



SOMERLEY CAPITAL LIMITED

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1 December 2025

To: *the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on (i) the terms of the non-exempt continuing connected transactions to be conducted under the Securities and Financial Products Transactions and Services Framework Agreement (the “**Framework Agreement**”); (ii) the proposed annual caps for (a) the securities and financial products transactions (the “**Securities and Financial Products Transactions**”) between the Group and CITIC Group and its associates (the “**Financial Product Annual Caps**”); (b) for mutual provision of securities and financial services (the “**Securities and Financial Services**”) between the Group and CITIC Group and its associates (the “**Financial Service Annual Caps**”, together with the Financial Product Annual Caps, the “**Annual Caps**”), contemplated under the Framework Agreement; (iii) the proposed maximum daily balance of (a) non-exempted loans by CITIC Group and its associates to the Group; and (b) non-exempted loans by the Group to CITIC Group and its associates (together with (iii)(a), the “**Maximum Daily Balances**”) contemplated under the Framework Agreement, for the three financial years ending 31 December 2028. Details of the Framework Agreement, the Annual Caps and the Maximum Daily Balances are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 1 December 2025 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As at the Latest Practicable Date, CITIC Financial Holdings is a substantial Shareholder of the Company holding an aggregate of 19.84% interests in the Company. CITIC Group is an associate of CITIC Financial Holdings. Accordingly, CITIC Group and its associates are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules and the proposed transactions to be conducted between the Group and CITIC Group and its associates under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable percentage ratios in respect of each of: (i) the Financial Product Annual Caps; (ii) the Financial Service Annual Caps; and (iii) the Maximum Daily Balances proposed to be renewed for the next



three financial years ending 31 December 2028 exceeds 5%, such continuing connected transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the Framework Agreement proposed to be renewed, the Annual Caps and the Maximum Daily Balances. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, CITIC Financial Holdings, CITIC Group or their respective substantial shareholders or associates and accordingly we are considered eligible to give independent advice on the terms of the Framework Agreement, the Annual Caps and the Maximum Daily Balances. Apart from the normal fees payable to us in connection with this and similar engagements, no arrangements exist whereby we will receive any fees or benefits from the Company, CITIC Financial Holdings, CITIC Group or their respective substantial shareholders or associates.

In formulating our opinion, we have reviewed, among others, the Framework Agreement, the annual reports of the Company for the last ten financial years up to and including 2024, the interim report of the Company for the six months ended 30 June 2025, and the information contained in the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete in all material aspects and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter. We have no reason to believe that any material information has been omitted or withheld from us, nor to doubt the truth, accuracy or completeness of the information provided. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, CITIC Financial Holdings, CITIC Group or their respective associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons:

1. Background of the Framework Agreement

1.1 Introduction

The business scope of the Company includes securities brokerage (for areas other than Shandong Province, Henan Province, Tiantai and Cangnan Counties of Zhejiang Province), securities investment consulting, financial advice in relation to securities trading and investment activities, securities underwriting and sponsoring, self-operated securities business, securities assets management (NSSF domestic entrusted investment management, securities investment management for basic pension insurance fund, investment management for enterprise annuity fund and investment



management for occupational pension fund), securities margin trading, selling of securities investment funds, provision of intermediary introduction services to futures companies, distribution of financial products, stock options market making, market making for listed securities.

CITIC Group is a large-scale state-owned comprehensive multinational conglomerate founded in 1979, and its businesses cover five sectors, including comprehensive finance, advanced intelligent manufacturing, advanced materials, new consumption and new urbanization. As at the Latest Practicable Date, CITIC Group is an enterprise under the Ministry of Finance and it indirectly holds an aggregate of 19.84% interests in the Company. Among the subsidiaries of CITIC Group, CITIC Bank, China CITIC Bank International Limited, CITIC Trust Co., Ltd., CITIC Prudential Life Insurance Co., Ltd., CITIC Finance Company Limited and CITIC Construction Co., Ltd. are the Group's major counterparties for the transactions contemplated under the Framework Agreement.

As stated in the letter from the Board, the Group has been, in the ordinary and usual course of its businesses, entering into continuing connected transactions with CITIC Group and its associates including securities and financial products transactions and mutual provision of securities and financial services and financing transactions. As the term of the existing Framework Agreement and the relevant annual caps thereunder are due to expire by the end of December 2025, the Company proposed to further renew the Framework Agreement for a term of three years ending on 31 December 2028, and to set the annual caps/maximum daily balances for the continuing connected transactions thereunder for the next three years.

1.2 Transactions contemplated under the Framework Agreement

The transactions contemplated under the Framework Agreement have been categorised into (i) Securities and Financial Products Transactions; and (ii) provision of Securities and Financial Services.

1.2.1 Securities and Financial Products Transactions

The Group and CITIC Group and its associates have been conducting Securities and Financial Products Transactions with each other, the scope of which is the same as that in the existing Framework Agreement:

- (i) *Transactions relating to products with fixed income features* – including, but not limited to, bonds, funds, trusts, wealth management products, asset management plans, assets securitised products, bond lending and borrowing, structured products, swaps, futures, forwards, options, debts and other financial products with fixed income features;
- (ii) *Transactions relating to fixed income related derivative products* – including, but not limited to, interest rate and credit derivatives;



- (iii) *Transactions relating to equity-linked products* – including, but not limited to, trading and/or subscription of equity (including market-making activities on the NEEQ), funds, trusts, wealth management products, asset management products and equity derivatives such as return swaps, futures and options;
- (iv) *Transactions relating to financing transactions* – financing transactions among financial institutions with or without guarantees/pledges including, but not limited to, interbank lending and borrowing, repurchase, interbank deposits, usufruct, asset securitization, corporate account overdraft, pledge loans, holding debt certificates for each other such as short-term financing bonds, beneficiary certificates, subordinated debts and corporate bonds; and
- (v) *Transactions relating to other related securities and financial products permitted by the regulatory authority* – including, but not limited to, futures, foreign exchange and commodities trading (commodity derivative inclusive), etc.

In the ordinary and usual course of the Group's business, the Group would enter into repurchase transactions (including collateralized securities repurchase and repurchase agreement transactions) with the financial institutions of CITIC Group and its associates. Collateralized securities repurchase involves the pledge of securities of the Group, including bonds and shares as collateral, to obtain financing from the financial institutions of CITIC Group and its associates and the Group agreeing to repay the funds obtained on a future date to release the pledge. Repurchase agreement refers to the sale of securities to the financial institutions of CITIC Group and its associates for trading at an agreed-upon price, and agreement to repurchase the subject securities at another agreed-upon price on a specific date in the future.

In addition, in the ordinary and usual course of businesses, the Group may also enter into lending transactions, including reverse repurchase transactions, with or without collateralized securities, with CITIC Group and its associates.

1.2.2 Provision of Securities and Financial Services

Apart from the Securities and Financial Products Transactions, the Group and CITIC Group and its associates also provide Securities and Financial Services to each other during the ordinary course of their respective businesses. The Group provides Securities and Financial Services such as advisory, brokerage, agency sale and asset management services for which the Group receives service fees, commission and other payments such as interests. On the other hand, the financial institutions of CITIC Group and its associates also provide financial and other services to the Group and the Group's customers, such as deposit management services and other agency sale services for which service fees are charged by CITIC Group and its associates.



