Gram Capital Limited
嘉林資本有限公司

31 July 2023

To: The Independent Board Committee of Dali Foods Group Company Limited

Dear Sir/Madam,

(1) PROPOSAL FOR THE PRIVATISATION OF DALI FOODS GROUP COMPANY LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE COMPANIES ACT); (2) PROPOSED WITHDRAWAL OF LISTING; AND (3) SPECIAL DEAL RELATING TO THE ROLLOVER ARRANGEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Proposal, the Scheme and the Rollover Arrangement, details of which are set out in the Scheme Document dated 31 July 2023 issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context requires otherwise.

On 27 June 2023, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders regarding the proposed privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Act involving the cancellation of the Scheme Shares. The Trustee Shares will not form part of the Scheme Shares and will not be cancelled. Upon the Scheme becoming effective, the Offeror will hold approximately 96.11% of the issued Shares and the Trustee will hold approximately 3.89% of the issued Shares, and the listing of the Shares will be withdrawn from the Stock Exchange.

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If the Proposal is approved and implemented, under the Scheme, the Scheme Shares will, on the Effective Date, be cancelled and extinguished. Simultaneously with such cancellation, the share capital of the Company will be maintained by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the cancellation of the Scheme Shares will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

As at the Latest Practicable Date, the Trustee holds 532,327,500 Shares (representing approximately 3.89% of the issued Shares) (i.e. the Trustee Shares).

The Company, the Offeror and the Trustee have entered into the Rollover Agreement on 27 June 2023 under which the parties agreed that the Trustee will retain its shareholding (i.e. the Trustee Shares) and remain as a Shareholder after the Scheme becomes effective so as to allow the Share Award Scheme to continue to be maintained as an employee incentivisation platform after delisting. Accordingly, the Trustee Shares will not form part of the Scheme Shares.

As the Rollover Arrangement is not offered to all Shareholders, it constitutes a special deal and requires the consent of the Executive under Rule 25 of the Takeovers Code. The Offeror has made an application for consent from the Executive to the Rollover Arrangement conditional on: (i) the Independent Financial Adviser to the Independent Board Committee confirming that the Rollover Arrangement is fair and reasonable so far as the Disinterested Shareholders are concerned; and (ii) the passing of an ordinary resolution by the Disinterested Shareholders at the General Meeting to approve the Rollover Arrangement.

Upon the Scheme becoming effective, all Scheme Shares will be cancelled (with the equivalent number of new Shares being issued as fully paid to the Offeror) and the share certificates in respect of the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from the Effective Date.

An Independent Board Committee, which comprises the following non-executive Directors who are not interested in the Proposal, namely, Ms. HU Xiaoling, Mr. NG Kong Hing, Mr. LIU Xiaobin and Dr. LIN Zhijun, has been established by the Board to make a recommendation to the Disinterested Shareholders as to whether the terms of the Proposal, the Scheme and the Rollover Arrangement are, or are not, fair and reasonable and whether to vote in favour of the Scheme and the Rollover Arrangement at the Court Meeting and the General Meeting.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee comprises all non-executive Directors who have no direct or indirect interest in the Proposal. Ms. XU Biying (a non-executive Director) is the sister of the Founder, and will not take part in the Independent Board Committee.

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We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Proposal, the Scheme and the Rollover Arrangement, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Proposal, the Scheme and the Rollover Arrangement pursuant to Rule 2.1 of the Takeovers Code. The appointment of Gram Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

INDEPENDENCE

We were not aware of (i) any relationships or interests between Gram Capital and the Company; or (ii) any services provided by Gram Capital to the Company, during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Scheme Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Scheme Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Proposal, the Scheme and the Rollover Arrangement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "1. RESPONSIBILITY STATEMENT" of Appendix II to the Scheme Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Scheme Document, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or its

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respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposal, the Scheme and the Rollover Arrangement.

We have assumed that the Proposal, the Scheme and the Rollover Arrangement will be consummated in accordance with the terms and conditions set forth in the Scheme Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Proposal, the Scheme and the Rollover Arrangement, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Proposal, the Scheme and the Rollover Arrangement. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposal, the Scheme and the Rollover Arrangement, we have taken into consideration the following principal factors and reasons:

1. Terms of the Proposal

With reference to the section headed "Part V — Letter from the Board" of the Scheme Document, the Proposal will be implemented by way of the Scheme. Under the Scheme,

(1) the Founder Shares will be cancelled in consideration for the Founder Shares Cancellation Consideration, being the issue of Offeror Shares to the Founder in an amount equivalent to the aggregate Cancellation Price for all of the Founder Shares; and

(2) the Scheme Shares (other than the Founder Shares) will be cancelled in exchange for the Cash Cancellation Consideration, being the payment of the Cancellation Price of HK$3.75 in cash for each such Scheme Share.

The Offeror has advised that the Cancellation Price will not be increased, and the Offeror does not reserve the right to do so. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Price.

The Company does not intend to declare and/or pay any dividend before the Effective Date or the date on which the Scheme is not approved or the Proposal otherwise lapses (as the case may be). However, if, after the Announcement Date, any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the

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Shares, the Offeror reserves the right to reduce the Cancellation Price by all or any part of the amount or value of such dividend, distribution and/or, as the case may be, return of capital after consultation with the Executive, in which case any reference in the Announcement, the Scheme Document or any other announcement or document to the Cancellation Price will be deemed to be a reference to the Cancellation Price as so reduced.

Further details of the Proposal, the Scheme and the Rollover Arrangement are set out in the section headed "Part VIII — Explanatory Memorandum" of the Scheme Document.

2. Background of the Group

2.1 Information on the Group

With reference to the section headed "Part V — Letter from the Board" of the Scheme Document, the Company is a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange with the stock code 3799. The Group is a food and beverage company in the PRC with a diversified presence across multiple categories and industrial segments, a number of consumer brands, and an extensive and in-depth nationwide channel network.

As at the Latest Practicable Date, the Company had 13,694,117,500 Shares in issue.

Set out below is a summary of the audited consolidated financial information on the Group for the three years ended 31 December 2022, as extracted from the Company's annual report for the year ended 31 December 2021 (the "**2021 Annual Report**") and the Company's annual report for the year ended 31 December 2022 (the "**2022 Annual Report**"):

	For the year ended 31 December			Change	Change
	2022 ("FY2022")	2021 ("FY2021")	2020 ("FY2020")	from 2021 to 2022	from 2020 to 2021
	RMB'000	*RMB'000*	*RMB'000*	%	%
Revenue	19,957,199	22,294,000	20,961,708	(10.48)	6.36
— *Manufacture and sale of household consumption*	3,704,740	3,635,158	2,963,312	1.91	22.67
— *Manufacture and sale of snack food*	9,029,759	9,942,565	10,213,400	(9.18)	(2.65)
— *Manufacture and sale of ready-to-drink beverage*	5,123,163	6,595,874	6,175,648	(22.33)	6.80
— *Others*	2,099,537	2,120,403	1,609,348	(0.98)	31.76
Gross profit	7,023,954	8,155,606	8,240,896	(13.88)	(1.03)
Other income and gains	1,451,152	1,428,745	1,036,617	1.57	37.83
Profit for the year	2,990,088	3,725,225	3,848,653	(19.73)	(3.21)

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FY2021

For FY2021, the Group recorded revenue of approximately RMB22.29 billion, representing an increase of approximately 6.36% as compared to that for FY2020. With reference to the 2021 Annual Report, the increase in revenue for FY2021 was mainly due to that the household consumption segment revenue grew at a fast pace with a year-on-year increase of approximately 22.67% and the ready-to-drink beverage segment revenue returned to the track of high-quality growth with a year-on-year growth of approximately 6.80%.

