華富建業企業融資有限公司
Quam Capital Limited
於香港註冊成立之有限公司
Incorporated in Hong Kong with limited liability

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23 January 2024

Changan Minsheng APLL Logistics Co., Ltd.
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The PRC

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS FOR 2024 AND THE MAJOR TRANSACTION REGARDING THE DEPOSIT TRANSACTION WITH ZHUANGBEI FINANCE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-Exempt Continuing Connected Transactions for 2024 contemplated under the Framework Agreements for the Non-Exempt Continuing Connected Transactions, details of which are set in the letter from the board (the "**Letter from the Board**") contained in the circular of the Company dated 23 January 2024 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the announcement of the Company dated 30 October 2023, the Company entered into the following framework agreements, each for a term of three years commencing on 1 January 2024 and expiring on 31 December 2026:

(1) the framework agreement with Changan Automobile, pursuant to which the Group shall provide logistics services (including but not limited to the following logistics services: finished vehicle transportation, tire assembly, and supply chain management for car raw materials, components and parts) to Changan Automobile and its associates;

(2) the framework agreement with China Changan, pursuant to which the Group shall provide logistics services (including but not limited to the following logistics services: finished vehicle transportation, tire assembly, supply chain management for car raw materials, components and parts; and logistics services for non-automobile products, such as transformer, steel, optical product and specialty product) to China Changan and its associates;

(3) the framework agreement with Minsheng Industrial, pursuant to which the Group shall purchase logistics services from Minsheng Industrial and its associates; and

(4) the framework agreement with Zhuangbei Finance, pursuant to which Zhuangbei Finance shall provide the Group with settlements, deposit and loans, note discounting services.

The existing annual caps in respect of the Non-Exempt Continuing Connected Transactions have expired on 31 December 2023. Accordingly, the Company and each of Changan Automobile, China Changan, Minsheng Industrial and Zhuangbei Finance, entered into the framework agreements on 30 October 2023 with a view to carry out the Non-Exempt Continuing Connected Transactions for the three years ending 31 December 2026.

As at the Latest Practicable Date, China Changan holds approximately 25.44% of the total issued share capital of the Company and 17.97% equity interests in Changan Automobile. In addition, CSGC holds 100% equity interests in China Changan and 14.22% equity interests in Changan Automobile. SIAMC, a wholly-owned subsidiary of CSGC, holds 5.10% equity interests in Changan Automobile. The ultimate shareholder of SIAMC is CSGC. The ultimate beneficial owner of CSGC is the SASAC of the State Council of the PRC. Zhuangbei Finance is a member company of CSGC in that CSGC holds 22.90% equity interests and China Changan holds 13.27% equity interests. The ultimate beneficial owner of Zhuangbei Finance is CSGC. As at the date of the Circular, the Company holds approximately 0.81% equity interests in Zhuangbei Finance. Therefore, according to the Listing Rules, the transactions between the Group and each of China Changan, Changan Automobile, Zhuangbei Finance and their respective associates constitute connected transactions of the Company.

In addition, Minsheng Industrial is a substantial shareholder of the Company, holding approximately 15.90% of the total issued share capital of the Company, thus Minsheng Industrial and its associates are also connected persons of the Company. The ultimate shareholder of Minsheng Industrial is Chongqing SASAC of the PRC.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Li Ming, Mr. Man Wing Pong and Ms. Chen Jing, has been established to advise the Independent Shareholders as to (i) whether the entering into of the Non-Exempt Continuing Connected Transactions for 2024 is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Independent Shareholders as a whole; (ii) whether the terms of the Non-Exempt Continuing Connected Transactions for 2024 are normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned; (iii) whether the Proposed Cap in respect of each of the Non-Exempt Continuing Connected Transactions for 2024 have been fairly and reasonably arrived at; and (iv) how the Independent Shareholders should vote in respect of the proposed resolution at the EGM to approve the Non-Exempt Continuing Connected Transactions for 2024 (including the Proposed Cap for each of Non-Exempt Continuing Connected Transactions), taking into account our recommendation.

THE INDEPENDENT FINANCIAL ADVISER

As the independent financial adviser, our role is to give independent opinions to the Independent Board Committee and the Independent Shareholders as to (i) whether the entering into of the Non-Exempt Continuing Connected Transactions for 2024 is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Independent Shareholders as a whole; (ii) whether the terms of the Non-Exempt Continuing Connected Transactions for 2024 are normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned; (iii) whether the Proposed Cap in respect of each of the Non-Exempt Continuing Connected Transactions have been fairly and reasonably arrived at; and (iv) how the Independent Shareholders should vote in respect of the proposed resolution at the EGM to approve the Non-Exempt Continuing Connected Transactions for 2024 (including the Proposed Cap for each of Non-Exempt Continuing Connected Transactions).

Except for being appointed as independent financial adviser to the Company in respect of the Non-Exempt Continuing Connected Transactions for 2024, we have not acted as an independent financial adviser and have not provided any other services to the Company during the past two years. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties that could reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-Exempt Continuing Connected Transactions for 2024. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties to the Non-Exempt Continuing Connected Transactions for 2024, and accordingly, are eligible to give independent advice and recommendations on the Non-Exempt Continuing Connected Transactions for 2024. Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered and reviewed, among other things:

(i) the Framework Agreements for the Non-Exempt Continuing Connected Transactions;

(ii) the Circular;

(iii) the annual report of the Company for the financial year ended 31 December 2022 (the "**Annual Report 2022**") and the interim report of the Company for the six months ended 30 June 2023 (the "**Interim Report 2023**"); and

(iv) the relevant market data and information available from public sources and the website of the Stock Exchange.

