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30 March 2023

To: The Independent Shareholders

Dear Sirs or Madam,

CONTINUING CONNECTED TRANSACTIONS
LOGISTICS SERVICES FRAMEWORK AGREEMENT (2023-2026)

INTRODUCTION

We refer to our appointment to advise the Independent Shareholders in connection with the Logistics Services Framework Agreement (2023-2026) with VVLJV and the Annual Caps (together, the "**Transactions**"). Details of the aforesaid transactions are set out in the letter from the Board contained in the circular of the Company (the "**Circular**") to its shareholders dated 30 March 2023, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

On 3 March 2023, the Company entered into the Logistics Services Framework Agreement (2023-2026) with VVLJV pursuant to which VVLJV agreed to provide logistics services to the Group for a period not exceeding three years effective from 1 April 2023 or the date of approval by the Independent Shareholders at the SGM (if later than 1 April 2023) up to 31 March 2026. It is to replace the existing logistics services framework agreement for the provision of logistics services to the Group by VVLJV which is going to expire on 31 March 2023. As 99% of the annual cap set under the existing logistics services agreement has been reached, the Group has ceased to engage VVLJV for the provision of logistics services unless and until the Logistics Services Framework Agreement (2023-2026) and the transactions contemplated thereunder (including the Annual Caps) have been approved by the Independent Shareholders at the SGM.

As at the Latest Practicable Date, VVLJV is indirectly held as to 60% by Vision Values. Mr. Lo, the substantial shareholder, chairman and executive Director of the Company, is also the controlling shareholder, chairman and executive director of Vision Values. In view of Mr. Lo's shareholding and his corporate positions in both the Company and Vision Values, Vision Values is a connected person of the Company. As VVLJV is indirectly held as to 60% by Vision Values, VVLJV is therefore also a connected person to the Company. Accordingly, the transactions contemplated under the Logistics Services Framework Agreement (2023-2026) constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the Annual Caps for the transactions contemplated under the Logistics Services Framework Agreement (2023-2026) are more than 5%, the CCTs are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

Pursuant to R13.39(6)(c) of the Listing Rules, in the event that all independent non-executive Directors have material interests in the relevant transaction or agreement, no independent board committee can be formed. As Mr. Tsui Hing Chuen, William *JP*, Mr. Lau Wai Piu and Mr. Lee Kee Wai, Frank, the independent non-executive Directors are also independent non-executive directors of Vision Values, no independent board committee would be formed to advise the Independent Shareholders in connection with the terms of the Logistics Services Framework Agreement (2023-2026) (including the Annual Caps). We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Shareholders directly in this regard.

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Logistics Services Framework Agreement (2023-2026) and the transactions contemplated thereunder (including the Annual Caps). In view of the interests/ corporate positions of Mr. Lo, Ms. Yvette Ong, Mr. Rex Lo, Mr. Chris Lo, Mr. James Lo, Mr. Tsui Hing Chuen, William *JP*, Mr. Lau Wai Piu and Mr. Lee Kee Wai, Frank in Vision Values, they and their respective associates will abstain from voting in relation to the resolution(s) to approve the Logistics Services Framework Agreement (2023-2026) (including the Annual Caps) at the SGM.

BASIS OF OUR ADVICE

We are not associated or connected with the Company, VVLJV or their respective core connected persons or associates and, accordingly, are considered eligible to give independent advice on the Transactions. In the two years prior to this appointment, we did not have other engagement with the Company or its associates except for having been the independent financial adviser to the Company relating to the continuing connected transactions in relation to the existing logistics services framework agreement and the subsequent supplemental existing logistics services framework agreement entered into with VVLJV, details of which were set out in the Company's announcements of 3 December 2021 and 31 March 2022 and circular dated 26 April 2022. We do not consider the past engagement as independent financial adviser gives rise to any conflict for Somerley Capital Limited to act as the independent financial adviser for the

Transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, VVLJV or their respective core connected persons or associates.