The scope of Securities and Financial Services to be provided by the Group to CITIC Group and its associates, which is the same as that under the existing Framework Agreement, includes the following:

- (i) *Underwriting, and sponsorship services* – including, but not limited to, sponsorship, underwriting and continuous supervision and guidance services for equity securities, fixed income products, structured products and other derivative products;
- (ii) *Other investment banking services* – including, but not limited to, financial advisory services relating to corporate restructuring, mergers and acquisition and sponsorship services for unlisted public companies;
- (iii) *Brokerage services* – including, but not limited to, securities brokerage and related financial products services as well as futures brokerage services such as treasury bond futures;
- (iv) *Financial products sales agency services* – including, but not limited to, provision of sales agency services for financial products;
- (v) *Entrusted asset management services* – including, but not limited to, assets management services for assets entrusted by customers; and
- (vi) *Other securities and financial advisory and consulting services and other commodities services, etc.*

The scope of Securities and Financial Services to be provided by CITIC Group and its associates to the Group, which is the same as that under the existing Framework Agreement, includes the following:

- (i) *Deposit services* – including, but not limited to, (a) deposits of cash balances arising from the business operations of the Group including cash from daily operations, proceeds from fund raising activities such as equity and bond issuances; (b) cash deposits from the customers of the Group; and (c) other deposit services;
- (ii) *Financial products sales agency services* – including, but not limited to, provision of sales agency services for financial products and precious metals;
- (iii) *Client deposits management and custody services* – including, but not limited to, management services provided by the banking subsidiaries of CITIC Group for managing the cash deposits of non-financial institutional customers of the Group, which are required by the relevant PRC laws and regulations to be deposited into the accounts of the Group with a PRC bank, and custody services provided by the banking subsidiaries of CITIC Group for securities and financial products issued by the Group;



- (iv) *Loan services* – including, but not limited to, funds for business operation and loans as the working capital of the Group provided by CITIC Group and its associates; and
- (v) *Other securities and financial advisory and consulting services, money brokerage services and commodities services, etc.*

1.3 Reasons for and benefits of renewal of the Framework Agreement

As stated in the letter from the Board, first, the Securities and Financial Products Transactions and Securities and Financial Services transactions under the Framework Agreement are and will be conducted in the ordinary and usual course of business of the Group. Such transactions will continue to be agreed on arm's length basis with terms that are fair and reasonable to the Company. Due to the historical and future long-term cooperation relationship between the Group and CITIC Group and its associates, the Directors believe that it is beneficial to the Group to renew the Framework Agreement with CITIC Group as the transactions thereunder have facilitated and will continue to facilitate the overall business operations and growth of the Group's business. Second, these transactions will provide cost synergies by integrating advantageous resources between the Group and CITIC Group and its associates, thereby reducing the aggregate operational cost and general expenditure so as to improve the profitability and to strengthen leading position of the Company in the securities industry. Third, such continuing connected transactions will enable CITIC Group and its associates to develop a deeper understanding in the operations of the Group, which in turn will render them more expedient and efficient services and/or product provisions to the Group when compared to those services and/or products provided by independent third parties.

As stated in the letter from the Board, CITIC Group, founded in 1979, is a large-scale state-owned comprehensive multinational conglomerate, and its businesses cover five sectors, including comprehensive finance, advanced intelligent manufacturing, advanced materials, new consumption and new urbanization. Having considered (i) the long-term cooperation relationship between the Group and CITIC Group and its associates; and (ii) CITIC Group's good reputation and strong presence in both PRC and Hong Kong financial markets, we concur with the Directors that the renewal of the Framework Agreement is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Framework Agreement

2.1 Principal terms and pricing basis

Principal terms of the Framework Agreement and pricing basis of the transactions contemplated thereunder as extracted from the letter from the Board are as follows:

Parties involved	(1) The Group
	(2) CITIC Group and its associates
Term	From 1 January 2026 to 31 December 2028



Pricing basis

The Securities and Financial Products Transactions

The Securities and Financial Products Transactions are mainly conducted through the PRC interbank bond market, and the exchanges (including PRC exchange bond market, futures exchanges and etc.). Such transactions are and will continue to be carried on at the prevailing market prices in the ordinary and usual course of the Group's business and with high frequency. The pricings of such transactions are subject to strict PRC regulatory supervision and requirements of the applicable PRC laws and regulations.

Inter-financial institutions borrowings, repurchase and loans

For inter-financial institutions borrowings and lendings, transactions are conducted based on the prevailing interest rates quoted on the interbank money market with reference to SHIBOR, HIBOR and SOFR (as the case may be). The pricings of such transactions are also subject to the applicable Hong Kong laws and strict PRC regulatory supervision and requirements of the applicable PRC laws and regulations (as the case may be).

The Group also engages in collateralized securities repurchase transactions with the financial institutions of CITIC Group and its associates in the ordinary course of its business at interest rates which are available to independent third party customers of the financial institutions or for better than normal commercial terms. The Group may also enter into repurchase agreements with the financial institutions of CITIC Group and its associates upon the same terms applicable to repurchase transactions by the financial institutions of CITIC Group and its associates to independent third party customers or for better than normal commercial terms.

The Group would ensure that the interest rates of repurchase offered by the financial institutions of CITIC Group and its associates are at the prevailing market rates by ascertaining from time to time that the terms (including the securities to be collateralized and financing period) and interest rates quoted by the financial institutions of CITIC Group and its associates are comparable to those offered to independent third party customers of the financial institutions of CITIC Group and its associates by obtaining terms and interest rates from other major commercial banks to ensure that such terms and interest rates are also comparable to those offered by other comparable financial institutions in the market.



The loans provided by the Group to CITIC Group and its associates, including reverse repurchase, will be entered into upon normal commercial terms at interest rates and terms of reverse repurchase, as applicable to similar loans or repurchase transactions by the Group to its independent third party customers.

Provision of the Securities and Financial Services

- (1) The pricing bases of the Securities and Financial Services to be provided by the Group to CITIC Group are as follows:
- (i) *underwriting and sponsorship services*: the securities underwriting and sponsorship services market is highly competitive and the commission rates and fees have become generally transparent and standardized across the market. The service fees shall be determined based on arm's length negotiation with reference to, among other things, the prevailing market rates, the proposed total amount of proceeds and fee rates charged by the Group for the provision of similar services to independent third parties. As disclosed in the sub-section 2.1.3 of the letter from the Board, the Company has subscribed for market data provided by information service providers, such as Wind Info to obtain the average pricing and the prevailing market rates for similar services or transactions. The Group may consider the following factors when determining the services fees for underwriting and sponsorship services: (a) the average pricing and the prevailing market rates obtained from information service providers, (b) the fees charged to independent third parties, (c) various individual factors, such as deal size and complexities, market responses and competition from other securities companies, and (d) involvement of any customized services;
 - (ii) *other investment banking services*: the service fees shall be determined taking into account factors including the nature and size of transactions, the then market conditions, average fee level applicable to independent third parties for similar transactions and be determined on the basis of arm's length negotiations between the parties;
 - (iii) *brokerage services*: the commissions shall be determined with reference to, among other things, the commission rates applicable to independent third parties and the



estimated scale of the brokerage transactions and be determined on the basis of arm's length negotiations between the parties;

- (iv) *financial products sales agency services*: the service fees shall be determined based on the amount of products for sale with reference to the service fee rates applicable to independent third parties;
 - (v) *entrusted asset management services*: the service fees shall be determined based on the estimated asset size and investment strategy with reference to the service fee rates applicable to independent third parties;
 - (vi) *other securities and financial advisory and consulting services, and other commodities services*: such fees and commission shall be determined based on the nature of the transactions with reference to the fee rates or commission applicable to independent third parties.
- (2) Pricing bases of the Securities and Financial Services to be provided by CITIC Group and its associates to the Group are as follows:
- (i) *deposit services*: the interest rates offered to the Group for the deposits placed with the banking subsidiaries of CITIC Group shall not be lower than the interest rates authorized by the PBOC for the same type of deposits offered by the commercial banks in the PRC during the same period and the terms of the deposits placed with the banking subsidiaries of CITIC Group shall not be less favorable than the terms offered by independent third party banking institutions;
 - (ii) *financial products sales agency services*: the pricing for financial products sales agency services shall be determined based on the amount of products for sale and the types of products for sale with reference to the service fee rates offered by independent third parties to the Group for provision of similar services and the prevailing market rates published on industry-recognised websites such as, <https://fund.esatmoney.com> (天天基金網) and <https://www.simuwang.com> (私募排排網). In addition, the agency service fees shall not exceed the caps as stipulated under the relevant laws and regulations. For example, according to the Regulation on



Implementation on the Measures for Supervision and Administration of Distributors of Publicly Offered Securities Investment Funds (關於實施《公開募集證券投資基金銷售機構監督管理辦法》的規定) promulgated by the CSRC, the commission rate in respect of public funds charged by sales agent shall not exceed 50% of the fund management fee;

- (iii) *client deposits management and custody services*: the management and custody service fees are determined on arm's length negotiation between the parties with reference to prevailing market rates and the fees offered by independent third parties to the Group for provision of similar services. The Group obtained the prevailing market rates based on the information published by the service providers (most of which being commercial banks) on their respective official websites or estimated rough market rates based on the information filed with Asset Management Association of China (中國證券投資基金業協會); and
- (iv) *loan services*: the interests on the financing shall be determined by reference to the relevant interest rates stipulated by the PBOC for the same period, and will take into account the factors such as the amount, purpose and terms of the financing as well as the credit rating.

