



红日资本有限公司
RED SUN CAPITAL LIMITED

5 December 2024

To: *The Independent Board Committee and the Independent Shareholders of
Cinda International Holdings Limited*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the Company in respect of the 2024 Master Agreement and the Proposed Annual Caps, details of which are set out in the letter from the board (the "Letter from the Board") in the circular of the Company dated 5 December 2024 (the "Circular"), of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

References are made to the announcement of the Company dated 2 November 2021 and the circular of the Company dated 1 December 2021, in relation to, among other things, the entering into of the 2021 Master Agreement between the Company and China Cinda and the continuing connected transactions of the Company contemplated thereunder. In contemplation of the expiry of the 2021 Master Agreement on 31 December 2024 and in view of the intention of the Company to continue certain types of transactions with the China Cinda Group after such expiry, and to facilitate the development of the business of the Group, on 5 November 2024, the Company entered into the 2024 Master Agreement with China Cinda in relation to the Category I Transactions, Category II Transactions and Category III Transactions between the Group and the China Cinda Group.

LISTING RULES IMPLICATIONS

As (i) Mr. Zhang Yi, being the chairman of the Board and a non-executive Director, holds management position in Cinda Securities; and (ii) Mr. Zhang Xunyuan and Ms. Yan Qizhong, both being an executive Director, were nominated by Cinda Securities as its representative in the Board, Mr. Zhang Yi, Mr. Zhang Xunyuan and Ms. Yan Qizhong are considered having interest in the 2024 Master Agreement and have therefore abstained from voting on the Board resolutions approving the 2024 Master Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, Cinda Securities (H.K.) is interested in 403,960,200 Shares, representing approximately 63% of the issued share capital of the Company. Cinda Securities (H.K.) is wholly-owned by Cinda Securities which is a non wholly-owned subsidiary of China Cinda. Accordingly, members of the China Cinda Group are connected persons of the Company and the transactions contemplated under the 2024 Master Agreement constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules.

Since the Proposed Annual Caps for Category I Transactions, Category II Transactions and Category III Transactions for each of the three years ending 31 December 2027 respectively exceed 5% of certain applicable percentage ratios under the Listing Rules and are more than HK\$10 million each, the continuing connected transactions contemplated under Category I Transactions, Category II Transactions and Category III Transactions under the 2024 Master Agreement, and the respective Proposed Annual Caps therefore are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Zheng Minggao, Ms. Hu Lielei and Mr. Zhao Guangming, has been established to advise the Independent Shareholders in relation to the 2024 Master Agreement, including the Proposed Annual Caps, as to (i) whether the transactions contemplated under the 2024 Master Agreement, including the Proposed Annual Caps, are conducted in the ordinary and usual course of business, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the 2024 Master Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps, at the SGM. Red Sun Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, China Cinda and their respective shareholders, directors or chief executives, or any of their respective associates, and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the 2024 Master Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps. Save for our appointment as the Independent Financial Adviser, Red Sun Capital has not acted as an independent financial adviser to the Company under the Listing Rules in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Group that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

BASIS AND ASSUMPTIONS OF OUR ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group, China Cinda and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group, its senior management (the “Management”) and/or the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management, for which the Company, the Directors and the Management are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this letter) or otherwise provided or made or given by the Group, the Management and/or the Directors and for which it is/they are solely and wholly responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the Latest Practicable Date and up to the date of SGM. We have assumed that all the opinions, beliefs and representations for matters relating to the Group made or provided by the Directors and/or the Management contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company, the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group, the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor conducted any independent investigation into the business and affairs of the Group, China Cinda and their respective shareholders and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of the 2024 Master Agreement and the transactions contemplated under, including the Proposed Annual Caps. This letter, except for the inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor to be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders regarding the 2024 Master Agreement and the Proposed Annual Caps, we have considered the following principal factors and reasons.

1. Information on the Group and the China Cinda Group

(a) Information on the Group

The Group is principally engaged in the provision of asset management services, corporate finance advisory services, securities brokering services, commodities and futures brokering services, and fixed income investment business.

Set out below is the revenue of the Group by reportable and operating segments for (i) the two years ended 31 December 2022 and 2023, which were extracted from the annual report of the Group for the year ended 31 December 2023 (the “2023 Annual Report”); and (ii) the six months ended 30 June 2023 and 2024, which were extracted from the interim report of the Group for the six months ended 30 June 2024 (the “2024 Interim Report”):

	Revenue			
	Asset management HK\$'000	Sales and trading business HK\$'000	Corporate finance HK\$'000	Total HK\$'000
For the six months ended 30 June (Unaudited)				
2024	36,870	10,530	17,378	64,778
2023	31,949	10,040	4,591	46,580
For the year ended 31 December (Audited)				
2023	56,128	22,355	19,225	97,708
2022	73,695	31,616	13,527	118,838

Financial performance for the six months ended 30 June 2023 and 2024

As set out in the 2024 Interim Report, total revenue of the Group increased by approximately HK\$18.2 million or 39.1% from approximately HK\$46.6 million for the six months ended 30 June 2023 to approximately HK\$64.8 million for the six months ended 30 June 2024, which was mainly due to the increase in revenue from the asset management segment and the corporate finance segment.

For the asset management segment, the segment revenue increased by approximately HK\$4.9 million or 15.4% from approximately HK\$31.9 million for the six months ended 30 June 2023 to approximately HK\$36.9 million for the six months ended 30 June 2024. The increase in segment revenue was mainly due to advisory fee from three new projects completed during the six months ended 30 June 2024.

For the sales and trading business segment, the segment revenue amounted to approximately HK\$10.0 million for the six months ended 30 June 2023 and approximately HK\$10.5 million for the six months ended 30 June 2024, which was relatively stable.

For the corporate finance segment, the segment revenue increased by approximately HK\$12.8 million or 278.5% from approximately HK\$4.6 million for the six months ended 30 June 2023 to approximately HK\$17.4 million for the six months ended 30 June 2024. The increase in segment revenue was mainly due to the increase in revenue from debt issuance business in the Chinese-funded offshore bond market.

Financial performance for the years ended 31 December 2022 and 2023

As set out in the 2023 Annual Report, total revenue of the Group decreased by approximately HK\$21.1 million or 17.8% from approximately HK\$118.8 million for the year ended 31 December 2022 to approximately HK\$97.7 million for the year ended 31 December 2023, which was mainly due to the decrease in revenue from the asset management segment and the sales and trading business segment, which was offset by the increase in revenue from the corporate finance segment.

For the asset management segment, the segment revenue decreased by approximately HK\$17.6 million or 23.8% from approximately HK\$73.7 million for year ended 31 December 2022 to approximately HK\$56.1 million for the year ended 31 December 2023. The decrease in segment revenue was mainly due to the failure to obtain performance fee by some asset management projects.