In formulating our advice and recommendation, we have reviewed information on the Company, including but not limited to, the Logistics Services Framework Agreement (2023-2026) with VVLJV, annual reports of the Company for each of the years ended 31 March 2020 ("**FY2020**") ("**2020 Annual Report**"), 31 March 2021 ("**FY2021**") ("**2021 Annual Report**") and 31 March 2022 ("**FY2022**") (the "**2022 Annual Report**", together with the 2020 Annual Report and the 2021 Annual Report, collectively, the "**Annual Reports**"), interim report of the Company for the six months ended 30 September 2022 ("**1HFY2023**") (the "**2023 Interim Report**"), and other information contained in the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed by the Directors and management of the Company (collectively, the "**Management**"), which we have assumed to be true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete in all material aspects up to the date of the SGM. We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group, VVLJV nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Transactions, we have considered the following principal factors and reasons:

1. Information on the parties

Information on the Group

The Company is a public limited liability company incorporated in Bermuda and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in mining and exploration, processing and sale of coal. The principal project of the Group is the coking coal mining project in Khushuut, Khovd Province, Western Mongolia (the "**Khushuut Mine Project**"). During the financial year ended 31 March 2022, approximately 1.8 million tonnes of run-of-mine coal were produced and approximately 1.0 million tonnes of coal, including clean coking coal, raw coal and thermal coal, were sold to the Company's customers in the PRC and Mongolia.

Set out below is the Company's financial highlights extracted from the 2021 Annual Report, the 2022 Annual Report and the 2023 Interim Report:

	For the six months ended 30 September		For the year ended 31 March		
	2022	**2021**	**2022**	**2021**	**2020**
		(Restated)		*(Restated)*	*(Restated)*
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*	*(audited)*
Revenue	1,866,241	941,003	1,562,718	858,417	1,124,996
Gross profit	792,276	429,982	614,752	308,841	479,239
(Loss)/Profit attributable to owners of the Company	(745,949)	48,322	(349,052)	1,795,091	(425,438)

	As at 30 September	As at 31 March	
	2022	**2022**	**2021**
			(Restated)
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
	(unaudited)	*(audited)*	*(audited)*
Total assets	3,479,981	3,620,557	3,537,943
Total liabilities	6,968,834	6,332,949	5,931,780
Capital deficiencies attributable to owners of the Company	(3,488,853)	(2,712,392)	(2,393,837)

For each of the year/period as stated above, the Company has only one single business segment which is coal mining. According to the 2021 Annual Report, the Group reported revenue of approximately HK$858.4 million for FY2021, representing a decrease from approximately HK$1,125.0 million for the year ended 31 March 2020 ("**FY2020**") mainly due to the lower production and sales of coking coal resulting from the on and off border closures between Xinjiang, the PRC and Yarant, Mongolia to combat the spread of the COVID-19. Gross profit of the Group for FY2021 also showed a decline of approximately 35.6% from FY2020. Profit attributable to owners of the Company for FY2021 of approximately HK$1,795.1 million was reported as compared to loss attributable to owners of the Company for FY2020 of approximately HK$425.4 million.

As disclosed in the 2022 Annual Report, the Group reported revenue of approximately HK$1,562.7 million for FY2022, representing an increase of approximately 82.0% from that of FY2021 and this was mainly due to the comparatively weak performance in FY2021 for reasons driving from COVID-19 pandemic. The Group recorded a loss attributable to owners of the Company of approximately HK$349.1 million for FY2022 comparing with the profit attributable to owners of the Company of approximately HK$1,795.1 million for FY2021 for main reasons including: (i) decrease in fair value gain on derivative component of convertible notes; and (ii) an impairment loss of approximately HK$416.8 million on assets relating to the Khushuut Mine Project (the "**Khushuut Mine Assets**") recognised in FY2022 as compared to a reversal of impairment losses on the Khushuut Mine Assets recognised in FY2021 of approximately HK$1,121.0 million in FY2021.