The Group's other income and gains (which mainly included bank interest income of approximately RMB676.51 million and government grants of approximately RMB672.32 million) for FY2021 represented a substantial increase of approximately 37.83% as compared to that for FY2020, which was mainly due to the substantial increases in bank interest income (net) (i.e. increased by approximately 24.32% or RMB132.36 million) and government grants (i.e. increased by approximately 56.67% or RMB243.20 million) for the corresponding period.

The Group's gross profit and profit for FY2021 decreased by approximately 1.03% and 3.21% respectively as compared to those for FY2020. With reference to the 2021 Annual Report, the aforementioned decreases were mainly due to the impact of higher raw material costs.

FY2022

For FY2022, the Group recorded revenue of approximately RMB19.96 billion, representing a substantial decrease of approximately 10.48% as compared to that for FY2021. With reference to the 2022 Annual Report, the aforesaid decrease was mainly due to the decrease in snack food segment revenue and ready-to-drink segment revenue.

The Group's other income and gains for FY2022 represented a slight increase of approximately 1.57% as compared to that for FY2021. This was mainly due to the substantial increase of approximately 22.60% (or RMB152.88 million) in bank interest income (net), but offset by a substantial decrease of approximately 18.70% (or RMB125.75 million) in government grants for the corresponding period.

The Group also recorded decreases of approximately 13.88% and 19.73% in gross profit and profit for FY2022 as compared to those for FY2021, which were mainly due to the price increase of raw materials and aforementioned decrease in revenue for FY2022.

With reference to the 2022 Annual Report, the Group will fully capitalize market opportunities and forward-looking advantages to continuously promote the healthy growth of snack food, stimulate the market of the ready-to-drink segment to gain new momentum, promote high-end and innovative plant-based products, expand

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quality sales outlets and the scale advantage of short shelf-life products, consolidating its leading position under the trend of consumer upgrade and healthy lifestyle.

2.2 *Industry overview*

As the Group principally engaged in the PRC food (including snack food) and beverage industries, the consumption of which may be affected by the PRC's economy, we researched for certain PRC's economic indicators as summarised below.

According to the National Bureau of Statistics, the gross domestic products ("**GDP**") of the PRC during the last five full years (2018 to 2022) grew continuously and reached approximately RMB121,021 billion in 2022, representing a compound annual growth rate ("**CAGR**") of approximately 7.1% for the corresponding period.

From 2018 to 2022, in line with the continuous development of national economy, the PRC's disposable income per capita grew from approximately RMB28,228 in 2018 to approximately RMB36,883 in 2022, representing a CAGR of approximately 6.9%.

Set out below are GDP and disposable income per capita of the PRC from 2018 to 2022 according to the National Bureau of Statistics:

	2022	**2021**	**2020**	**2019**	**2018**
GDP *(RMB'billion)*	121,021	114,924	101,357	98,652	91,928
Year-on-year growth rate (%) (Note 1)	5.3%	13.4%	2.7%	7.3%	10.5%
Year-on-year growth rate (%) without taking into account price impact	3.0%	8.4% *(Note 2)*	2.2%	6.0%	6.7%
Disposable income per capita *(RMB)*	36,883	35,128	32,189	30,733	28,228
Year-on-year growth rate (%)	5.0%	9.1%	4.7%	8.9%	8.7%

Notes:

1. Year-on-year growth rate in this letter is calculated by figure in current year over figure in previous year minus one.

2. Year-on-year growth rate without taking into account price impact (which could be led by inflation/deflation) was based on GDP at constant prices. As GDP at constant price is converted from GDP based on the current price into a value based on the price of certain base period (i.e., 1952, 1957, 1970, 1980, 1990, 2000, 2005, 2010, 2015 and 2020), there are two figures for the base switching years (i.e. one based on former base year prices and one based on new base year prices). The year-on-year growth rate of GDP at constant price for 2021 was calculated based on GDP at constant price for 2021 and 2020 (based on current base year, i.e. 2020).

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We also researched for relevant statistics and governmental policies of the PRC food (including snack food) and beverage industries as summarised below.

Snack food industry in the PRC

Set out below is the scale of the PRC snack food industry during 2018 to 2022 with reference to a report titled《2023–2024年中國休閑食品產業現狀及消費行為數據研究報告》(Research Report on the Current Situation and Consumer Behaviour Data of the PRC Snack Food Industry 2023–2024*, the "**Snack Food Report**") published by iiMedia Research (according to iiMedia Research's website, iiMedia Research is a world-renowned third-party data mining and analysis organization for new economic industries. Its research services area covers new economic fields such as artificial intelligence, new retail, sharing economy, online education, biotechnology, online games, e-commerce, advertising and marketing, culture and entertainment, publishing media, and knowledge payment).

	2022	**2021**	**2020**	**2019**	**2018**
Scale of the PRC snack food industry *(RMB'billion)*	1,165	1,156	1,120	1,056	990
Year-on-year growth rate (%)	0.8%	3.2%	6.1%	6.6%	8.8%

As shown in the table above, the scale of the PRC snack food industry continuously increased from 2018 to 2022, with a CAGR of approximately 4.2%. Nevertheless, its year-on-year growth rates continuously decreased from 2018 to 2022. The year-on-year growth rate of the scale of the PRC snack food industry was below 1% in 2022.

According to the Snack Food Report, the scale of the PRC snack food industry is estimated to reach RMB1,237.8 billion in 2027 (implying a CAGR of approximately 1.2% from 2022 to 2027), and snack food industry will shift from a rapidly growing market to a slow growing market.

