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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Foods Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through which the sale or transfer was effected for transmission to the purchaser or transferee.



CHINA FOODS LIMITED 中國食品有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

CONTINUING CONNECTED TRANSACTIONS RELATING TO THE NEW FINANCIAL SERVICES AGREEMENT AND PROPOSAL FOR ELECTION OF RETIRING DIRECTOR

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



川盟融資有限公司
Chanceton Capital Partners Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Independent Board Committee with its recommendations to the Independent Shareholders of China Foods Limited (the "**Company**") is set out on page 26 of this circular and a letter from Chanceton Capital containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 27 to 45 of this circular.

A notice convening the SGM of the Company, to be held at Mandarin's Suite, World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 10 December 2021 at 9:30 a.m. is set out on pages SGM-1 to SGM-3 of this circular.

Whether or not you are able to attend the SGM (or any adjournment thereof), please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to Tricor Progressive Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM (or any adjournments thereof). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM (or any adjournments thereof) in person should you so wish.

PRECAUTIONARY MEASURES FOR THE SGM

In view of the ongoing epidemic caused by novel coronavirus pneumonia (COVID-19), precautionary measures will be taken to prevent and control the spread of the disease at the SGM, including:

- Compulsory temperature checks
- Compulsory wearing of surgical face masks at all times at the venue of the SGM
- No refreshment will be served and no souvenirs will be distributed

Any person who does not comply with the precautionary measures may be denied entry into the venue of the SGM.

23 November 2021

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DEFINITIONS

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

“2018 Announcement”	the announcement of the Company issued on 14 December 2018 concerning the continuing connected transactions of the Company in relation to the 2018 Financial Services Agreement
“2018 Financial Services Agreement”	the financial services agreement in relation to the deposit services, fund transfer services, entrustment loan services and other financial services entered into between the Company, Supply Chain (Tianjin) and COFCO Finance on 14 December 2018
“Board”	the board of Directors of the Company
“Bye-laws”	the bye-laws of the Company, as amended from time to time
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險業監督管理委員會)
“China Foods (Holdings)”	China Foods (Holdings) Limited (中國食品(控股)有限公司), a company incorporated in the British Virgin Islands with limited liability, and an indirect wholly-owned subsidiary of COFCO and a substantial shareholder of the Company
“COFCO”	COFCO Corporation (中糧集團有限公司), a state-owned company established in the PRC which is currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中國國務院國有資產監督管理委員會) and the ultimate controlling shareholder of the Company
“COFCO Coca-Cola”	COFCO Coca-Cola Beverages Limited, a company incorporated in Hong Kong with limited liability, in which the Company indirectly holds 65% interests
“COFCO Finance”	COFCO Finance Corporation Limited (中糧財務有限責任公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of COFCO

DEFINITIONS

“Company”	China Foods Limited (中國食品有限公司), a limited liability company incorporated in Bermuda, the Shares of which are listed on the main board of the Stock Exchange
“Deposit Services”	the RMB and foreign currency deposit and related services to be provided by COFCO Finance to Supply Chain (Tianjin) and subsidiaries of the Company under the New Financial Services Agreement
“Director(s)”	the director(s) of the Company
“Entrustment Loan Services”	COFCO Finance serves as a financial agent for loans advanced from certain subsidiaries of the Company to Supply Chain (Tianjin) through entrustment loan arrangements under the New Financial Services Agreement
“Fund Transfer Services”	the fund transfer services provided by COFCO Finance to subsidiaries of the Company under the New Financial Services Agreement
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, was established for the purpose of advising the Independent Shareholders on the terms of the Deposit Services and the Proposed Daily Deposit Cap
“Independent Financial Adviser” or “Chanceton Capital”	Chanceton Capital Partners Limited, a licenced corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services and the Proposed Daily Deposit Cap
“Independent Shareholders”	Shareholders other than China Foods (Holdings) and its associates
“Latest Practicable Date”	18 November 2021, the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein

DEFINITIONS

“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“New Financial Services Agreement”	the financial services agreement in relation to the Deposit Services, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services entered into between the Company, Supply Chain (Tianjin) and COFCO Finance on 2 November 2021
“Nomination Committee”	the nomination committee of the Board
“Other Financial Services”	other financial services to be provided by COFCO Finance to Supply Chain (Tianjin) and subsidiaries of the Company pursuant to the New Financial Services Agreement apart from the Deposit Services, the Fund Transfer Services, the Entrustment Loan Services, such as settlement, sale and purchase of foreign exchange and relevant advisory services
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Proposed Daily Deposit Cap”	the proposed maximum daily outstanding balance of deposits (including the corresponding interest accrued thereon) placed by the Group with COFCO Finance in the amount RMB800 million or its equivalent (including the corresponding interest accrued therein) during the Term pursuant to the New Financial Services Agreement
“PRC ”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Remuneration Committee”	the remuneration committee of the Board
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be held to consider and approve, among other things, the New Financial Services Agreement, the transactions contemplated thereunder and the Proposed Daily Deposit Cap
“Share(s)”	the ordinary share(s) of the Company, being the share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Chain (Tianjin)”	COFCO Coca-Cola Supply Chain (Tianjin) Limited (中糧可口可樂供應鏈(天津)有限公司), a limited company established in the PRC, which is a non-wholly owned subsidiary of COFCO Coca-Cola
“Term”	the term commencing from 14 December 2021 and expiring on 31 December 2024