As disclosed in the 2023 Interim Report, for the 1HFY2023, revenue of approximately HK$1,866.2 million was recorded, representing a significant improvement of approximately 98.3% as compared to the restated corresponding six months period ended 30 September 2021 ("**1HFY2022**"). As discussed in the 2022 Interim Report, the significant increase in revenue was principally due to the comparatively weak performance in 1HFY2022. The weaker performance during 1HFY2022 was a result of frequent border closures in both Mongolia and the PRC due to COVID-19. The increase in sales of clean coking coal for 1HFY2023 was principally due to the improvement of the border crossing polices of China and Mongolia, and the Company's effort to ramp up the coking coal production and sales.

Loss attributable to owners of the Company of approximately HK$745.9 million was reported for 1HFY2023 as compared to a restated gain of approximately HK$48.3 million for 1HFY2022, which was mainly due to the (i) increase in fair value loss on derivative component of convertible notes issued by the Company in 1HFY2023; and (ii) an impairment loss for 1HFY2023 as compared to a reversal on impairment loss on the Khushuut Mine Assets reported for 1HFY2022.

Capital deficiencies widened from approximately HK$2,393.8 million at 31 March 2021 to approximately HK$2,712.4 million as at 31 March 2022 and further to roughly HK$3,488.9 million as at 30 September 2022.

Information on VVLJV

The equity interests of VVLJV are owned as to 60% by Vision Values and 40% by XPHY and is an indirect non-wholly owned subsidiary of Vision Values. VVLJV's principal business is engaging in provision of logistics services in the PRC. XPHY is a company established in the PRC with limited liability and is jointly owned by Mr. Guo Changhong and Ms. Zheng Juan as to 67% and 33% respectively. As stated in the letter from the Board of the Circular, to the best knowledge and belief of the Directors, Mr. Guo Changhong and Ms. Zheng Juan are both independent third parties to the Group.

2. Logistics Services Framework Agreement (2023-2026) with VVLJV

2.1 Reasons for and benefits of the Logistics Services Framework Agreement (2023-2026)

As disclosed in the letter from the Board of the Circular, the Group requires logistics service providers to provide logistics services from time to time in the Xinjiang region of the PRC and had been engaging 5 logistics services providers (including VVLJV) for logistics services during the eight-month period ended 31 December 2022. VVLJV has been one of the Group's logistics services providers and the provision of the logistics services by VVLJV to the Group has been governed by the existing logistics services framework agreement entered between the Group and VVLJV with a term of one year which will expire on 31 March 2023.

We understand from the Company that the Group also engages other external logistics services providers for similar services as described under the Logistics Services Framework Agreement (2023-2026) and VVLJV would only be awarded with the contracts if the terms, including (i) VVLJV's capacity meets the Company's requirements; and (ii) the pricing terms offered by VVLJV are the same as, or better than, the terms offered by independent third party logistics services providers.

We have further discussed and understand from the Management that the Group has maintained a smooth and effective relationship with VVLJV since it became one of the logistics services providers of the Company, and the Company is satisfied to continue to have VVLJV as one of the possible logistics services providers of the Company.

As such, in light of:

(i) the experience of VVLJV in the provision of logistics services in Xinjiang;

(ii) the necessity of logistics services to facilitate the Group's business operations;

(iii) the entering into the Logistics Services Framework Agreement (2023-2026) would benefit the Company's business operations by adding another reliable logistics service provider to its existing service provider list to cater for the growing market demand for its products; and

(iv) the Group would only engage VVLJV as its service provider if, among other things, its terms, including pricing terms, are on normal commercial terms or better,

we agree with the Directors that the entering into of the Logistics Services Framework Agreement (2023–2026) will allow VVLJV to be a possible additional service provider which would allow flexibility in the Company's choice of service providers in carrying out its ordinary and usual business and is therefore, in the interests the Company and Independent Shareholders as a whole.

