective upon the approval of the Independent Shareholders at the SGM.

Parties:

- (i) the Company;
- (ii) Supply Chain (Tianjin) (an indirectly non-wholly owned subsidiary of the Company); and
- (iii) COFCO Finance

Major terms:

Deposit Services

COFCO Finance shall provide the Deposit Services to subsidiaries of the Company. The subsidiaries of the Company will open and maintain demand deposit accounts with COFCO Finance. COFCO Finance will pay interest on deposits made by the subsidiaries of the Company.

The interest rates for the deposits placed by the subsidiaries of the Company with COFCO Finance (the “**COFCO Deposit Interest Rate**”) will be determined according to the standard RMB deposit rates promulgated by PBOC from time to time and will not be lower than the interest rates offered by the major PRC financial institutions to the COFCO Group for the same type of deposits of the same period.

The maximum daily deposit amount (including the corresponding interest accrued thereon) placed by Supply Chain (Tianjin) and the subsidiaries of the Company with COFCO Finance shall not exceed RMB800 million (including the corresponding interest accrued thereon).

Conditions Precedent:

The 2024 Financial Services Agreement shall be effective conditional upon:

- (i) compliance with all necessary requirements under the Listing Rules, which include but not limited to obtaining the approval of the Independent Shareholders at the SGM; and
- (ii) obtaining any other relevant approvals as may be required for the 2024 Financial Services Agreement to take effect.

Termination:

Apart from the default events provided by the Civil Code of the PRC (中華人民共和國民法典), the 2024 Financial Services Agreement will be terminated with immediate effect if COFCO Finance fails to satisfy any operational standard set out as follows:

- (i) the capital adequacy ratio shall not be less than 10.5%;
- (ii) the non-performing assets ratio shall not be more than 3%;
- (iii) the bad loan ratio shall not be more than 2%;
- (iv) the self-owned fixed assets to equity ratio shall not be more than 20%; or
- (v) its investment balance to net capital ratio shall not be more than 70%.

Upon termination of the 2024 Financial Services Agreement, Supply Chain (Tianjin) or the subsidiaries of the Company may withdraw their deposits with COFCO Finance and exercise the right of set off.

The deposit interest rates offered by COFCO Finance to members of the Group shall comply with the relevant requirements of the PBOC and be with reference to the standard RMB deposit benchmark interest rates promulgated by the PBOC from time to time (if any) and will not be lower than the deposit interest rates offered by the major cooperative PRC financial institutions of the COFCO Group, i.e. the 10 major PRC commercial banks, namely the Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China, China Merchants Bank, Bank of Communications, Agricultural Development Bank of China, China CITIC Bank, Ping An Bank and Postal Savings Bank of China (the “**Ten Commercial Banks**”), for the deposit services in the same period and of the same type.

As the above pricing policy is stated in the 2024 Financial Services Agreement, the Group should, in principle, choose the deposit services provided by COFCO Finance when the deposit interest rates offered by COFCO Finance are equivalent to or higher than those provided by the Ten Commercial Banks for each of the specific transactions with COFCO Finance under the 2024 Financial Services Agreement. By adopting the pricing policy as stated above, the Company can ensure the deposit interest rates enjoyed by the members of the Group will be equivalent to or better than those interest rates for the same type of deposit services for the same period offered by the Ten Commercial Banks.

We have obtained and reviewed the 2024 Financial Services Agreement and compared the terms of the provision of deposit services thereunder with those under the 2021 Financial Services Agreement. We noted that the key terms and provisions regarding the Deposit Services contemplated under the 2024 Financial Services Agreement are in general similar to those under the 2021 Financial Services Agreement.

For our due diligence purpose, we have also obtained the list of deposit transactions between members of the Group and COFCO Finance during the term of the 2021 Financial Services Agreement and up to 21 September 2024 and reviewed the historical interest rates offered by COFCO Finance to the Group for the deposits placed by members of the Group to COFCO Finance and compared them with the standard deposit rates promulgated by PBOC and the interest rates offered by the Ten Commercial Banks as disclosed in their websites (to the extent available). As shown in the list of deposits placed by the Group with COFCO Finance, we noted that the interest rates offered by COFCO Finance to the Group were at least equal to or higher than the relevant interest rates offered by the Ten Commercial Banks for the same term of deposits. As such, we consider that the Group and COFCO Finance have complied with the aforesaid pricing policy.