2.2 *Our discussion and assessment*

We have discussed with 20 departments and subsidiaries of the Group on the pricing mechanism and reviewed samples of or collected information on the transactions contemplated under the Framework Agreement between the Group on one hand and CITIC Group and its associates or independent third parties on the other, details of which have been set out below. On the basis that the samples, being randomly selected transactions during the past three years, and information we collected including but not limited to (i) the Group's internal control policies and industry policies; (ii) the pricing rates of the financial products or financial services offered by/to CITIC Group and its associates and independent third parties; and (iii) prevailing markets rates the Group collected for determining the fee rates in (ii), have covered all departments and subsidiaries of the Group involved in the transactions contemplated under the Framework Agreement, we consider that they are sufficient for us to assess and form a view on whether the terms of the transactions contemplated under the Framework Agreement are fair and reasonable.



Trading through interbank market in the PRC

As advised by the management of the Group, majority of the PRC fixed income product transactions and all PRC collateralised securities repurchase and reverse repurchase transactions contemplated under the Framework Agreement take place through the secondary market of the interbank market, where the transactions are conducted through independent intermediate money brokerage firms and the sellers and purchasers do not have knowledge of the identities of the counterparties. The transactions are concluded based on the quotes made by the offerors in the market. Those transactions are executed through the trading system of China Foreign Exchange Trading System & National Interbank Funding Centre (“NIFC”), the unified trading platform designated by the PBOC for the interbank bond market in China. After completion of the transactions, the Group would be informed of the identities of the counterparties for settlement purpose. Some PRC fixed income product transactions contemplated under the Framework Agreement also go through auctions on the primary market of the interbank market where the prices of those fixed income products are determined through bidding. All transactions taking place on the PRC interbank market are regulated by NIFC.

We have reviewed the latest Rules on Bonds Circulation at NIFC 全國銀行間同業拆借中心債券交易流通規則 (the “**NIFC Circulation Rules**”) issued by NIFC on 2 September 2021. According to the NIFC Circulation Rules, all bond transactions on the PRC interbank market shall be conducted at market rates and market participants shall not transfer benefits and manipulate market prices.

One-on-one negotiation

As advised by management of the Group, the terms and prices of some offshore fixed income products, fixed income related derivative products, equity-linked products, and other related securities, financial products, collateralised securities repurchase and reverse repurchase transactions permitted by the regulatory authority are negotiated through one-on-one basis taking into consideration the prevailing market rates, deal size, liquidity, the credibility and financial background of the counterparties, and risk etc. Prices of those financial products would be determined with reference to the market prices quoted from the interbank bond market or the appraisal values from recognised independent valuers or the market prices from recognized market intelligence service providers and are under supervision of the relevant regulatory authorities.

As advised by the management of the Group, some financial or consulting service fees or some financial product commission or brokerage fees or entrusted asset management service fees or financial products sales agency service fee splits provided by the Group to CITIC Group and its associates or by CITIC Group and its associates to the Group are with reference to, among other things, the prevailing market data which are available from Wind Info (a leading integrated service provider of financial data, information, and software in the Chinese market) and other market sources, and shall be determined by arm’s length negotiations after taking into account factors including but not limited to the prevailing market conditions, size



and complexity of transactions, the prevailing market condition, credibility and financial background of counterparties and fees charged on other transactions with similar nature and size.

We have reviewed 86 samples of the Securities and Financial Products Transactions and Securities and Financial Services transactions priced through one-on-one negotiation which covered provision of underwriting, sponsorship and other investment banking services, brokerage services, financial product sales agency services, entrusted asset management services, deposit services, client deposit management and custody services, and other financial advisory and consulting services in 2023 – 2025, and noted that the pricing terms of those transactions were no less favourable than those of independent third party transactions or have been conducted in accordance with the Group's internal control policies to ensure the terms are consistent with market norms when there are no comparable independent third party transactions available.

Tender procedures

As advised by the management of the Group, the prices of some financial products and financial services are determined through tender procedures. The acquisition of equity pledged financing products or trust products by the Group from CITIC Group and its associates on equity exchanges would go through auctions and the prices would be regulated by the equity exchanges. In addition, underwriting and sponsorship services and financial advisory services provided by the Group to the CITIC Group and its associates may have to go through the tender procedures where the Group could only win the bid if the terms and prices offered by the Group are competitive and in line with the market norms. Furthermore, the underwriting and sponsorship service fees charged by the Group would be disclosed in prospectus and regulated by relevant regulatory authorities.

We have reviewed 2 samples or information (e.g. tender documents, bidding documents and internal pricing analysis reports) on transactions relating to underwriting, sponsorship and other investment banking services contemplated under the Framework Agreement following tender procedures in 2023 – 2025, and noted that they followed the general tender procedures.

Standard pricing

In terms of subscription by the Group of the financial products issued by the financial institutions of CITIC Group or its associates or subscription by CITIC Group and its associates of financial products issued by the Group, the same subscription price is offered to all investors. Such subscription price is determined in compliance with the relevant PRC/Hong Kong laws and regulations. The relevant rules and regulations would normally require due diligence, valuation, auditing of financial information, rating etc. to be conducted for the issuance of product brochures. This kind of financial products include some products with fixed income features, some equity-linked products and some other related securities and financial products permitted by the regulatory authority including, but limited to, futures, foreign exchange and commodities trading.



The service charges of deposit services or interest rates and services charges of the client deposits management and custody services, provided by CITIC Group and its associates to the Group, which follow the rates stated on the CITIC bank website or PBOC benchmark rates or the rates stated in product brochures approved by CSRC, are the same for all depositors or investors.

The service fees of trust product brokerage services provided by the Group to CITIC Group and its associates and provided by CITIC Group and its associates to the Group follow the fee standards published by Shanghai Stock Exchange and Shenzhen Stock Exchange, and of future product brokerage services provided by the Group to CITIC Group and its associates and provided by CITIC Group and its associates to the Group follow the fee standards published by Dalian Commodity Exchange, Zhengzhou Commodity Exchange, China Financial Futures Exchange and Shanghai Futures Exchange, etc.

We have reviewed 16 samples of transactions in relation to fixed income products, equity-linked products, structured notes, commodities, brokerage services, financial product sales agency services and deposit services contemplated under the Framework Agreement in 2023 – 2025 which adopted standard pricing basis, and noted that these financial products and financial services were offered to all the investors or clients on same terms and at same price.

Option pricing models

As advised by the management of the Group, when the Group issues the over-the-counter (“OTC”) derivatives which are traded via a broker-dealer network as opposed to on a centralized exchange, they would rely on the prices prepared by the relevant departments, which derive from different parameters including the price, size and liquidity of the underlying securities, dividend ratio, volatility, risk-free rate etc. by various option pricing models, having adjusted for current market conditions in accordance with internal guidelines. The agreed price would be subject to adjustments depending on the exercise date and exercise method as required by the investors.

We have reviewed 12 samples of the OTC derivatives including options and return swaps issued by the Group to CITIC Group and its associates and independent third parties in 2023 – 2025, and noted that they were priced by employing similar option pricing models.

Request for comparable quotes

As advised by the management of the Group, when the Group purchases products with fixed income features, equity-linked products, other related securities and financial products permitted by the regulatory authorities or conducts interbank lending and borrowing transactions or selects the financial service providers for deposit services, client deposits management and custody services and loan services, it may invite quotes from the securities and financial products/services providers, compare and analyse the quotes received and select the securities and financial products/services providers with most competitive terms and prices.



We have reviewed 12 samples or information of foreign exchange transactions, bond transactions and loan services transactions in relation to the financial products and financial services in 2023 – 2025, which were priced in accordance with the above pricing mechanism, and noted that the Group would only purchase financial products or select the financial services provided by CITIC Group if the prices offered by CITIC Group were no less favourable than those offered by independent third parties.