For the sales and trading business segment, the segment revenue decreased by approximately HK\$9.3 million or 29.3% from approximately HK\$31.6 million for the year ended 31 December 2022 to approximately HK\$22.4 million for the year ended 31 December 2023. The decrease in segment revenue was mainly due to the Group remained prudent in margin loans through strict risk control, instead of expanding the scale, in response to the poor performance of the Hong Kong securities.

For the corporate finance segment, the segment revenue increased by approximately HK\$5.7 million or 42.1% from approximately HK\$13.5 million for the year ended 31 December 2022 to approximately HK\$19.2 million for the year ended 31 December 2023. The increase in segment revenue was mainly due to the completion of an initial public offering sponsorship project, several financial advisory and compliance advisory projects, as well as several offshore USD and RMB bond issuance projects.

(b) Information on the China Cinda Group

China Cinda Group is principally engaged in distressed asset management business and financial services business, with distressed asset management being its core business. China Cinda Group provides customised financial solutions and differentiated asset management services to its clients through its diversified business platforms.

As advised by the Management, the provision of distressed asset management, asset management and financial services in the PRC and Hong Kong by the China Cinda Group were conducted through its various subsidiaries, including Nanyang Commercial Bank, Limited, Cinda Securities Co., Ltd., China Jingu International Trust Co., Ltd., Cinda Financial Leasing Co., Ltd., China Cinda (HK) Holdings Company Limited, Cinda Investment Co., Ltd. and Zhongrun Economic Development Co., Ltd.

2. Reasons for and benefit of entering into the 2024 Master Agreement

It is noted from the Letter from the Board that the Group has been providing (i) brokering services for securities, futures and options trading; placing, underwriting and sub-underwriting services for securities; (ii) corporate finance advisory services; and (iii) asset management services, to the China Cinda Group over the years. The transactions contemplated under the 2024 Master Agreement are in the ordinary and usual course of business of the Group. Taking into consideration that Category I Transactions, Category II Transactions and Category III Transactions will contribute positively to the Group's income, the Directors, including independent non-executive Directors whose opinion is included in the letter from the Independent Board Committee as set out in the Circular, consider that the terms of the 2024 Master Agreement (including the Proposed Annual Caps), which have been negotiated on an arm's length basis, are on normal commercial terms, fair and reasonable and the entering into of the 2024 Master Agreement is in the interests of the Company and the Shareholders as a whole.

Having considered, among others, (i) the scope of the Category I Transactions, Category II Transactions and Category III Transactions under the 2024 Master Agreement, are part of the principal business activities of the Group; (ii) the satisfactory cooperation between the Company and the China Cinda Group in the past; and (iii) the pricing policies of the 2024 Master Agreement as set out in the Letter from the Board stated that the service fees to be charged by the Group to the China Cinda Group under the 2024 Master Agreement should be at rates no less favourable to the Group than those charged by the Group to Independent Third Parties for comparable transactions, we concur with the view of the Directors that the transactions contemplated under the 2024 Master Agreement are in the interests of the Company and the Shareholders as a whole.

3. The 2024 Master Agreement

Pursuant to the 2024 Master Agreement, the Group has agreed to provide (i) brokering services for securities, futures and options trading; placing, underwriting and sub-underwriting services for securities; (ii) corporate finance advisory services; and (iii) asset management services, to the China Cinda Group. The 2024 Master Agreement shall have a term of three years commencing from 1 January 2025 and ending on 31 December 2027.

(a) Principal terms of the 2024 Master Agreement

Date:	5 November 2024
Parties:	(i) the Company; and (ii) China Cinda.
Term:	Three years commencing from 1 January 2025 up to 31 December 2027 (both days inclusive).

Without prejudice to the right of any party to terminate the 2024 Master Agreement, the 2024 Master Agreement shall, upon one party receiving written notice from the other party, terminate in the event that (a) the Company or China Cinda considers that it is not feasible to comply with the Listing Rules at the relevant time; or (b) compliance with the Listing Rules would require changes to the 2024 Master Agreement which are not acceptable to any of the parties thereto.

Nature of transactions

Pursuant to the 2024 Master Agreement, the Group shall provide the following services to the China Cinda Group:

- (i) Category I Transactions: provision of brokering services for securities, futures and options trading; placing, underwriting and sub-underwriting services for securities (including but not limited to securities issued by the China Cinda Group) in return for commissions/service fees;
- (ii) Category II Transactions: provision of corporate finance advisory services (including but not limited to advisory services in relation to (a) the compliance of the Listing Rules and The Codes on Takeovers and Mergers and Share Buy-backs; (b) the issue of securities; and (c) group restructuring) in return for service fees; and
- (iii) Category III Transactions: provision of asset management services in return for service fees.

The above categories of transactions are viewed separately with separated Proposed Annual Caps as (i) Category I Transactions are generally commission-based transactions and the commissions/fees to be charged are generally determined with reference to the monetary value of the transaction orders; (ii) Category II Transactions are related to advisory services for corporate finance transactions and the fees to be charged are determined generally with reference to the complexity of the transactions; and (iii) Category III Transactions are generally fee-based transactions and the fees to be charged are generally determined with reference to the monetary value of the sizes and the performance of the assets under management.

Payment terms

Members of the Group and the China Cinda Group shall enter into separate contract in relation to a particular transaction contemplated under the 2024 Master Agreement. The terms of the contract shall be on normal commercial terms, fair and reasonable. Details of the payment terms will be specified in the individual contracts governing the particular transactions and the commissions/services fees will be determined on an arm's length basis with reference to the pricing policies set out below.

Credit terms provided by the Group to the China Cinda Group will be the same as those provided to Independent Third Party clients for similar transactions. The accounts department of the Company (the “Accounts Department”) will issue invoices to clients including both China Cinda Group and Independent Third Party clients (except brokering services under Category I Transactions) pursuant to the terms of the individual contract. The settlement terms for each category of transactions provided by the Group to all clients are summarised below:

<i>Services</i>	<i>Settlement terms</i>
For Category I Transactions	
– provision of brokering services	two to three days after the trade date of the transaction
– provision of placing, underwriting and sub-underwriting services	within 1 month after the date of invoice
For Category II Transactions	within 1 month after the date of invoice
For Category III Transactions	within 1 month after the date of each invoice issued for the period of the asset service management

Conditions Precedent to the 2024 Master Agreement

The effectiveness of the 2024 Master Agreement is conditional upon the following conditions precedent being fulfilled:

- (i) the Company having obtained the approval from the Independent Shareholders at the SGM on the 2024 Master Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps;
- (ii) the Company having obtained all necessary approval (i.e. the approval of the Board) for the entering into of the 2024 Master Agreement and for the performance of its obligations thereunder; and
- (iii) China Cinda having obtained all necessary approval (i.e. the approval of the senior management of China Cinda) for the entering into of the 2024 Master Agreement and for the performance of its obligations thereunder.

