
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult a stockbroker or other licensed securities dealer, a bank manager, solicitor, professional accountant or other independent advisers.

If you have sold or transferred all your Shares in China Shun Ke Long Holdings Limited, you should at once hand this Circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHINA SHUN KE LONG HOLDINGS LIMITED

中國順客隆控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 974)

**CONTINUING CONNECTED TRANSACTIONS UNDER
THE SALE OF GOODS (2021) AGREEMENT AND
THE PURCHASE OF GOODS (2021) AGREEMENT**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**

ALTUS CAPITAL LIMITED

The Circular contains, among other things, a letter from the Board, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, all as referred to in the content page of this Circular. All capitalised terms used in this Circular shall have the meanings set out in the section headed "Definitions" on pages 1 to 3 of this Circular.

A notice convening the EGM at 10F, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong on 23 December 2020 at 2:00 p.m. is set out at the end of this Circular. A proxy form for the EGM is enclosed with this Circular. The proxy form is also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.skl.com.cn>).

Whether or not you are able to attend and vote at the EGM in person, you are requested to read the notice and to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than forty-eight (48) hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page i of this Circular for the measures to be implemented at the EGM by the Company against the epidemic to protect the attendees from the risk of infection of the Novel Coronavirus ("COVID-19"), including:

- compulsory body temperature check
- compulsory wearing of surgical face mask
- no serving of refreshments

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. The Company wishes to advise Shareholders that you may appoint the Chairman of the meeting as your proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

7 December 2020

PRECAUTIONARY MEASURE FOR THE SPECIAL GENERAL MEETING

In view of the ongoing COVID-19 epidemic and recent requirements for prevention and control of its spread (as per guidelines issued by the Hong Kong government at <https://www.chp.gov.hk/en/features/102742.html>), the Company will implement necessary preventive measures at the EGM to protect attending Shareholders, proxy and other attendees from the risk of infection, including:

- (i) compulsory body temperature check will be conducted on every Shareholder, proxy and other attendees at the entrance of the EGM venue, and any person with a body temperature of over 37.5 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue;
- (ii) attendees are required to prepare his or her own surgical face masks and wear the same inside the EGM venue at all times; and
- (iii) no refreshments will be served.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all attendees' health and safety, the Company wishes to advise all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions duly completed, Shareholders may appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

A proxy form for the EGM is enclosed with this Circular. The proxy form is also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.skl.com.cn>).

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DEFINITIONS

In this Circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Agreements”	means the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement;
“Announcement”	means the announcement of the Company dated 12 November 2020 in respect of the continuing connected transactions under the Agreements;
“associate”	has the meaning as ascribed to it under the Listing Rules;
“Board”	means the board of Directors;
“CCOOP”	means CCOOP Group Co., Ltd. (供銷大集集團股份有限公司), a company established in the PRC on 5 December 1996 (listed on the Shenzhen Stock Exchange trading under the stock code 000564), which is indirectly holding approximately 70.42% of the issued Shares of the Company as of the Latest Practicable Date and is therefore a controlling shareholder of the Company;
“CCOOP Goods”	means all goods sold or to be sold by CCOOP Group, including but not limited to non-staple foods, fresh food, daily consuming products, cosmetics, clothing, home appliances, which are sourced across the PRC and internationally, but excluding any goods to be sold or contracted to be sold under the Sale of Goods (2021) Agreement;
“CCOOP Group”	means CCOOP and its subsidiaries;
“Circular”	means this circular to the Shareholders in relation to the EGM containing, among other things, details of the Transactions;
“close associate”	has the meaning ascribed thereto in the Listing Rules;
“Company”	means China Shun Ke Long Holdings Limited (中國順客隆控股有限公司) (stock code: 974), a company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange;
“connected person”	has the same meaning ascribed to it under the Listing Rules;

DEFINITIONS

“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	means (a) director(s) of the Company;
“EGM”	means the extraordinary general meeting of the Company to be held at 10F, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong on 23 December 2020 at 2:00 p.m., the notice of which is set out at the end of this Circular;
“Group”	means the Company and its subsidiaries;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	means an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Cheng Hok Kai Frederick, Mr. Wang Yilin and Mr. Zou Pingxue, formed for the purpose of advising the Independent Shareholders in respect of, among other things, the Agreements and the Transactions (including the proposed annual caps);
“Independent Financial Adviser”	means Altus Capital Limited, a corporation licensed to carry out Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on, among other matters, the fairness and reasonableness of the Agreements and the Transactions (including the proposed annual caps);
“Independent Shareholders”	means the Shareholders who are not interested in the Agreements or the Transactions (including the proposed annual caps) and are not required under the Listing Rules to abstain from voting at the EGM;
“Latest Practicable Date”	means 4 December 2020, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information for inclusion in this Circular;

DEFINITIONS

“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC” or “China”	means the People’s Republic of China;
“Purchase of Goods (2021) Agreement”	means the master goods purchase agreement dated 12 November 2020 entered into between the Company (for itself and on behalf of its subsidiaries) and CCOOP (for itself and on behalf of its subsidiaries) in respect of the purchase of CCOOP Goods;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Sale of Goods (2018) Agreement”	means the master goods sale agreement dated 8 June 2018 entered into between the Company (for itself and on behalf of its subsidiaries) and CCOOP (for itself and on behalf of its subsidiaries) in respect of the sale of SKL Goods;
“Sale of Goods (2021) Agreement”	means the master goods sale agreement dated 12 November 2020 entered into between the Company (for itself and on behalf of its subsidiaries) and CCOOP (for itself and on behalf of its subsidiaries) in respect of the sale of SKL Goods;
“SFO”	means Securities and Futures Ordinance;
“Share(s)”	means share(s) of HK\$0.01 each in the share capital of our Company;
“Shareholder(s)”	means holder(s) of Share(s);
“SKL Goods”	means all goods sold or to be sold by the Group, including but not limited to non-staple foods, fresh food, daily consuming products, cosmetics, clothing, home appliances, which are predominantly sourced from Guangdong Province, but excluding any goods to be purchased or contracted to be purchased under the Purchase of Goods (2021) Agreement;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the same meaning ascribed to it under the Listing Rules;
“Transactions”	means the transactions contemplated under the Agreements; and
“%”	means per cent.



CHINA SHUN KE LONG HOLDINGS LIMITED

中國順客隆控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 974)

Executive Directors

Mr. Du Xiaoping (*Chairman*)

Mr. Han Wei (*Chief Executive Officer*)

Non-Executive Director

Mr. Wang Fu Lin

Independent Non-Executive Directors

Mr. Cheng Hok Kai Frederick

Mr. Wang Yilin

Mr. Zou Pingxue

Registered Office in the Cayman Islands

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Place of Business in Hong Kong

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One Island East,

18 Westlands Road,

Taikoo Place,

Hong Kong

7 December 2020

To the Shareholders

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS UNDER
THE SALE OF GOODS (2021) AGREEMENT AND
THE PURCHASE OF GOODS (2021) AGREEMENT**

INTRODUCTION

Reference is made to the Announcement in relation to the continuing connected transactions under the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement.

LETTER FROM THE BOARD

On 12 November 2020, the Company (for itself and on behalf of its subsidiaries) entered into the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement with CCOOP (for itself and on behalf of its subsidiaries). Both agreements, which are conditional on the approval of the Independent Shareholders, are scheduled to cover the three financial years ending 31 December 2023.

CCOOP is a controlling shareholder indirectly holding approximately 70.42% of the issued shares of the Company through CCOOP International Holdings Limited. Therefore, CCOOP is a connected person of the Company, and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Agreements, the Transactions and the proposed annual caps are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements in Chapter 14A of the Listing Rules.

The Company will convene the EGM, at which ordinary resolutions will be proposed for the Independent Shareholders to consider, if thought fit, approve the Agreements, the Transactions and the proposed annual caps. CCOOP International Holdings Limited and its associates are required to abstain from voting on the resolutions proposed at the EGM.

Mr. Cheng Hok Kai Frederick, Mr. Wang Yilin and Mr. Zou Pingxue, being all the independent non-executive Directors, have been appointed to establish the Independent Board Committee to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Agreements and as to how to vote at the EGM on the resolutions in relation to the Agreements and the Transactions (including the proposed annual caps), after taking into account the advice from the Independent Financial Adviser. No member of the Independent Board Committee has any material interest in the Agreements and the Transactions.

Altus Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the matters in Rules 14A.45(1) to (4) of the Listing Rules, including its opinion as to whether the terms of the Agreements are fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole.

PURPOSE OF CIRCULAR

The purpose of this Circular is to provide the Shareholders with the information required by the Listing Rules, including, among other things, (i) details of the Sale of Goods (2021) Agreement and the proposed annual caps; (ii) details of the Purchase of Goods (2021) Agreement and the proposed annual caps; (iii) a letter of recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Agreements and the Transactions (including the proposed annual caps); (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the Transactions (including the proposed annual caps); and (v) a notice of the EGM in compliance with the Listing Rules.

LETTER FROM THE BOARD

THE SALE OF GOODS (2021) AGREEMENT

Reference is made to the announcement of the Company dated 8 June 2018 in relation to the Sale of Goods (2018) Agreement.

On 12 November 2020, the Company (for itself and on behalf of its subsidiaries) entered into the Sale of Goods (2021) Agreement with CCOOP (for itself and on behalf of its subsidiaries). The Sale of Goods (2021) Agreement serves as a framework to govern the sale of SKL Goods from the Group to CCOOP Group. It sets out the principles and basis in particular with respect to the pricing on which the sale of SKL Goods may be conducted.