Our Comments

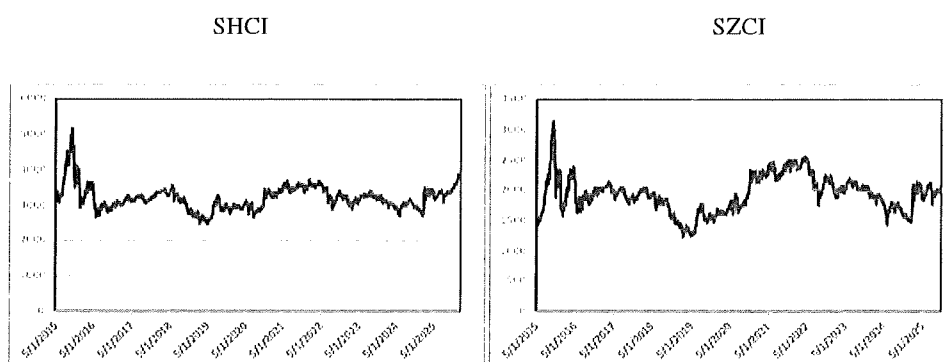
Given that (i) the above pricing mechanisms are common and accepted in the financial market and are in compliance with the local laws and regulations; and (ii) we have reviewed samples and collected information for transactions conducted with CITIC Group and its associates and with independent third parties across different securities and financial products and services and noted that the Group adopts similar pricing mechanisms for similar securities and financial products and services provided/received to/from CITIC Group and its associates and independent third parties, we are of the view that the transactions contemplated under the Framework Agreement shall be conducted on normal commercial terms and thus the prices and terms are fair and reasonable.

3. The Annual Caps

3.1 Analysis on the PRC financial markets and the Group's business performance

We have discussed with the management of the Group and were advised that the Group's business performance is highly correlated with the PRC financial markets. Set out below are (i) Shanghai Composite Index ("SHCI") and Shenzhen Composite Index ("SZCI") and the average daily trading volume; and (ii) the transaction volume of the PRC bond markets over the past ten years:

Graph 1: PRC stock markets





	For the year ended 31 December										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	1H2025
SHCI											
– Highest closing index	5,166	3,362	3,448	3,559	3,271	3,473	3,715	3,632	3,395	3,490	3,456
– Lowest closing index	2,927	2,656	3,053	2,483	2,464	2,660	3,358	2,886	2,899	2,702	3,097
Average daily trading volume (RMB billion)	42	18	18	15	22	27	33	31	29	41	45
SZCI											
– Highest closing index	3,141	2,138	2,047	1,961	1,783	2,333	2,562	2,528	2,191	2,134	2,123
– Lowest closing index	1,428	1,629	1,774	1,232	1,246	1,609	2,161	1,752	1,767	1,433	1,777
Average daily trading volume (RMB billion)	28	20	18	18	30	41	41	43	40	55	65

Source: Bloomberg

Table 1: PRC Bond Market

	Bond issue volume ⁽¹⁾ (RMB trillion)	Year-on-year change	Bond spot settlement volume ⁽²⁾ (RMB trillion)	Year-on-year change	Repurchase settlement volume ⁽²⁾ (RMB trillion)	Year-on-year change
2015	10.12	70.08%	60.54	95.43%	404.93	89.61%
2016	14.14	39.72%	79.53	31.36%	500.13	23.51%
2017	13.58	-3.96%	52.22	-34.42%	514.28	2.83%
2018	13.67	0.66%	77.93	49.24%	585.69	13.89%
2019	15.31	11.20%	139.40	78.86%	670.21	14.43%
2020	21.87	42.91%	153.16	9.87%	782.96	16.82%
2021	22.84	4.41%	141.47	-7.63%	892.20	13.94%
2022	25.01	9.50%	179.44	26.84%	1,146.57	28.51%
2023	26.99	7.92%	202.86	12.95%	1,409.46	22.93%
2024	27.82	3.07%	249.23	22.94%	1,381.53	-1.98%

Source: chinabond.com.cn (a website managed by CCDC)

Notes:

1. Referred to bond issue registered at CCDC.
2. Referred to bond/repurchase settlement through CCDC.

From 2015 to 1H2025, SHCI and SZCI exhibited volatility reflective of broader financial market turbulence in PRC stock exchanges, with SHCI plummeting from a high of 5,166 to a low of 2,927 in 2015, followed by a gradual recovery to highs of 3,715 in 2021 before dipping to 2,702 in 2024, while SZCI mirrored similar pattern, surging to 3,141 in 2015 before crashing to 1,428 and



rebounding to a high of 2,562 in 2021. Trading volumes also fluctuated sharply, from (i) RMB42 billion daily average in 2015 to a low of RMB15 billion in 2018, then climbing to RMB45 billion in 1H2025 for SHCI; and (ii) RMB28 billion in 2015 to a low of RMB18 billion in 2017 – 2018 and then surged to RMB65 billion in 1H2025 for SZCI. On a positive note, a marked improvement emerged since September 2024, as SHCI rocketed from 2,704 on 13 September 2024 to 3,490 on 8 October 2024 and then moved between 3,100 and 3,500 while SZCI followed similar trend, underscoring renewed investor confidence.

From 2015 to 2024, the PRC bond market displayed notable volatility as well, with bond issuance volumes surging 70.08% in 2015 and 39.72% in 2016 before contracting by 3.96% in 2017, then resuming its significant double-digit growth of 42.91% in 2020 and stabilizing at modest single-digit gains thereafter to reach RMB27.82 trillion by 2024. Bond spot settlement volumes mirrored this turbulence, exploding 95.43% in 2015 to RMB60.54 trillion, dipping 34.42% in 2017, and soaring 49.24% in 2018 and 78.86% in 2019, followed by a 7.63% pullback in 2021 before accelerating again to a 22.94% rise in 2024 at RMB249.23 trillion. Repurchase settlements grew more steadily overall, from RMB404.93 trillion in 2015 to RMB1,381.53 trillion in 2024, yet exhibited volatility with a 1.98% decline in 2024 after years of robust expansions up to 89.61% in 2015.

We have also assessed the Group's business performance and year-on-year change ("YoY") over the past ten years and a summary of the operating profit of its different business segments as extracted from the annual reports of the Company for the last ten financial years up to and including 2024 are set out as follows:

Table 2: A summary of operating segment information of the Group

(in RMB'000)	Investment		Brokerage	YoY	Trading	YoY	Asset	
	banking	YoY					management	YoY
2015	2,726,881	86%	13,690,687	168%	8,399,870	167%	3,920,664	23%
2016	2,474,819	-9%	5,702,865	-58%	1,262,780	-85%	3,357,050	-14%
2017	1,816,178	-27%	4,719,562	-17%	3,697,230	193%	3,549,411	6%
2018	1,207,116	-34%	3,059,408	-35%	3,792,566	3%	2,864,666	-19%
2019	2,064,824	71%	2,072,870	-32%	6,441,986	70%	3,646,639	27%
2020	3,105,806	50%	6,569,670	217%	2,685,322	-58%	4,712,994	29%
2021	4,213,668	36%	7,646,229	16%	10,769,485	301%	6,719,101	43%
2022	4,913,037	17%	3,948,969	-48%	10,867,492	1%	5,749,219	-14%
2023	2,511,187	-49%	3,510,579	-11%	12,987,449	20%	4,662,760	-19%
2024	783,293	-69%	4,933,128	41%	16,979,282	31%	4,548,932	-2%

The Group has four major business segments, namely investment banking, brokerage, trading and asset management. The Group's financial performance is generally in line with the market as evidenced by its substantial positive growth in operating profits across all major business segments in 2015 ranging from 23% to 168%. It has also seen considerable fluctuations in the operating profits in 2016-2018 as certain segments suffered from the market downturn and earned less profits as compared to prior years. In 2019 – 2021 when the PRC financial markets rebounded, its business



segments largely followed suit and recorded robust positive growth in their operating profits in 2021 when comparing the same in 2018. In 2022 – 2024, however, except for trading segment, the remaining business segments undergone contraction in their profits as compared to 2021.