None of the above conditions can be waived. Save as condition (i) above, as at the Latest Practicable Date, all the abovementioned conditions have been fulfilled. Unless the above conditions have been fulfilled by 31 December 2024, the 2024 Master Agreement shall terminate upon one party receiving written notice from the other party and none of the parties thereto shall have any claims against each other.

(b) *Pricing policies*

The transactions contemplated under the 2024 Master Agreement shall be entered into on normal commercial terms and the services fees will be charged at rates not less favourable to the Group than rates at which the Group charges Independent Third Parties for comparable transactions. Detailed payment terms will be specified in the individual contracts governing the particular transactions.

In particular, in determining the pricing of each transaction under each category of services:

Category I Transactions

The commission rates to be charged under Category I Transactions by the Group for brokering services for securities, futures and options trading will be determined by the senior management of the Group who are Responsible Officers under the SFO in accordance with the Group's internal commission policy which is applicable to all customers, and serves as a management guidance for determining the commission rates for different category of clients and sets forth a tiered pricing structure under each category of services, when and if applicable, whether approval by the Group's supervisors of the securities and futures department, executive Directors and/or chief executive officer of the Company (the "CEO") is required.

Such internal commission policy is set by the executive management committee of the Group (the "EMC") (which comprises the CEO, another executive Director and a deputy CEO) from time to time based on their experience, marketing strategy and with reference to the then prevailing market rates of each type of products, quality and size of the relevant client.

The commission rates to be charged under Category I Transactions for placing, underwriting and sub-underwriting services for securities will be determined by the senior management of the Group who are Responsible Officers under the SFO (or the lead underwriter in the case of underwriting under an underwriter syndicate) taking into account, among other things, the size of placing or underwriting/sub-underwriting commitments, the market demand for the particular issue, the liquidity of the relevant securities, financial performance and industry of the issuer, pricing of the issue and the then prevailing market rates.

The relevant Responsible Officers will then report such decision to Accounts Department and legal, compliance and internal audit department (the "LCIA Department") of the Company. The Accounts Department and the LCIA Department will then review such fee determined and countercheck it against the prevailing pricing policies of the Group for transactions similar to those contemplated under Category I Transactions, and to ensure such commission rates chargeable to the China Cinda Group under Category I Transactions will fall within the range of commission rates chargeable to Independent Third Party clients, which is to be determined with reference to the then prevailing market range of commission rates from time to time. When the Group is entering into transactions in nature similar with Category I Transactions, the EMC will review and update (if necessary) the pricing policies after making reference to the then effective internal commission policy.

Category II Transactions

The fees to be charged under Category II Transactions by the Group will be determined based on a number of factors applicable to all customers, including but not limited to the complexity and urgency of transactions, the resources estimated to be spent on providing the relevant corporate finance advisory services, the size of the transactions involved, the fees charged for historical transactions of similar nature within the recent years and the then prevailing market rates. The fee for each individual corporate finance advisory transaction (including transactions with Independent Third Parties) shall then be reviewed and approved by the project engagement committee of the Group (the "PEC") (which comprises the CEO, the head of investment banking division of the Group, a handling Responsible Officer for type 6 regulated activities under the SFO in each particular transaction and the legal counsel of the Group) based on the aforesaid factors. The PEC will also gather at least two most recent quotations or invoices issued by the Group to Independent Third Party clients for services provided which are comparable to the particular service to be provided under Category II Transactions for reference, and to make sure that the fees chargeable under Category II Transactions to the China Cinda Group will be not less favourable to the Group than those chargeable by the Group to the Independent Third Party clients. The EMC will review and update (if necessary) the pricing policies whenever the Group is entering into transactions in nature similar with Category II Transactions.

Category III Transactions

The management fee and performance fee to be charged under Category III Transactions by the Group will be determined based on a number of factors applicable to all clients/customers, including but not limited to the size and nature of the fund, the fees charged for historical transactions of similar nature within the recent years and the then prevailing market rates. The fee for each individual asset management transaction (including transactions with Independent Third Parties) shall be reviewed and approved by the EMC or the investment management committee of the Group (the "IMC") (which comprises the CEO, another executive Director, a deputy CEO, the head of Accounts Department, the head of LCIA Department and the head (or deputy head) of risk management department of the Group) based on the aforesaid factors, as well as the prevailing range of management fee and performance fee chargeable by the Group to Independent Third Party clients for funds with similar size and terms, which shall be set with reference to the then prevailing range of market rates. The EMC will review and update (if necessary) the pricing policies whenever the Group is entering into transactions in nature similar with Category III Transactions.

(c) *Internal control measures*

Detailed payment terms will be specified in the individual contracts governing the particular transactions. To ensure that the transactions contemplated under the 2024 Master Agreement are conducted in accordance with the terms of the 2024 Master Agreement, on normal commercial terms and comply with the pricing policies of the Group, (i) the fees to be charged for each individual transaction by the Group to the China Cinda Group under the 2024 Master Agreement shall be determined by the relevant Responsible Officers or department head (including the deputy) according to the pricing policies set by the EMC from time to time as disclosed in the section headed "Pricing Policies" above; (ii) the LCIA Department, the EMC, the PEC or the IMC (as the case maybe), where applicable, will also review the prevailing market rates, quotations or invoices issued to Independent Third Party clients for comparison and as a reference to ensure that fees chargeable by the Group are comparable to those transacted with Independent Third Parties; and (iii) the Accounts Department and the LCIA Department will review such terms determined and prices chargeable under the transactions contemplated under the 2024 Master Agreement to ensure that the fees are set in compliance with the Group's internal pricing policies (where applicable) and are charged on normal commercial terms and at rates not less favourable to the Group than rates at which the Group charges Independent Third Party clients for comparable transactions. Moreover, the Company has established a connected transaction committee (the "Connected Transaction Committee") in September 2018 to monitor, review and approve any connected transactions of the Company, and report its advice to the EMC when the transaction amounts exceed the authority of the Connected Transaction Committee. The auditors of the Company will also conduct annual review on the continuing connected transactions entered into by the Company such that the Company could be able to ensure compliance with the Group's pricing policies.

The Accounts Department will regularly monitor the actual connected transaction amounts on quarterly basis. If the estimated amounts of each category of transactions are likely to exceed the relevant Proposed Annual Caps, the Accounts Department will inform the Connected Transaction Committee and the EMC for considering the revision of the Proposed Annual Caps and comply with the relevant rules and regulations such as the approval from Independent Shareholders.

The Directors are of the view that as the businesses of the Group under Category I Transactions, Category II Transactions and Category III Transactions are regulated under the SFO, the market in general is more transparent. Given the Directors' experience in the market and their knowledge about the industry and information available from the public, the Group is able to obtain sufficient information to assess the market rates and determine whether the fees receivable from the China Cinda Group under the 2024 Master Agreement are not less favourable to the Group than those receivable from the Independent Third Party clients.