The principal terms of the Sale of Goods (2021) Agreement are set forth below:

- Date : 12 November 2020
- Parties : (1) The Company (for itself and on behalf of its subsidiaries); and
(2) CCOOP (for itself and on behalf of its subsidiaries) (a controlling shareholder of the Company)
- Subject Matter : The Sale of Goods (2021) Agreement sets out the principles and basis on which the sale of SKL Goods from the relevant members of the Group to the relevant members of CCOOP Group for their retail business and internal consumption may be made.
- Condition Precedent : The Sale of Goods (2021) Agreement is conditional upon the approval of the Independent Shareholders at the EGM. If approved, the Sale of Goods (2021) Agreement will effectively renew the Sale of Goods (2018) Agreement which is scheduled to expire on 31 December 2020.
- If the approval is not granted on or before 31 December 2020 (or such later date as may be set by mutual agreement between the Company and CCOOP), the Sale of Goods (2021) Agreement shall terminate and no party shall have any obligation thereunder.
- Term : Subject to the satisfaction of the condition precedent, the Sale of Goods (2021) Agreement will be for a term of three years commencing on 1 January 2021 and expiring on 31 December 2023.

LETTER FROM THE BOARD

- Pricing basis : The price of SKL Goods will be determined after arm's length negotiation on a cost-plus basis and case-by-case basis. The percentage markup will be determined by a number of factors including (i) the price set for SKL Goods in previous transactions; (ii) the then prevailing market prices of SKL Goods and of similar products; and (iii) the discount offered by the Group to other third party wholesaling customers. The percentage markup of the cost-plus basis is usually in the range of 2% to 5% for wholesale of products similar to SKL Goods. The price of SKL Goods offered to CCOOP Group should be not less than the price offered to other third party customers ordering similar quantity and product mix of SKL Goods on similar conditions such as credit terms and delivery requirements.
- Credit terms and other terms : The credit terms, settlement method, delivery arrangement and other terms will be determined by the parties after arm's length negotiation on a case-by-case basis. They should be no more favourable than the terms on which the Group offered to other third party customers in similar situations.
- Others : If the performance of its obligations of any transactions under the Sale of Goods (2021) Agreement will render the Company to be in breach of the Listing Rules (including where any annual cap for any particular year will be exceeded), the Company shall have a right to suspend or delay the performance of such obligations. No party shall have any rights to claim against each other under such circumstances.

LETTER FROM THE BOARD

Annual caps and transaction amounts under the Sale of Goods (2018) Agreement

The annual caps and transaction amounts in respect of the sale of SKL Goods under the Sale of Goods (2018) Agreement were as follows:

	For the year ended 31 December		For the year ending 31 December
	2018 <i>approximately</i> RMB'000	2019 <i>approximately</i> RMB'000	2020 <i>approximately</i> RMB'000
Annual cap	20,000	26,000	26,000
Actual transaction amount	3,221	5,432	Nil (for the ten months ended 31 October 2020)
			16,000 (expected for the year ending 31 December 2020)
Utilisation rate	16.11%	20.89%	Nil (for the ten months ended 31 October 2020)
			61.54% (expected for the year ending 31 December 2020)

Proposed annual caps under the Sale of Goods (2021) Agreement

The proposed annual caps in respect of the sale of SKL Goods pursuant to the Sale of Goods (2021) Agreement are as follows:

	For the year ending 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Proposed annual caps under the Sale of Goods (2021) Agreement	60,000 ^{Note}	80,000	100,000

Note: the proposed annual cap for the financial year ending 31 December 2021 is estimated on the assumption that the Sale of Goods (2021) Agreement will commence on 1 January 2021

LETTER FROM THE BOARD

During the term of the Sale of Goods (2018) Agreement, the Group has been focusing its business in Guangdong Province whereas CCOOP Group's business has been nationwide with focus on Shaanxi Province and Hainan Province. A predominate proportion of the Group's sales business with CCOOP Group took place through the orders received from CCOOP Group's retail outlets in Guangdong Province. The patterns of differences of sales volumes for different regions tend to be accord with the differences in preferences of customers in different regions of the PRC. Historically, the Group's access to the potential markets other than Guangdong Province was not utilised to its full potential, and it is reflected by the volume of sales of SKL Goods to CCOOP Group for the two years ended 31 December 2019 and for the ten months ended 31 October 2020 being on the low side when compared to the annual caps set for the three years ending 31 December 2020.

With the benefit of the national policies of developing the western region and the establishment of Hainan Free Trading Port in 2020, the Board has decided to make dedicated efforts to actively expand the business of the Group to Shaanxi Province and Hainan Province to capture the business opportunities beyond Guangdong Province. As the first step of its expansion and for cost-efficient reason, the Group will focus on wholesaling and distributing its products to business partner(s) with strong and well-established retail network(s) in the new markets. As at 31 December 2019, CCOOP Group had 18 retail outlets located in Guangdong Province (excluding the retail outlets of the Group) and 12 department stores and 39 retail outlets located in Shaanxi Province and Hainan Province. Leverage on the mutual cooperation and trust relationship built up by the efforts of the operation and management teams of both groups during the Sale of Goods (2018) Agreement and the extensive network of CCOOP Group in the potential markets and with the benefit of a group, the Group has identified CCOOP Group as its partner in its business expansion in the new markets. CCOOP Group is also appealed to the introduction of featured products from Guangdong Province to add variety to its products to maintain and strengthen its competitiveness in the markets. Against this background, CCOOP Group and the Group started negotiation for the Sale of Goods (2021) Agreement which is regarded as commercially beneficial to both parties.

With the Sale of Goods (2021) Agreement, the Group's strategy for expansion of its assortment in Shaanxi Province and Hainan Province with markets of different customer preferences is to create strong sales channels powered by CCOOP Group's sales and procurement network which means being locally relevant and customer-focused. The Group will focus on the experience it is to bring to the local markets, through offering merchandise at strategically located featured counters or dedicated centers in the chosen sales channels of the CCOOP Group. Particularly, the portfolio of the Group's merchandise will introduce, among others, selected featured specialties and premium quality groceries sourced from Guangdong Province targeting suitable tiers of consumer groups or territories in the new markets. CCOOP Group will also efficiently promote SKL Goods in the new markets.

As part of the Group's pilot programme, since October 2020, the Group and CCOOP Group (i) entered into multiple agreements for the sales of SKL Goods to CCOOP Group with a total value amounted to approximately RMB8.0 million, in which the relevant goods are expected to be delivered in November 2020; and (ii) the Group and CCOOP Group are expected to enter into additional agreements for the sale of SKL Goods with a total value amounted to approximately RMB8.0 million, in which the relevant goods are expected to be delivered in December 2020. As a matter of fact, (i) the Group delivered SKL Goods amounted to approximately RMB7.7 million in November 2020 (representing approximately 96% of the agreed sales); (ii) no product return was arranged; and (iii) generally, no product return will be arranged unless there are quality issues in the SKL Goods. For the expected sales of

LETTER FROM THE BOARD

approximately RMB8.0 million in December 2020, the procurement plan of the CCOOP Group for December 2020 received by the Group aligns with the expected sales. Upon completion of the said sale to CCOOP Group in November and December 2020, more than 60% of the annual cap set for the year ending 31 December 2020 will be utilised. The Board thus considers that higher annual caps will be required for the coming years in contemplation of the greater sale volumes in light of the business expansion plan. In determining the proposed annual caps, the Board has analysed sales data available to the Group to disregard seasonality and abnormality in the sales figures. It is expected that the sales will be in the region of RMB5,000,000 per month in average, and the transaction amount in respect of the sale of SKL Goods to CCOOP Group is projected to increase significantly in the coming three financial years. It is also expected that transaction amount will continue to grow annually in the coming three financial years with aid of the close partnership between the Group and CCOOP Group and the better understanding on the customers' behaviours.

In determining the proposed annual caps in respect of the sale of SKL Goods under the Sale of Goods (2021) Agreement for the three years ending 31 December 2023, the Group takes into consideration various factors, including but not limited to, (i) the quantity demanded by CCOOP Group for SKL Goods as estimated by CCOOP Group on a without-commitment basis; (ii) the historical transaction amounts under the Sale of Goods (2018) Agreement where the sales was mainly made to the retail outlets of CCOOP Group in Guangdong Province at that time; (iii) the growth in demand of SKL Goods following the Group's expansion plan to expand the Group's sales channel geographically to Shaanxi Province and Hainan Province, where CCOOP Group has established extensive sales and procurement network; (iv) the Group's analysis for the sale of SKL Goods as mentioned above; (v) the costs of SKL Goods and the cost-plus basis adopted by the Group; and (vi) the expected market prices of SKL Goods as they may be adjusted upward at an annual rate of approximately 3% to 6% in line with the GDP growth rate and inflation rate in the PRC.

The proposed annual caps in respect of the sale of SKL Goods under the Sale of Goods (2021) Agreement are a genuine and reasonable estimate by the Board based on information currently available. There is no commitment on the part of the parties to the transactions as to the future volume, pricing or frequency of the transactions for the relevant years.

THE PURCHASE OF GOODS (2021) AGREEMENT

On 12 November 2020, the Company (for itself and on behalf of its subsidiaries) entered into the Purchase of Goods (2021) Agreement with CCOOP (for itself and on behalf of its subsidiaries). The Purchase of Goods (2021) Agreement serves as a framework to govern the purchase of CCOOP Goods by the Group from CCOOP Group. It sets out the principles and basis in particular with respect to the pricing on which the purchase of CCOOP Goods may be conducted.