2.2 Terms of the Logistics Services Framework Agreement (2023-2026)

The key terms of the Logistics Services Framework Agreement (2023-2026) are as follows:

Services:	VVLJV shall provide the Group with logistics services for coal and related products transportation in Xinjiang, the PRC including: (i) gangue backfilling; and (ii) coal products (including delivery of coal products from coal washing plants or warehouse to designated locations requested by customers).
Pricing Policy:	Prices are determined with reference to the prevailing market prices, by comparing quotations from independent third-party service providers in the proximate region. The pricing regarding logistics services to be provided by VVLJV to the Group shall not be higher than the pricing of the same categories of logistics services provided by the independent third parties to the Group.

Condition precedent: The Logistics Services Framework Agreement (2023-2026) is conditional upon the Independent Shareholders approving the Logistics Services Framework Agreement (2023-2026) and the transactions contemplated thereunder (including Annual Caps) at the SGM.

Other terms: Separate individual logistics services agreements pursuant to the Logistics Services Framework Agreement (2023-2026) will be entered into between individual members of the Group and VVLJV setting out, among other things, details of the actual logistics services required, pricing and payment terms of the transactions.

Parties to the Logistics Services Framework Agreement (2023-2026) shall ensure the aggregate transaction amount under the separate agreements will not exceed the respective annual caps for each of the financial year. If the actual aggregate transaction amount exceeds the then annual cap, the Group shall re-comply with the relevant Listing Rules (including but not limited to obtain necessary independent shareholders' approval). VVLJV (with compliance of relevant laws and regulations) shall not refuse to provide such exceeded amount of logistics services.

Execution of the Logistics Services Framework Agreement (2023-2026) shall comply the relevant requirements under the Listing Rules and relevant governing authorities, both parties shall comply with the relevant requirements under the Logistics Services Framework Agreement (2023-2026).

The Logistics Services Framework Agreement (2023-2026) is non-exclusive in nature, the Group has the right to engage other logistics services providers for similar or other logistics services.

Please refer to the section headed "2. The Logistics Services Framework Agreement (2023–2026)" in the letter from the Board of the Circular for further details of the terms of the Logistics Services Framework Agreement (2023–2026).

We have discussed and understood from the Management that the procurement of the logistics services has historically been executed by way of obtaining quotations from at least two independent third party logistics service providers from the list of pre-approved logistics service providers maintained by the Group.

We understand from the Management that the Company has entered into similar logistics services agreements with independent third parties for similar services as provided under the existing logistics services framework agreement and the Logistics Services Framework Agreement (2023-2026). As such, we have requested the Company to provide us with, among other things, quotations of 6 sample services transactions with independent third parties in six different months in 2022 ("**Sample Transactions**") for comparing against transactions entered into during 2022 with VVLJV. We noted from the Sample Transactions that for each month, the Company collected and compared quotations from suppliers which included at least two independent third parties, and then selected and engaged the logistics services provider who offered the lowest price for each route for that month.

We further note from our discussions with the Management that, as described in the section headed *"3. Internal Procedures"* below, the Group would normally select the short-listed service provider with the lowest quoted prices for the service required and in accordance with the internal policy procedures as described, any transactions entered into by the Group with a service provider is required to be reviewed by relevant departments of the Group, to ensure that pricing policies for the service is strictly adhered. We have noted and obtained sample approval documents and noted that the procedures have been adhered to. We were further confirmed by the Management that such policies will continue to be followed in accordance with the internal control policies described in the section headed "3. Internal procedures" below.