(d) Our analysis on the internal control measures

We have conducted analysis on the internal control measures by obtaining and reviewing samples of relevant internal control documents, including relevant approval records for historical transactions under each of the Category I Transactions, Category II Transactions and Category III Transactions conducted under the 2021 Master Agreement. With reference to the internal control documents provided by the Company, where applicable, internal reviews and rates approval were obtained for the sampled transactions.

Based on the internal approval records obtained, the relevant terms of the sampled transactions under each of the Category I Transactions, Category II Transactions and Category III Transactions were approved by the Directors and the Management, including mainly the EMC, the LCIA Department, the PEC or the IMC (depending on the transaction categories) after taking into consideration the then prevailing market conditions, their experience as well as the information available to each of them at the relevant time. On this basis, the Management is of the view that the Group has considered sufficient information to determine whether the terms of the relevant continuing connected transactions were no less favourable to the Group than those charged to the Independent Third Parties.

We have, where applicable, compared sample transactions with connected persons and comparable transactions with Independent Third Parties of the Group under each of the Category I Transactions, Category II Transactions and Category III Transactions. In this connection, a total of twenty-four sample transactions were obtained and analysed.

For Category I Transactions, we have compared terms for different transactions, including (i) commission rates charged by the Group to connected persons and Independent Third Parties; (ii) underwriting/sub-underwriting fees charged by the Group to connected persons and Independent Third Parties; and (iii) the credit terms imposed by the Group to connected persons and Independent Third Parties. In this connection, a total of six sample transactions were obtained for securities brokering services under Category I Transactions. It was originally intended for us to also obtain six sample transactions for underwriting and sub-underwriting services for securities under Category I Transactions. However, only two transactions with connected persons of the Group were conducted for underwriting and sub-underwriting services for securities under Category I Transactions during the two years ended 31 December 2023 and the nine months ended 30 September 2024. As such, we have obtained two sample transactions with connected persons and three comparable sample transactions with Independent Third Parties for underwriting and sub-underwriting services for securities under Category I Transactions. We are of the view that such number of sample transactions are representative for the observation of internal control implementation on connected transactions.

We have also conducted market research on commission rates for securities brokerage services by several service providers in the market, including Bright Smart Securities, Futu Securities, Hang Seng Bank, uSMART Securities, Valuable Securities and Webull Securities. The commission rate for their securities brokerage services ranged from approximately 0.01% to 0.35% of the securities trading transaction amount. Based on our work performed, we noted that the commission rates charged by the Group to connected persons for brokerage services under Category I Transactions are (i) no less favourable than the commission rates charged by the Group to Independent Third Parties; and (ii) within the aforesaid range of securities brokerage services fee charged by other service providers in the market.

For Category II Transactions, we have been advised that the Group did not provide corporate finance advisory services to member(s) of the China Cinda Group during the period from 1 January 2022 up to 30 September 2024. Hence, no connected transaction samples were obtained. Nonetheless, we have obtained the internal approval records of sample transactions with the Independent Third Parties. It was originally intended for us to also obtain three sample transactions for each of the sub-categories of (i) the compliance of the Listing Rules and The Codes on Takeovers and Mergers and Share Buy-backs; (ii) the issue of securities; and (iii) group restructuring under Category II Transactions. However, as the Group only entered into two transactions with Independent Third Parties of the Group and there were no relevant transactions with connected persons under each of the subcategories of (i) the compliance of the Listing Rules and The Codes on Takeovers and Mergers and Share Buy-backs; and (ii) group restructuring under Category II Transactions during the two years ended 31 December 2023 and the nine months ended 30 September 2024, all of the aforesaid relevant transactions were obtained and reviewed.

In this connection, we have obtained and reviewed seven sample transactions and noted that they have been reviewed and approved by the PEC. We are of the view that such number of sample transactions are representative for the observation of internal control implementation on connected transactions as transactions with Independent Third Parties are subject to similar internal approval procedures.

For Category III Transactions, we have obtained six sample transactions and reviewed the management fee rate charged, and credit terms granted by the Group to (i) connected persons; and (ii) Independent Third Parties, for the provision of fund management services. Based on our work performed and documents reviewed, the terms and credit terms of the sampled transactions with connected persons were no less favourable to the Group than those available to/from independent third parties under comparable sample transactions. We are of the view that such number of sample transactions are representative for the observation of internal control implementation on connected transactions.

Moreover, as disclosed in the Letter from the Board, the Accounts Department of the Company shall monitor the actual connected transaction amounts on a quarterly basis. In this connection, we have obtained quarterly review records conducted by the Accounts Department on the connected transactions contemplated under the 2021 Master Agreement and noted that the actual connected transaction amounts and the existing annual caps under the 2021 Master Agreement are being monitored.

Based on our analysis and work performed, we noted that (i) the pricing policies under the 2021 Master Agreement, which is similar to that of the 2024 Master Agreement, were implemented and followed based on the sampled transactions, and that the effective application of the pricing policies under the 2024 Master Agreement should ensure that the transactions contemplated to be conducted on normal commercial terms and the services fees shall be charged by the Group to connected persons at rates no less favourable than the services fees to be charged by the Group to Independent Third Party clients for comparable transactions; (ii) the fees to be charged and the credit terms granted for each individual transaction by the Group to the China Cinda Group under the 2024 Master Agreement shall be determined by the relevant Responsible Officers or department heads (including the deputies) according to the established pricing policies; (iii) the EMC, the LCIA Department, the PEC or the IMC (depending on the transaction categories), should review the terms for the transactions to be contemplated under the 2024 Master Agreement against, where applicable, the prevailing market rates, quotations or invoices issued to Independent Third Party clients; (iv) the Accounts Department and the LCIA Department should review terms and prices chargeable under the transactions contemplated under the 2024 Master Agreement to ensure that the fees shall be set in compliance with the Group's internal pricing policies and shall be charged based on the principles described above; and (v) the internal control measures of the Group implemented as mentioned above, we consider the pricing policy governing the transactions contemplated under the 2024 Master Agreement to be fair and reasonable so far as the Independent Shareholders are concerned.

4. The Proposed Annual Caps

The Proposed Annual Caps for each category of transactions contemplated under the 2024 Master Agreement for each of the three years ending 31 December 2027 are set out below:

	For the year ending 31 December 2025 HK\$	For the year ending 31 December 2026 HK\$	For the year ending 31 December 2027 HK\$
Category I Transactions	16,000,000	22,000,000	32,000,000
Category II Transactions	10,000,000	10,000,000	10,000,000
Category III Transactions	48,000,000	43,000,000	34,000,000

(a) *Historical transaction amounts and annual caps under the 2021 Master Agreement*

Set out below are the historical transaction amounts in respect of the Category I Transactions, Category II Transactions and Category III Transactions conducted under the 2021 Master Agreement for each of the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, respectively.