We have also relied on all relevant information and representations supplied, and the opinions expressed, by the Directors and the management of the Company (collectively, the "**Management**") and discussed with them about the underlying assumptions in relation to the Non-Exempt Continuing Connected Transactions. We have assumed that all such information and representations contained or referred to in the Circular are true and accurate in all material respects as the date thereof. Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have also confirmed that, having made all reasonable enquiries and to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular, the omission of which make any statement in the Circular misleading. We have found no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management, and they have confirmed that no material information have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading. Based on the reasonable steps we have taken as mentioned above, we have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, nor have we conducted an independent investigation into the business affairs, operations, financial position or future prospects of each of the Company, and any of their respective subsidiaries and associates and parties acting in concert with them.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Non-Exempt Continuing Connected Transactions for 2024, we have taken into account the following principal factors and reasons.

1. Information of the Group

1.1. Background information of the Group

The Group is principally engaged in supply chain management services for automobiles and automobile raw materials, components and parts. Such services include finished vehicle transportation and related logistics services, automobile raw materials and components and parts supply chain management services, tire sub-packaging and after sales logistics services, among others. Besides, the Company also provides non-automobile commodities transportation services.

1.2. Financial information of the Group

Set out below is a summary of the financial information of the Group for the two financial years ended 31 December 2021 (“**FY2021**”) and 31 December 2022 (“**FY2022**”) as extracted from the Annual Report 2022, and the six months ended 30 June 2022 (“**HY2022**”) and 30 June 2023 (“**HY2023**”) as extracted from the Interim Report 2023:

	FY2021 *RMB’000* *(audited)*	**FY2022** *RMB’000* *(audited)*	**HY2022** *RMB’000* *(unaudited)*	**HY2023** *RMB’000* *(unaudited)*
Revenue	6,020,899	7,697,350	3,439,961	3,984,312
- *Transportation of finished vehicles*	3,115,123	3,713,250	1,810,828	1,857,777
- *Supply chain management for vehicle raw materials, components and parts*	2,261,879	2,886,900	1,421,417	1,620,884
- *Sale of packing materials and the processing of tyres*	643,897	1,097,200	207,716	505,651
Profit for the year / period	42,109	46,516	25,140	28,176

	As at 31 December 2021	As at 31 December 2022	As at 30 June 2023
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*
Total assets	4,176,276	4,916,259	5,378,248
- *Cash and cash equivalents*	992,314	755,717	1,035,924
Total liabilities	2,080,203	2,754,385	3,188,915
Net assets	2,096,073	2,161,874	2,189,333

Comparison between FY2021 and FY2022

The revenue of the Group increased from approximately RMB6,020.9 million for FY2021 to approximately RMB7,697.4 million for FY2022, representing an increase of approximately 27.8%. According to the Annual Report 2022, the increase of revenue of the Group was mainly attributable to the increase in the sales volume of its major customer being Changan Automobile, resulting in the corresponding growth in the demand of finished vehicles transportation from the Group, and the corresponding increase in the demand for supply chain management services of automobile raw materials and components and parts.

The Group recorded a net profit of approximately RMB42.1 million and RMB46.5 million for FY2021 and FY2022 respectively, representing an increase of approximately 10.5%. The increase was mainly due to the significant increase in the revenue as aforementioned.

Comparison between HY2022 and HY2023

The revenue of the Group increased from approximately RMB3,440.0 million for HY2022 to approximately RMB3,984.3 million for HY2023, representing an increase of approximately 15.8%, which attributed to measures such as market expansion. According to the Interim Report 2023, the increase of revenue of the Group was mainly attributable to the increased sales of packaging materials and the processing of tyres by approximately 143.4% from approximately RMB207.7 million for HY2022 to approximately RMB505.7 million for HY2023.

The Group recorded a net profit of approximately RMB25.1 million and RMB28.2 million for HY2022 and HY2023 respectively. The increase was mainly due to the increase in the revenue as aforementioned and the implementation of the cost-effectiveness programme and market expansion.

The Group's net assets remained relatively stable at approximately RMB2.1 billion, RMB2.2 billion and RMB2.2 billion as at 31 December 2021 and 2022 and 30 June 2023, respectively.

1.3. Outlook of the Group

While the automobile industry in the PRC has been affected by uncertainties in the international community and changing domestic and international situations, for example, changes in energy prices, foreign exchange rate fluctuations, Russia-Ukraine conflict and tightened monetary policy in the United States, the automobile market in the PRC is obtaining support from the PRC government. The PRC government has recently implemented or is going to implement a number of measures to support the automobile market in the PRC, including but not limited to (i) preferential tax policies and subsidies for vehicles purchasing, (ii) stablising the consumption of automobile by not allowing to stipulate any new rules limiting purchase volume, and encouraging areas to extend the limit on purchase volume of vehicles, and (iii) encouraging the retirement of vehicles that produce emissions not in accordance with the emission standards and conditionally launching old-for-new scheme in order to expedite the retirement of substandard or old vehicles. According to the China Association of Automobile Manufacturers (http://www.caam.org.cn/chn/4/cate_32/con_5236151.html), from January to August 2023, the automobile production volume and sales volume in the PRC increased by approximately 7.4% and 8% as compared with the corresponding period in 2022. According to the 《汽車行業穩增長工作方案（2023－2024年）》 published by the PRC government (https://www.gov.cn/zhengce/zhengceku/202309/content_6901733.htm), the automobile industry in the PRC targeted to achieve the sales of automobile of approximately 27 million units for 2023, representing a growth of approximately 3% as compared to 2022.