3.2 Securities and Financial Products Transactions and Securities and Financial Services

3.2.1 Securities and Financial Products Transactions

3.2.1.1 Historical transaction amount:

Set out below are the historical total net inflow/outflow transaction amounts in respect of the Securities and Financial Products Transactions between the Group and CITIC Group and its associates for each of the two financial years ended 31 December 2024 and the six months ended 30 June 2025 as extracted from the letter from the Board:

Securities and Financial Products Transactions	Approximate historical transaction amounts		
	for the year ended		for the six
	31 December	31 December	months ended
	2023	2024	30 June
	(RMB ten thousand)	(RMB ten thousand)	(RMB ten thousand)
Total net inflow			
Total net cash inflow to the Group (excluding the amount of inter- financial institutions borrowings, repurchase agreements and beneficiary certificates)	6,495,790	4,402,084	1,679,617
Annual caps	15,500,000	17,300,000	19,500,000 <i>(note)</i>
Annual cap utilisation	41.9%	25.4%	n.a.
Total net outflow			
Total net cash outflow from the Group (excluding the amount of inter-financial institutions lending and reverse repurchase agreements)	7,142,255	9,266,035	4,018,355
Annual caps	19,000,000	21,000,000	23,500,000 <i>(note)</i>
Annual cap utilisation	37.6%	44.1%	n.a.

Note: The annual cap is for the full financial year ending 31 December 2025.



Total net inflow:

The annual cap utilisation rates for the two financial years ended 31 December 2024 were 41.9%, and 25.4% respectively. The net inflow mainly comprises the products issued and sold by the Group to, and the interests earned by the Group from the products issued by, CITIC Group and its associates. We have discussed with the management of the Group, and were advised that the relatively low annual cap utilisation rates in the past two years were mainly due to (i) the demand from CITIC Group and its associates for financial products issued by the Group being less than expected; (ii) less than expected amounts of fixed income products sold by the Group to CITIC Group and its associates; and (iii) less interests/income earned from the financial products issued by CITIC Group and its associates as a result of lower than expected amounts of financial products purchased by the Group from CITIC Group and its associates.

Total net outflow:

The annual cap utilisation rates for the two financial years ended 31 December 2024 were 37.6% and 44.1%, respectively. The net outflow mainly comprises the products issued and sold by CITIC Group and its associates to, and the interests earned by CITIC Group and its associates from the products issued by, the Group. We have discussed with the management of the Group, and were advised that the relatively low annual cap utilisation rates in the past two years mainly because (i) the Group purchased fewer than expected bonds from CITIC Group and its associates on the interbank market which were traded in an anonymous manner; (ii) the Group purchased fewer financial products from CITIC Group and its associates as the terms offered by them were not competitive as compared with the independent third parties'; and (iii) less interest/gain paid by the Group as less than expected purchase of the Group's financial products by CITIC Group and its associates.

3.2.1.2 Financial Product Annual Caps:

The Company estimates that the total net inflow/outflow in respect of the Securities and Financial Products Transactions between the Group and CITIC Group and its associates for each of the three financial years ending 31 December 2028 as follows:



Securities and Financial

Products Transactions

Proposed annual caps for the year ending		
31 December	31 December	31 December
2026	2027	2028
(RMB ten	(RMB ten	(RMB ten
thousand)	thousand)	thousand)

Total net inflow

Total net cash inflow to the Group
(excluding the amount of
financing transactions)

15,500,000 17,300,000 19,500,000

Total net outflow

Total net cash outflow from the
Group (excluding the amount of
financing transactions)

19,000,000 21,000,000 23,500,000

The estimated total net inflow and total net outflow for the next three years are the same as the existing annual caps in relation to total net inflow/outflow in 2023 – 2025. We have discussed with the relevant business departments of the Group on the projection basis for the Financial Product Annual Caps, which is summarized as follows:

- (i) Transactions relating to securities products with fixed income features and transactions relating to fixed income related derivative products

As set out in the letter from the Board, (i) the financial products with fixed income features include but not limited to bonds, funds, trusts, wealth management products, asset management plans, asset securitised products, bond lending and borrowing, structured products, swaps, futures, forwards, options and other financial products with fixed income features; and (ii) the fixed income related derivative products include but not limited to interest rates and credit derivatives.

We have discussed with and were advised by the relevant departments of the Group that the estimated net inflow/outflow in relation to this category has been determined after having taken into account various factors including but not limited to the following:

- (a) Historical transaction amounts and historical fixed income assets amounts under management. In particular, the historical net inflow and historical net outflow of the Group's fixed income department were RMB50.5 billion (having utilised approximately 44% of the net inflow annual cap allocated to the fixed income department for 2023) and RMB60.2 billion (having utilised approximately 52% of the net outflow annual cap allocated to the fixed income department for 2023) in 2023, and RMB42.0 billion (having utilised approximately 32% of the net inflow annual cap



allocated to the fixed income department for 2024) and RMB83.7 billion (having utilised approximately 64% of the net outflow annual cap allocated to the fixed income department for 2024) in 2024, respectively. The Group's asset under management (AUM), which represents the total market value of the investments managed on behalf of its clients, has maintained steady growth in the past few years. As AUM grows, the Group handles a larger pool of capital to conduct financial product transactions. The Group's AUM exceeded RMB1,556 billion as at 30 June 2025, representing over 10 times the estimated net inflow and 8 times estimated net outflow in 2026;

- (b) Commencement of new business. The Group's futures department has recently commenced proprietary bond trading with the investment quota expected to increase year by year in the future. The Group's futures department has started using own funds for investment in fixed income products since mid of 2024 and obtained an investment quota of RMB2 billion for 2025. Similarly, the Group has established an asset management subsidiary in March 2023 and its value of external investments recorded an increase of approximately 18% as at June 2025 as compared to the end of 2024 and it has plans to gradually further invest in fixed income products;
- (c) Possible high concentration of future transactions with CITIC Group and its associates as the transaction counterparty given most of the fixed income products are traded in an anonymous manner; and
- (d) Volatility and unpredictableness of the PRC financial markets as discussed in the section 3.1 above.

Based on the above, the net cash inflow of the products with fixed income feature from transactions with CITIC Group and its associates is estimated to be approximately RMB141.95 billion in 2026, RMB157.22 billion in 2027 and RMB177.18 billion in 2028, and the net cash outflow of such products from transactions with CITIC Group and its associates is estimated to be approximately RMB177.79 billion in 2026, RMB197.28 billion in 2027 and RMB221.80 billion in 2028.

(ii) Transactions relating to equity-linked products

As set out in the letter from the Board, the financial products under this category include but not limited to equity (including market-making activities on New Third Board), funds, trusts, wealth management products, asset management products and equity derivatives such as return swaps, future and options.



We have discussed with and were advised by the relevant departments of the Group that the estimated net inflow/outflow in relation to this category has been determined after having considered various factors including but not limited to the following:

- (a) Historical return swap and structured notes transaction amounts with both CITIC Group and its associates and independent third parties. Despite no historical return swap transaction with CITIC Group and its associates were recorded in the past two and a half years, the Group's return swap business maintained steady development with the historical return swap transactions with independent third parties amounted to a net inflow of RMB1,995.5 billion in 2023 and RMB1,952.0 billion in 2024. Given that CITIC Bank, which held a cash balance of RMB256.7 billion as at 30 June 2025, is the possible counterparty to the return swap connected transactions, the Group's stock derivative department has reserved a net inflow/outflow of RMB4.2 billion for each of the next three years to cater for the possible demand from CITIC Group and its associates for return swaps. The structured notes transaction with CITIC Group and its associates recorded a net total net inflow of RMB5.8 billion in 2023 and RMB24.0 billion in 2024, representing a year-on-year increase of 314%; and
- (b) Confirmed or potential equity-linked OTC product demand (the **"Equity-linked OTC Demand"**) collected from CITIC Group and its associates. We have reviewed the Equity-linked OTC Demand prepared by the Group's futures department and noted that the Equity-linked OTC Demand has set out the financial product types which fall under the equity-linked OTC product category, names of each potential connected counterparties which are members of CITIC Group; and their respective estimated transaction amounts amounting to an aggregate of (i) a net inflow of RMB43.0 million, RMB49.0 million and RMB55.9 million; and (ii) a net outflow of RMB43.0 million, RMB49.0 million and RMB55.9 million, in 2026, 2027 and 2028 respectively, which are used to determine the estimated equity-linked OTC product related net inflow/outflow. Furthermore, based on the wealth management business reports published on the website of CITIC Wealth Management Corporation Limited (**"CITIC Wealth"**), one of the major connected counterparties to the Group's equity-linked OTC product transactions, the total value of equity-linked wealth management products of CITIC Wealth increased from RMB1.59 billion as at 30 June 2024 to RMB2.48 billion as at 30 June 2025, representing a year-on-year increase of approximately 56%. As advised by the management of the Group, the significant increase in CITIC Wealth's total value of equity-linked wealth management products may lead to a potential increase in connected transactions in terms of such financial product.