	For the year ended 31 December 2022 HK\$	For the year ended 31 December 2023 HK\$	For the nine months ended 30 September 2024 HK\$
Category I Transactions	6,742,196	3,481,386	3,251,399
Category II Transactions	–	–	–
Category III Transactions	58,586,055	49,097,154	35,712,758

Set out below are the annual caps under the 2021 Master Agreement during the three years ending 31 December 2024.

	For the year ended 31 December 2022 HK\$	For the year ended 31 December 2023 HK\$	For the year ending 31 December 2024 HK\$
Category I Transactions	35,000,000	53,000,000	70,000,000
Category II Transactions	12,000,000	12,000,000	15,000,000
Category III Transactions	90,000,000	120,000,000	150,000,000

Set out below are the utilisation rates of the annual caps under the 2021 Master Agreement.

	For the year ended 31 December 2022	For the year ended 31 December 2023	For the nine months ended 30 September 2024
Category I Transactions	19.3%	6.6%	4.6%
Category II Transactions	Nil	Nil	Nil
Category III Transactions	65.1%	40.9%	23.8%

(b) Basis of the Proposed Annual Caps

As disclosed in the Letter from the Board, the Proposed Annual Caps were determined by the Company after taking into account of the following factors.

For Category I Transactions

The Company has taken into account of:

- (i) the historical transactions amount for the relevant transactions as detailed in the section headed "Historical Transactions Amount and Annual Caps under the 2021 Master Agreement" as set out in the Letter from the Board, adjusted by (a) the estimated total monetary value of the transactions (ranging from approximately HK\$10.78 billion to approximately HK\$33.2 billion) during the term of the 2024 Master Agreement taking into account of the Company's increasing collaboration with Nanyang Commercial Bank, Limited ("NCB"), an indirect wholly-owned subsidiary of China Cinda, and the Company expects the portion of NCB's securities brokerage transactions handled by the Group to increase; (b) the potential increase in the monetary value of debt securities issuance by the China Cinda Group with an expected annual growth rate of 20% to be underwritten or placed by the Group during the term of the 2024 Master Agreement compared with the historical transactions amount for the year ending 31 December 2024 and hence the expected corresponding increase in underwriting commission receivable by the Group; and (c) an expected annual growth rate of 20% for the years ending 31 December 2026 and 2027 respectively during the term of the 2024 Master Agreement due to the potential increase in the amount of brokering commission for the years ending 31 December 2026 and 2027 respectively upon taking into account the Company's role as the broker and custodian of China Cinda Group to develop China Cinda Group's offshore business and the provision of brokerage services for China Cinda Group out of the PRC;

- (ii) the estimated total monetary value (ranging from approximately HK\$0.8 billion to approximately HK\$1.1 billion) which would be brokered for securities and bonds trading, placing, underwriting and sub-underwriting for securities to be issued by the China Cinda Group for each of the three years ending 31 December 2027 respectively;
- (iii) the relevant commission rates to be charged by the Group for each type of securities trading, placing and underwriting as mentioned in (ii) above, in accordance with the Group's pricing policies for each of the three years ending 31 December 2027 respectively, which are determined with reference to the usual market ranges of 0.1% to 0.5% for securities brokering and 0.1% to 5.0% for securities underwriting; and
- (iv) a buffer of approximately 13% to provide flexibility to cater for any potential fluctuations of the actual size of the projects and market conditions over the term of the 2024 Master Agreement.

The formula for the calculation of the annual cap for Category I Transactions is as follows:

$$2025: \sum_{ni=1}^4 (A_{ni} \times B_{ni}) + D$$

$$2026 \text{ \& } 2027: \sum_{ni=1}^4 (A_{ni} \times B_{ni}) (C_{ni} + 100\%) + D$$

A = the expected total monetary value of the transactions

B = the respective commission rate for the transactions

C = the expected growth rate of 20% for n_1 , n_2 , and n_3 (0% for n_4) for the monetary value of the transactions each of the years ending 31 December 2026 and 31 December 2027

D = a buffer of approximately 13% of the amount of $(A \times B) + C$

n_1 = brokerage services for securities for NCB (*Note 1*)

n_2 = underwriting services for issue of debt securities

n_3 = brokerage services for securities for other customers

n_4 = underwriting services for issue of equity securities (*Note 2*)

Note 1: In the previous years, the Company was providing brokerage services for approximately 10% of the trading of securities for NCB. Upon the negotiation with NCB, the Company will provide brokerage services for 20%, 30% and 45% of the trading of securities for NCB for the years ending 31 December 2025, 2026 and 2027 respectively.

Note 2: As there were no historical transactions for underwriting services for issue of equity securities under the 2021 Master Agreement, the Company took a conservative approach and expected that there will not be a growth for the underwriting service.

We understand from the Management that, when determining the Proposed Annual Caps for Category I Transactions, the Company has also based on the principal assumptions that (i) there will be a significant growth in the amount of underwriting services to the China Cinda Group taking into account of potential transactions in relation to debt securities under negotiation with the China Cinda Group for further expansion and growth of its business (which is subject to the Company winning the tender of China Cinda Group for the provision of such services), and (ii) the market conditions, operation and business environment will remain stable and there will not be any adverse change in government policies, laws and regulations which may materially affect the business of the Group and/or the China Cinda Group.

Our analysis on the Proposed Annual Caps under Category I Transactions

Total historical transactions for Category I Transactions under the 2021 Master Agreement amounted to approximately HK\$6.7 million, HK\$3.5 million and HK\$3.3 million for the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, respectively. Having considered the relatively low utilisation of the relevant annual caps for the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, the Management has notably reduced the Proposed Annual Caps for Category I Transactions by approximately 77.1% from the existing annual caps for Category I Transactions of HK\$70 million for the year ending 31 December 2024 to HK\$16 million for the year ending 31 December 2025 (the “2025 Category I Annual Cap”).