In particular, the production and sales of new energy vehicles continued to present a high growth and the production and market share of Chinese passenger car brands increased significantly. Auto exports continued to grow rapidly, showing a rising international competitiveness of Chinese brands. In June 2023, three PRC government departments including the Ministry of Finance, the State Administration of Taxation, and the Ministry of Industry and Information Technology jointly issued the Announcement on Continuing and Optimising the Policy for the Reduction of New Energy Vehicle Purchase Tax (https://www.gov.cn/zhengce/zhengceku/202306/content_6887734.htm), stating that the validity of the policy of reduction and exemption of purchase tax of new energy vehicles will be extended up to 31 December 2027 from 31 December 2023. It is expected that the new energy vehicles will continue to maintain rapid growth.

2. The Framework Agreement(s) for the Non-Exempt Continuing Connected Transactions

2.1. Information of Changan Automobile, China Changan, Minsheng Industrial and Zhuangbei Finance

Changan Automobile produces and sells automobiles and is the major customer of the Group.

China Changan is primarily engaged in automobile and motorcycle production; automobile and motorcycle engines production; the design, development, production and sale of automobile and motorcycle components and parts; sale of optical devices, electronic optoelectronic devices, night vision devices information and communication devices and the relevant technical development, technical transfer, technical consultation, technical services and import and export business and consultation on assets merger and asset restructuring.

Minsheng Industrial engages in transportation via rivers and by sea.

Zhuangbei Finance is principally engaged in accepting enterprises deposit, and processing financial activities such as enterprise loan and fund raising as approved by NFRA. Zhuangbei Finance is a non-bank financial institution regulated by NFRA.

2.2. Reasons for and benefits of the Non-Exempt Continuing Connected Transactions for 2024

2.2.1. Logistics services provided by the Group to Changan Automobile and its associates

Since the establishment of the Company, the Group has had maintained a business relationship with Changan Automobile. Provision of logistics services to Changan Automobile and its associates by the Group occupies a major portion of the Group's business, thus contributing significantly to the revenue of the Group. As such, the Company believes that it is essential to maintain the provision of logistics services by the Group to Changan Automobile and its associates to maintain such source of revenue.

According to announcement of Changan Automobile, for the 11 months ended 30 November 2023, the production volume and sales volume of Changan Automobile reached approximately 2.36 million vehicles and 2.34 million vehicles, representing an increase of approximately 14.8% and 11.9% as compared with the corresponding period in 2022. It is expected that the logistics demand of Changan Group will increase taking into account the sales performance of the Changan Automobile products and the new cars brands released recently. Changan CS75 has ranked Top 10 Best Selling Cars in China in the first half of 2023. Deepal, a new energy vehicle brand of Changan Automobile, and Avatr, a high-end intelligent EV brand, have received good response in the market. Changan Automobile also released a new brand of new energy cars, Changan Qiyuan, in August 2023, which will release such models as A05, A06, A07, Q05 and so on. Therefore, the Board is of the view, and we concur, that the continuing connected transaction with respect to the provision of logistics services to Changan Automobile and its associates is in the interests of the Company and its Shareholders as a whole, and is in the ordinary and usual course of business of the Group.

2.2.2. Logistics services provided by the Group to China Changan and its associates

According to the Letter from the Board, the Group's development strategies include (i) taking root in automobile logistics, which is the foundation of the Group, and continuously consolidating the existing traditional business and further exploring the rest of the logistics demand of Changan Group by improving the Group's logistics technology, service quality and logistics network; (ii) taking advantage of the comparatively strong service capacity of the Group in the domestic automobile logistics market to explore automobile logistics business with non-related parties; and (iii) gradually exploring non-automobile logistics business on top of the automobile logistics business to diversify the revenue portfolio of the Group.

China Changan is a large enterprise with businesses mainly ranging from parts and components to automobile retail, including parts production such as automobile engines, transmissions, power components, chassis, shock absorbers, supercharges, pistons and so on. According to the Letter from the Board, China Changan has also established a wholly-owned subsidiary which will build its research and development centres in each of Chongqing, Shanghai and Chengdu, with products covering smart car braking, steering, suspension, lightweight and chassis integration, etc. The Group stepped up efforts in exploring the parts business of China Changan and its associates ever since China Changan became one of the substantial shareholders of the Company. Currently, the Group has established steady business relationships with several member companies of China Changan, by providing logistics services such as automobile parts distribution, transportation, storage, etc. Therefore, the Board is of the view, and we concur, that the continuing connected transaction with respect to the provision of logistics services to China Changan and its associates is in the interests of the Company and its Shareholders as a whole, and is in the ordinary and usual course of business of the Group.