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Beverage industry in the PRC

Set out below are the total turnover of beverage market (with transaction value over RMB100 million) in the PRC from 2017 to 2021 (Note: relevant figure for 2022 was not available as at the Latest Practicable Date), published by the National Bureau of Statistics of the PRC:

	2021	2020	2019	2018	2017
Total turnover of beverage markets (with transaction value over RMB100 million) in the PRC					
(RMB'billion)	103	94	107	105	98
Year-on-year growth rate (%)	9.4%	-11.5%	1.9%	6.5%	-8.5%

As shown in the table above, the total turnover of beverage markets (with transaction value over RMB100 million) in the PRC increased from approximately RMB98 billion in 2017 to approximately RMB107 billion in 2019. Subsequently, the total turnover of beverage markets (with transaction value over RMB100 million) in the PRC decreased to approximately RMB94 billion in 2020 and recovered to approximately RMB103 billion in 2021. The total turnover of beverage markets (with transaction value over RMB100 million) in the PRC fluctuated from 2017 to 2021, with a CAGR of approximately 1.2%.

According to a report titled《2022–2023年全球及中國飲料市場發展趨勢及消費行為數據監測報告》(2022–2023 Global and Chinese Beverage Market Development Trends and Consumer Behaviour Data Monitoring Report*, the "**Beverage Report**") published in September 2022 by iiMedia Research, in 2020, the scale of the PRC beverage market exceeded RMB1,000 billion, and it was expected that such scale would reach RMB1,247.80 billion in 2022. Following the development of PRC's economy, the increase in resident consumption level (i.e. consumption level of residents to meet daily households consumption needs) and the upgrading of consumption structure (i.e. the shift from pursuing quantity satisfaction to quality improvement), there is an overall growing trend in the PRC beverage industry. The PRC beverage industry has already entered a mature stage.

Food safety related matters

In recent years, the PRC government issued various policies or made several decisions affecting the PRC food market. Relevant and material government-issued policies and decisions regarding the PRC food market are set out below:

In August 2019, the State Administration for Market Regulation of the PRC promulgated《食品安全抽樣檢驗管理辦法》(the Measures for Food Safety Sampling Inspection*, which was amended in September 2022), pursuant to which the PRC government would standardize food safety sampling inspections and strengthen food safety supervision and management to protect public health and life safety.

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In October 2019, the State Council of the PRC issued《中華人民共和國食品安全法實施條例》(2019年修訂) (the Implementation Rules of Food Safety Law of the People's Republic of China (2019 Edition)*), which outlined that food producers and operators shall engage in production and operation activities in accordance with laws, regulations and food safety standards.

In January 2020, the State Administration for Market Regulation of the PRC issued《食品生產許可管理辦法》(2020年修訂) (the Measures for the Management of Food Production License (2020 Edition)*), which indicated that the PRC government should standardize food and food additive production licensing activities, strengthen food production supervision and management to ensure food safety.

In January 2021, the Certification and Accreditation Administration of the PRC published《食品安全管理體系認證實施規則》(2021年修訂) (the Implementation Rules for the Certification of Food Safety Management Systems (2021 Edition)*), in order to improve the food safety certification and accreditation system, standardize the food safety certification and accreditation activities, and ensure the consistency and effectiveness of the food safety certification and accreditation activities.

In April 2021, the National People's Congress Standing Committee of the PRC issued《中華人民共和國食品安全法》(2021年修訂) (the Food Safety Law of the People's Republic of China (2021 Edition)*), which stipulated that food producers and operators shall engage in production and operation activities in accordance with laws, regulations and food safety standards, and ensure food safety, be honest and self-disciplined, be responsible to the society and the public, accept social supervision.

In December 2022, the State Administration for Market Regulation of the PRC issued an article titled《深入學習貫徹黨的二十大精神聚焦"四線"強化食品生產監管》(In-depth Study and Implementation of the Spirit of the 20th National Congress of the Communist Party of China, Focusing on the "Fourth Line" and Strengthening the Supervision of Food Production*), pursuant to which the PRC government would (i) urge enterprises to implement the main responsibility of food safety; (ii) strengthen food production supervision; (iii) strengthen food production risk assessment and prevention; and (iv) promote the high-quality development of the food industry.

In February 2023, the Office of National Health Commission of the PRC, the Office of Ministry of Agriculture and Rural Affairs of the PRC and the Office of the State Administration for Market Regulation of the PRC jointly issued a notice titled《關於印發食品安全標準跟蹤評價工作方案的通知》(the Notice on Printing and Distributing the Work Plan for Tracking and Evaluation of Food Safety Standards*), which indicated that (i) the tracking and evaluation work would focus on key food safety fields, key food safety standards and the prominent problems in the implementation of food safety standards; (ii) the PRC government would strengthen the cooperation between the health and market supervision department and the

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agriculture and rural areas department to promote the linkage and cooperation between the tracking and evaluation works and other tasks; and (iii) the PRC government would organically integrate the tracking and evaluation work with the training and interpretation of the food safety standard, expanding the coverage of the publicity of such training and interpretation, and improving the service level of food safety standard guidance.

Competition landscape

Based on our understanding from the Directors, the food and beverage industry in the PRC is under deep reform. Although the scale of food and beverage industry in the PRC is large, its overall growth has slowed down in recent years due to weakened consumption willingness as a result of slowdown in PRC economic growth. Currently, there is a wide variety of product categories with low standardization in the food and beverage industry of the PRC, coupled with the characteristic of low entry threshold, resulting in a relatively fragmented competitive landscape.

The continuous growths of online sales also brought changes to the sales structures of mainstream offline sales channels of the food and beverage industry. With reference to《2022年中國網絡零售市場發展報告》(Report on the Development of China's Online Retail Market in 2022*), which was issued by Department of Electronic Commerce and Informatization under Ministry of Commerce of the PRC, and according to the National Bureau of Statistics, the online retail sales of physical goods for 2022 increased by 70.4% as compared to 2018, accounting for 27.2% (2018: approximately 18.6%) of the total retail sales of consumer goods in the PRC. The effect of online sales on driving consumption is evident by the above statistics.

As advised by the Directors, the reform of sales channels and changes in consumer group structure also lead to the change in consumer behaviour and competition landscape of food and beverage industry in the PRC, these changes may impact the competitiveness of the Group which conduct its businesses mainly through offline sales channels. Both brand-established industry participants and new industry participants are also seeking growth driven points through online sales channels, bringing significant challenges to traditional offline sales channels. In addition, consumers' health consciousness and diversified consumption needs in post-epidemic era will also drive the launch of new products and new brands of products. As also stated in the Beverage Report, with the launch of innovative new beverage products and the entry of beverage industry by new tea beverage brands, the beverage industry has begun to face new competition.