The principal terms of the Purchase of Goods (2021) Agreement are set forth below:

- | | | |
|---------|---|--|
| Date | : | 12 November 2020 |
| Parties | : | (1) The Company (for itself and on behalf of its subsidiaries); and
(2) CCOOP (for itself and on behalf of its subsidiaries) (a controlling shareholder of the Company) |

LETTER FROM THE BOARD

- Subject Matter : The Purchase of Goods (2021) Agreement sets out the principles and basis on which the purchase of CCOOP Goods by the relevant members of the Group from the relevant members of the CCOOP Group for its retail business and internal consumption may be made.
- Condition Precedent : The Purchase of Goods (2021) Agreement is conditional upon the approval of the Independent Shareholders at the EGM.
- If the approval is not granted on or before 31 December 2020 (or such later date as may be set by mutual agreement between the Company and CCOOP), the Purchase of Goods (2021) Agreement shall terminate and no party shall have any obligation thereunder.
- Term : Subject to the satisfaction of the condition precedent, the Purchase of Goods (2021) Agreement will be for a term of three years commencing on 1 January 2021 and expiring on 31 December 2023.
- Pricing basis : The price of CCOOP Goods will be determined after arm's length negotiation on a case-by-case basis, with reference to (i) the prevailing and historical market price of CCOOP Goods; (ii) the then prevailing market prices of similar products; and (iii) the discounts offered by CCOOP Group to other third parties customers for wholesaling. The price of CCOOP Goods should not be higher than the price offered by other third party suppliers to the Group for products with similar quantity and product mix and on similar terms.
- Credit terms and other terms : The credit terms, settlement method, delivery arrangement and other terms will be determined by the parties after arm's length negotiation on a case-by-case basis. They should be no less favourable than the terms on which other third party suppliers offered to the Group in similar situations.
- Others : If the performance of its obligations of any transactions under the Purchase of Goods (2021) Agreement will render the Company to be in breach of the Listing Rules (including where any annual cap for any particular year will be exceeded), the Company shall have a right to suspend or delay the performance of such obligations. No party shall have any rights to claim against each other under such circumstances.

LETTER FROM THE BOARD

Proposed annual caps under the Purchase of Goods (2021) Agreement

In the past, the Group occasionally purchased CCOOP Goods from CCOOP Group. The transaction amounts in respect of the purchase of CCOOP Goods were approximately RMB1,441,000, nil and nil for the year ended 31 December 2018, for the year ended 31 December 2019 and for the ten months ended 31 October 2020 respectively.

The proposed annual caps in respect of the purchase of CCOOP Goods pursuant to the Purchase of Goods (2021) Agreement are as follows:

	For the year ending 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Proposed annual caps under the Purchase of Goods (2021) Agreement	20,000 ^{Note}	40,000	60,000

Note: the proposed annual cap for the financial year ending 31 December 2021 is estimated on the assumption that the Purchase of Goods (2021) Agreement will commence on 1 January 2021

As part of the Group's business expansion plan, the Group plans to increase its sales channel into online sales platform to capture the business opportunities brought along with the popularity of online shopping. Product variety and competitive pricing are keys to get market share on online sales. As the procurement network of the Group mainly focuses in Guangdong Province, the Group will leverage on the extensive procurement network of CCOOP Group to source products across the PRC and overseas to increase the variety of products, including featured products and specialties from different geographical regions and popular imported goods, and to lower its cost of goods in order to promote its one-shop experience on its online platform. Further, with the benefit of the national policies of developing Hainan Province and the establishment of Hainan Free Trading Port, Hainan Province has a lower import tax rate. CCOOP Group through its extensive procurement network is able to import goods at a competitive cost. With the Purchase of Goods (2021) Agreement, the Group will be able to purchase imported goods with popularity from CCOOP Goods to showcase the same in the Group's online platform and such will be highlight for its online platform. Since the proposed annual cap for each of the three years ending 31 December 2023 under the Purchase of Goods (2021) Agreement represents approximately 2.5%, 5.0% and 7.5% of the selling and distribution costs of the Group for the year ended 31 December 2019, the Board considers that the proposed annual caps are reasonable. It is also expected that transaction amount will continue to grow annually in the coming three financial years with aid of the close partnership between the Group and CCOOP Group and the better understanding on the customers' behaviours.

The proposed annual caps in respect of the purchase of CCOOP Goods under the Purchase of Goods (2021) Agreement for the three years ending 31 December 2023 are determined by reference to various factors, including but not limited to, (i) the types and quantities of CCOOP Goods that may be demanded by the customers of the Group; (ii) the historical transaction amounts; (iii) the expected increase in demand for CCOOP Goods in view of the Group's expansion plan to expand the Group's sales channel into online sales platform and to source products across the PRC; (iv) the current price of CCOOP Goods; and (v) the buffer for possible increase in the price of CCOOP Goods at an annual rate of approximately 3% to 6% with reference to the GDP growth and inflation rate in the PRC.

LETTER FROM THE BOARD

The proposed annual caps in respect of the purchase of CCOOP Goods under the Purchase of Goods (2021) Agreement are a genuine and reasonable estimate by the Board based on information currently available. There is no commitment on the part of the parties to the transactions as to the future volume, pricing or frequency of the transactions for the relevant years.

INTERNAL CONTROL

The Group has adopted the following internal control measures to ensure that the Transactions will be conducted in accordance with the pricing policies and the principles set out in the Agreements, and in compliance with the Listing Rules:

- (i) as to the Sale of Goods (2021) Agreement:
 - (1) a designated sales team will oversee the transactions between the Group and CCOOP Group and will draw up the price and the terms on which the Group will offer to CCOOP Group against those offered by the Group to other third party customers ordering similar quantity and product mix of SKL Goods or on similar conditions; and
 - (2) before entering into a transaction under the Sale of Goods (2021) Agreement, the designated sales team will check the Group's purchase records to ensure SKL Goods to be sold to CCOOP Group are not those purchased from CCOOP Group under the Purchase of Goods (2021) Agreement;
- (ii) as to the Purchase of Goods (2021) Agreement:
 - (1) a designated procurement team will oversee the transactions between the Group and CCOOP Group and will obtain quotation from at least two independent third party suppliers and will compare the quotation of CCOOP Group and the other independent third party suppliers;
 - (2) the Group will consider the price, credit terms, quality, delivery arrangements, etc. of the suppliers and will order from the supplier with lowest quotation provided that other terms are comparable; and
 - (3) before entering into a transaction under the Purchase of Goods (2021) Agreement, the designated procurement team will check the Group's sales records to ensure the CCOOP Goods to be purchased from CCOOP Group are not those sold to CCOOP Group under the Sale of Goods (2021) Agreement;
- (iii) the designated teams will review the terms of each transaction with CCOOP Group and the pricing to ensure that such transactions will be conducted in accordance with the terms of the relevant Agreements and that the pricing is fair and reasonable, in accordance with the pricing policies and no better than those offered by the Group to other third party customers or no less favourable than those offered by other third party supplier to the Group, respectively;

LETTER FROM THE BOARD

- (iv) the designated teams will prepare a ledger on the transaction amounts periodically and report to the chief executive officer of the Company periodically to ensure the annual caps will not be exceeded;
- (v) the Board will continue to review the Group's internal control systems and their effectiveness periodically; and
- (vi) the independent non-executive Directors shall, and the Group shall engage its external auditors to, conduct annual review on the continuing connected transactions and the proposed annual caps in accordance with the requirements of the Listing Rules.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Board considered the following factors:

- (i) the sale of SKL Goods to CCOOP Group and the purchase of CCOOP Goods from CCOOP Group are within the ordinary course of business of the Group;
- (ii) as to the Sale of Goods (2021) Agreement:
 - (1) CCOOP Group has been one of the bulk purchase customers of the Group and brings a stable stream of income to the Group;
 - (2) CCOOP is a credit-worthy customer and has settled its payment to the Group on time;
 - (3) the Group will benefit from the sales network of CCOOP Group network of CCOOP Group in Northwest China (such as Shaanxi Province) and Hainan Province in implementation of its aforesaid business plan;
 - (4) both groups have built up mutual cooperation and trust relationship during the Sale of Goods (2018) Agreement; and
 - (5) the gross profit margin of the sale of SKL Goods to CCOOP Group is comparable to the gross profit margin of the business of the Group.
- (iii) as to the Purchase of Goods (2021) Agreement:
 - (1) the Group is satisfied with the goods purchased from CCOOP Group in the past years, including the quality of products and delivery time, and intends to continue purchasing CCOOP Goods from CCOOP Group for its operation;
 - (2) with the extensive procurement network of CCOOP Group for domestic goods, the Group may source various kinds of products from CCOOP Group at a relatively low price for its retail business and this will add variety to the collection of products that may be offered by the Group to its retail customers;

LETTER FROM THE BOARD

- (3) with the benefit of CCOOP Group's sourcing channels for imported goods, the Group may purchase certain hot imported items, which are offered to CCOOP Group only but not the Group, from CCOOP Group directly and this will add variety to the collection of products that may be offered by the Group to its customers; and
- (4) leverage on the extensive procurement network of CCOOP Group, the Group will be able to source products across the PRC and overseas to increase the variety of products and to lower its cost of goods in order to promote its one-shop experience on its online sale platform.

The Directors (excluding the independent non-executive Directors whose views are expressed in the Letter from the Independent Board Committee in this Circular) are of the view that the terms of the Agreements and the Transactions (including the proposed annual caps) are fair and reasonable and on normal commercial terms, and the Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

GENERAL INFORMATION

CCOOP is a company listed on the Shenzhen Stock Exchange trading under the stock code 000564 and is principally engaged in the retail chain and department store businesses in the PRC.