Based on our discussion with the Management and the schedule on the Proposed Annual Caps (the “Annual Caps Schedule”) obtained from the Management, when assessing the reasonableness of the Category I Annual Cap, we have considered, among others,

- (i) Category I Transactions are market driven in nature, which may fluctuate significantly as evidenced by the yearly absolute percentage change in transaction amount, which ranged from approximately 24.5% (based on annualised amount) to approximately 48.4% under the 2021 Master Agreement. Thus, a sufficient degree of flexibility shall be incorporated in the Proposed Annual Caps under Category I Transactions. In addition, if the Proposed Annual Caps under Category I were to be exceeded, the Group and the China Cinda Group may subject to, where applicable, burdensome and time-consuming negotiation processes, internal approval procedures, shareholders’ approval procedures and other administrative procedures for the renewal of Proposed Annual Caps under Category I Transactions as both the Group and the China Cinda Group are listed companies. The Category I Transactions may be suspended temporarily and the subject transactions may not be able to proceed, which are not in the interests of the Company and Shareholders as a whole as Category I Transactions are part of the principal activities of the Group;
- (ii) for the Hong Kong bond market, according to the quarterly bulletin titled “The Hong Kong Bond Market in 2023”¹ published by the Hong Kong Monetary Authority (the “HKMA”) in March 2024, Hong Kong continued to capture the largest share of debut issuances for bonds denominated in U.S. dollars, Euro and Japanese yen from Asia in 2023. It is also noted that total new issuance of HKD debt securities increased by approximately 4.9% to approximately HK\$948.5 billion in 2023. Pursuant to another publication as set out on the website of HKMA in 2024², Hong Kong is a major bond issuance hub in Asia, the HKMA and the Hong Kong government have introduced various initiatives to promote the further development of Hong Kong’s bond market. These initiatives included, among others, the implementation of the Exchange Fund Bills and Notes Programme as well as various tax concessions and incentive schemes available for eligible bond issuers and investors. These supportive government policies should contribute positively towards the continuous growth of the Hong Kong bond market as a whole;

¹ Source: www.hkma.gov.hk/media/eng/publication-and-research/quarterly-bulletin/qb202403/fa1.pdf

² Source: www.hkma.gov.hk/eng/key-functions/international-financial-centre/bond-market-development/

- (iii) the principal activities of China Cinda Group included, among others, financial bond issuance, with income from securities underwriting business amounted to approximately HK\$50.0 million for the year ended 31 December 2023 and approximately HK\$33.1 million for the six months ended 30 June 2024 as set out in the annual report of China Cinda for the year ended 31 December 2023 (the “2023 China Cinda Annual Report”) and the interim report of China Cinda for the six months ended 30 June 2024 (the “2024 China Cinda Interim Report”). The China Cinda Group also recorded bonds issued of approximately RMB276,814.2 million and RMB302,762.1 million as at 30 June 2024 and 31 December 2023, respectively as set out in the 2024 China Cinda Interim Report and the 2023 China Cinda Annual Report, respectively. The bonds issued by China Cinda Group comprised, among others, financial bonds, USD guaranteed senior notes, corporate bonds as well as asset-backed securities. For illustration purposes, the 2025 Category I Annual Cap represented less than 0.01% of the bonds issued as mentioned above. It is expected that China Cinda Group may issue additional bonds in the future and shall continue its securities underwriting business. In this connection, the Group may be invited to participate in underwriting/sub-underwriting of such securities China Cinda Group from time to time;
- (iv) for the equity capital market, based on the daily trading value as extracted from the Stock Exchange, the average daily trading value increased from approximately HK\$96.6 billion in January 2024 to approximately HK\$169.2 billion in September 2024, representing an increase of approximately 75.2% (the “SEHK Trading Value Increase”), with the minimum and maximum daily trading value during the first nine months of 2024 being approximately HK\$31.3 billion on 9 February 2024 and approximately HK\$505.8 billion on 30 September 2024. On this basis, the recent daily trading volume in September 2024 is notably higher than that of the daily trading volume in early 2024. In light of such unexpected market reactions, the relevant annual caps should have sufficient flexibility to avoid circumstances whereby the insufficient cap amount leads to the relevant operations/transactions being temporary ceased or terminated. On this basis, we considered the buffer incorporated under the Proposed Annual Caps of Category I Transactions may help to manage some of these uncertainties;

- (v) the expected growth in the securities brokerage services related income generated from NCB, being part of the China Cinda Group, based on the increasing average daily trading value of the equity capital market in Hong Kong as mentioned under (iv) above. The Management expected that the relatively high daily trading value of the equity capital market in Hong Kong shall continue into the foreseeable future and contribute towards the securities brokerage services related income generated from NCB and thus the income from Category I Transactions. The Management further advised that the trading system upgrade by NCB in the last quarter of 2024 increased the transaction limit for each securities trading transaction between the Group and NCB by 100%. On this basis, the Management expected a higher volume and amount of securities trading transactions during the three years ending 31 December 2027;
- (vi) the estimated increase in the income arising from securities brokering services provided by the Group to the China Cinda Group (other than NCB which has been covered under (v) above). As set out in the 2023 China Cinda Annual Report and 2024 China Cinda Interim Report, the securities and futures brokerage is one of principal businesses of the China Cinda Group, and the securities and futures brokerage income amounted to approximately HK\$1.1 million for the year ended 31 December 2023 and HK\$5.0 million for the six months ended 30 June 2024, which was generated primarily from the PRC, including Hong Kong. Furthermore, we noted that the China Cinda Group has been focusing on customer expansion. As set out in the 2024 China Cinda Interim Report, China Cinda Group has signed 92 strategic cooperation agreements and forged cooperation with 17 provincial and municipal local governments, over 400 financial institution headquarters, and over 6,600 enterprises. The continuous development of the securities and futures brokerage of China Cinda Group shall bring further collaboration opportunities for the Group during the terms of the 2024 Master Agreement; and
- (vii) when determining the growth rate of the Proposed Annual Caps for Category I Transactions for the year ending 31 December 2026 (the “2026 Category I Annual Cap”) and the year ending 31 December 2027 (the “2027 Category I Annual Cap”), as well as the buffer of 13% incorporated in the Proposed Annual Caps of Category I Transactions, we have considered the above factors, in particular, the SEHK Trading Value Increase as experienced in September 2024, as analysed under (iv) above, and the fact that the underlying market conditions driving the demand for Category I Transactions to be provided by the Group are unpredictable in nature and beyond the Group’s control as market and investors’ sentiment can change in a very short period of time as evidenced by the September and October 2024 market rallies in the PRC and Hong Kong, and the Category I Transactions to be provided by the

Group may significantly increase due to unexpected fluctuations of the financial markets and economic conditions. On this basis, the Group may record substantial and unexpected increase in transaction volumes of Category I Transactions. To ensure the Group is able to carry out Category I Transactions continuously without undue disruptions and/or delays under these unforeseeable circumstances, we considered the growth rate of the 2026 Category I Annual Cap and the 2027 Category I Annual Cap as well as the buffer of 13% incorporated in the Proposed Annual Caps of Category I Transactions to be reasonable.

Further to the above, in terms of the estimated commission rates to be charged by the Group for Category I Transactions, we have reviewed the historical commission rates charged by the Group to the China Cinda Group against the rates used in calculating the Proposed Annual Caps under Category I Transactions and noted that they are broadly in line.