Conclusion

Having considered the above, including (i) the PRC's GDP and disposable income per capita together with their respective growth as shown above; (ii) the year-on-year growth rates of scale of the PRC snack food industry continuously decreased from 2018 to 2022 and will shift from a rapidly growing market to a slow growing market (e.g. the year-on-year growth rate of the scale of the PRC snack

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food industry was below 1% in 2022); (iii) there is an overall growing trend in the PRC beverage industry. Nevertheless, (a) the PRC beverage industry has already entered a mature stage; and (b) the total turnover of the PRC beverage markets, with transaction value over RMB100 million, fluctuated from 2017 to 2021, with a CAGR of approximately 1.2%; and (iv) the PRC government issued various policies or made several decisions affecting the PRC food market; (v) the competition landscape in the snack food and beverage industry in the PRC as listed out in the subsection "Competition landscape" above, we concur with the Directors with the followings:

- in 2022, under the impact of the pandemic and extreme weather conditions, coupled with the volatile geopolitical situation, the macro environment in the PRC faced greater complexity and severity. Although the optimisation of pandemic prevention and control policies brought about an orderly recovery of consumption scenarios, uncertainties still existed in the short term, in addition to the economic slowdown which made consumers more rational about their spendings;

- there is a wide variety of product categories with low standardization in the food and beverage industry of the PRC, coupled with the characteristic of low entry threshold, resulting in a relatively fragmented competitive landscape. The competition in the food and beverage industry of the PRC is expected to become fiercer; and

- as living standards continue to improve, food safety and health have become the primary concerns for consumers against the backdrop of upgraded consumption.

3. Intentions of the Offeror regarding the Company

Set out below is the Offeror's intention in respect of the Company as extracted from section headed "Part VIII — Explanatory Memorandum" of the Scheme Document:

It is the intention of the Offeror that, if the Scheme becomes Effective, the Company will be delisted from the Stock Exchange and the Group will continue to carry on its current business, and the Offeror does not have specific plans to make any major changes to the business of the Group (including any redeployment of fixed assets of the Group and the continued employment of the employees of the Group) upon the successful delisting of the Company. After completion of the Proposal, the Offeror will continue to consider how to develop the Company in a manner which best enhances value and, in that regard, will consider growing its business as well as market opportunities which will be dependent on a number of factors including market conditions, legal and regulatory requirements and its business needs.

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4. Reasons for and the benefits of the Proposal

Set out below are the reasons and benefits of the Proposal from the perspective of (i) the Offeror and the Company; and (ii) the Scheme Shareholders with reference to section headed "Part VIII — Explanatory Memorandum" of the Scheme Document:

4.1 Reasons and benefits for the Offeror and the Company

(1) The Proposal will be favourable to facilitate the Company to implement long-term strategies that might have adverse impact on short-term performance and dividend return amid a challenging macro and market environment.

In recent years, the macro-economic environment has become more complex, the consumer spending has become more rational, and the snack food and beverage industry has experienced significant changes and fiercer competition, which all result in the uncertainties of business operation in the short term. In this challenging environment, a business transformation (such as, industrial upgrading, brand innovation, channel optimisation, etc.) is necessary in order for the Company to compete effectively and solidify its leadership position in the snack food and beverage industry. However, these transformation measures (which may lead the Group to incur more expenses for point-of-sales expansion, sales headcount increase, brand building and shelf-space display, and product innovation, research and development, etc.) might have negative impacts on the Company's short-term operating and financial performance, which will further impact the financial return to investors.

As a listed company in Hong Kong, the Company needs to pay attention to share price performance to maintain its reputation among investors and business partners, thus restraining itself from implementing long-term business strategies that might have adverse impact on its short-term operation result, share price as well as dividend yield, reflecting a mismatch between its listing status and business development strategy.

The Offeror believes that the successful implementation of the Proposal will provide more flexibility to the Group as a privately-owned business, free the management team from distractions arising from the public equities market, and facilitate the implementation of necessary business transformation which, if successful, may bolster core competitiveness of the Company.

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(2) The Company has lost the advantage to maintain listing status with limited equity fund-raising ability

The Shares have been trading at a relatively low price range considering the historical performance, and with lower-than-expected trading volume while the Company has to bear maintenance cost in order to maintain listing status. The Company has not raised any funds through equity issuance since its initial public offering in 2015, thus maintaining listing status has been of limited significance from a capital raising perspective. After the implementation of the Proposal, the Company could reduce such additional costs associated with compliance and maintenance of the Company's listing status.

(3) The Proposal can eliminate the potential adverse impact of the share price fluctuation

As a listed company, the Company's capital market volatility will influence the Company's branding, the reputation with customers, suppliers, and investors, as well as the employee morale, which are critical to business operation. The proposal could eliminate the uncertainty on the Company's business operation, including the potential adverse impact, associated with the share price fluctuation.

4.2 Reasons and benefits for the Scheme Shareholders

The Proposal is intended to provide the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at an attractive premium over the prevailing market price without having to suffer any illiquidity discount. The Cancellation Price represents a premium of approximately 37.87% and 30.21% over the closing price of HK$2.72 on the Last Trading Day and the average closing price of HK$2.88 for the 30 trading days up to and including the Last Trading Day, respectively. Given the average daily trading volume of the Shares for the past 12 month being 3.93 million Shares and representing only 0.03% of the issued Shares at the Announcement Date, the low trading volume will make it difficult for the Shareholders to monetise their investments in the open market without discount. The Proposal offers the Shareholders an attractive exit premium and opportunity to realise their investment in return for cash without any discount caused by limited liquidity, and redeploy into alternative investment opportunities with higher liquidity that they may consider more attractive under such a high interest environment.

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We performed a trading liquidity analysis of the Shares for the period from 1 June 2022 up to and including the Latest Practicable Date (the "**Shares Review Period**") (being approximately one year before the Announcement Date and up to and including the Latest Practicable Date, which is a commonly adopted period for analysis). The number of trading days per month, average daily number of Shares traded per month, and the respective percentages of the Shares' average daily trading volume as compared to (i) the total number of Disinterested Shares as at the Latest Practicable Date; and (ii) the total number of Shares in issue as at the Latest Practicable Date, during the Shares Review Period are tabulated below:

Month	Number of trading days	Average daily trading volume (the "Average Volume")	% of the Average Volume to total number of Disinterested Shares as at the Latest Practicable Date *(Note 1)*	% of the Average Volume to total number of Shares in issue as at the Latest Practicable Date *(Note 2)*
		Number of Shares	*Approximate %*	*Approximate %*
2022				
June	21	12,643,947	0.831	0.092
July	20	2,691,253	0.177	0.020
August	23	3,078,749	0.202	0.022
September	21	3,124,761	0.205	0.023
October	20	3,162,513	0.208	0.023
November	22	5,733,518	0.377	0.042
December	20	2,474,053	0.163	0.018
2023				
January	18	4,121,434	0.271	0.030
February	20	2,779,449	0.183	0.020
March	23	3,241,011	0.213	0.024
April	17	2,845,952	0.187	0.021
May	21	5,245,864	0.345	0.038
June *(Note 3)*	17	15,442,530	1.015	0.113
— 1 June to the Last Trading Day	*14*	*11,630,603*	*0.764*	*0.085*
— 28 June to 30 June	*3*	*33,231,521*	*2.184*	*0.243*
July (up to and including the Latest Practicable Date)	19	7,029,000	0.462	0.051

Source: the Stock Exchange's website

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Notes:

1. Based on 1,521,790,000 Disinterested Shares as at the Latest Practicable Date.

2. Based on 13,694,117,500 Shares in issue as at the Latest Practicable Date.

3. Trading in the Shares was halted with effect from 9:00 a.m. on 21 June 2023 and resumed at 9:00 a.m. on 28 June 2023.

As illustrated from the table above, the Average Volume was thin during the Shares Review Period. The Average Volume in most of the months during the Shares Review Period (i.e. other than June 2022, June 2023 and July 2023) was (i) below 0.5% of the total number of Disinterested Shares as at the Latest Practicable Date; and (ii) below 0.05% of the total number of Shares in issue as at the Latest Practicable Date.