2.2.3. Logistics services provided to the Group by Minsheng Industrial and its associates

According to the Letter from the Board, the Group is an automobile logistics service provider for providing comprehensive logistics solution to customers but it currently does not have any vessel or enough freight carriers to ensure an independent operation of business. Therefore, the Group needs to purchase logistics services from suppliers with sufficient transportation capacity and logistics facilities and equipment. Minsheng Industrial is equipped with ro-ro ships of various volumes and car transporters that is compliant with the relevant regulation and has extensive, well-established logistics network across the country. In addition, Minsheng Industrial and its associates have been providing various logistics services such as waterway transportation of cars and car components and parts, finished vehicles transportation by road, customs clearance, container transportation, etc. for many years.

The purchase of logistics services from Minsheng Industrial and its associates would support the smooth running of the Group's primary business and enable the Group to provide its customers with quality services and maximize revenue. Based on the above, the Board is of the view, and we concur, that the continuing connected transaction with respect to the provision of logistics services to the Group by Minsheng Industrial and its associates is in the interest of the Company and its Shareholders as a whole, and is in the ordinary and usual course of business of the Group.

2.2.4. Deposit transaction between the Group and Zhuangbei Finance

Zhuangbei Finance is a non-banking financial institution in the PRC as approved by NFRA and is established with capital contribution from member companies of CSGC for purpose of centralizing capital management and optimizing capital efficiency within the CSGC. According to the Letter from the Board, Zhuangbei Finance has been providing financial services for member companies of CSGC for years and the major customers of the Group are member companies within CSGC and they all have maintained accounts with Zhuangbei Finance. It would reduce the time costs and finance cost if the Company deposits and conducts note discounting services with, and/or to obtain loan advancement from, Zhuangbei Finance. Moreover, Zhuangbei Finance offers more favourable terms and comparatively less finance fees and charges than those payable to external banks in the PRC. According to the Letter from the Board, the service fees charged or to be charged by normal commercial banks for the provision of settlement services, including account management, online banking system management, confirmation, etc. are fully waived by Zhuangbei Finance, which would reduce the finance costs of the Group.

Zhuangbei Finance is regulated by the PBOC and the NFRA and provides its services in accordance with and in compliance of the rules and operational requirements of these regulatory authorities. The pricing policies of Zhuangbei Finance are subject to guidelines set by PBOC. Based on our review of public records on NFRA website (https://xkz.cbirc.gov.cn/jr/), we noted that the relevant licenses and permits of Zhuangbei Finance remain valid and effective as at the Latest Practicable Date, and we did not notice any non-compliance records of Zhuangbei Finance.

Based on our discussion with the Management and review of bank records, we understand that the Group has also maintained deposits in several other licensed banks such as China Merchants Bank, China Construction Bank, Industrial and Commercial Bank of China, etc. Therefore, we consider that the entering into of the framework agreement regarding deposit transaction with Zhuangbei Finance provides the Group an additional option in allocating deposits among the regulated financial institutions for reducing the financial risks of capital overconcentration, while retaining the benefits of efficient financial settlement. Based on the above, we are of the view that the deposit transaction with Zhuangbei Finance is in the interest of the Company and its Shareholders as a whole, and is in the ordinary and usual course of business of the Group.

2.3. Principal terms of the Non-Exempt Continuing Connected Transactions for 2024

To assess the fairness and reasonableness of the terms of the Framework Agreements for the Non-Exempt Continuing Connected Transactions 2024, we have considered the following:

2.3.1. Logistics services provided by the Group to Changan Automobile and its associates

According to the terms of the framework agreement with Changan Automobile, the pricing of the logistics services to be provided by the Group is market driven and shall be no less favourable to the Group than the pricing provided to Independent Third Parties for similar services. The transactions contemplated under the framework agreement shall be conducted on a non-exclusive basis. According to the Group's pricing policy, the pricing of the services provided under the agreement shall be determined in accordance with, to the extent if the Group has a choice, the principles and order below:

(1) Bidding price

The price will be arrived at by bidding process in principle. The bidding price shall be a price conducted after a bidding procedure according to the PRC Bidding Law. The Company has also established the Bidding Quotation Process and Bidding Quote Management Procedures. Based on our review of such documents and the Letter from the Board, the Company's Enterprise Technical Center will draw up the technical and operation plans whereas the Marketing Management Center will provide business plan and the two departments will collaborate in preparing the bidding document in accordance with the specific requirements of our customers. Bidding representative of the Company will deliver the bidding offer and follow up on the bidding process. The Company will set up a working group to assist the bidding representative in response to the bidding before the bidding representative will finally be informed of the bidding results.

(2) Internal compared price

In determining the quote to be offered by the Group in internal compared pricing method, whenever practical and appropriate, the Company will comprehensively consider the feasibility of the project, and the Company's knowledge on at least two competing third parties to ascertain whether and at what price the Group should participate in the project.

(3) Cost-plus price

For pricing to be determined with reference to a reasonable cost plus a reasonable profit margin, the Company will consider the labor cost, equipment operation cost, material inputs, etc. to comprehensively measure the cost. The profit margin for each project varies depending on the different technical requirements, staffing, resources commitment and location. When adopting the cost-plus approach to arrive at the price for provision of logistics services, the Group will initially gather necessary information including the technical specification and operational requirements, etc. regarding the logistics services from potential customers. Based on the customers' requirements, the Group will devise the prices after having taken into account all the direct fixed and variable costs (cost of materials, labour cost, and other overhead expenses) associated with the services, with a mark-up to the cost. The mark-up represents the gross profit of the Group.