Having considered that, (i) the Group is expected to continue to provide services under Category I Transactions to the China Cinda Group from time to time and that such services to the China Cinda Group are a furtherance of the Group's principal businesses, which would broaden the income base of the Group; (ii) our work performed and analysis as set out above, in particular, the SEHK Trading Value Increase as experienced in September 2024 and market volatility, and that the Proposed Annual Caps for the Category I Transactions should have sufficient flexibility to ensure the Group is able to carry out Category I Transactions without undue disruptions and/or delays under unforeseeable market conditions; (iii) the Category I Transactions shall be conducted on normal commercial terms and in accordance with the pricing policies under the 2024 Master Agreements; (iv) the demand for Category I Transactions provided by the Group is largely market driven, which is beyond the Group's control and may therefore increase significantly due to the unexpected fluctuations of the financial markets and economic conditions during the terms of the 2024 Master Agreement; (v) the Proposed Annual Caps for the three years ending 31 December 2027, if approved, would facilitate the Category I Transactions to be conducted in an effective and efficient manner without the need for the Company to seek further Shareholders' approval until the expiry of the 2024 Master Agreement, unless the relevant Proposed Annual Caps become insufficient; and (vi) the Group has the right, but not obligation, to provide the services under the Category I Transactions to the China Cinda Group, we are of the view that the Proposed Annual Caps for Category I Transactions are fair and reasonable.

For Category II Transactions

The Company has taken into account of:

- (i) the estimated transaction amount of the services to be provided to the China Cinda Group by the Group, which may involve three to four potential corporate exercises that may be undertaken by the China Cinda Group involving services from the Group each year during the term of the 2024 Master Agreement and the estimated nature and complexity of such transactions. The estimated transaction amount of each of the services under Category II Transactions are as follows: (a) provision of corporate finance advisory services: approximately HK\$4 million for two potential corporate exercises with an estimated transaction amount of HK\$2 million each; (b) the issue of securities: approximately HK\$5 million for a potential initial public offerings project; and (c) group restructuring: HK\$0.5 million. Although there was no Category II Transaction conducted by the Group for the China Cinda Group for the two years ended 31 December 2022 and 2023 respectively and for the nine months ended 30 September 2024, the Group understood from the China Cinda Group that no corporate finance advisory service was required from the Group in the two years ended 31 December 2022 and 2023 respectively and for the nine months ended 30 September 2024, but there may potentially be three to four corporate transactions to be undertaken by the China Cinda Group each year during the term of the 2024 Master Agreement;
- (ii) the estimated resources to be spent on providing the relevant corporate finance advisory services (i.e. the labour and time costs to be incurred by the staff members of the Group expected to be involved in the potential projects);
- (iii) where the transaction involves fund raising, the estimated size of the funds involved and the corresponding fee chargeable (ranging from approximately HK\$0.5 million to approximately HK\$5.0 million) in line with the Group's pricing policies; and
- (iv) the fees charged by the Group to Independent Third Party clients for similar transactions ranging from approximately HK\$0.5 million to approximately HK\$5.0 million.

We understand from the Management that, when determining the Proposed Annual Caps for Category II Transactions, the Company has also based on the principal assumptions that the market conditions, operation and business environment will remain stable and there will not be any adverse change in government policies, laws and regulations which may materially affect the business of the Group and/or China Cinda Group.

Our analysis on the Proposed Annual Caps under Category II Transactions

As set out in the Letter from the Board, the scope of the Category II Transactions covered financial advisory services in relation to, among others, (i) the compliance of the Listing Rules and The Codes on Takeovers and Mergers and Share Buy-backs; (ii) the issue of securities; and (iii) group restructuring.

Based on the Annual Caps Schedule, the Management estimated that the Group may charge advisory fee in the range of HK\$0.5 million to HK\$5.0 million for an individual financial advisory/initial public offering engagement (the “**Estimated Advisory Fee Range**”), subject to factors including transaction nature, work scope, type of advisory service, deal structure, complexity, expected project duration and expected man-power involvement. We have reviewed the advisory fees charged by the Group during the two years ended 31 December 2023 and the nine months ended 30 September 2024. In addition, we have also conducted market research on the sponsors’ fees for initial public offering engagements for companies of various sizes and across different industries that have successfully listed on the Stock Exchange during the period from 1 July 2024 and up to the Latest Practicable Date. Based on our market research, we have identified twenty-five initial public offerings and that the sponsors’ fees as disclosed in the respective prospectuses ranged from approximately HK\$2.4 million to HK\$15.8 million per initial public offering (the “**IPO Fee Comparables**”). We are of the view that such review period can reflect the recent market practices for the fees of initial public offering engagements charged by different sponsors. Based on our work as detailed above, we noted that the Estimated Advisory Fee Range, which is subject to the nature of engagement, size, and work scope of the underlying transaction(s) and/or initial public offer(s), is broadly in line with the prevailing market rates.

We also noted that the Proposed Annual Caps for Category II Transactions of HK\$10 million for each of the three years ending 31 December 2027, such would be sufficient to cover two financial advisory/initial public offering engagements with advisory fee at the top estimated range of HK\$5.0 million for an individual engagement or less than four financial advisory/initial public offering engagements with advisory fee at the mid-point of the Estimated Advisory Fee Range.

As advised by the Management, when determining the Proposed Annual Caps for Category II Transactions, the Company estimated that the Group shall conduct three to four major financial advisory/initial public offering engagements under the Category II Transactions per year as well as smaller scale financial advisory engagements from time to time. We have also reviewed potential deals discussed between the Group and the connected persons of the Group during the two years ended 31 December 2023 and the nine months ended 30 September 2024, which demonstrated that potential engagements were discussed from time to time and that the number of potential deals discussed supported the expected number of financial advisory/initial public offering engagements per year for the three years ending 31 December 2027.

It is also important to note that the number, timing and scale of these engagements under Category II Transactions are primarily driven by market demand and conditions, which is beyond the Group's control. Consequently, favourable market demand and conditions may increase the number of financial advisory/initial public offering engagements due to ad hoc corporate activities undertaken by members of the China Cinda Group.

Having considered our analysis and work performed, in particular, (i) the Category II Transactions shall be conducted on normal commercial terms and in accordance with the pricing policies under the 2024 Master Agreements; (ii) the corporate exercises of the China Cinda Group may require financial advisory/sponsor services of the Group during any of the three years ending 31 December 2027; and (iii) the Group has the right but not the obligation to provide these advisory services to the China Cinda Group, we are of the view that the Proposed Annual Caps for Category II Transactions are fair and reasonable.

For Category III Transactions

The Company has taken into account of:

- (i) the estimated total monetary value of the funds to be managed by the Group during the term of the 2024 Master Agreement for each of the three years ending 31 December 2027 respectively, in particular, although the historical transactions amount for Category III Transactions under the 2021 Master Agreement was lower than the Proposed Annual Caps for Category III Transactions under the 2024 Master Agreement, the Company expects there will be approximately three new investment funds to be set up and one new intermediary project to be undertaken by the Group in each of the three years ending 31 December 2025, 2026 and 2027, hence substantially increasing the amount of management and advisory fees for the Group;

- (ii) the management fee and performance fee rates to be charged by the Group in accordance with the Group's pricing policies, which are determined with reference to the usual market ranges of approximately 0.1% to 2.0% for fund management fee and 5.0% to 20.0% of the fund performance fee; and
- (iii) a buffer of approximately 14% to provide flexibility to cater for any potential fluctuations of the actual size of the funds and market conditions over the term of the 2024 Master Agreement.