As set out in the Letter from the Board, there is a set-off clause where COFCO Finance applies the funds deposited by Supply Chain (Tianjin) and subsidiaries of the Company in breach of any provisions of the 2024 Financial Services Agreement or in any other inappropriate ways which result in any subsidiaries of the Company failing to recover such deposited funds in full, such subsidiaries of the Company will be entitled to use such deposit funds to set off any payments payable to COFCO Finance by the subsidiaries of the Company. Where the Company and/or its subsidiaries are unable to recover all the losses suffered or incurred as a result of COFCO Finance's breach, the Company and/or its subsidiaries are entitled to rely on the dispute resolution provisions under the 2024 Financial Services Agreement against COFCO Finance. Notwithstanding that the possible amount payable to COFCO Finance by the subsidiaries of the Company is likely to be less substantial than the possible amount of deposits placed by the subsidiaries of the Company, having considered the size of the net assets of COFCO Finance and the additional security under the COFCO Guarantee, we are of the view that such off-set arrangement could provide additional mechanism and level of protection to members of the Group in recovering any potential amount due from COFCO Finance which is in the interests of the Company and the Shareholders as whole.

Having considered the above, in particular that (i) the deposit interest rates offered to the members of the Group by COFCO Finance will be no less favourable than those offered to the Group by Ten Commercial Banks for comparable deposits; and (ii) the Deposit Services contemplated under the 2024 Financial Services Agreement are conducted on a non-exclusive basis and the 2024 Financial Services Agreement will be terminated with immediate effect if COFCO Finance fails to satisfy the operating conditions as set out thereunder, we are of the view that (i) the Deposit Services contemplated under the 2024 Financial Services Agreement are entered into on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Deposit Services contemplated under the 2024 Financial Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

4. The Proposed Daily Deposit Cap

As stated in the Letter from the Board, the Proposed Daily Deposit Cap is determined after taking into account (i) the Group had maintained a high level of cash and cash equivalents available to be utilised by subsidiaries of the Group as at 30 June 2024; (ii) the business development plans and the financial needs of the Company and its subsidiaries during the Term; (iii) the historical cash position of the Group and the expected growth of the business operation of the Group; (iv) the control of financial risks in selecting financial services providers; and (v) the benefit to the Group and the Shareholders of the Company as a whole as set out in the paragraph headed “Reasons for and benefit of entering into the 2024 Financial Services Agreement” in the Circular.

In assessing the fairness and reasonableness of the Proposed Daily Deposit Cap, we have taken into account the following factors:

(i) Scale of business operations and size of cash and cash equivalent

We noticed that the Group has achieved continuous growth in business operations in terms of total revenue and profit attributable to owners of the Company throughout the past five years. The revenue and profit attributable to owners of the Company recorded compound annual growth rates (“CAGR”) of approximately 5.7% and 18.8% respectively during the financial years from 2019 to 2023. In line with the growth in scale of business operations, we also noticed the cash and cash equivalent of the Group recorded a strong growth with a CAGR of approximately 28.7% during the financial years from 2019 to 2023, reaching approximately RMB2.3 billion as at 31 December 2023. As at 30 June 2024, the cash and cash equivalent of the Group increased further to approximately RMB3.7 billion, representing a CAGR of approximately 38.9% since the year-end of 2019.

(ii) Historical deposit amounts and utilisation rate

With respect to the 2021 Financial Services Agreement, the (i) historical maximum daily balance of deposits placed with COFCO Finance by the Group; (ii) the relevant annual caps for the provision of deposit services by COFCO Finance; and (iii) the historical maximum daily utilisation rate during the term thereunder are set out below:

	Maximum historical deposit amount on a daily basis (RMB)	Daily deposit cap under the 2021 Financial Services Agreement (RMB)	Utilisation rate (%)
For the period from 14 December 2021 to 13 December 2022	790 million	800 million	98.75
For the period from 14 December 2022 to 13 December 2023	790 million	800 million	98.75
For the period from 14 December 2023 to 30 September 2024	790 million	800 million	98.75