In light of the above, we consider that the trading liquidity of the Shares was low and disposal of substantial volume of Shares by the Shareholders in the open market may have adverse impact on the price of the Shares.

Having also considered:

(i) the financial performance of the Group as demonstrated under the section headed "2.1 Financial information of the Group" above, in particular:

— decrease in the Group's revenue from FY2021 to FY2022;

— decrease in the Group's gross profit from FY2021 to FY2022;

— decrease in the Group's profit for the year from FY2021 to FY2022; and

(ii) our analysis on the Cancellation Price as set out below,

we are of the view that the Proposal provides the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at a premium as compared to recent price levels of the Shares without having to suffer any possible illiquidity discount.

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5. The Cancellation Price

5.1 Cancellation Price comparison

The Cancellation Price of HK$3.75 per Scheme Share represents:

(a) a premium of approximately 3.59% over the closing price of HK$3.62 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a premium of approximately 37.87% over the closing price of HK$2.72 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a premium of approximately 36.36% over the average closing price of approximately HK$2.75 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;

(d) a premium of approximately 37.87% over the average closing price of approximately HK$2.72 per Share based on the daily closing prices as quoted on the Stock Exchange for the 20 trading days up to and including the Last Trading Day;

(e) a premium of approximately 30.21% over the average closing price of approximately HK$2.88 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(f) a premium of approximately 21.75% over the average closing price of approximately HK$3.08 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(g) a premium of approximately 151.68% over the audited net asset value attributable to equity holders per Share as at 31 December 2022 of approximately HK$1.49 per Share, calculated based on 13,694,117,500 Shares in issue as at the Announcement Date and based on an exchange rate of HK$1.00 = RMB0.9161, the central parity rate published by the People's Bank of China on its website as at the Last Trading Day for illustrative purposes.

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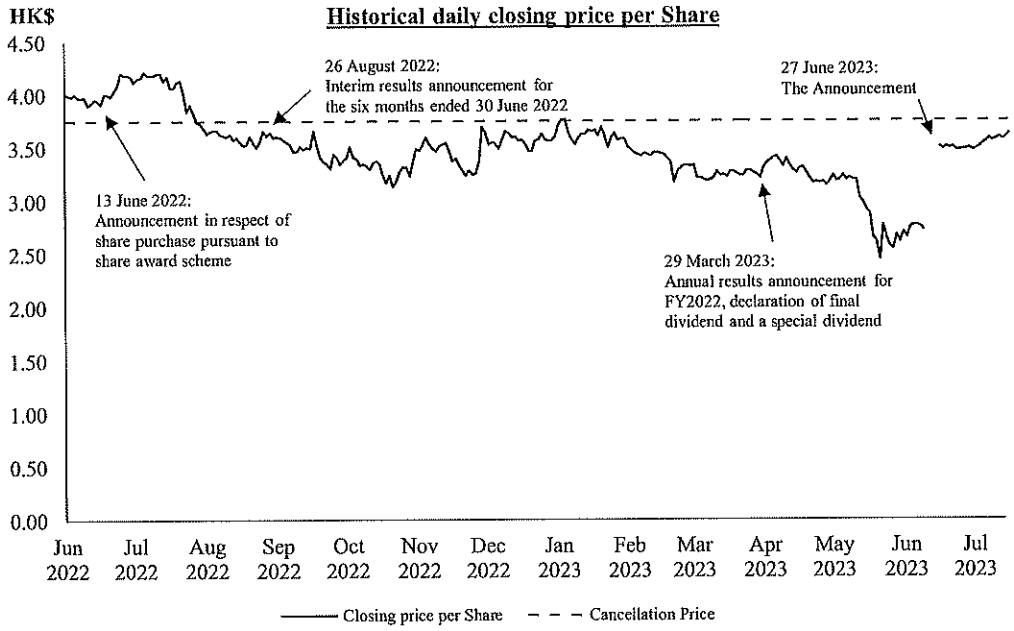
5.2 Historical price performance of the Shares

Set out below is a chart showing the movement of the closing prices of the Shares during the Shares Review Period to illustrate the general trend and level of movement of the closing prices of the Shares.



Source: Bloomberg

During the Shares Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK$4.21 recorded on 7 July 2022 and HK$2.44 recorded on 1 June 2023 respectively. The Cancellation Price of HK$3.75 per Share is within the aforesaid closing prices range and represents (i) a discount of approximately 10.93% to the highest closing price of the Shares; and (ii) a premium of approximately 53.69% over the lowest closing price of the Shares, during the Shares Review Period. In addition, the Cancellation Price was above the daily closing prices of the Shares for 240 trading days out of the total 282 trading days during the Shares Review Period.

The closing price of the Shares increased from the beginning of the Shares Review Period (i.e. June 2022) and reached its peak of HK$4.21 per Share on 7 July 2022. Subsequently, the closing price of the Shares moved in a general decreasing trend (i.e. decreased from HK$4.20 per Share to HK$3.13 per Share from July 2022 to October 2022) and reached HK$3.13 per Share on 24 October 2022. Thereafter, the closing price of the Shares fluctuated and recovered to HK$3.69 per Share on 30 November 2022. Afterwards, the closing price of the Shares moved in a general decreasing trend up to the Last Trading Day (i.e. from HK$3.69 per Share on 30 November 2022 to HK$2.72 per Share on the Last Trading Day).

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After the publication of the Announcement, the closing price of the Shares surged on 28 June 2023 and fluctuated between HK$3.47 per Share and HK$3.62 per Share to the Latest Practicable Date.

5.3 Comparison with other comparable companies

We noted that trading multiples analyses (including price-to-earnings ratio, price-to-book value ratio, price-to-sales ratio, enterprise value ("**EV**") to earnings before interest, tax, depreciation and amortisation ratio ("**EBITDA**") (the "**EV/EBITDA**")) are commonly adopted methods for the purpose of assessing the fairness and reasonableness of the Cancellation Price. In this regard, we searched for Hong Kong Main Board listed companies which (i) are principally engaged in similar line of business as the Group (being the manufacturing and sales of packaged food and beverage in the PRC) and derived more than 50% of their turnover from such businesses in aggregate; and (ii) are profit-making based on their respective latest full-year financial information published on or before the Announcement Date. We found three companies listed below which met the aforesaid criteria and they are exhaustive (the "**Comparable Company/ies**").