The Group is a supermarket chain store operator maintaining both retail and wholesale distribution channels with geographical focus in Guangdong Province of the PRC.

LISTING RULES IMPLICATIONS

CCOOP is a controlling shareholder indirectly holding approximately 70.42% of the issued shares of the Company through CCOOP International Holdings Limited. Therefore, CCOOP is a connected person of the Company, and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Agreements, the Transactions and the proposed annual caps are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements in Chapter 14A of the Listing Rules.

The Company will convene the EGM, at which ordinary resolutions will be proposed for the Independent Shareholders to consider, if thought fit, approve the Agreements, the Transactions and the proposed annual caps. CCOOP International Holdings Limited and its associates are required to abstain from voting on the resolutions proposed at the EGM.

Mr. Du Xiaoping, Mr. Han Wei and Mr. Wang Fu Lin, who hold directorship or managerial position in CCOOP, had abstained from voting on the resolution of the Board in respect of the Agreements, the Transactions and the proposed annual caps.

LETTER FROM THE BOARD

EGM, PROXY ARRANGEMENT AND CLOSURE OF REGISTER OF MEMBERS

Set out at the end of this Circular is a notice convening the EGM to be held at 10F, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong on 23 December 2020 at 2:00 p.m.. A form of proxy for use in connection with the EGM is enclosed with this Circular.

At the EGM, the Independent Shareholders will be asked to consider and, if thought fit, pass the ordinary resolutions in the terms set out in the notice of EGM to approve the Agreements, the Transactions and the proposed annual caps. In compliance with Rule 13.39(4) of the Listing Rules, all resolutions to be proposed at the EGM will be voted by poll. The voting results of the EGM will be announced in the manner prescribed under Rule 13.39(5) of the Listing Rules.

In accordance with the Listing Rules, Shareholder with material interests and its associates must abstain from voting on the resolutions approving such matter at the EGM.

CCOOP International Holdings Limited and its associates are regarded to have a material interest in the Agreements and are required to abstain from voting on the resolutions approving the Agreements, the Transactions and the proposed annual caps at the EGM in accordance with Chapter 14A of the Listing Rules. As at the Latest Practicable Date, CCOOP International Holdings Limited was holding a total of 204,558,317 Shares (representing approximately 70.42% of the issued shares of the Company).

Whether or not you are able to attend and vote at the EGM in person, you are requested to read the notice and to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than forty-eight (48) hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from 22 December 2020 to 23 December 2020, both dates inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the EGM, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 21 December 2020.

LETTER FROM THE BOARD

RECOMMENDATIONS

Mr. Cheng Hok Kai Frederick, Mr. Wang Yilin and Mr. Zou Pingxue, being all the independent non-executive Directors, have been appointed to establish the Independent Board Committee to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Agreements and as to how to vote at the EGM on the resolutions in relation to the Agreements, the Transactions (including the proposed annual caps), after taking into account the advice from the Independent Financial Adviser. The advice and recommendations to the Independent Shareholders on how to vote on the resolutions approving the Agreements, the Transactions and the proposed annual caps at the EGM are set out in the Letter from the Independent Board Committee in this Circular. No member of the Independent Board Committee has any material interest in the Agreements and the Transactions.

Altus Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the matters in Rules 14A.45(1) to (4) of the Listing Rules, including its opinion as to whether the terms of the Agreements are fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole, are set out in the Letter from the Independent Financial Adviser in this Circular.

The Directors (excluding the independent non-executive Directors who have formed the Independent Board Committee whose views are set out in the Letter from the Independent Board Committee in this Circular) are of the view that the Agreements, the Transactions and the proposed annual caps (i) have been reached after arm's length negotiations among the parties, (ii) are fair and reasonable, (iii) are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and (iv) are in the interests of the Company and its Shareholders as a whole.

Consistent with the recommendation of the Independent Board Committee and the Independent Financial Advisers, the Board recommends the Independent Shareholders to vote in favour of the proposed ordinary resolutions regarding the Agreements, the Transactions and the proposed annual caps as set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information as set out in the appendices to this Circular.

Yours faithfully,
For and on behalf of the Board of
China Shun Ke Long Holdings Limited
Du Xiaoping
Chairman and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of incorporation in this Circular.



CHINA SHUN KE LONG HOLDINGS LIMITED

中國順客隆控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 974)

7 December 2020

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS UNDER THE SALE OF GOODS (2021) AGREEMENT AND THE PURCHASE OF GOODS (2021) AGREEMENT

We refer to the circular issued by the Company to the Shareholders dated 7 December 2020 of which this letter forms part (the “Circular”) which contains the notice of the EGM. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board to advise you in respect of the Agreements, the Transactions and the proposed annual caps. Altus Capital Limited has also been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders on the matters in Rules 14A.45(1) to (4) of the Listing Rules, including its opinion as to whether the terms of the Agreements are fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole. None of the members of the Independent Board Committee has any direct or indirect interest in any of the Agreements.

We wish to draw your attention to the Letter from the Board which forms part of the Circular.

We have considered the principal factors and reasons considered by Altus Capital Limited and its advice as set out in its letter. On such basis, it is our advice to you as the Independent Shareholders that the Agreements and the Transactions (including the proposed annual cap) are on normal commercial terms and in the ordinary and usual course of business of the Group. We also consider that the terms of the Agreements and the Transactions and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreements, the Transactions and the proposed annual caps.

Yours faithfully,

For and on behalf of

Independent Board Committee

of

China Shun Ke Long Holdings Limited

Mr. Cheng Hok Kai Frederick Mr. Wang Yilin Mr. Zou Pingxue

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions as contemplated under the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement, which has been prepared for the purpose of incorporation in this circular.

ALTUS.

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

7 December 2020

To the Independent Board Committee and the Independent Shareholders

China Shun Ke Long Holdings Limited
Suite 4404-10
44th Floor
One Island East
18 Westlands Road
Taikoo Place, Hong Kong

Dear Sirs or Madam,

CONTINUING CONNECTED TRANSACTIONS UNDER THE SALE OF GOODS (2021) AGREEMENT AND THE PURCHASE OF GOODS (2021) AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the transactions as contemplated under the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement (including the respective proposed annual caps). Details of transactions as contemplated under the aforesaid agreements are set out in the “Letter from the Board” contained in the circular of the Company dated 7 December 2020 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein or required by the context.

On 12 November 2020, the Company (for itself and on behalf of its subsidiaries) entered into the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement with CCOOP (for itself and on behalf of its subsidiaries). The Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement serve as a framework to govern the sales of SKL Goods and purchase of CCOOP Goods envisaged between the Group and the CCOOP Group respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

LISTING RULES IMPLICATION

As at the Latest Practicable Date, CCOOP, a controlling shareholder of the Company, through CCOOP International Holdings Limited, indirectly held approximately 70.42% in the issued shares of the Company. Therefore, CCOOP is a connected person of the Company and the Transactions constitute a continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that one or more of the applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Transactions (calculated by using the respective proposed annual caps for the Transactions) exceed 5%, the Agreements, the Transactions and the proposed annual caps (the “**Annual Caps**”) are subject to the announcement, circular, independent shareholders’ approval, annual review and reporting requirements in Chapter 14A of the Listing Rules.

Parties to abstain from voting on the resolutions at the EGM

The Company will convene the EGM to seek the approval of the Independent Shareholders of the Agreements, the Transactions and the Annual Caps. CCOOP International Holdings Limited and its associates are required to abstain from voting on the resolutions proposed at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all three independent non-executive Directors, namely, Mr. Cheng Hok Kai Frederick, Mr. Wang Yilin and Mr. Zou Pingxue, who do not have any material interest in the Agreements, has been established to advise the Independent Shareholders on the Agreements, the Transactions and the Annual Caps as to (i) whether the entering into of the Agreements is in the ordinary and usual course of business of the Group, and in the interests of the Group and the Shareholders as a whole; (ii) whether the terms of the Agreements are on normal commercial terms, and are fair and reasonable as far as the Independent Shareholders are concerned; (iii) whether the Annual Caps have been fairly and reasonably arrived at; and (iv) how the Independent Shareholders should vote in respect of the resolutions relating thereto to be proposed at the EGM, taking into account the recommendation of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the entering into of the Agreements is in the ordinary and usual course of business of the Group, and in the interests of the Group and the Shareholders as a whole; (ii) whether the terms of the Agreements are on normal commercial terms, and are fair and reasonable as far as the Independent Shareholders are concerned; (iii) whether the Annual Caps have been fairly and reasonably arrived at; and (iv) how the Independent Shareholders should vote in respect of the resolutions relating thereto to be proposed at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have not acted as an independent financial adviser or financial adviser for the Company's other transactions in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Agreements, the Transactions and the Annual Caps is at market level and not conditional upon successful passing of the resolutions to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the Agreements; (ii) the Sale of Goods (2018) Agreement; (iii) the interim report of the Company for the six months period ended 30 June 2020 (the "**2020 Interim Report**"); (iv) the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**"); (v) the annual report of CCOOP for the year ended 31 December 2019; (vi) the five-year business plan of the Group for 2021-2025; (vii) the internal control manuals of the Group; and (viii) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the Latest Practicable Date. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

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 to reach an informed view and provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business, financial conditions and affairs or future prospects of the Group. The Company will notify the Shareholders of any material change after the Latest Practicable Date and after the despatch of the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have considered the principal factors and reasons set out below:

1. Background information of the Group and CCOOP

1.1 Principal business of the Group and CCOOP

The Group is a supermarket chain store operator maintaining both retail and wholesale distribution channels with geographical focus in Guangdong Province of the PRC.