Based on the above, the net cash inflow of the equity-linked products from transactions with CITIC Group and its associates is estimated to be approximately RMB12.00 billion in 2026, RMB14.30 billion in 2027 and RMB15.96 billion in 2028, and the net cash outflow of such products from transactions with CITIC Group and its associates is estimated to be approximately RMB11.16 billion in 2026, RMB11.25 billion in 2027 and RMB11.35 billion in 2028.

- (iii) Transactions relating to other related securities and financial products permitted by the regulatory authority

As set out in the letter from the Board, the financial products under this category include but not limited to futures, foreign exchange and commodities.

We have discussed with and were advised by the relevant departments of the Group that the estimated net inflow/outflow in relation to this category has been determined after having taken into account various factors including but not limited to the following:

- (a) Entry into of an International Swaps and Derivatives Association (ISDA) agreement with China CITIC Bank International Limited in 2025. As advised by the management of the Group, after the entering into of the ISDA agreement, the total net inflow and outflow of foreign exchange transactions with the CITIC Group and its associates in the first half of 2025 amounted to RMB23 million, approximately 70% of the total net inflow and outflow in 2024;
- (b) Confirmed or potential other types of OTC product demand (the “**Other OTC Demand**”) collected from CITIC Group and its associates. We have reviewed the Other OTC Demand prepared by the Group’s futures department and noted that the Other OTC Demand has set out the financial product types which fall under the other types of OTC product category, the names of each potential connected counterparties which are members of CITIC Group; and their respective estimated transaction amounts amounting to an aggregate of (i) a net inflow of RMB20.9 million, RMB26.7 million and RMB33.5 million; and (ii) a net outflow of RMB20.6 million, RMB26.6 million and RMB33.3 million, in 2026, 2027 and 2028 respectively, which are used to determine the estimated other types of OTC product related inflow/outflow.

Based on the above, the net cash inflow of other related securities and financial products from transactions with CITIC Group and its associates is estimated to be approximately RMB1.05 billion in 2026, RMB1.48 billion in 2027 and RMB1.86 billion in 2028, and the net cash outflow of such products from transactions with CITIC Group and its associates is estimated to be approximately RMB1.05 billion in 2026, RMB1.47 billion in 2027 and RMB1.85 billion in 2028.



Our Comments

Having considered the above basis and factors for projecting the Financial Product Annual Caps including but not limited to the following:

- historical transaction amounts. The Group's futures department attained a relatively high utilisation of 32% – 64% in terms of fixed income product related caps in 2023 – 2024 and significant growth in the total net inflow and outflow of foreign exchange transactions with the CITIC Group and its associates in the first half of 2025 after entry into the ISDA);
- historical growth rates. A 314% year-on-year increase in structured note related net inflow is seen in 2024;
- the investment quota of certain department. The Group's futures department has RMB2 billion investment quota for 2025, which is expected to further increase in the next three years;
- the capital size of the Group and major connected counterparty. The Group's AUM was RMB1,556 billion as at 30 June 2025. CITIC Bank's cash balance was RMB256.7 billion as at 30 June 2025;
- the confirmed or potential demand for certain financial products collected from CITIC Group and its associates plus potential demand arising from the recent significant increase in a major connected counterparty's total value of equity-linked wealth management products;
- the volatility and unpredictableness of the PRC financial markets. The average daily trading volume of SHCI and SZCI in the past 10.5 years were -56% – 43% YoY change and -28% – 62% YoY change, respectively. PRC bond issue volume, PRC bond spot settlement volume and PRC repurchase settlement volume were -4% – 70% YoY change -34% – 95% YoY change, and -2% – 90% YoY change, respectively. The markets saw marked improvement since September 2024 as discussed in section 3.1 above,

we are of the view that, although the overall historical utilisation rates were not high, the Financial Product Annual Caps, which enable the Group to seize business opportunities in the fast-changing financial markets and prepare for the possible booming of the financial markets, are fair and reasonable.



3.2.2 Maximum Daily Balances

3.2.2.1 Historical transaction amount:

Set out below are the highest historical balance of non-exempted loans between the Group and CITIC Group and its associates for each of the two financial years ended 31 December 2024 and the six months ended 30 June 2025 as extracted from the letter from the Board:

in RMB ten thousand

	For the year ended		For the six
	31 December	31 December	months ended
	2023	2024	30 June
			2025
Repurchase agreements			
Highest daily balance			
(including interests) of			
repurchase agreements	355,117	569,109	553,566
Annual caps	2,000,000	2,000,000	2,000,000 <i>(note)</i>
Annual cap utilisation rate	17.8%	28.5%	n.a.
Loans to inter-financial			
institutions and reverse			
repurchase agreements			
Highest daily balance (including			
interests) of loans to inter-			
financial institutions and reverse			
repurchase agreements	—	398,021	—
Annual caps	800,000	800,000	800,000 <i>(note)</i>
Annual cap utilisation rate	0	49.75%	n.a.

Note: The annual cap is for the full financial year ending 31 December 2025.

We have discussed with the relevant business departments of the Group and were advised that the relatively low annual cap utilisation rates as shown in the above table were mainly due to (i) the anonymous nature of the transactions on the interbank market which gave rise to the high degree of randomness of counterparties to the transactions; and (ii) the relatively favourable monetary policy implemented by the PRC government enabling the Group to maintain sufficient liquidity on its own in the past few years.

3.2.2.2 Annual caps:

The proposed annual caps for non-exempted loans transactions between the Group and CITIC Group and its associates for each of the three financial years ending 31 December 2028 are summarised as follows:



in RMB ten thousand

	For the year ending		
	31 December 2026	31 December 2027	31 December 2028
Non-exempted loans, including but not limited to repurchase and margin financing, to the Group			
Maximum daily balance of non-exempted loans, including but not limited to repurchase and margin financing, to the Group	2,000,000	2,000,000	2,000,000
Non-exempted loans, including but not limited to reverse repurchase and inter-financial institutional lending, to CITIC Group and its associates			
Maximum daily balance of non-exempted loans, including but not limited to reverse repurchase and inter-financial institutional lending, to CITIC Group and its associates	800,000	800,000	800,000

The maximum daily balance of non-exempted loans (including but not limited to repurchase and margin financing) to the Group for the next three years are the same as those in 2023-2025. We have discussed with and were advised by the relevant departments of the Group that the maximum daily balance of non-exempted loans (including but not limited to repurchase and margin financing) to the Group for the next three years has been determined after having considered various factors including but not limited to the following:

- (a) Highest historical daily balance of non-exempted loans to the Group provided by CITIC Group and its associates and high volatility in such daily balance. The highest daily balance of non-exempted loans to the Group provided by CITIC Group and its associates during the 2.5 years ended 30 June 2025 was RMB5.69 billion, whilst the lowest daily balance was nil;
- (b) Highest historical daily balance of repurchase transaction amount (including those with CITIC Group and its associates and independent third parties) and the high degree of randomness of the counterparty due to the anonymous nature of the interbank market transactions. The highest historical daily balance of repurchase transaction amount (including those with CITIC Group and its associates and independent third parties) in 2024 and in first half of 2025 was



approximately RMB159.46 billion and RMB169.82 billion, respectively. The relevant departments of the Group estimated that certain portion of such amount in the next three years might come from CITIC Group and its associates; and

- (c) Possible margin financing transactions between the subsidiaries of the Group in Hong Kong and CITIC Group and its associates. We have obtained and reviewed the extracts of facility letter and loan agreements which set out facility or loan limits obtained by the subsidiaries of the Group in Hong Kong and noted that they have obtained quotas amounting to USD330 million (approximately RMB2,567 million) for margin financing as at the Latest Practicable Date.

The maximum daily balance of non-exempted loans (including but not limited to reverse repurchase and inter-financial institutional lending) to CITIC Group and its associates for the next three years are the same as those in 2023-2025. We have discussed with the relevant business departments of the Group and were advised that due to the financial markets' volatility and the anonymous nature of the interbank market where the Group's counterparties are interchangeable between CITIC Group and its associates and independent third parties. Given the highest daily balances of the Group's exempted loan business in the first half of 2025 represented approximately 8 – 8.5 times the maximum daily balance of non-exempted loans to/from the Group by/to CITIC Group and its associates for each of 2026 – 2028 and the randomness of the Group's counterparties, the Group tends to maintain the same annual caps as the previous ones to avoid any unnecessary disruption to its ordinary course of business. We were further advised that (i) the highest daily balance of non-exempted loans to CITIC Group from January 2023 to 30 June 2025 was RMB3.98 billion, whilst the lowest daily balance of such transaction was nil; and (ii) the highest daily balance of non-exempted loans to CITIC Group and its associates and independent third parties in 2024 and the first half of 2025 was RMB43.02 billion and RMB66.06 billion, respectively.