In this circular, unless the context otherwise requires, the terms “associate(s)”, “connected person(s)”, “connected transaction(s)”, “controlling shareholder(s)”, “percentage ratio(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables and the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

* *The English name is a translation of its Chinese name and is included for identification purposes only.*

LETTER FROM THE BOARD



CHINA FOODS LIMITED 中國食品有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

Chairman of the Board and Non-executive Director:
Chen Lang

Executive Directors:
Qing Lijun (*Managing Director*)
Shen Peng

Non-executive Directors:
Chen Zhigang
Chen Gang

Independent Non-executive Directors:
Stephen Edward Clark
Li Hung Kwan, Alfred
Mok Wai Bun, Ben

Principal Office in Hong Kong:
33rd Floor, COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

23 November 2021

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS RELATING TO THE NEW FINANCIAL SERVICES AGREEMENT AND PROPOSAL FOR ELECTION OF RETIRING DIRECTOR

I. INTRODUCTION

The purpose of this circular is to provide you with, among others, (i) details of the New Financial Services Agreement and the transactions contemplated thereunder and the Proposed Daily Deposit Cap; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) details of the election of the retiring Director; and (v) a notice of the SGM.

LETTER FROM THE BOARD

II. CONTINUING CONNECTED TRANSACTIONS

Reference is made to the 2018 Announcement of the Company in relation to the continuing connected transactions contemplated under the 2018 Financial Services Agreement entered into between the Company, Supply Chain (Tianjin), an indirect non-wholly owned subsidiary of the Company and COFCO Finance. The 2018 Financial Services Agreement will be expired on 13 December 2021.

In order to continue to provide a more efficient employment of funds within the Group and to better facilitate intra-Group settlement services, the Company, Supply Chain (Tianjin) and COFCO Finance entered into the New Financial Services Agreement on 2 November 2021. Pursuant to the New Financial Services Agreement, COFCO Finance shall provide, among others, the Deposit Services, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services to the subsidiaries of the Company.

Summary

Principle terms of the New Financial Services Agreement are set out as follows:

1. Date

2 November 2021

2. Effective Date and the Term

The New Financial Services Agreement shall be for a term of three years commencing from 14 December 2021 and expiring on 13 December 2024 and shall become effective subject to the approval from the Independent Shareholders of the SGM.

3. Parties

- (a) The Company;
- (b) Supply Chain (Tianjin); and
- (c) COFCO Finance

LETTER FROM THE BOARD

4. *Major Terms*

(a) *Deposit Services*

Pursuant to the New Financial Services Agreement, COFCO Finance shall provide the Deposit Services to subsidiaries of the Company. The subsidiaries of the Company will open and maintain RMB and foreign currency deposit accounts with COFCO Finance. COFCO Finance will pay interest on deposits made by the subsidiaries of the Company.

The interest rates for the deposits placed by the subsidiaries of the Company with COFCO Finance (the “**COFCO Deposit Interest Rate**”) will not be lower than the standard deposit rates promulgated by PBOC for the same type of deposits of the same period and will not be lower than the interest rates offered by the eight major PRC commercial banks and PBOC for the same type of deposits of the same period. Details of the measures to be implemented for determining and monitoring the COFCO Deposit Interest Rate are set out in the paragraph headed “Measures of Determining the Pricing Terms” below.

The Deposit Services that will be provided by COFCO Finance to the subsidiaries of the Company under the New Financial Services Agreement are primarily for the purpose of facilitating the Fund Transfer Services and the Entrustment Loan Services among the subsidiaries of the Company as provided under the New Financial Services Agreement. Pursuant to the New Financial Services Agreement, the title of the funds in respect of the entrustment loans under the Entrustment Loan Services will rest with the Group and will not pass to COFCO Finance.

The maximum daily balance of deposits placed by the Group with COFCO Finance shall not exceed RMB800 million or its equivalent (including the corresponding interest accrued thereon).

(b) *Fund Transfer Services*

COFCO Finance shall provide the Fund Transfer Services to the subsidiaries of the Company in accordance with the instructions given by the relevant subsidiaries of the Company free of charge.