We understand from the Management that, when determining the Proposed Annual Caps for Category III Transactions, the Company has also based on the principal assumptions that (i) the expected number of funds to be closed down will be more than the number of funds to be established in the coming few years, leading to the decrease in demand for professional fund management services to be provided by the Group, and the recent business development plan of the China Cinda Group will remain unchanged during the term of the 2024 Master Agreement; and (ii) there will be no material change in the market conditions, operation and business environment and there will not be any adverse change in government policies, laws and regulations which may materially affect the business of the Group and/or the China Cinda Group. Having considered the potential decrease in the number of funds, the Company is of the view that a lower annual cap for the years ending 31 December 2026 and 2027 could better reflect the trend in the funds market.

The Company has also taken into account, among others, the five measures announced by the China Securities Regulatory Commission on 19 April 2024, including (i) expanding the scope of eligible exchange-traded funds under the Mainland-Hong Kong Stock Connect; (ii) incorporating real estate investment trusts into the Mainland-Hong Kong Stock Connect; (iii) supporting the inclusion of RMB-denominated stocks into southbound Stock Connect; (iv) enhancing the scheme of mutual recognition of funds; and (v) supporting the listing of leading mainland companies in Hong Kong when determining the Proposed Annual Caps for Category I, II and III Transactions.

Our analysis on the Proposed Annual Caps under Category III Transactions

As set out in the Letter from the Board, historical transaction amount for the relevant transactions under Category III Transactions for the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024 were approximately HK\$58.6 million, HK\$49.1 million and HK\$35.7 million, respectively. The utilisation rates of the relevant annual caps for the two years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, were approximately 65.1%, 40.9% and 23.8%, respectively. Taken into consideration of the above, the Management has reduced the Proposed Annual Caps for Category III Transactions by approximately 68.0% from the existing annual caps for Category III Transactions of HK\$150 million for the year ending 31 December 2024 to HK\$48 million for the year ending 31 December 2025 (the “2025 Category III Annual Cap”).

As advised by the Management and based on the Annual Caps Schedule, the 2025 Category III Annual Cap is based on, among other factors, (i) the expected gradual decrease in the provision of asset management services to the China Cinda Group for the year ending 31 December 2027 as it is expected that certain of the investment funds managed by the Company will approach the end of its fund life during the aforesaid period. Although the effects of the above may be partially offset by the establishment of new investment funds, of which the Company may act as investment managers; (ii) for asset management services, the Group may charge the China Cinda Group (a) a fixed management fee; or (b) a fixed management fee and a performance fee, as the case maybe; (iii) as disclosed in the 2023 China Cinda Annual Report, the unlisted investments of the China Cinda Group, which comprised, among others, distressed debt assets, funds and equity investments, amounted to approximately RMB468.4 billion as at 31 December 2023 and approximately RMB459.8 billion as at 30 June 2024. If the China Cinda Group require asset management services for some of its unlisted investments, the Group may be invited to provide asset management services to the China Cinda Group, subject to the relevant terms; and (iv) the Group continued to operate under light-asset strategy, and hence, the number of funds being managed by the Group is expected to gradually decrease during the term of the 2024 Master Agreement.

As set out in the Letter from the Board, the Company expected three new investment funds to be set up and one new intermediary project to be undertaken by the Group in each of the three years ending 31 December 2025, 2026 and 2027. As set out in the 2023 China Cinda Annual Report and 2024 China Cinda Interim Report, China Cinda Group had 51, 67 and 73 mutual securities investment funds as at 31 December 2022, 31 December 2023 and 30 June 2024, respectively. The three new investment funds to be set up and one new intermediary project to be undertaken by the Group in each of the three years ending 31 December 2025, 2026 and 2027 represented less than 10% of the mutual securities investment funds operated by China Cinda Group as at 30 June 2024.

In terms of the fee to be charged by the Group for the provision of the Category III Transactions, we have reviewed the historical rates charged by the Group to the China Cinda Group against the rates used in calculating the Proposed Annual Caps under Category III Transactions and noted that they are broadly in line.

We noted that the Management has incorporated a buffer of 14% in the Proposed Annual Caps under Category III Transactions. Based on our review of existing fund agreements of the Group, we noted that the Group, as the general partner and investment manager of these investment funds, were entitled to, where applicable, (i) a management fee based on a pre-determined percentage of the asset balance of the fund; and (ii) a performance fee subject to the performance of the subject investment fund. As the Group may be entitled to the aforesaid performance fees which can be of a notable amount and may fluctuate from year to year, in order to cater for such uncertainties, we are of the view the buffer of 14% is justifiable.

Having considered that, (i) the Group is expected to continue to provide asset management services under Category III Transactions to the China Cinda Group during the terms of the 2024 Master Agreement; (ii) our work performed and analysis as set out above, in particular, the size of the unlisted investments of the China Cinda Group; (iii) the Group may charge the China Cinda Group (a) a fixed management fee; or (b) a fixed management fee and a performance fee, as the case maybe, for its asset management services, thus sufficient flexibility needs to be incorporated in the relevant annual caps with a view to cater for additional fee income if criteria for performance fee are fulfilled; (iv) the Category III Transactions are one of the Group's principal businesses and the 2024 Master Agreement would broaden the income base of the Group; (v) the Category III Transactions shall be conducted on normal commercial terms and in accordance with the pricing policies under the 2024 Master Agreements; (vi) the underlying market conditions driving the demand for Category III Transactions by the China Cinda Group are beyond the Group's control; (vii) the Proposed Annual Caps for the three years ending 31 December 2027, if approved, would facilitate the Category III Transactions to be conducted in an effective and efficient manner without the need for the Company to seek further Shareholders' approval; and (viii) the Group has the right, but not obligation, to provide the services under Category III Transactions to the China Cinda Group, we are of the view that the Proposed Annual Caps for Category III Transactions are fair and reasonable.

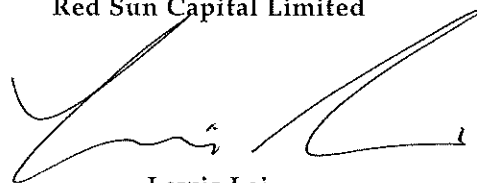
RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that:

- (i) the entering into of the 2024 Master Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and
- (ii) the terms of the 2024 Master Agreement, including the Proposed Annual Caps, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the 2024 Master Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited

A handwritten signature in black ink, appearing to be 'Lewis Lai', written over a horizontal line.

Lewis Lai
Managing Director

Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has around 17 years of experience in the corporate finance industry.