If the Group does not have a choice in the pricing policy, the Group will endeavor to determine the price(s) based on cost-plus basis to ensure that the Group can achieve a reasonable profit in participating in the project(s).

For each pricing methodology above (i.e. bidding price, internal compared price and cost-plus price), we have obtained and reviewed the documents in relation to the pricing process for one sample transaction randomly selected during the entire period of FY2021, FY2022 and eight months ended 31 August 2023 for the logistics services provided by the Group to Changan Automobile and its associates. During this review exercise, nothing has come to our attention that the Group's pricing policy had not been adhered to. Considering that (i) the sample transactions were selected on a random basis and we did not set other criteria in the sampling process; and (ii) the Group has been providing logistics services to Changan Automobile for a number of years under a consistent pricing policy, we consider the number of samples sufficient to provide fair and representative samples for our assessment.

Based on the above, we are of the view that, the Group's provision of logistics services to Changan Automobile and its associates has in the past been carried out at arm's length and is in accordance with the Company's internal pricing policy. We are also of the view that the transaction terms are normal commercial terms, and are fair and reasonable.

2.3.2. Logistics services provided by the Group to China Changan and its associates

According to the terms of the framework agreement with China Changan, the pricing of the logistics services to be provided by the Group is market driven and shall be no less favourable to the Group than the pricing provided to Independent Third Parties for similar services. The transactions contemplated under the framework agreement shall be conducted on a non-exclusive basis. The pricing policy for services provided under the agreement is the same as those discussed under section 2.3.1 above.

For each pricing methodology of internal compared price and cost-plus price, we have obtained and reviewed the documents in relation to the pricing process for one sample transaction randomly selected during the entire period of FY2021, FY2022 and eight months ended 31 August 2023 for the logistics services provided by the Group to China Changan and its associates. During this review exercise, nothing has come to our attention that the Group's pricing policy had not been adhered to. Considering that (i) the sample transactions were selected on a random basis and we did not set other criteria in the sampling process; and (ii) the Group has been providing logistics services to China Changan for a number of years under a consistent pricing policy, we consider the number of samples sufficient to provide fair and representative samples for our assessment. Based on our discussion with the Management, we understand that there was no transaction which has adopted the bidding pricing methodology in respect of the provision of logistics services by the Group to China Changan and its associates during FY2021, FY2022 and eight months ended 31 August 2023.

Based on the above, we are of the view that, the Group's provision of logistics services to China Changan and its associates has in the past been carried out at arm's length and is in accordance with the Company's internal pricing policy. We also consider that the transaction terms are normal commercial terms, and are fair and reasonable.

2.3.3. Logistics services provided to the Group by Minsheng Industrial and its associates

According to the terms of the framework agreement with Minsheng Industrial, the pricing of the logistics services to be provided to the Group by Minsheng Industrial and its associates shall be no less favourable to the Group than the pricing provided from Independent Third Parties for similar services. The transactions contemplated under the framework agreement shall be conducted on a non-exclusive basis. According to the Group's pricing policy, the pricing of the services provided under the agreement shall be determined in accordance with the principles and order below:

(1) Bidding price

The price will be arrived at by bidding process in principle. The bidding price shall be a price conducted after a bidding procedure according to the PRC Bidding Law. The Group has established the Bidding Quote Management Procedures. Based on our review of such document and the Letter from the Board, in terms of procurement through bidding, the Company shall publish announcements to invite bidders. The Group will screen and select bidders whom the Group considers can undertake the procurement with relevant qualification and capability.

(2) Internal compared price

The price will be determined by the Company or its subsidiaries (as the case may be) by comparing internally the quote offered by Minsheng Industrial or its associate (as the case may be) and the quote offered by at least two Independent Third Parties or the price of services of similar nature purchased by independent third parties. In terms of internal compared pricing, the Group will choose the lowest quotes offered among the eligible participants as its procurement price. Pursuant to the Compared Pricing Management Procedures, in terms of internal compared pricing, the Group shall compare quotes provided by or the price of services of similar nature purchased by at least two Independent Third Parties.

In relation to internal compared pricing methodology above, we have obtained and reviewed the documents in relation to the pricing process for one sample transaction randomly selected during the entire period of FY2021, FY2022 and eight months ended 31 August 2023 for the logistics services provided by the Minsheng Industrial and its associates to the Group. During this review exercise, we noted that the pricing offered by Minsheng Industrial's associated company was the lowest among more than two quotations from competing independent third parties, and nothing has come to our attention that the Group's pricing policy had not been adhered to. Considering that (i) the sample transaction was selected on a random basis and we did not set other criteria in the sampling process; and (ii) the Group has been purchasing logistics services from Minsheng Industrial for a number of years under a consistent pricing policy, we consider the number of samples sufficient to provide a fair and representative sample for our assessment.

Based on our discussion with the Management, we understand that there was no transaction which has adopted the bidding pricing methodology in respect of the provision of logistics services to the Group by Minsheng Industrial and its associates during FY2021, FY2022 and eight months ended 31 August 2023. According to the Letter from the Board, at present, there are only a few suppliers who have the qualification and capability to provide Yangtze River automobile related transportation services. Therefore, to increase procurement efficiency and ensure the reasonableness of prices, the Company usually adopts the internal compared pricing policy for selection of its water transportation supplier.