Given the packaged food and beverage business are sales driven but are not assets driven, we intended to adopt price-to-earnings ratio and price-to-sales ratio for analyses purpose. However, we noted that the Group's bank interest income (net) for FY2022 was approximately RMB829.39 million, accounting for approximately 20% to the Group's profit before tax for FY2022. As the aforesaid bank interest income was an income from bank deposits instead of business driven, we consider the results of price-to-earnings ratio analyses may be distorted and therefore we adopted the EV/EBITDA for analyses purposes. As we adopted EV/EBITDA (with EV as numerator), we also adopted EV to sales ratio (the "**EV/S**") instead of price-to-sales multiple, for analyses purposes.

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Set out below are EV/EBITDA and EV/S of the Comparable Companies based on their closing prices as at the Announcement Date and their latest published financial information:

Company name (Stock code)	Principal business	EV/ EBITDA (Note 1, 2, 3)	EV/S (Note 1, 4, 5)	Market capitalization of shares listed on the Stock Exchange as at the Announcement Date (HK$' billion) (Note 6)
Want Want China Holdings Limited (151)	Principally engaged in the manufacturing and sales of rice crackers, dairy products and beverages, snack foods	8.58	2.07	60.47
Uni-President China Holdings Ltd. (220)	Principally engaged in the manufacturing and sale of beverages and food	7.98	0.75	29.46
Tingyi (Cayman Islands) Holdings Corp. (322)	Principally engaged in the manufacturing and sale of instant noodles and beverages	8.79	0.80	67.39
Maximum		8.79	2.07	
Minimum		7.98	0.75	
Average		8.45	1.21	
Median		8.58	0.80	
The Proposal		9.14 (Note 8)	1.81 (Note 8)	51.35 (Note 7)

Source: the Stock Exchange's website

Notes:

1. EV of the Comparable Companies were calculated based on their respective market capitalization as at Announcement Date, total interest-bearing debts and minority interest, minus by its cash and bank balances.

2. EBITDA of the Comparable Companies and the Company were calculated as their respective latest published audited profit before tax, excluding the impacts of depreciation and amortisation, interest income, and finance cost.

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3. EV/EBITDA of the Comparable Companies and the Company were calculated by dividing their respective EV by their respective EBITDA.

4. Sales of the Comparable Companies and the Company represented their respective latest published audited total consolidated revenue.

5. EV/S of the Comparable Companies and the Company were calculated by dividing their respective EV by their respective sales.

6. The market capitalization of the Comparable Companies were calculated as their share closing price multiplied by their respective number of shares in issue as at the Announcement Date.

7. The implied market capitalization of the Company was calculated based on the Cancellation Price of HK$3.75 multiplied by the number of shares in issue as at the Announcement Date.

8. EV of the Company was calculated as the sum of (i) the implied market capitalization of the Company (refer to Note 7 above); and (ii) the Group's total interest-bearing debts and minority interest, minus by the Group's cash and bank balances.

9. The exchange rate of HK$1: RMB0.92048, being the median exchange rate on the Announcement Date as published by The People's Bank of China was adopted for the calculation purpose.

We notice from the above table that (i) the implied EV/EBITDA of the Company of approximately 9.14 times was above the EV/EBITDA range of the Comparable Companies (ranging from approximately 7.98 times to approximately 8.79 times); and (ii) the implied EV/S of the Company of approximately 1.81 times fall within the EV/S range of the Comparable Companies (ranging from approximately 0.75 times to 2.07 times) and is higher than the average EV/S of the Comparable Companies (being approximately 1.21 times) and median of EV/S of the Comparable Companies (being approximately 0.80 times).

5.4 Comparison with other privatisation transactions

As the Proposal is a privatisation by way of scheme of arrangement, to further assess the fairness and reasonableness of the Cancellation Price by making reference to the market practices of privatisation transactions by way of scheme of arrangement, we also searched for privatisation transactions by way of scheme of arrangement announced by companies listed on the Stock Exchange and approved by their disinterested shareholders, and offering cash consideration only without any restructuring of its existing businesses, during the one year period before the Announcement Date up to the Latest Practicable Date.

We did not include privatisation transactions by way of share buy-back, voluntary general offer and merger by absorption for comparison as their comparability may be affected by the facts that (a) the subject company buy back its shares under privatisation transactions by way of share buy-back instead of an offeror making an offer or initiating a scheme of arrangement; and (b) offeror may have different considerations on pricing

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under privatisation transactions by way of scheme of arrangement, voluntary general offer and merger by absorption, given that:

(i) privatisation transactions by way of scheme of arrangement ("**Scheme Privatisation(s)**") require at least 75% of the votes attaching to disinterested shares to vote for and not more than 10% of the votes attaching to all disinterested shares to vote against, by way of poll by disinterested shareholders either in person or by proxy at court meeting. Offeror has to consider attractiveness of the cancellation price to procure such "voting for" level and avoid such "voting against" level;

(ii) privatisation transactions by way of voluntary general offer ("**VGO Privatisation(s)**") require acceptance level of 90% disinterested shares. Unlike the offeror in a Scheme Privatisation, which require at least 75% of the votes attaching to disinterested shares to vote for and not more than 10% of the votes attaching to all disinterested shares to vote against, by way of poll either in person or by proxy at court meeting, the offeror in a VGO Privatization needs to consider to attract the disinterested shareholders who "would not vote (either vote for or vote against) at court meeting" under a Scheme Privatisation to voluntarily accept the offer under the VGO Privatisation. The required percentage for acceptance (i.e. 90%) under a VGO Privatisation is also higher than the required percentage for "voting for" (i.e. 75%) under a Scheme Privatisation. Therefore, the offeror's pricing consideration under a VGO Privatisation may be different from that under a Scheme Privatisation; and

(iii) under privatisation transactions by way of merger and absorption, (a) target company usually has more than one class of shares; (b) the transaction may be subject to pre-condition (e.g. governmental approval) which takes a long period to fulfil; and (c) usually, any dissenting shareholder may by written notice request the target companies and/or other shareholders who have approved the transaction to acquire its shares at a "fair price" (no guidance is in place on how the "fair price" will be determined) (the "**Dissenting Shareholder Rights**"). When considering the cancellation price, offeror has to consider attractiveness from perspective of different classes of shareholders, the uncertainty of the pre-condition and the time value of a longer transaction period. The Dissenting Shareholder Rights may also affect offeror's consideration on pricing.

As we could only identify five cases which met the aforesaid criteria, we extended the selection period from 1 January 2022 up to the Latest Practicable Date (being two calendar years up to the Latest Practicable Date) (the "**Privatisation Cases**").