CCOOP is a company listed on the Shenzhen Stock Exchange and is principally engaged in the retail chain and department store business in the PRC.

1.2 Financial information of the Group

Set out below is a table summarising certain key financial information extracted from the 2020 Interim Report and 2019 Annual Report:

Extract of Consolidated Statement of Profit or Loss

	For the six months ended		For the year ended	
	30 June		31 December	
	2020	2019	2019	2018
	("1H FY2020")	("1H FY2019")	("FY2019")	("FY2018")
	(unaudited)	(unaudited)	(audited)	(audited)
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	469,349	455,535	945,221	986,998
– Retail outlet operation	336,136	329,413	664,450	725,901
– Wholesale distribution	103,213	126,122	280,771	261,097
Gross profit	65,605	68,057	134,786	143,274
(Loss)/Profit before taxation	(1,805)	(2,767)	(20,109)	16,540
(Loss)/Profit for the period/year	<u>(2,378)</u>	<u>(3,873)</u>	<u>(20,559)</u>	<u>11,420</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2019 vs FY2018

The Group recorded a total revenue of approximately RMB945.2 million in FY2019, representing a decrease of approximately 4.2% from approximately RMB987.0 million in FY2018. Such decline in revenue was mainly driven by the declined sales in retail outlet operation from approximately RMB725.9 million to RMB664.4 million which was mainly due to the fierce market competition faced by the Group's existing retail outlet channel as well as the increasing number of small retailers using the popular digital platform sales channel to promote their products. The Group's gross profit decrease to approximately RMB134.8 million in FY2019 (FY2018: approximately RMB143.3 million) was mainly due to the increase in the sales discount offered during promotional activities.

The Group recorded loss in FY2019 of approximately RMB20.6 million as compared to a profit of approximately RMB11.4 million in FY2018. Such drop was primarily due to (i) the decrease in gross profit as described above, (ii) the decrease in other operating income which was mainly driven by the drop in promotion income from suppliers; and (iii) the impairment losses on goodwill property plant and equipment, and an increase in rental expenses from the Group's retail outlet operation in Macau.

1H FY2020 vs 1H FY2019

The Group recorded a total revenue of approximately RMB469.3 million for 1H FY2020 (1H FY2019: approximately RMB455.5 million), representing an increase of approximately 3.0% from the corresponding period of the previous year. The slight increase in revenue was mainly due to an increase in revenue of retail outlet operation. Gross profit for 1H FY2020 was approximately RMB65.6 million (1H FY2019: RMB68.1 million), representing a slight decrease of approximately 3.6%. Such decrease was mainly due to an increase in sales discount offered during promotional activities.

Loss for 1H FY2020 was approximately RMB1.8 million (1H FY2019: approximately RMB2.78 million), the improvement was a result of an increase in sales from retail outlet operation and effective cost control in expenses.

1.3 Outlook of the Group

With reference to the 2020 Interim Report and 2019 Annual Report, the Management considered that, with the outbreak of COVID-19 in early 2020, community consumers have changed their consumption needs and patterns, such as a preference towards online shopping over a physical visit to stores, making the Group's community-based retail outlet businesses full of challenges and uncertainties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In light of the above challenges, the Management will continue adapt to the changing market needs and explore various businesses strategies to diversify its business risk exposure. In devising the latest five-year business plan of the Group for 2021 to 2025, the Management took into consideration central government's policies support in the PRC, such as the "Great Western Expansion Campaign" and the "Hainan Free Trade Port" policies, and proposed business strategies including (i) strengthening its wholesale business segment by expanding its wholesaling geographical coverage; (ii) enhancing the development of e-commerce to increase the online sales under the retail segment of the Group; and (iii) reducing its operating cost by expanding its supplier network to the whole nation, especially to source goods from CCOOP in Shaanxi Province and Hainan Province so as to benefit from sourcing goods in these provinces which have the above-mentioned policies support.

As the COVID-19 pandemic is successfully contained in the PRC, and the business operations and everyday lives of the public resume to normal, the Management believes that the Group's performance in future will be able to enhance by broadening its revenue base and reducing operation costs in sourcing goods and products through the implementation of the five-year business plan of the Group for 2021 to 2025 and the entering into the Agreements.

2. Reasons for and benefits of the Transactions

As stated in the "Letter from the Board" set out in the Circular and the paragraph headed "1.3 Outlook of the Group" above in this letter, the Group aims to (i) expand its business in the wholesaling aspect; and (ii) reduce its cost of operations.

Taking into consideration that (i) the CCOOP Group operates a sizeable network of retail chain and department store business in the PRC which has a strong and steady demand for the Group's goods; (ii) the CCOOP Group has an established procurement network which recorded an annual transaction value of approximately RMB4.2 billion in 2019, in which the Group can leverage on to source new types of goods and existing goods at a more competitive price; and (iii) the close relationship between the Group and the CCOOP Group, the Management considers CCOOP an ideal business partner in implementing the Group's five-year business plan as mentioned above.

2.1 The Sale of Goods (2021) Agreement

The Group has been selling goods to the CCOOP Group under the Sale of Goods (2018) Agreement, during which the CCOOP Group has brought a stable revenue stream to the Group and demonstrated its credit-worthiness by settling the invoices of the Group in a timely manner. As the Sale of Goods (2018) Agreement will expire on 31 December 2020, taking into consideration the satisfactory business relationship with the CCOOP Group and the business expansion plan of the Group, the Group and the CCOOP Group have decided to strengthen their cooperation and proposed to significantly increase the transaction amount under the Sale of Goods (2021) Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Management, the intensified cooperation between the Group and the CCOOP Group mainly focuses on the wholesaling of goods to CCOOP's retail chain and department store network. Through CCOOP's retail chain and department store network, the Management believes the Group can reach out to a broader customer base and expand the Group's product geographical coverage beyond Guangdong Province.

2.2 The Purchase of Goods (2021) Agreement

As advised by the Directors, the Group has been conducting small-scale purchase with CCOOP and were satisfied with the quality of the goods and the terms offered by CCOOP. In accordance to the Group's latest five-year business plan and the vision of the Group as elaborated in the paragraph headed "1.3 Outlook of the Group" above, the Group has decided to increase its procurement from CCOOP to expand its supplier network and enhance its supply chain efficiency.

In parallel to the wholesaling arrangement with CCOOP's retail chain and department store network, the Group also intends to procure goods from CCOOP's existing procurement network in Shaanxi Province and Hainan Province, where the goods to be procured are either (i) new types of products which help to expand and diversify the product variety of the Group; or (ii) existing types of products which the Group currently sourced from independent third party suppliers, but the CCOOP Group will be able to provide at a more competitive price.

Due to the central government policies of "Great Western Expansion Campaign" and the development of "Hainan Free Trade Port", the procurement network of CCOOP in Shaanxi Province and Hainan Province will be able to source local specialty products or seasonal produce easily or with priority than other non-Shaanxi Province entities and will be able to source import goods through entities in the Hainan Free Trade Port at lower import tariffs than other entities outside the Hainan Free Trade Port, which in turn, may help the Group to source a larger variety of goods and/or at a more competitive price. Accordingly, the Management believes this is beneficial to and in the interest of the Group. Moreover, the Group may benefit from the lower income tax through establishing a subsidiary in Hainan Province according to the foresaid central government policy in such province.

2.3 Section summary

As the Agreements involve the sales of SKL Goods and purchase of CCOOP Goods (including but not limited to all goods sold or to be sold by the Group/CCOOP, such as fresh food, non-staple foods, daily general consumption products, cosmetic, clothing, home appliances etc.), which are in line with the principal business of the Group, we are of the view that the Transactions will be conducted in the ordinary and usual course of business of the Group.

Taken into consideration of the above factors, we are of the view that the entering into of the Agreements is in the ordinary and usual course of business of the Group, and in the interests of the Group and the Shareholders as a whole.

3. Principal terms of the Sale of Goods (2021) Agreement

The principal terms of the Sale of Goods (2021) Agreement are summarised below. For further details, please refer to the “Letter from the Board” set out in the Circular.

Sales of goods

The Group will sell SKL Goods to the relevant members of the CCOOP Group for their retailing and internal consumption.

3.1 Pricing basis

Pursuant to the Sale of Goods (2021) Agreement, SKL Goods sold by the Group to members of the CCOOP Group shall be on terms no less favourable to the Group than those prevailing in the PRC market for products of similar type, quantity and quality offered by the Group to independent third party customers. The price of SKL Goods will be determined after arm’s length negotiation on a cost plus basis and case-by-case basis. The percentage of markup will be determined by a number of factors including (i) the price set for SKL Goods in previous transactions; (ii) the then prevailing market prices of SKL Goods and of similar products; and (iii) the discount offered by the Group to other third party wholesaling customers.

We understand that the Group has adopted internal control procedures (as described in the paragraph headed “7. Internal control measures on the Transactions” below) to monitor the transactions to be conducted under the Sale of Goods (2021) Agreement. Such procedures include applying a percentage markup over cost of approximately 2% to 5% in general, depending on the type of the goods and the market situation and making reference to the pricing and discount offered up to 3% to independent third party customers.

To ascertain whether the pricing mechanism had been effectively implemented, we have reviewed (i) five types of products with selected invoices in relation to the transactions conducted under the Sale of Goods (2018) Agreement, which have been applying the same pricing policy as the Sale of Goods (2021) Agreement; and (ii) the invoices in relation to transactions conducted with independent third party customers on the same types of products as selected in (i). All the samples identified covered each of the year ended 31 December 2018, 2019 and 2020. We note that the pricing mechanism had been adhered to and the prices of goods sold to the CCOOP Group was no more favourable than the price of goods sold to the Group’s independent third party customers.