Based on the above, we are of the view that, the provision of logistics services to the Group by Minsheng Industrial and its associates has in the past been carried out at arm's length and is in accordance with the Company's internal policies. We also consider that the transaction terms are normal commercial terms, and are fair and reasonable.

2.3.4. Deposit transaction between the Group and Zhuangbei Finance

As Zhuangbei Finance is a regulated financial institution, the pricing policies of Zhuangbei Finance are subject to guidelines set by PBOC. According to the terms of the framework agreement and the Group's pricing policy, the interest rates for Deposits placed by the Group shall not be lower than (i) the relevant benchmark interest set by PBOC; and (ii) the interest rates provided by other independent commercial banks in the PRC for deposits of similar nature and under similar terms.

In relation to the above, we have obtained and reviewed the agreement between the Group and Zhuangbei Finance signed in September 2023 which set out the interest rate for current account deposits for one-year period from September 2023. We noted that the agreed interest rate was higher than (i) the relevant benchmark interest set by PBOC (http://www.pbc.gov.cn/zhengcehuobisi/125207/125213/125440/125838/125885/125896/index.html); and (ii) the interest rates published by other independent commercial banks that the Group had maintained a bank account in September 2023 for similar nature of deposits (including Industrial and Commercial Bank of China Limited (https://icbc.com.cn/column/1438058341686722587.html), China Construction Bank Limited (http://store.ccb.com/chn/personal/interestv3/rmbdeposit_dw.shtml), Bank of China Limited (https://www.boc.cn/fimarkets/lilv/fd31/202309/t20230901_23679836.html), China Merchants Bank Co., Ltd. (https://fin.paas.cmbchina.com/fininfo/firmrate) and Shanghai Pudong Development Bank Limited (https://per.spdb.com.cn/rate_query/201511/t20151119_23933.shtml)).

In addition, pursuant to the framework agreement, Zhuangbei Finance undertakes to the Company that it will:

(i) provide to the Company, at any time, financial services with terms which are no less favourable than for comparable financial services provided to members of the CSGC and those of the comparable financial services the Company may obtain from other financial institutions;

(ii) ensure that the Financial Operation Licence（金融許可證) and other business permits, approvals and filings etc. have been lawfully obtained by Zhuangbei Finance and will remain valid and effective;

(iii) ensure the safe operations of its fund settlement and clearance network, assure the safety of funds, control the risk exposure and safety of the Deposit and will satisfy the requirements for the payment of the Deposit;

(iv) ensure the strict compliance with the risk monitoring indicators for financial institutions promulgated by the NFRA and that the major regulatory indicators such as gearing ratio, interbank borrowing ratio and liquidity ratio will also comply with the requirements of the NFRA and other relevant laws and regulations;

(v) report its business and financial positions to the Company twice a year, co-ordinate with the auditors of the Company in the course of their audit work to enable the Company to fulfill the requirements of the Listing Rules; and

(vi) on happening of new, or special event that may possibly affect the Company, Zhuangbei Finance shall proactively inform the Company on a timely basis.

Based on the above, we are of the view that the interest of the Group under the deposit transaction with Zhuangbei Finance is safeguarded by the terms of the framework agreement and we also consider that the terms are normal commercial terms, and are fair and reasonable.

2.4. Annual Caps

The table below sets out the historical transaction amounts of the Non-Exempt Continuing Connected Transactions for FY2021, FY2022 and the eight months ended 31 December 2023 ("**8MFY2023**"), the annual caps for the respective year and the respective Proposed Cap for the year ending 31 December 2024 ("**FY2024**"):

	FY2021	**FY2022**	**8MFY2023**
	RMB	*RMB*	*RMB*
Logistics services provided by the Group to Changan Automobile and its associates			
Transaction amount	4,115,105,000	5,029,170,000	3,374,550,000

Annual cap for the year	5,000,000,000	6,000,000,000	7,000,000,000
Utilisation rate	82.3%	83.8%	N/A
Proposed Cap for FY2024	7,000,000,000		
Logistics services provided by the Group to China Changan and its associates			
Transaction amount	89,002,000	170,920,000	129,170,000
Annual cap for the year	120,000,000	210,000,000	210,000,000
Utilisation rate	74.2%	81.4%	N/A
Proposed Cap for FY2024	300,000,000		
Logistics services provided to the Group by Minsheng Industrial and its associates			
Transaction amount	175,103,000	248,340,000	182,470,000
Annual cap for the year	250,000,000	250,000,000	450,000,000
Utilisation rate	70.0%	99.3%	N/A
Proposed Cap for FY2024	450,000,000		
Deposit transaction between the Group and Zhuangbei Finance			
Maximum amount of Deposit (including interests) on a daily basis	189,724,000	199,582,000	188,580,000
Annual cap for the year	190,000,000	200,000,000	190,000,000
Utilisation rate	99.9%	99.8%	N/A
Proposed Cap for FY2024	200,000,000		

2.4.1. Logistics services provided by the Group to Changan Automobile and its associates

With reference to the Letter from the Board, the Proposed Cap for the provision of logistics services to Changan Automobile and its associates by the Group was determined after having considered (i) the estimated transaction amount with Changan Automobile and its associates in FY2023 of approximately RMB5.5 billion; (ii) the projected level of the incremental transaction amount in FY2024 of approximately RMB0.8 billion; and (iii) a moderate buffer to respond to the inherent volatility of the auto market and to accommodate any potential momentum increase in the launch of new models of Changan Automobile and its associates in FY2024.