In view of (i) the entering into of the Logistics Services Framework Agreement (2023-2026) will not make the Group becoming obliged to enter into any transactions with VVLJV, but will allow VVLJV, if they are able to match or exceed the qualifications required for the services being procured, to be available as one of the providers of the services for the selection by the Group when required in order to facilitate the growth of the Group's businesses; (ii) the benefits to be brought about pursuant to the Logistics Services Framework Agreement (2023-2026) as discussed in the sub-section headed "2.1 Reasons for and benefits of the Logistics Services Framework Agreement (2023-2026)" above; and (iii) terms of the transaction(s) under the Logistics Services Framework Agreement (2023-2026) shall be no less favourable to the Group than those offered by the independent third parties, we concur with the view of the Directors that the terms of the Logistics Services Framework Agreement (2023-2026) is fair and reasonable so far as the Company and its shareholders are concerned.

2.3 *Annual Caps*

As stated in the letter from the Board of the Circular, the following table outlines the historical transacted amounts between the Group and VVLJV under the existing logistics services framework agreement:

Financial year	Annual cap	Actual transacted amount	Utilisation
	(RMB'm)	*(RMB'm)*	
1 April 2022 to 31 March 2023 ("**FY2023**")	131.6	130	99%

As also disclosed in the letter from the Board of the Circular, the Annual Caps in respect of the Logistics Services Framework Agreement (2023-2026) is as follows:

Financial year	Annual Caps
	(RMB)
1 April 2023 to 31 March 2024 ("**FY2024**")	292,500,000
1 April 2024 to 31 March 2025 ("**FY2025**")	365,625,000
1 April 2025 to 31 March 2026 ("**FY2026**")	457,031,250

Annual Caps in respect of the Logistics Services Framework Agreement (2023-2026) were determined with reference to (i) the historical logistics services transactions' amounts of the Group in the PRC with reference to the volume of raw coal exported; (ii) the recovery of the COVID-19 pandemic conditions in the PRC (in particular, the relaxation of certain regional logistics restrictions imposed in the 4th quarter of 2022); (iii) the estimated demand of logistics services required pursuant to the operation and development of the Group; (iv) the prevailing market prices; and (v) the logistics capacity of VVLJV.

Based on our discussion with the Management, we understand that the annual cap for FY2023 had almost been fully utilised by 31 December 2022. Given that, as stated in the letter from the Board of the Circular, the actual transacted amounts for FY2023 only represented transactions during period ended 31 December 2022 and if the actual transacted amount of RMB130 million for eight months ended 31 December 2022 was annualised, the annualised transacted amount for FY2023 would amount to approximately RMB195 million (the "**Annualised FY2023 Transaction Amount**"). On such basis, the Annual Cap for FY2024 should therefore represent a growth rate of around 50% when compared with the Annualised FY2023 Transaction Amount. Further, it is noted that an embedded annual growth of 25% was used for arriving at the Annual Caps for FY2025 and FY2026 respectively.

In assessing the fairness and reasonableness of the Annual Caps, we have considered the following aspects including:

(a) the historical logistics services transaction amounts of the Group in the PRC with reference to the volume of raw coal exported

We have discussed and understand from the Management that when determining the Annual Caps for each of FY2024, FY2025 and FY2026, the Company has taken into consideration the Group's estimated total demand for logistics services for transportation routes it operates on for the three years ending 31 March 2026 which, in turn, is also correlated with the export volume of raw coal of the Group from its mine in Mongolia to PRC during the period.

Based on the information provided by the Company, the Annual Reports and the 2023 Interim Report, we note that the Group's raw coking coal export volume has grown significantly from around 1,158,600 tonnes for FY2020 to around 2,695,580 tonnes on an annualised basis for FY2023 by annualising the raw coking coal export volume of 1,347,790 tonnes for 1HFY2023, which represents an average year-on-year growth of around 43% between FY2020 and FY2023 (the "**Average Historical Coal Export Growth**").

In addition to the above, we have also reviewed the historical growth of the total demand of the logistics services of the Company between 2019 and 2022 (the "**Average Historical Logistics Growth**") and an average annual growth rate of around 51% on the total transaction amount relating to the procurement of the logistics services by the Company during the aforesaid period was noted.