3.2 Other terms

As the Sale of Goods (2021) Agreement serves as a framework to govern the sale of SKL Goods from the Group to the CCOOP Group, the specific terms of the transactions, including credit period, settlement method, tax and delivery arrangement, will be determined on a case-by-case basis and should be no more favourable than the terms on which the Group offered to independent third party customers to similar situations.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the internal control system for determining the credit terms, delivery terms and other material terms for all its customers, and such internal controls were applied to the transactions under the Sale of Goods (2018) Agreement.

Having compared the material terms including the credit terms and delivery terms of the sample transactions mentioned in the paragraph headed “3.1 Pricing basis” above, we note that the terms offered were in line with the offering mechanism, and such terms offered to the CCOOP Group are no more favourable than those which the Group offered to the independent third party customers.

3.3 Section summary

Taking into consideration the above, we are of the view that the terms and conditions of the Sale of Goods (2021) Agreement are on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

4. Proposed annual caps for the Sale of Goods (2021) Agreement

The Annual Caps, pursuant to the Sale of Goods (2021) Agreement, for the aggregate amount of the sales of SKL Goods between the Group and members of the CCOOP Group for the years ending 31 December 2021, 2022 and 2023 are as follows:

	Proposed annual caps in respect of the sale of SKL Goods		
	For the year ending 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual Cap	<u>60,000^{Note}</u>	<u>80,000</u>	<u>100,000</u>

Note: The proposed annual cap for the financial year ending 31 December 2021 is estimated on the assumption that the Sale of Goods (2021) Agreement will commence on 1 January 2021.

With reference to the “Letter from the Board” of the Circular, the Annual Caps for the Sale of Goods (2021) Agreement are determined with reference to various factors, including but not limited to (i) the quantity demanded by the CCOOP Group for SKL Goods as estimated by the CCOOP Group on a without-commitment basis; (ii) the historical transaction amounts under the Sale of Goods (2018) Agreement; (iii) the expected growth in demand of SKL Goods following the Group’s expansion plan to expand its sales channel geographically across the PRC, including but not limited to Northwest China (such as Shaanxi Province) and Hainan Province, where the CCOOP Group has established extensive sales and procurement network; (iv) the Group’s analysis for the sale of SKL Goods; (v) the costs of SKL Goods and the cost-plus basis adopted by the Group, depending on the type of the goods and the market situation, by the Group; and (vi) the expected market prices of SKL Goods.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the Annual Caps for the Sale of Goods (2021) Agreement, we have (i) reviewed the summary for the selected transactions under the Sale of Goods (2018) Agreement, in which the relevant goods are being delivered in November and December 2020; (ii) reviewed and discussed with the Management the five-year business plan of the Group; and (iii) discussed with the Management the assumptions used in arriving at the expected demand from the CCOOP Group for the Sale of Goods (2021) Agreement.

Historical transaction amount

The historical amounts for the sale of SKL Goods to the CCOOP Group under the Sale of Goods (2018) Agreement for each of the two years ended 31 December 2019 and the ten months ended 31 October 2020 were approximately RMB3.2 million, RMB5.4 million and nil and the respective utilisation rate were 16.1%, 20.9% and nil respectively.

As advised by the Management, the low historical amount and utilisation rate of the annual caps in 2018 and 2019 were mainly due to the mismatch of operation area of the Group and CCOOP, where the Group's operation focused in Guangdong Province whereas CCOOP focused in Shaanxi Province and Hainan Province. During 2018 and 2019, the Group mainly sold the SKL Goods to the CCOOP's subsidiaries in Guangdong Province. For the ten months ended 31 October 2020, the Management advised that the outbreak of COVID-19 affected the operations of the CCOOP's subsidiaries in Guangdong Province which in turn, the CCOOP Group did not place orders and hence the Group did not record any transaction for the first ten months in 2020.

Expected demand for SKL Goods and the Group's expansion plan

Considering that (i) the Group is planning to expand its geographical coverage into Shaanxi Province and Hainan Province, which are the CCOOP Group's key operation area; and (ii) the situation of COVID-19 in the PRC has gradually subsided, the Management believes and we concur, that the historical transaction amount up to 31 October 2020 was not indicative for the purpose of analysing the future demand under the Sale of Goods (2021) Agreement.

In our interview conducted with the general manager of the Group, we were advised that the cooperation manner between the Group and the CCOOP Group has undergone drastic changes through the implementation of its five-year business plan. Based on the Group's five-year business plan, the Group and the CCOOP Group have decided to have a closer working relation and the Group has decided to greatly increase the transaction amount with CCOOP Group in both sale of SKL Goods and purchase of CCOOP Goods. In particular, under the previous arrangement, the CCOOP Group mainly procured from the Group for its operation of 18 retail points in Guangdong Province (excluding the retail points of the Group) as at 31 December 2019. In view of the Group's five-year business plan, the Group intends to expand its co-operation with CCOOP Group to cover Shaanxi Province and Hainan Province. As at 31 December 2019, the CCOOP Group's retail network has 51 retail points, including supermarkets and department stores, in Shaanxi Province and Hainan Province. Such retail points are expected to be utilised by the CCOOP Group for the sale of SKL Goods, creating a significant increase in SKL Goods' demand.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the Group and the CCOOP Group has begun to implement the abovementioned strategy since October 2020. Since October 2020, the Group and CCOOP Group has worked closely and (i) entered into multiple agreements for the sales of SKL Goods to CCOOP Group with a total value amounted to approximately RMB8.0 million, in which the relevant goods are expected to be delivered in November 2020; and (ii) the Group and CCOOP Group are expected to enter into additional agreements for the sale of SKL Goods with a total value amounted to approximately RMB8.0 million, in which the relevant goods are expected to be delivered in December 2020.

As confirmed by the Management, (i) the Group delivered SKL Goods amounted to approximately RMB7.7 million in November 2020 (representing approximately 96% of the agreed sales); (ii) no product return was arranged; and (iii) generally, no product return will be arranged unless there are quality issues in the SKL Goods. For the expected sales of approximately RMB8.0 million in December 2020, we have reviewed the procurement plan of the CCOOP Group for December 2020 and noted the procurement plan aligns with the expected sales. We are also advised by the Management that the expected sales are achievable considering (i) the promotion plan of the CCOOP Group; and (ii) the annual sales volume of the CCOOP Group.

Taking into consideration the abovementioned expected sales in November and December 2020, we note that the utilisation rate of the annual cap for 2020 will represent approximately 61.5%. Considering the two-month sales have consumed a significant portion of the existing annual cap for 2020, the Management considers, and we concur, that the Annual Caps for the Sale of Goods (2021) Agreement should be set at a much higher level to reflect the larger scale of cooperation between the Group and the CCOOP Group.

The Management advised that the sales in November and December 2020 are particularly high as (i) it was the first bulk purchase made by the CCOOP Group in Shaanxi Province that the CCOOP Group has ordered diverse types of products to study the market preferences, and (ii) the CCOOP Group was stocking up durable goods for the upcoming peak season in winter to satisfy the expected market demand. Hence, the Management considers, and we concur, that the sales volume in November and December 2020 should not be the sole consideration factor of the Annual Caps. Based on the Management's experience and utilising the sales data and related information gathered, the sales on similar model will be in the region of RMB 5,000,000 per month on average and the Annual Caps under the Sale of Goods (2021) Agreement in 2021 is set to be RMB60 million.

Future sales estimation and capacity of the Group and the CCOOP Group

We also understand from the Management that the future sales to CCOOP will be fine-tuned based on the sales performance of each types of goods and the customers' acceptance. Over the longer term, the Management expects the Group will garner sufficient information on the customers' behaviours and hence the Annual Caps for the Sale of Goods (2021) Agreement should increase annually to cater for the growth potential.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For illustration purposes, the Annual Caps for the Sale of Goods (2021) Agreement account for approximately 6.3%, 8.5% and 10.6% of the Group's total revenue for the year ended 31 December 2019 and account for approximately 1.4%, 1.9% and 2.3% of CCOOP Group's cost of sales for the year ended 31 December 2019 respectively. Given that the Annual Caps represent a relative small portion of the total revenue of the Group and the cost of sales of the CCOOP Group (from a historical perspective), the Management considers both the Group and CCOOP have the capacity to handle the Annual Caps proposed under the Sale of Goods (2021) Agreement.

Section summary

Taking into consideration the above, we consider that the Annual Caps for the Sale of Goods (2021) Agreement are fair and reasonable.

5. Principal terms of the Purchase of Goods (2021) Agreement

The principal terms of the Purchase of Goods (2021) Agreement are summarised below. For further details, please refer to the "Letter from the Board" set out in the Circular.

Purchases of goods

The Group will purchase CCOOP Goods by the relevant members of the Group from the relevant members of the CCOOP Group mainly for the retailing purpose.

5.1 Pricing basis

Pursuant to the Purchase of Goods (2021) Agreement, the price of CCOOP Goods shall not be higher than the price offered by other independent third party suppliers for the purchase of CCOOP Goods in similar quantity, product mix and similar terms. The price of CCOOP Goods will be determined after arm's length negotiation on a case-by-case basis, with reference to (i) the prevailing and historical market price of CCOOP Goods; (ii) the then prevailing market prices of similar products; and (iii) the discount offered by the CCOOP Group to other third parties customers for wholesaling.