To assess the fairness and reasonableness of the Proposed Cap, we have discussed with the Management about the basis and underlying assumptions. Having considered that:

(i) the projected transaction amount for FY2023 of approximately RMB5.5 billion is fair and reasonable when compared to the annualized transaction amount for FY2023 calculated based on the actual transaction amount for the 11 months ended 30 November 2023 ("**11MFY2023**") of approximately RMB4.9 billion according to the Management's figures, and taking into account the growth in production and sales volume of Changan Automobile of approximately 14.8% and 11.9% for 11MFY2023 as compared with the corresponding period in 2022;

(ii) the projected increase in transaction amount for FY2024 of approximately RMB0.8 billion was determined based on the Group's understanding on the business plans of Changan Automobile and its associates after their discussion with the management of the Changan Group. As disclosed in the Letter from the Board, it is noted that (a) the export volume of Changan Automobile by sea is expected to increase to 250,000 units in FY2024 from 180,000 units in FY2023, representing a growth rate of approximately 40%; (b) Changan Automobile released its overseas strategy recently and will increase its overseas presence. In the second half of 2023, a subsidiary of Changan Automobile was established in Thailand and sales is expected to commence in 2024; and (c) Changan Automobile released a new brand of new energy cars, Changan Qiyuan, in August 2023, which will release such models as A05, A06, A07, Q05 and so on. Based on the above and taking into account the historical growth of transaction amount, we consider that the projected increase in transaction amount for FY2024 is fair and reasonable;

(iii) a moderate buffer amount of approximately RMB0.7 billion is fair and reasonable to cover any unforeseeable circumstances which may occur in FY2024, in particular, in view of the uncertainties which may affect the PRC automobile market and the uncertainties in various newly implemented business growth strategies of Changan Automobile.

We are of the view that the Proposed Cap for the logistics services provided by the Group to Changan Automobile and its associates has been determined on a fair and reasonable basis. In addition, we noted that the historical annual caps for this transaction for FY2021 and FY2022 were mostly utilized, which indicates that the historical caps have also been fairly and reasonably arrived at by the Group.

2.4.2. Logistics services provided by the Group to China Changan and its associates

With reference to the Letter from the Board, the Proposed Cap for the provision of logistics services to China Changan and its associates by the Group was determined after having considered (i) the estimated transaction amount with China Changan and its associates in FY2023 of approximately RMB200 million; (ii) the projected level of the incremental transaction amount in FY2024 of approximately RMB90 million; and (iii) a moderate buffer to respond to fluctuations of the transaction amount with China Changan and its associates in FY2024.

To assess the fairness and reasonableness of the Proposed Cap, we have discussed with the Management about the basis and underlying assumptions. Having considered that:

(i) the projected transaction amount for FY2023 of approximately RMB200 million is fair and reasonable when compared to the annualized transaction amount for FY2023 calculated based on the actual transaction amount for 11MFY2023 of approximately RMB184.4 million according to the Management's figures;

(ii) the projected increase in transaction amount for FY2024 of approximately RMB90 million was determined based on the Group's understanding on the business plans of China Changan and its associates after their discussion with the management of the Changan Group. As disclosed in the Letter from the Board, it is expected that (a) an incremental transaction amount of approximately RMB40 million will be derived from the provision of inbound logistics for Chongqing Tsingshan Industry Limited Liability Company and Sichuan Jian'an Industrial Co., Ltd., which are associates of China Changan, due to the expected growth of the production and sales volume of Changan Automobile; (b) an incremental transaction amount of approximately RMB50 million will be derived from the provision of inbound logistics and transportation service to China Changan Automobile Group Co., Ltd. Chongqing Chassis System Branch and Southern TRW Chassis System Co., Ltd., which are associates of China Changan, and a newly established wholly-owned subsidiary of China Changan Chenzhi Technology Co., Ltd. Based on the above and taking into account the historical growth of transaction amount, we consider that the projected increase in transaction amount for FY2024 is fair and reasonable;

(iii) a moderate buffer amount of approximately RMB10 million is fair and reasonable to cover any unforeseeable circumstances which may occur in FY2024.

We are of the view that the Proposed Cap for 2024 for the logistics services provided by the Group to China Changan and its associates has been determined on a fair and reasonable basis. In addition, we noted that the historical annual caps for this transaction for FY2021 and FY2022 were mostly utilized, which indicates that the historical caps have also been fairly and reasonably arrived at by the Group.

2.4.3. Logistics services provided to the Group by Minsheng Industrial and its associates

With reference to the Letter from the Board, the Proposed Cap for the provision of logistics services to the Group by Minsheng Industrial and its associates was determined after having considered (i) the estimated transaction amount with Minsheng Industrial and its associates in FY2023 of approximately RMB300 million; (ii) the projected level of the incremental transaction amount in FY2024 of approximately RMB70 million; and (iii) a moderate buffer to respond to potential increase in water transport cost when oil prices rise and potential increase in purchase amount caused by potential increase in logistics demand from Changan Automobile in FY2024.