We found 7 Privatisation Cases which met the aforesaid criteria for comparison and they are exhaustive. Although the business and operation of the Group are not the same as those of the subject companies of the Privatisation Cases, the Privatisation Cases can demonstrate the market practices of privatisation transactions by way of scheme of arrangement conducted by other Hong Kong listed companies.

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Company name (stock code or previous stock code)	Initial announcement date of the privatisation proposal *(Note 1)*	Premium of the cancellation price over average closing price per share for				Premium/(discount) of cancellation price over/to the respective then net asset value attributable to owners of the company per share *(Note 4)* *Approximate* %
		Last full trading day *(Note 2)* *Approximate* %	Last full 20 trading days *(Note 3)* *Approximate* %	Last full 30 trading days *(Note 3)* *Approximate* %	Last full 60 trading days *(Note 3)* *Approximate* %	
AKM Industrial Company Limited (1639)	14 January 2022	15.19	31.88	25.52	28.17	88.95
China VAST Industrial Urban Development Company Limited (6166)	9 June 2022	30.43	31.87	31.15	37.14	(45.22)
Lifestyle International Holdings Limited (1212)	5 August 2022	62.34	79.86	70.07	58.73	287.54
China Binary New Fintech Group (8255)	31 August 2022	35.14	25.00	25.00	11.11	N/A *(Note 5)*
Kingston Financial Group Limited (1031)	24 October 2022	47.78	42.86	36.36	30.43	(80.22)
AAG Energy Holdings Limited (2686)	17 February 2023	10.12	8.19	10.78	24.16	(21.28)
Jiangnan Group Limited (1366)	21 February 2023	83.49	110.53	110.53	100.00	(65.46)
	Maximum	83.49	110.53	110.53	100.00	287.54
	Minimum	10.12	8.19	10.78	11.11	(80.22)
	Average	40.64	47.17	44.20	41.39	27.39
	Median	35.14	31.88	31.15	30.43	(33.25)
	The Proposal	37.87	37.87	30.21	21.75	151.68

Notes:

1. The date of Takeovers Code Rule 3.5 announcement.

2. The premium of cancellation price over closing price per share on last full trading day prior to the publication of initial announcement in relation to the respective privatisation, as disclosed in the respective privatisation documents.

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3. The premium of cancellation price over average closing price per share on the 20/30/60 consecutive full trading days prior to the publication of initial announcement in relation to the respective privatisation, as disclosed in the respective privatisation documents.

4. With reference to the relevant announcements and scheme documents and based on the respective then published net asset value attributable to shareholders of the subject companies.

5. The subject company recorded net liabilities with reference to its latest published financial information.

As depicted in the above table, the premiums represented by the Cancellation Price over share closing price/average share closing prices on Last Trading Day, 20/30/60 consecutive trading days are all within ranges of premiums of the Privatisation Cases. In addition, the premiums represented by the Cancellation Price over share closing price/ average share closing prices on (i) Last Trading Day and 20 consecutive trading days are above median of premiums of Privatisation Cases; (ii) 30/60 consecutive trading days are below median of the premiums of Privatisation Cases; and (iii) Last Trading Day, 20/30/ 60 consecutive trading days are below the average premiums of the Privatisation Cases, for the corresponding periods.

The premium represented by the Cancellation Price over the audited net asset value attributable to equity holders per Share as at 31 December 2022 is within range of the premiums/discounts of the Privatisation Cases and above their average and median.

Taking into account that:

(i) The Cancellation Price is within the closing prices range and above the daily closing prices of the Shares for 240 trading days out of the total 282 trading days, during the Shares Review Period;

(ii) The Cancellation Price represents substantial premiums over the recent closing price of the Shares, including: (a) a premium of approximately 37.87% over the closing price per Share as quoted on the Stock Exchange on the Last Trading Day; and (b) premiums of approximately 36.36%, 37.87%, 30.21% and 21.75% over the average closing prices per Share as quoted on the Stock Exchange for five/20/30/60 consecutive trading days up to and including the Last Trading Day;

(iii) the Cancellation Price represents substantial premium of approximately 151.68% over the audited net asset value attributable to equity holders per Share as at 31 December 2022;

(iv) (a) the implied EV/EBITDA of the Company is above the EV/EBITDA range of the Comparable Companies; and (b) the implied EV/S of the Company fall within the EV/S range of the Comparable Companies, and is higher than the average EV/S of the Comparable Companies and median of EV/S of the Comparable Companies;

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(v) as compared to the Privatisation Cases, (a) the premiums represented by the Cancellation Price over share closing price/average share closing prices on the Last Trading Day, 20/30/60 consecutive trading days are all within ranges of the premiums of the Privatisation Cases; and (b) the premium represented by the Cancellation Price over the audited net asset value attributable to equity holders per Share as at 31 December 2022 is within range of the premiums/ discounts of the Privatisation Cases;

(vi) the trading liquidity of the Shares was low during the Shares Review Period and disposal of substantial volume of Shares by the Disinterested Shareholders in the open market may have adverse impact on the price of Shares; and the Proposal offers the Shareholders an attractive exit premium and opportunity to realise their investment in return for cash without any discount caused by limited liquidity, and redeploy into alternative investment opportunities with higher liquidity that they may consider more attractive under such a high interest environment; and

(vii) after considering the trend of the Share closing price during the Shares Review Period, there is no guarantee that the Share price will remain at a level close to the Cancellation Price should the Scheme being not approved and the Proposal lapses,

we consider the Cancellation Price to be fair and reasonable.

6. The Rollover Arrangement

6.1 Background of the Rollover Arrangement

With reference to the section headed "Part V — Letter from the Board" of the Scheme Document, the Company, the Offeror and the Trustee have entered into the Rollover Agreement on 27 June 2023 under which the parties agreed that the Trustee will retain its shareholding (i.e. the Trustee Shares) and remain as a Shareholder after the Scheme becomes effective so as to allow the Share Award Scheme to continue to be maintained as an employee incentivisation platform after delisting. Accordingly, the Trustee Shares will not form part of the Scheme Shares.

6.2 Information of the Trustee

As at the Latest Practicable Date, the Trustee held 532,327,500 Shares (representing approximately 3.89% of the issued Shares).

The Trustee is a professional trustee corporation appointed by the Company for the administration of the Share Award Scheme from time to time. The Trustee has been a Shareholder since 2022. According to the rules of the Share Award Scheme, the Trustee may not exercise the voting rights in respect of the Trustee Shares held by it.

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As the Rollover Arrangement is not offered to all Shareholders, it constitutes a special deal and requires the consent of the Executive under Rule 25 of the Takeovers Code. The Offeror has made an application for consent from the Executive to the Rollover Arrangement conditional on: (i) the Independent Financial Adviser to the Independent Board Committee confirming that the Rollover Arrangement is fair and reasonable so far as the Disinterested Shareholders are concerned; and (ii) the passing of an ordinary resolution by the Disinterested Shareholders at the General Meeting to approve the Rollover Arrangement.