We understand that the Group has established certain internal control procedures (as described in the paragraph headed "7. Internal control measures on the Transactions" below) to monitor the pricing mechanism of the transactions contemplated under the Purchase of Goods (2021) Agreement, including (i) making reference to relevant market information and compare the price of CCOOP Goods with at least two independent third party suppliers to ensure the price is competitive; and (ii) checking to ensure that the price of each individual agreement is fair and reasonable, and it is no less favourable to the Group than those available from independent third party suppliers for the same or similar products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To ascertain whether the pricing mechanism had been effectively implemented, we have reviewed the pricing for certain purchase of relevant goods by the Group from the CCOOP Group in 2018 (as there was no transaction in 2019 and the ten months ended 31 October 2020) and compared the pricing against samples relating to the purchase of similar goods from independent third party suppliers. We note that the pricing mechanism had been adhered to with and the prices of the goods offered by the CCOOP Group were either the same or better than those offered by the independent third party suppliers.

5.2 Other terms

As the Purchase of Goods (2021) Agreement serves as a framework to govern the purchase of CCOOP Goods by the Group from the CCOOP Group, the specific terms of the transactions, including credit period, settlement method, tax and delivery arrangement, will be determined on a case-by-case basis and the terms should be no less favourable than the terms on which other third party suppliers offered to the Group in similar situations.

We have reviewed the internal control procedures of the Group to ensure the terms of each individual agreements will comply with the framework set out in the Purchase of Goods (2021) Agreement.

5.3 Section summary

Taking into consideration the above, we are of the view that the terms and conditions of the Purchase of Goods (2021) Agreement are on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

6. Proposed annual caps for the Purchase of Goods (2021) Agreement

The Annual Caps, pursuant to the Purchase of Goods (2021) Agreement, for the aggregate amount of the purchase of CCOOP Goods between the Group and members of the CCOOP Group for the years ending 31 December 2021, 2022 and 2023 are as follows:

	Proposed annual caps in respect of the purchase of CCOOP Goods For the year ending 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proposed annual caps	<u>20,000^{Note}</u>	<u>40,000</u>	<u>60,000</u>

Note: The proposed annual cap for the year ending 31 December 2021 is estimated on the assumption that the Purchase of Goods (2021) Agreement will commence on 1 January 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to the “Letter from the Board” of the Circular, the Annual Caps for the Purchase of Goods (2021) Agreement are determined by reference to various factors, including but not limited to, (i) the types and quantities of CCOOP Goods that may be demanded by the customers of the Group; (ii) the historical transaction amounts; (iii) the expected increase in demand for CCOOP Goods in view of the Group’s plan to expand its sales channel into online sales platform and to source products across the PRC; and (iv) the current and expected prices of CCOOP Goods.

To assess the fairness and reasonableness of the Annual Caps for the Purchase of Goods (2021) Agreement, we have (i) discussed with the Management on the Group’s expansion plan; (ii) reviewed and discussed with the Management the five-year business plan of the Group; and (iii) discussed with the Management the assumptions used in arriving at the expected demand from the Group for the Purchase of Goods (2021) Agreement.

Historical transaction amount

We note that the historical transaction amounts for the purchase of CCOOP Goods were insignificant. We are advised by the Management that the relative low consumption of CCOOP Goods was mainly due to the fact that (i) the purchase was conducted on an ad-hoc basis in the past; and (ii) the Group’s operation focused in Guangdong Province, whereas CCOOP focused in Shaanxi Province and Hainan Province.

Considering the cooperation manner with the CCOOP Group has been established through the Group’s latest five-year business plan, in which the Group seeks to expand to Shaanxi Province and Hainan Province and maintain a sustained cooperation with CCOOP Group, the Management considers, and we concur, that the Annual Caps should be set higher than the historical transaction amount.

Expected demand on CCOOP Goods

As mentioned in the paragraph headed “2.2 The Purchase of Goods (2021) Agreement” above, the Group has decided to procure CCOOP Goods comprising (i) new goods that can diversify and add variety to its goods portfolio; and (ii) existing goods of the Group, in which CCOOP are selling it at a more competitive price compared to other independent third party suppliers.

For the new goods to be procured, the Group estimated the demand of such goods based on (i) the historical sales of similar products, if available; or (ii) the Management’s view on the market potential of the goods. For goods that the Group has bought in the past, the Management estimated the demand of such goods mainly based on the historical sales of the goods. The Management estimates that the ratio between procuring new goods and goods that the Group has bought in the past are approximately 50% and 50%.

We have reviewed the summary of target product mix of CCOOP Goods to be procured prepared by the Management. We note that the product mix comprises of approximately 50%, 20%, 20% and 10% for fresh foods, non-staple foods, daily consuming products and cosmetics products in terms of product value respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the Management that (i) fresh foods and non-staple foods share the largest portion in the product mix as it includes unique local products from Hainan Province, including Coconuts and Qiaotou Sweet Potato, of which have good market potentials in Guangdong Province; and (ii) daily consuming and cosmetics products also share a substantial portion of the product mix as such products include imported shampoo, lotion and facial masks. In view of the established sale and procurement network of CCOOP in Hainan Province and the establishment of the Hainan Free Trade Port, the Group expects the CCOOP Group can offer these items at more competitive prices as compared to other suppliers.

The Management also advised that some of the selected items under CCOOP Goods will be included in its online sales platform under a special segment that features goods sourced outside Guangdong Province. Such segment will be one of the key features of the Group's online sales platform and could attract the interests of the Group's customers who are mainly located in Guangdong Province. Hence, the Management believes the online sales platform could also create a demand for CCOOP Goods.

In arriving at the Annual Caps for the Purchase of Goods (2021) Agreement, the Management takes into consideration (i) the demand of the existing goods can be reasonably estimated from the historical sales; (ii) the demand for the new goods is a reasonable estimate; (iii) the Group wishes to gradually increase the Annual Caps in accordance to its five-year business plan, hence, the Management considers, and we concur, that the Annual Caps are justifiable and reasonable.

For illustration purposes, the Annual Caps for the Purchase of Goods (2021) Agreement account for approximately 2.5%, 4.9% and 7.4% of the Group's cost of inventories for the year ended 31 December 2019 and account for approximately 0.3%, 0.7% and 1.0% of the CCOOP Group's total revenue for the year ended 31 December 2019 respectively. Given that the small proportion of the total revenue of the CCOOP Group and the cost of inventories of the Group (from the historical perspective), the Management considers both the Group and CCOOP have the capacity to handle the Annual Caps proposed under the Purchase of Goods (2021) Agreement.

Section summary

As such, we consider that the Annual Caps for the Purchase of Goods (2021) Agreement are fair and reasonable.

7. Internal control measures on the Transactions

The Group has adopted internal control measures and policies in respect of continuing connected transactions to provide an effective framework for corporate governance and risk management and monitor all continuing connected transactions of the Group. Detailed internal control measures on continuing connected transactions are set out in the paragraph headed "Internal control" in the "Letter from the Board" of the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors are required to review the Group's continuing connected transactions annually and confirm in the Company's annual report that they have been (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Group's shareholders as a whole. In compliance with Rule 14A.56 of the Listing Rules, the Company will engage its auditors to report on the Group's continuing connected transactions every year.

Apart from internal control measures required by the Listing Rules, we note that (i) a designated sales team shall oversee the transactions conducted between the Group and the CCOOP Group and the sales team shall draw up the price and the terms on which the Group will offer to the CCOOP Group against those offered by the Group to other independent third party customers ordering similar quantity, product mix of SKL Goods or on similar conditions; (ii) a designated procurement team shall obtain quotations from at least two independent third party suppliers and compare the prices among all suppliers including the CCOOP Group to ensure that such purchase prices are reasonable and comparable to the market after considering factors including quality of goods and popularity among the Group's customers; (iii) before entering into a transaction under any of the Agreements, the designated teams shall check and ensure that such transaction will be conducted in accordance with the terms of the corresponding agreement and the Annual Caps will not be exceeded, and the relevant pricing shall be fair and reasonable when adhering to the pricing policies; (iv) the designated teams shall prepare a ledger on the transaction amounts and report to the chief executive officer periodically to ensure the Annual Caps will not be exceeded; (v) the Board will continue to review the Group's internal control systems and their effectiveness periodically; and (vi) the independent non-executive Directors shall, and the Group shall engage its external auditors to, conduct annual review on the continuing connected transactions and the Annual Caps in accordance with the requirements of the Listing Rules.

We have (i) obtained the relevant internal control manuals and the procurement policies and procedures of the Group for the sales/purchase of products to/from the CCOOP Group; (ii) reviewed the process carried out by the Group in conducting sales under the Sale of Goods (2018) Agreement as well as with independent third party customers (based on the sample transactions we have reviewed and mentioned in the section headed "3. Principal terms of the Sale of Goods (2021) Agreement" above); and (iii) reviewed the process carried out by the Group in conducting purchases from the CCOOP Group as well as with independent third party suppliers in the past (based on the sample transactions we have reviewed and mentioned in the section headed "5. Principal terms of the Purchase of Goods (2021) Agreement" above). We note that the Group (i) had adhered to the procedures when it sold/purchased to/from the CCOOP Group and to/from the independent third parties in the past; (ii) had several suppliers for the products sourced from the CCOOP Group; and (iii) had regularly monitored the market prices and compared the purchase prices from the CCOOP Group to ensure the reasonableness of the purchase prices.