In view of the high growth rates on the Average Historical Logistics Growth of the Company of around 51% and the Average Historical Coal Export Growth of around 43% respectively, we consider the around 50% growth implied by the Annual Cap for FY2024 over the Annualised FY2023 Transacted Amount, and the subsequent 25% annual growth for the FY2025 and FY2026 Annual Caps, being not unreasonable.

(b) the estimated demand of logistics services required pursuant to the operation and development of the Group

Based on our discussion with the Company and having reviewed the estimation provided, we are given to understand that the logistics services for coal and related products in the PRC required by the Group are: (i) gangue backfilling transportation services; and (ii) clean coal transportation services. Based on our understanding from the Management, the main logistics services provided under the Logistics Services Framework Agreement (2023-2026) is expected to be mainly relating to the transportation of clean coal to certain clients, their designated sites or transfer station(s) for further despatch and sale of clean coal.

Gangue backfilling transportation services

We have discussed and understand from the Company that the demand for gangue backfilling transportation services is estimated based on 30% of the estimated annual raw coking coal export volume for FY2024, and the prevailing market prices of the transport services involved which will be discussed later in the sub-heading named "(c) the prevailing market prices" below. We understand that demand of such service corelates to the volume of gangue produced which in turn depends on the recovery rate of coal from washing and processing procedures. As disclosed in the Annual Reports, we noted that the average recovery rate from coal processing between FY2020 and FY2022 was between 70.6% to 79.9%, which translates into a historical rate of producing around 20.1% to around 29.4% gangue (the "**Latest Historical Gangue Rate**"). We have discussed and understand from the Management that the washing and processing procedures for coal processing can produce up to 30% of gauge under certain circumstances which are uncontrollable, such as the quality of coking coal mined and under such circumstances recovery rates would be lower and more gangue would be produced. In this respect, given the Latest Historical Gangue Rate and the aforesaid occasional higher rate of producing gangue, we consider such assumption of 30% would not be unreasonable.

Clean coal transportation services

We have discussed and understand from the Management that demand of such services are primarily projected based on relevant clients' estimated quantity demands of clean coal for FY2024 to FY2026 and the prevailing market prices of the transport services involved for the designated transportation routes. We understand such indication of demand provided by the relevant clients are in response to the Company's operating teams' requests and similar communications would be carried out with all clients of the Company in order to facilitate business planning and development. Analysis on the prevailing market prices of such transport services involved will be discussed later in the sub-heading named "(c) the prevailing market prices" below.

(c) the prevailing market prices

Based on our discussion with the Company, we are given to understand that the unit price for respective logistics services in estimating the logistics services demand is generally estimated with reference to market prices regarding similar services entered into between the Company and independent third parties between 2021 and 2022 ("**Recent Unit Prices**").

As disclosed in the letter from the Board, since the pricing for such services is floating and varies from time to time depending on factors such as the availability of drivers, trucks, fuel prices, low or peak seasons, distances, etc., it is impracticable to agree a fixed price or a pre-determined mechanism which may not be in the best interest to the Group. We understand that the Company has assumed the projected unit prices for each of the: (i) gauge backfilling transportation services and (ii) clean coal transportation services provided to key clients, mainly based on the average Recent Unit Prices. In this regard, we have reviewed 5 latest sample contracts entered into between the Company and independent third parties between 2021 and 2022 relating to the corresponding services and noted that, the assumed unit prices for those services are in line with the Recent Unit Prices as disclosed in those sample contracts.

Based on all the factors discussed above, we are of the view that the basis used for determining the Annual Caps to be fair and reasonable.