Further details of the Rollover Arrangement and the Rollover Agreement are set out in the section headed "5. Special Deal Relating to the Rollover Arrangement" under "Part VIII — Explanatory Memorandum" of the Scheme Document.

We noted that the Proposal and the Scheme will become effective and binding on the Company and all Scheme Shareholders subject to the fulfilment of the passing of an ordinary resolution by the Disinterested Shareholders at the General Meeting to approve the Rollover Arrangement. While we are of the opinion that the terms of the Proposal and the Scheme are fair and reasonable (please refer to section headed "RECOMMENDATION" below), we consider that the approval of the Rollover Arrangement, which is a prerequisite for the implementation of the Proposal, is in the interest of the Company and the Shareholders.

Having also considered that:

(i) with reference to the announcement in relation to the adoption of the Share Award Scheme published by the Company on 2 December 2021 and as advised by the Directors, the purposes and objectives of the Share Award Scheme were (a) to recognize the contributions by certain eligible participants and to provide them with incentives in order to encourage and retain them for the continual operation and development of the Group; and (b) to attract suitable personnel for further development of the Group. The Rollover Arrangement keeps the Trustee as a Shareholder to allow the Share Award Scheme to continue to be maintained as an employee incentivisation platform after delisting;

(ii) in the case where the Disinterested Shareholders were given the opportunity to retain interests in the Company, subsequent to the Scheme had become effective and the withdrawal of listing of the Shares, their interests would no longer be safeguarded by regulations relating to minority shareholders protection applicable to listed companies on the Stock Exchange, in particular, the existing protections under the Chapter 14 and Chapter 14A of the Listing Rules regarding notifiable transactions and connected transactions respectively that are currently applicable to the Company as a Hong Kong listed company. In relation to dilution of shareholdings, under the Listing Rules, general mandate or specific shareholders' approval is required for issuing new shares. In addition, the Takeovers Code would only remain applicable to the Company as long as the Company remains a public company in Hong Kong. In the event that the Company ceases to be a public company, it would no longer be subject

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to the Takeovers Code. In that case, the interests of the Disinterested Shareholders would only be safeguarded primarily by the constitutional documents of the Company and provisions regarding minority shareholders' interest protection under the Companies Act, which do not necessarily provide the same level of minority protections that would be available had the Listing Rules and the Takeovers Code continued to apply. In addition, these Disinterested Shareholders might find it difficult to realise their shareholdings as no public trading in the Shares would be available; and

(iii) the Rollover Agreement does not provide the Trustee interests in the Company which the Trustee does not originally own,

we are of the opinion that the terms of the Rollover Agreement are fair and reasonable so far as the Disinterested Shareholders are concerned.

RECOMMENDATION

In relation to the Proposal and the Scheme, taking into account the factors as discussed above, in particular:

(i) the Shares have been trading at a relatively low price range with lower-than-expected trading volume while the Company has to bear maintenance cost in order to maintain listing status, the Company has not raised any funds through equity issuance since its initial public offering in 2015, thus maintaining listing status has been of limited significance from a capital raising perspective;

(ii) as mentioned in the sub-section headed "Conclusion" under the section headed "2.2 Industry overview" above, (a) in 2022, under the impact of the pandemic and extreme weather conditions, coupled with the volatile geopolitical situation, the macro environment in the PRC faced greater complexity and severity. Although the optimisation of pandemic prevention and control policies brought about an orderly recovery of consumption scenarios, uncertainties still existed in the short term, in addition to the economic slowdown which made consumers more rational about their spendings; (b) there are a wide variety of product categories with low standardization in the food and beverage industry of the PRC, coupled with the characteristic of low entry threshold, resulting in a relatively fragmented competitive landscape and the competition in the food and beverage industry of the PRC is expected to become fiercer; and (c) living standards continue to improve, food safety and health have become the primary concerns for consumers against the backdrop of upgraded consumption.

In the challenging environment, a business transformation is necessary in order for the Company to compete effectively and solidify its leadership position in the snack food and beverage industry. However, these transformation measures might have negative impacts on the Company's short-term operating and financial performance, which will further impact the financial return to investors.

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Following the implementation of the Proposal, the Group can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company. On the other hand, upon the implementation of the Proposal, investors will not suffer any harm from unmet market expectations, additional cost in adoption of measures for the Group's strategic decisions and fluctuation in share prices;

(iii) a low trading liquidity of a listed issuer's shares may normally make it difficult for the listed issuer's shareholders to execute substantial on-market disposals without adversely affecting the price of the shares and also make it difficult for the listed issuer's shareholders to dispose of substantial volume of shares when any event that has an adverse impact on the listed issuer's share price occurs. The Proposal (which is conditional upon, among other things, the passing of the resolution by the Disinterested Shareholders at the General Meeting) and the Scheme (which is conditional upon, among other things, approved by the Disinterest Shareholders at the Court Meeting and the passing of the resolution by the Disinterested Shareholders at the General Meeting) provides an exit alternative for the Shareholders who would like to realise their investments in the Shares; and

(iv) as concluded in the section headed "The Cancellation Price" above, the Cancellation Price being fair and reasonable,

we consider that the terms of the Proposal and the Scheme (including the Cancellation Price) are fair and reasonable so far as the Disinterested Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the General Meeting to approve the Scheme.

In relation to the Rollover Arrangement, having considered that:

(i) the Rollover Arrangement keeps the Trustee as a Shareholder to allow the Share Award Scheme to continue to be maintained as an employee incentivisation platform after delisting;

(ii) the interests of the Disinterested Shareholders (if such shareholders were given the opportunity to retain interests in the Company) would only be safeguarded primarily by the constitutional documents of the Company and provisions regarding minority shareholders' interest protection under the Companies Act, which do not necessarily provide the same level of minority protections that would be available had the Listing Rules and the Takeovers Code continued to apply. In addition, these Disinterested Shareholders might find it difficult to realise their shareholdings as no public trading in the Shares would be available;

(iii) the Rollover Agreement does not provide the Trustee interests in the Company which the Trustee does not originally own; and

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(iv) the Proposal and the Scheme (which are fair and reasonable so far as the Disinterested Shareholders are concerned as concluded above) will become effective and binding on the Company and all Scheme Shareholders subject to the fulfilment of the passing of an ordinary resolution by the Disinterested Shareholders at the General Meeting to approve the Rollover Arrangement. The approval of the Rollover Arrangement, which is a prerequisite for the implementation of the Proposal, is in the interest of the Company and the Shareholders,

we are of the opinion that the terms of the Rollover Agreement are fair and reasonable so far as the Disinterested Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Shareholders to vote in favour of the relevant resolution to be proposed at the General Meeting to approve the Rollover Agreement.

As different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Gram Capital Limited

Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purposes only*

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