Given the above, we consider that there exists appropriate procedures and arrangements to ensure that the Transactions will be conducted on terms that are fair and reasonable and are in the interests of the Company and the Shareholders as a whole; and on normal commercial terms and in the ordinary and usual course of business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the entering into of the Agreements is in the ordinary and usual course of business of the Group, and in the interests of the Group and the Shareholders as a whole; (ii) the terms and conditions of the Agreements are on normal commercial terms, and are fair and reasonable as far as the Independent Shareholders are concerned; and (iii) the Annual Caps for the Transactions are fair and reasonable.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions approving the Agreements, the Transactions and the Annual Caps at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung
Executive Director

Ms. Jeanny Leung ("Ms. Leung") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of Directors' and Chief Executive

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors and Chief Executive of the Company nor their respective associates had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Interests of Substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any other persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/Nature of Interest	Number of Shares held (long position)	Approximate percentage of the issued share capital ⁽²⁾
Cihang Sino-Western Cultural and Educational Exchange Foundation Limited ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%
Pan-American Aviation Holding Company ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%

Name	Capacity/Nature of Interest	Number of Shares held (long position)	Approximate percentage of the issued share capital ⁽²⁾
Tang Dynasty Development Co., Ltd. ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%
Hainan Province Cihang Foundation ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%
Tang Dynasty Development (Yangpu) Company Limited ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%
Hainan Traffic Administration Holding Co., Ltd. ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%
HNA Group Co., Ltd. ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%
CCOOP ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾	Interest of a controlled corporation	204,558,317	70.42%
Hainan Gongxiao Daji Holding Ltd. ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%
Hainan Gongxiao Daji Supply Chain Network Technology Ltd. ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%
Green Industrial (HK) Holding Co., Limited ⁽¹⁾	Interest of a controlled corporation	204,558,317	70.42%
CCOOP International Holdings Limited	Beneficial owner	204,558,317	70.42%
Infini Capital Management	Beneficial owner	27,600,000	9.50%
Golden Prime Holdings Limited	Beneficial owner	25,988,000	8.95%

Notes:

- (1) These parties were deemed to have interests in 204,558,317 Shares by virtue of their equity interests in CCOOP International Holdings Limited.
- (2) Approximate percentage was calculated based on the 290,457,000 ordinary Shares in issue as at the Latest Practicable Date.
- (3) Mr. Du Xiaoping, the Chairman of the Board and an executive Director, is a director of CCOOP.
- (4) Mr. Han Wei, the Chief Executive Officer of the Board and an executive Director, is a director of CCOOP.
- (5) Mr. Wang Fu Lin, a non-executive Director, is the general manager of the board office of CCOOP.

3. OTHER INTERESTS

As at the Latest Practicable Date:

- (1) none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up;
- (2) no contract or arrangement in which any of the Directors was materially interested, directly or indirectly, and which was significant in relation to the business of the Group subsisted;
- (3) none of the Directors had any existing or proposed service contracts with any member of the Group other than contracts expiring or determinable by the employer within one (1) year without payment of compensation (other than statutory compensation); and
- (4) CCOOP, the controlling shareholder of the Company, is principally engaged in the retail chain and department store businesses in the PRC and hence was interested in the businesses which competed or were likely to compete, either directly or indirectly, with the Group's businesses. Mr. Du Xiaoping and Mr. Han Wei, who hold directorship in CCOOP, was considered to have interest in the business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

The Directors are fully aware of, and have been discharging, their fiduciary duty to the Company with the belief that the Group's interests are adequately protected by good corporate governance practices and the involvement of the independent non-executive Directors.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective close associates were considered to have interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. EXPERT AND CONSENT

The following is the qualification of the expert (“**Expert**”) whose advice and/or report(s) are contained in this Circular:

Name	Qualification
Altus Capital Limited	a corporation licensed to carry out Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) regulated activities under the SFO

The Expert has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of the text of its letter dated the date of this Circular and/or the references to its name in the form and context in which they appear.

As at the Latest Practicable Date, the Expert:

- (1) did not have any shareholding, directly or indirectly, in any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (2) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. GENERAL

- (1) The company secretary of the Company is Mr. Qiu Minghao who is a Chartered Secretary and an Associate of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.
- (2) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

- (3) The registered office of the Company is situated at Vistra (Cayman) Limited, P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.
- (4) The head office and principal place of business of the Company in Hong Kong is situated at Suite 4404-10, 44th Floor, One Island East, 18 Westlands Road, Taikoo Place, Hong Kong.
- (5) The principal place of business of the Company in the PRC is situated at Floor 3, Huale Building No. 60 Hebin North Road Lecong Town Shunde District, Foshan Guangdong Province 528315, the PRC.
- (6) The English text of this Circular and the accompanying form of proxy shall prevail over its Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 10F, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong during normal business hours from the date of this Circular up to and including the date of the EGM and at the EGM:

- (1) the Sale of Goods (2021) Agreement dated 12 November 2020; and
- (2) the Purchase of Goods (2021) Agreement dated 12 November 2020.



CHINA SHUN KE LONG HOLDINGS LIMITED

中國順客隆控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 974)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**Meeting**”) of China Shun Ke Long Holdings Limited (the “**Company**”) will be held at 10F, Everbright Centre, 108 Gloucester Rd, Wanchai, Hong Kong on 23 December 2020 at 2:00 p.m. for the purpose of considering and, if thought fit, passing, with or without amendment, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** the Sale of Goods (2021) Agreement (as defined in the circular of the Company dated 7 December 2020 issued in respect thereof (the “**Circular**”)) entered into between the Company (for itself and on behalf of its subsidiaries) and CCOOP Group Co., Ltd. (供銷大集集團股份有限公司) (for itself and on behalf of its subsidiaries) (a copy of which has been produced to the Meeting marked “**A**” and signed by the chairman of the Meeting for the purpose of identification), the transactions contemplated thereunder and the proposed annual caps under the Sale of Goods (2021) Agreement (as described in the paragraph headed “Proposed annual caps under the Sale of Goods (2021) Agreement” in the Circular) be and are hereby approved; and the execution of the Sale of Goods (2021) Agreement and any other agreements and documents and the actions taken in connection therewith by any director of the Company (“**Director**”) be and are hereby approved, confirmed and ratified; and any Director(s) be and is/are hereby authorised to do all acts and things and execute any agreements, deeds, instruments and any other documents, under hand or under seal, or make such arrangement as he/they may determine to be appropriate, necessary or desirable to give effect to or in connection with the Sale of Goods (2021) Agreement, the transactions contemplated thereunder and the proposed annual caps thereof and, subject to and in accordance with the applicable laws and regulations, to approve and make such immaterial variation, amendment, supplement or waiver of immaterial matters relating thereto in the interests of the Company and its shareholders as a whole.”
2. “**THAT** the Purchase of Goods (2021) Agreement (as defined in the circular of the Company dated 7 December 2020 issued in respect thereof (the “**Circular**”)) entered into between the Company (for itself and on behalf of its subsidiaries) and CCOOP Group Co., Ltd. (供銷大集集團股份有限公司) (for itself and on behalf of its subsidiaries) (a copy of which has been produced to the Meeting marked “**B**” and signed by the chairman of the Meeting for the purpose of identification), the transactions contemplated thereunder and the proposed annual caps under the

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Purchase of Goods (2021) Agreement (as described in the paragraph headed “Proposed annual caps under the Purchase of Goods (2021) Agreement” in the Circular) be and are hereby approved; and the execution of the Purchase of Goods (2021) Agreement and any other agreements and documents and the actions taken in connection therewith by any director of the Company (“**Director**”) be and are hereby approved, confirmed and ratified; and any Director(s) be and is/are hereby authorised to do all acts and things and execute any agreements, deeds, instruments and any other documents, under hand or under seal, or make such arrangement as he/they may determine to be appropriate, necessary or desirable to give effect to or in connection with the Purchase of Goods (2021) Agreement, the transactions contemplated thereunder and the proposed annual caps thereof and, subject to and in accordance with the applicable laws and regulations, to approve and make such immaterial variation, amendment, supplement or waiver of immaterial matters relating thereto in the interests of the Company and its shareholders as a whole.”

By Order of the Board
China Shun Ke Long Holdings Limited
Du Xiaoping
Chairman and Executive Director

Hong Kong, 7 December 2020

Notes:

1. All resolutions at the Meeting will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.
2. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or (if he is a holder of two or more shares (ordinary share(s) in the share capital of the Company)) more than one proxies to attend and vote in his/her stead. A proxy need not be a member of the Company. The proxy will also be entitled to vote at his/her discretion or to abstain from voting on any resolutions properly put to the Meeting other than those referred to in the notice convening the Meeting.
3. A proxy form for the Meeting is enclosed with this Circular. The proxy form is also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.skl.com.cn>).
4. Whether or not you are able to attend and vote at the Meeting in person, you are requested to read the notice and to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than forty-eight (48) hours before the time appointed for holding of the Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the Meeting or any adjournment thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such persons may vote at the above meeting, either personally or by proxy, in respect of such share(s) as if he/she were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share(s) shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands will for this purpose be deemed joint holders thereof.

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6. For determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from 22 December 2020 to 23 December 2020, both dates inclusive, during which period no transfer of shares of the Company will be effected. In order to be eligible to attend and vote at the Meeting, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 21 December 2020.
7. In accordance with Chapter 14A of the Listing Rules, CCOOP International Holdings Limited and its associates are required to abstain from voting on the resolutions proposed at the Meeting.
8. Unless otherwise defined in this notice of the Meeting, capitalised terms used herein shall have the same meanings ascribed to them in the Circular of the Company dated 7 December 2020.
9. Shareholders of the Company are advised to read the Circular to the shareholders of the Company dated 7 December 2020 which contains further information in respect of the resolutions as set out in this notice.

As at the date of this notice, the executive Directors are Mr. Du Xiaoping and Mr. Han Wei; the non-executive Director is Mr. Wang Fu Lin; and the independent non-executive Directors are Mr. Cheng Hok Kai Frederick, Mr. Wang Yilin and Mr. Zou Pingxue.