Our Comments

Considering that

- the anonymous and randomness nature of the transactions on the interbank market may lead to high concentration of future transactions with one counterparty (i.e. CITIC Group and its associates);
- the interchangeability between CITIC Group and its associates and independent third parties as the Group's counterparties under the repurchase transactions and non-exempted loans may result in higher daily non-exempted loan balances. The highest daily balances of the Group's exempted loan business in the first half of 2025 represented approximately 8 – 8.5 times the maximum daily balance of non-exempted loans to/from the Group by/to CITIC Group and its associates for each of 2026 – 2028; and



- our discussion on the volatility and unpredictableness of PRC and Hong Kong financial markets. The average daily trading volume of SHCI and SZCI in the past 10.5 years were -56% – 43% YoY change and -28% – 62% YoY change, respectively. PRC bond issue volume, PRC bond spot settlement volume and PRC repurchase settlement volume were -4% – 70% YoY change, -34% – 95% YoY change, and -2% – 90% YoY change, respectively. The markets saw marked improvement since September 2024 as discussed in section 3.1 above,

we consider the annual caps for non-exempted loans between the Group and the CITIC Group and its associates to be fair and reasonable.

3.2.3 Provision of the Securities and Financial Services

3.2.3.1 Historical transaction amount:

Set out below are the historical transaction amounts in respect of the Securities and Financial Services between the Group and CITIC Group and its associates for each of the two financial years ended 31 December 2024 and the six months ended 30 June 2025 as extracted from the letter from the Board:

Securities and Financial Services	Approximate historical transaction amounts		
	for the year ended		for the six
	31 December	31 December	months ended
	2023	2024	30 June
	(RMB ten	(RMB ten	(RMB ten
	thousand)	thousand)	thousand)
Income derived from provision of Securities and Financial Services by the Group to CITIC Group and its associates	99,983	72,870	27,297
Annual caps	350,000	400,000	500,000 ^(note)
Annual cap utilisation rate	28.6%	18.2%	n.a.
Expenses incurred for Securities and Financial Services provided by CITIC Group and its associates to the Group	14,395	23,019	7,500
Annual caps	110,000	130,000	160,000 ^(note)
Annual cap utilisation rate	13.1%	17.7%	n.a.

Note: The annual cap is for the full financial year ending 31 December 2025.

As advised by the relevant business departments of the Group, the low annual cap utilisation for income derived from provision of Securities and Financial Services by the Group to CITIC Group and its associates was mainly due to (i) a decrease in interest income as a result of lower deposit interest rate after the PRC government has continued to implement a



loose monetary policy to boost the economy; (ii) a decrease in income derived from investment advisory services and securities and financial advisory services as less-than-expected demand from CITIC Group and its associates in the past few years; (iii) some new services not fully launched as expected; (iv) delay in receipt of underwriting fees and sponsor fees as a result of delay in timetable of some projects; and (v) less-than-expected volume and scale of securities and financial products from CITIC Group and its associates that required the Group to provide sales agency service, resulting in less-than-expected sales agency service revenue earned by the Group.

As advised by the relevant business departments of the Group, the low annual cap utilisation for expenses incurred for Securities and Financial Services provided by CITIC Group and its associates to the Group was mainly due to (i) the terms of certain services offered by independent third parties were more favourable; and (ii) some securities and financial products issuance plan aborted in the end.

3.2.3.2 Financial Service Annual Caps:

Set out below are the Financial Service Annual Caps for each of the next three years ending 31 December 2028 as extracted from the letter from the Board:

Securities and Financial Services	Approximate transaction amounts		
	for the year ending		
	31 December	31 December	31 December
	2026	2027	2028
	(RMB ten	(RMB ten	(RMB ten
	thousand)	thousand)	thousand)
Income to be derived from provision of Securities and Financial Services by the Group to CITIC Group and its associates	350,000	400,000	500,000
Expenses to be incurred for Securities and Financial Services provided by CITIC Group and its associates to the Group	110,000	130,000	160,000

The projected income to be derived from provision of Securities and Financial Services by the Group to CITIC Group and its associates and the projected expenses to be incurred for Securities and Financial Services provided by CITIC Group and its associates to the Group in 2026 – 2028 are the same as those in 2023 – 2025. We have discussed with the relevant departments of the Group on the projection basis for the Financial Service Annual Caps, which is summarized as follows:

- (i) Income derived from provision of Securities and Financial Services by the Group to CITIC Group and its associates



As set out in the letter from the Board, the income derived from provision of Securities and Financial Services by the Group includes underwriting and sponsorship fees, other investment banking service fees, brokerage service fees, financial products sales agency fees, entrusted asset management fees and other securities and financial advisory and consulting fees.

We have discussed with and were advised by the relevant departments of the Group that the estimated income to be derived from provision of Securities and Financial Services by the Group to CITIC Group and its associates has been determined after having taken into account various factors including but not limited to the following:

- (a) Historical transaction amounts. Despite the fact that the Group's investment banking segment suffered 24% – 37% YoY decreases in its segment revenue in 2023 – 2024 according to the Group's annual reports, the highest annual underwriting commission, sponsorship fees and other service fees received from CITIC Group and its associates in 2023 – 2024 amounted to RMB85.8 million, having utilized around 34% of the estimated income cap allocated to the investment banking department. In view of the marked market improvement since September 2024 as discussed in section 3.1, the Group expects the revenue from the underwriting commission, sponsorship fees and other service fees to exceed the previous high. Furthermore, in April 2025, the overseas investment banking division completed a M&A deal, generating an income of approximately US\$2.57 million which utilized around 25% of the 2025 cap allocated to the investment banking department. The Group's South China division recorded the highest annual deposit income of RMB10.33 million derived from customers' funds during 2020 – 2024. The Group's settlement department recorded the highest annual deposit income of RMB464 million derived from customers' funds during 2020 – 2024;
- (b) Historical transaction growth rates. We have obtained historical transaction amounts in relation to brokerage service fees and financial product sales agency fees from the Group's futures department and noted that the highest historical annual growth rate was 58% in 2020 and 69% in 2024. Furthermore, we have been advised by (i) the Group's wealth management department that its brokerage revenue has registered a 41% year-on-year increase in 2024 and (ii) the Group's Shandong division that its financial product sales agency income doubled in 2021 as compared to 2020 and such strong growth trend may appear in the next three years;
- (c) Historical scale of proprietary/customers' funds. As advised the Group's Shandong division, the proprietary fund maintained by it ranged from RMB624 million to RMB788 million with an annual growth rate ranging from 3% to 22% during 2022 – 2024. As advised by the Group's futures



department, the customer' funds ranged from RMB133 billion to RMB150 billion with an annual growth rate ranging from 5% to 7% during 2022 – 2024;

- (d) Ongoing projects and potential projects in the next three years. We have obtained and reviewed the list of ongoing projects and potential projects with estimated revenue and relevant information in the next three years from the Group's investment banking department and noted that the underwriting commission, sponsorship fees and other service fees to be received from CITIC Group and/or its associates for the next three financial years ending 31 December 2028 will be RMB224 million to RMB262 million; and
 - (e) Trading in financial markets has been gradually become more active since September 2024 as discussed in section 3.1 above.
- (ii) Expenses incurred for Securities and Financial Services provided by CITIC Group and its associates to the Group

As set out in the letter from the Board, the expenses incurred for Securities and Financial Services provided by CITIC Group and its associates to the Group include deposit services, financial products sales agency services, client deposits management and custody services, loan services and other securities and financial advisory and consulting services, money brokerage services and commodities services, etc.