To assess the fairness and reasonableness of the Proposed Cap, we have discussed with the Management about the basis and underlying assumptions. Having considered that:

(i) the projected transaction amount for FY2023 of approximately RMB300 million is fair and reasonable when compared to the annualized transaction amount for FY2023 calculated based on the actual transaction amount for 11MFY2023 of approximately RMB231.1 million according to the Management's figures;

(ii) the projected increase in transaction amount for FY2024 of approximately RMB70 million was determined based on the Group's understanding on the business plans of Changan Automobile after their discussion with the management of the Changan Group, considering that the demand for the logistics services provided by Minsheng Industrial is mainly driven by the logistics demand from Changan Automobile. As disclosed in the Letter from the Board, it is expected that an incremental transaction amount of approximately RMB70 million will be derived from the increase in export volume of Changan Automobile by sea to 250,000 units in 2024 from 180,000 units in 2023, with a growth rate of approximately 40%. Based on the above, and taking into account the historical growth of transaction amount, we consider that the projected increase in transaction amount for FY2024 is fair and reasonable;

(iii) a moderate buffer amount of approximately RMB80 million is fair and reasonable to cover any unforeseeable circumstances which may occur in FY2024, in view of (a) the uncertainties that may affect the PRC automobile market, in particular, the fluctuations in oil prices which may potentially affect the water transport cost. During the 11 months ended 30 November 2023, the daily closing WTI crude oil prices have experienced large fluctuation between US$66.74 per barrel and US$93.84 per barrel; and (b) the uncertainties in various newly implemented business growth strategies of Changan Automobile.

We are of the view that the Proposed Cap for the logistics services provided to the Group by Minsheng Industrial and its associates has been determined on a fair and reasonable basis. In addition, we noted that the historical annual caps for this transaction for FY2021 and FY2022 were mostly utilized, which indicates that the historical caps have also been fairly and reasonably arrived at by the Group.

2.4.4. Deposit transactions between the Group and Zhuangbei Finance

With reference to the Letter from the Board, the Proposed Cap for the deposit transactions between the Group and Zhuangbei Finance (i.e. the maximum amount of Deposit (including interests) on a daily basis) was determined after having considered (i) the historical maximum daily outstanding balance of Deposit placed by the Group in Zhuangbei Finance for the 8MFY2023 and the utilization rate for the annual cap for FY2023; and (ii) the total deposit of approximately RMB1.165 billion held by the Group as at 31 August 2023.

To assess the fairness and reasonableness of the Proposed Cap, we have discussed with the Management about the basis and underlying assumptions. Having considered that (i) the Proposed Cap represents only less than 20% of the Group's total deposit amount as at 31 August 2023; and (ii) the historical maximum amount of Deposit (including interests) on a daily basis for FY2021, FY2022 and 8MFY2023 remained relatively stable at approximately RMB190 million to RMB200 million, we are of the view that the Proposed Cap for the deposit transactions between the Group and Zhuangbei Finance of RMB200 million has been determined on a fair and reasonable basis.

Independent Shareholders should note that the Proposed Caps represent an estimate based on information currently available and that the actual utilization and sufficiency of the Proposed Caps would depend on a number of factors, including but not limited to, the actual demand of the Group's services. The Proposed Caps have no direct relationship to, nor should be taken to have any direct bearing on, the Group's financial or potential financial performance.

3. INTERNAL CONTROL MEASURES

As discussed under section 2.3 above, the Company has adopted internal control measures to ensure that the Non-Exempt Continuing Connected Transactions for 2024 are carried out in accordance with the Group's pricing policies and to ensure the transactions are conducted on normal commercial terms.

In addition, as stated in the Letter from the Board, the Company has also adopted other internal control measures to safeguard the interest of the Company and the Shareholders as a whole. For example, the external auditors of the Company will conduct an interim review and year-end audit for each financial year, and will issue their opinion and letter to the Board in relation to the pricing policies and annual caps of the continuing connected transactions of the Company conducted during the preceding financial year pursuant to the Listing Rules. In addition, according to the Listing Rules, the independent non-executive Directors of the Company will conduct an annual review with respect to the continuing connected transactions of the Company throughout the preceding financial year and confirm the transactional amounts and terms of the transactions in the annual report of the Company.

According to the Annual Report 2022, we noted that the Company had received confirmation letters from the independent non-executive Directors that the continuing connected transactions of the Company for FY2022 were (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole. Further, the Board also confirmed that the external auditor of the Company has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions for FY2022.

For details of all relevant internal control measures of the Group, please refer to the Letter from the Board. We are of the view that appropriate measures have been in place to govern that the Non-Exempt Continuing Connected Transactions for 2024 will be conducted in the interest of the Company and its Shareholders as a whole.

RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that (i) the entering into of the Non-Exempt Continuing Connected Transactions for 2024 are in the ordinary and usual course of business of the Group, and in the interests of the Company and the Independent Shareholders as a whole; (ii) the terms of the Non-Exempt Continuing Connected Transactions for 2024 are normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned; and (iii) the Proposed Cap in respect of each of the Non-Exempt Continuing Connected Transactions for 2024 have been fairly and reasonably arrived at.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution(s) to approve (i) each of the Non-Exempt Continuing Connected Transactions for 2024 (including the Proposed Cap for each of the Non-Exempt Continuing Connected Transactions for 2024) at the EGM.

Yours faithfully,
For and on behalf of
Quam Capital Limited

Leo Chan
Head of Corporate Finance

Mr. Leo Chan is the Head of Corporate Finance of Quam Capital Limited and is licensed under the SFO as a Responsible Officer to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Chan has approximately 27 years of experience in corporate finance.

* *For identification purposes only*