3. Internal procedures

As disclosed in the letter from the Board, the Company has established internal control measures to ensure that the continuing connected transactions contemplated under the Logistics Services Framework Agreement (2023-2026) are in accordance with the pricing policies and internal procedures adopted by the Group, and that the terms of agreements and the price of the logistics services provided by VVLJV are on normal commercial terms and on terms no less favourable to the Group than those terms for similar logistics services obtained by the Group from independent third parties. Such internal control measures adopted by the Group include the following:

The Company has an internal control review committee ("**IC Committee**"), to oversee and monitor the on-going continuing connected transactions of the Group. The IC Committee comprises (i) the head of finance department; (ii) the head of the legal department; and (iii) the head of operation department. The IC Committee will report to the Board for all significant matters related to all on-going continuing connected transactions of the Group.

Before entering into the continuing connected transactions pursuant to the Logistics Services Framework Agreement (2023-2026), the relevant staff of the operation department will obtain at least two quotations from independent third-party logistics services providers selected from the list of pre-approved logistics service providers maintained by the Group to ensure that the pricing, payment and other major terms provided by VVLJV are no less favourable to the Group than those provided by independent third-party logistics services providers. The independent third-party logistics services providers to be selected for quotation purposes will be selected on the basis of the Group's experience from previous logistics services obtained. In other words, the logistics service providers must be able to supply the required logistics services at competitive service fees and terms. In this regard and as mentioned under the sub-section headed *"2.2 Terms of the Logistics Services Framework Agreement (2023-2026)"* above, we have reviewed the quotations of 6 Samples Transactions in 2022 and we note that the Company collected and compared quotations from logistics services providers which included at least two independent third parties, and then selected and engaged the logistics services provider who offered the lowest price for each route for the month. The quotation together with the relevant supporting documents will then be reviewed by the finance department then approved by the IC Committee to ensure that the actual service fees payable will be in accordance with the pricing policy under the Logistics Services Framework Agreement (2023-2026) and that the transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Group and the Shareholders as a whole.

To ensure the CCTs do not exceed the Annual Caps, executed continuing connected transactions will be recorded by the relevant business departments and they shall provide monthly logistics services data of the Group in the PRC to the finance and legal departments of the Group for summary analysis ("**Monthly CCT Report**"). The Monthly CCT Report will be reviewed by the IC Committee. In the event that the amount of the CCTs reaches 70% of the Annual Caps, reminders will be sent to the relevant business departments of the Group for tighter control on the continuance of the CCT and reports will be required on a fortnightly basis to ensure the Annual Caps will not be exceeded.

At any particular point of time, should the relevant business department notice that the transactions under CCTs will have the possibility of exceeding the Annual Caps, the relevant business departments will not enter further transactions and at once notify the finance and legal departments of the Group, as well as the IC committee for re-compliance of relevant Listing Rules requirements. Furthermore, both parties to the Logistics Services Framework Agreement (2023-2026) acknowledge and agree that the services amounts could not exceed the Annual Caps set under the Logistics Services Framework Agreement (2023-2026).

The audit committee of the Company will hold interim and annual meetings to review and discuss the Group's CCTs compliance and make recommendations and provide advices to the Company in respect of the irregular matters, if any, discovered pursuant to the Listing Rules.

We consider the requirement to obtain of at least two independent quotes is reasonable for the Company to assess the then prevailing market terms of the similar logistics services offered by independent third parties. As such, we concur with the view of the Directors that the internal control procedures and policies relating to the Logistics Services Framework Agreement (2023-2026) has demonstrated the Group's practices of getting access to market information and having regular assessment on the terms of the Logistics Services Framework Agreement (2023-2026) so as to ensure that the terms offered by VVLJV will be no less favourable to the Group than those prevailing in the market for similar services.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons set out above, we are of the view that that the terms of the Logistics Services Framework Agreement (2023-2026) (including the Annual Caps) are on normal commercial terms and in the ordinary and usual course of business of the Group and are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Logistics Services Framework Agreement (2023-2026) is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Logistics Services Framework Agreement (2023-2026) and the adoption of the respective Annual Caps.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.