As set out in the table above, we noted that the annual cap of maximum daily balance of deposits placed with COFCO Finance by the Group was almost fully utilised during the term of the 2021 Financial Services Agreement. It has reached a highest utilisation rate of approximately 98.75% during the period from 14 December 2021 to 30 September 2024. We noticed that the Proposed Daily Deposit Cap remains at RMB800 million, being the same as those under the 2021 Financial Services Agreement. The Proposed Daily Deposit Cap of RMB800 million only represents approximately 21.8% of the cash and bank balances of RMB3,661.6 million of the Group as at 30 June 2024, we are given to understand that the Group also place deposits in other financial institutions beside COFCO Finance and the finance department of the Company will monitor the daily balance of the deposit made by the Group with all financial institutions. As such, we are of the view that setting the Proposed Daily Deposit Cap at a relatively lower level to the cash and bank balance of the Group is a prudent and reasonable approach. Therefore, the Proposed Daily Deposit Cap is set at RMB800 million during the term of the 2024 Financial Services Agreement in order to cater the need of the Group on Deposit Services given the existing substantial scale of cash position while maintaining a prudent treasury and liquidity management of the Group.

Having considered the above and in particular (i) the growth in operational scale and cash position of the Group since the entering into of the 2021 Financial Services Agreement; and (ii) the Proposed Daily Deposit Cap of RMB800 million as compared to the cash position of the Group of approximately RMB3,661.6 million as at 30 June 2024, we consider the Proposed Daily Deposit Cap under the 2024 Financial Services Agreement is fair and reasonable.

5. Internal control measures and measures to ensure compliance with the Listing Rules

As stated in the Letter from the Board, the Group has adopted certain internal control measures to monitor the Deposit Services offered by COFCO Finance to the Group. We have been advised by the management of the Company that, to the best of their knowledge up to the Latest Practicable Date, COFCO Finance has no record of violating its relevant obligations under the 2021 Financial Services Agreement nor adopted a COFCO Deposit Interest Rate which was lower than the Quoted Deposit Interest Rate. We have obtained and reviewed the relevant internal control policies of the Group and samples of the monthly continuing connected transaction reports and noted that the finance department is responsible for monitoring the transaction amount of the Group's continuing connected transactions and preparation of the monthly report to ensure that the Proposed Daily Deposit Cap will not be exceeded.

The external auditors of the Company will report by issuing a letter to the Board every year on the continuing connected transactions of the Company in relation to the terms and annual caps of the continuing connected transactions (including the Deposit Services contemplated under the 2024 Financial Services Agreement) of the Company conducted during the preceding financial year pursuant to the Listing Rules. We noted from the 2022 Annual Report and 2023 Annual Report that the auditors of the Company confirmed that the continuing connected transactions (i) had been approved by the Board; (ii) had been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iii) the actual transaction amount did not exceed the respective annual caps/daily deposit caps during the two years ended 31 December 2023.

The independent non-executive Directors of the Company will conduct an annual review with respect to the Deposit Services throughout the preceding financial year and confirm the transaction amounts and terms of the continuing connected transactions in the annual report of the Company pursuant to the requirements under the Listing Rules, and to ensure that they are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the relevant agreements governing the continuing connected transactions. We noted from the 2022 Annual Report and 2023 Annual Report that the independent non-executive Directors of the Company confirmed that the continuing connected transactions were (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

In light of the result of our review and the reporting requirements attached to the Deposit Services, in particular, (i) the Group and COFCO Finance have been compiling with the pricing mechanism on the deposit placed during the term of the 2021 Financial Services Agreement, (ii) the restriction of the value of the Deposit Services by way of the Proposed Daily Deposit Cap; and (iii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms and the Proposed Daily Deposit Cap not being exceeded, we are of the view that appropriate internal control measures are in place to govern the conduct of the Deposit Services and to ensure the Proposed Daily Deposit Cap will not be exceeded.

RECOMMENDATION

Having taken into account the above principal reasons and factors, we consider that the terms of the Deposit Services contemplated under the 2024 Financial Services Agreement (including the Proposed Daily Deposit Cap thereunder) are fair and reasonable so far as the Independent Shareholders are concerned and that the Deposit Services contemplated under the 2024 Financial Services Agreement (including the Proposed Daily Deposit Cap thereunder) are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to, and also recommend the Independent Shareholders to, vote in favour of the relevant resolution to approve the Deposit Services contemplated under the 2024 Financial Services Agreement (including the Proposed Daily Deposit Cap thereunder).

Yours faithfully
For and on behalf of
DL Securities (HK) Limited



Tommy Cheng
Managing Director
Corporate Finance Division

Mr. Tommy Cheng is a licensed person under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and regarded as responsible officer of DL Securities (HK) Limited. Mr. Tommy Cheng has over 13 years of experience in corporate finance industry.