We have discussed with and were advised by the relevant departments of the Group that the estimated expenses to be incurred for Securities and Financial Services provided by CITIC Group and its associates to the Group have been determined after having considered various factors including but not limited to

- (a) Historical transaction amounts. As advised by the Group's futures department, the average annual agency sales service fees paid by it to CITIC Group and its associates in relation to fund of funds (FOF) products exceeded RMB24 million in the past three years. As advised by the Group's settlement department, the highest annual custody service and client deposit management service fees paid in 2020 – 2024 was RMB21.4 million;
- (b) New financial products to be issued by the Group that require agency sales service from CITIC Group and its associates. As advised by the Group's futures department, new fixed income and OTC derivatives products with an estimated scale of RMB1.5 billion may roll out in the next three years which may require agency sales service from CITIC Group and its associates;



- (c) Scale of proprietary/customers' funds as discussed above. The large proprietary/customers' funds and their tendency for further growth in the future may lead to increases in expenses for deposit services and client deposits management and custody services; and
- (d) Trading in financial markets has been gradually become more active since September 2024 as discussed in section 3.1 above.

Our Comments

Having considered the above basis and factors for projecting the Financial Service Annual Caps including but not limited to the following:

- historical amounts. The considerable underwriting commission, sponsorship fees and other service fees were received from CITIC Group and its associates even during a business downturn in 2023 – 2024 and the Group's South China division and settlement department recorded highest annual deposit income of RMB10.33 million and RMB464 million in 2020 – 2024 respectively and the Group's futures department paid average annual agency sales service fees exceeding RMB24 million to CITIC Group and its associates in the past three years. In particular, the Group has completed a sizable M&A deal generating an income of US\$2.57 million in first half of 2025, which utilized around 25% of the 2025 cap allocated to the investment banking department,
- historical growth rates. Brokerage service fees saw the highest growth rate of 58% in 2020 and financial product sales agency fees, which were received from CITIC Group and its associates by the Group's futures department, grew 69% in 2024, and
- the Group's business plan. The Group's ongoing and potential investment banking projects and new financial products to be launched may require agency sales service from CITIC Group and its associates, alongside the trading in financial markets having gradually become more active since September 2024 as discussed in section 3.1 above,

we are of the view that, although the overall historical utilisation rates were low, the Financial Service Annual Caps which enable the Group to seize business opportunities in the fast-changing financial markets and prepared for possible booming of the financial markets, are fair and reasonable.



4. Internal control

4.1 Securities and Financial Products Transactions

As set out in the letter from the Board, to ensure the terms of the Securities and Financial Products Transactions are on normal commercial terms or on terms no less favourable than terms applicable to independent third parties, the Group has implemented internal approval and monitoring procedures, including the following:

- (a) the Group has established its internal guidelines and policies for conduct of certain types of securities and financial products as well as the internal procedures and systems for approval and supervision of such transactions and lending and borrowings. Such policies and guidelines would set out the requirements for pre-trading pricing enquiries, applicable interest rates, the procedures for price determination, approval authority and procedures, record keeping, supervision and review procedures for different types of transactions and businesses.
- (b) for example, for products with fixed income features, transactions through the interbank bond market and PRC exchange bond market shall be submitted to the Company's internal system for approval by the relevant department, and for record keeping. The risk management department of the Company will, through the system and daily report issued, monitor and control the transaction process and overall business operations. For capital operations, the Company, in accordance with the PRC rules and regulations, has set up its own internal system for pre-approval of borrowing and lending, collateralized securities repurchase and buyout repurchase, which would require pre-approval by the relevant department to ensure that any such transactions are conducted at market prices.
- (c) for financing transactions involving loans from and to CITIC Group and its associates, the individual department will control the levels of borrowings, including collateralized securities repurchase and buyout repurchase, and the loans to CITIC Group and its associates to ensure compliance with the maximum daily balances. Each department has an annual plan for borrowings, which will set a limit on the level of borrowings. In addition, each business department has designated contact persons for connected transactions, who have received trainings on the requirements relating to connected transactions. All connected transactions, once identified and conducted, will be recorded by the relevant department, which will check to ensure that all applicable restrictions, including the level of borrowings and the maximum daily balances, are observed and complied with.
- (d) the contact persons for connected transactions of the business departments of the Company are responsible for regularly monitoring whether the actual transaction amounts would exceed the annual caps or the maximum daily balances and make alert when necessary.



- (e) the compliance department of the Company will collect data from all business lines and review the actual amounts of different types of securities and financial products transactions on a regular basis to ensure that the annual caps and the maximum daily balances would not be exceeded and remind the business departments on the control of such connected transactions. The compliance department will also review relevant agreements and grant approval, where appropriate.
- (f) the performance of continuing connected transactions is also subject to annual review by all independent non-executive Directors and the auditors of the Company. The Related Party Transactions Control Committee comprising all independent non-executive Directors is also responsible for monitoring and reviewing major and continuing connected transactions of the Company.
- (g) the Related Party Transactions Control Committee will review matters related to major connected transactions and form a written opinion to the Board for review and report the same to the supervisory committee of the Company.
- (h) the Company establishes a specific auditing mechanism for major connected transactions. The auditing department of the Company audits the major connected transactions one by one and submits the audit report to the Board for consideration.

4.2 Securities and Financial Services Transactions

As set out in the letter from the Board, the Group has adopted a series of internal pricing policies and approval procedures to regulate the mutual provision of securities and financial services between the Group and CITIC Group and its associates. The major internal policies include the following:

- (a) the terms (including pricing terms) in respect of the securities and financial services contemplated under the Framework Agreement shall be comparable to those offered by/to an independent third party for comparable services, and shall be subject to the same internal selection, approval and supervision procedures and pricing policies applicable to an independent third party.
- (b) for services provided by the Group to CITIC Group and its associates, the Company will offer similar pricing terms to CITIC Group as those to other independent third parties and no preferential terms shall be provided to CITIC Group and its associates. Prior to entering into a securities and financial service transaction, the relevant business departments of the Company would conduct inspection and due diligence, and assess whether the pricing is in compliance with relevant policy and procedures of the Group and whether the price is fair and reasonable, after taking into consideration individual factors such as the services provided and will grant approval, where appropriate.
- (c) for securities and financial services provided by CITIC Group and its associates to the Group, the Company will select suppliers and determine the relevant terms of the transactions through inquiry and negotiation process. The Company will also gather



information on its suppliers and their levels of fees and prices and compare the fees/ prices and quality of services before selection. A prior assessment will be conducted by the responsible officer to assess whether the proposed prices by suppliers are fair and reasonable before submission for consideration and approval by the head of the relevant department. In such case, any offer from CITIC Group or its associates has to pass through the selection process as other suppliers before it could be appointed. As the Company will consider the various updated market information available and because of the uniqueness of financial transactions, there is no specific internal requirement as to the number of suppliers that will be selected for a particular type of services.

- (d) the compliance department of the Group will review relevant agreements and grant approval, where appropriate. The conduct of continuing connected transactions is also subject to annual review by all independent non-executive Directors and the auditors of the Company. The Related Party Transactions Control Committee comprising all independent non-executive Directors is also responsible for monitoring and reviewing major and continuing connected transactions of the Company.

4.3 Our assessment of the internal control procedures

We have obtained and reviewed samples or information in relation to the transactions entered into between the Group on one hand and the CITIC Group and its associates on the other under the Framework Agreement and those between the Group and the independent third parties to assess whether those transactions complied with the terms of the existing Framework Agreement. Our work done is set out in the sub-section headed “2.2 Our discussion and assessment” in this letter.

Given that (i) the Group has established internal pricing guidelines and policies to monitor the transactions contemplated under the Framework Agreement; (ii) the designated persons or departments or committees of the Group would review the transactions contemplated under the Framework Agreement; (iii) the independent non-executive Directors will, pursuant to Rule 14A.55 of the Hong Kong Listing Rules, review, among other things, whether the transactions contemplated under the Framework Agreement are conducted on normal commercial terms; and (iv) the auditors of the Company will, for the purpose of Rule 14A.56 of the Hong Kong Listing Rules, review, among other things, whether the transactions contemplated under the Framework Agreement are conducted in accordance with its terms, we are of the view that the Company has adequate internal control measures in place to ensure the transactions contemplated under the Framework Agreement are conducted in accordance with the pricing policies under the Framework Agreement and on normal commercial terms.



OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the Framework Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole; and (ii) the terms of the Framework Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves also recommend, the Independent Shareholders, to vote in favor of the relevant ordinary resolution to be proposed at the EGM so as to approve the Framework Agreement proposed to be renewed and the proposed Annual Caps and Maximum Daily Balances contemplated thereunder.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.