LETTER FROM THE BOARD

(c) *Entrustment Loan Services*

(i) Source of funds of the entrustment loans

Pursuant to the New Financial Services Agreement, funds source from certain subsidiaries of the Company will be advanced to Supply Chain (Tianjin) through entrustment loan arrangements, and COFCO Finance will serve as a financial agent. After such entrustment loans had been advanced to Supply Chain (Tianjin) (acting as a lender), it will enter into further entrustment loan arrangements with COFCO Finance, which holds the appropriate licence and qualification under the PRC laws, will advance such fund to certain subsidiaries of the Company which are in need of funds.

As COFCO Finance is acting as a financial agent in the entrustment loan arrangements and does not enjoy title of the entrustment loan, COFCO Finance does not have legal rights to advance such entrustment loan directly to the Company's subsidiaries without obtaining the instructions in advance from the relevant subsidiary of the Company.

The abovementioned entrustment loan arrangements are in full compliance with the applicable PRC laws.

By way of centralising funds from subsidiaries of the Company through entrustment loan arrangements, Supply Chain (Tianjin) will be able to allocate such centralised fund more effectively among the Company's subsidiaries, so that such fund allocation will be most beneficial to the Group as a whole and thus in turn, benefit the Company and its Shareholders as a whole.

(ii) Interest rate and implementation

Interest will be payable by subsidiaries of the Company as borrowers to the other subsidiaries of the Company as lenders through COFCO Finance. The parties will, where appropriate, enter into separate implementation agreements setting out the interest payable for each entrustment loan in accordance with the terms of the New Financial Services Agreement. The interest rate will be determined by relevant parties making reference to the interest rates of the eight major PRC commercial banks and PBOC and the prevailing market conditions.

LETTER FROM THE BOARD

(d) Other Financial Services

COFCO Finance will provide Other Financial Services, including but not limited to, settlement, sale and purchase of foreign exchange and relevant advisory services to the subsidiaries of the Company in accordance with the permitted scope prescribed under the PRC financial policies and the Measures for the Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法) promulgated by the CBIRC pursuant to the New Financial Services Agreement.

(e) Handling fees in respect of the Entrustment Loan Services and Other Financial Services

The handling fees to be charged by COFCO Finance in connection with the Entrustment Loan Services and the Other Financial Services (the “**COFCO Handling Fees**”) will not be higher than those charged by the eight major PRC commercial banks and PBOC and other PRC financial institutions to the Group for similar type of services. Details of the measures to be implemented for determining and monitoring the COFCO Handling Fees are set out in the paragraph headed “Measures of Determining the Pricing Terms” below.

(f) Settlement terms

- (i) COFCO Finance shall pay the interest under the Deposit Services on a quarterly basis where the interest will be automatically deposited into the demand deposit account of the subsidiaries of the Company opened at COFCO Finance on the 21st day of the end of each quarter; and
- (ii) The handling fees for the Entrustment Loan Services shall be settled annually by the end of each year while the handling fees for Other Financial Services shall be settled when each transaction is conducted.

(g) Right to obtain financial services from other financial institutions

The Group may obtain financial services from other financial institutions in addition to those provided by COFCO Finance pursuant to the New Financial Services Agreement.

LETTER FROM THE BOARD

(h) Set off

Where COFCO Finance applies the funds deposited by Supply Chain (Tianjin) and subsidiaries of the Company in breach of any provisions of the New Financial Services Agreement or in any other inappropriate ways which results in any subsidiaries of the Company failing to recover such deposited funds in full, such subsidiaries of the Company will be entitled to use such deposit funds to set off any payments payable to COFCO Finance by the subsidiaries of the Company. COFCO Finance will not be entitled to such set off rights.

(i) Notification of breach

During the Term of the New Financial Services Agreement, if COFCO Finance breaches or intends to breach any laws, regulations or any provisions of the New Financial Services Agreement, it is required to notify Supply Chain (Tianjin) and the Company of such situation within three days from its acknowledgement of the breach or intended breach.

(j) Termination

Apart from the default events provided under the Civil Code of the PRC (中華人民共和國民法典), the New Financial Services Agreement shall be terminated with immediate effect if COFCO Finance fails to satisfy any of the operational standard set out as follows:

- (i) its capital adequacy ratio shall not be less than 12%;
- (ii) its non-performing assets ratio shall not be more than 2%;
- (iii) its bad loan ratio shall not be more than 3%;
- (iv) its self-owned fixed assets to equity ratio shall not be more than 10%;
or
- (v) its investment balance to net capital ratio shall not be more than 70%.

Upon termination of the New Financial Services Agreement, Supply Chain (Tianjin) or the subsidiaries of the Company may withdraw their deposits with COFCO Finance at any time without costs.

LETTER FROM THE BOARD

(k) Condition Precedent

The New Financial Services Agreement shall be effective conditional upon:

- (i) compliance with all necessary requirements under the Listing Rules, which including but not limited to obtaining the approval of the Independent Shareholders at the SGM; and
- (ii) obtaining any other relevant approvals as may be required for the New Financial Services Agreement to take effect.

None of the above condition precedent is waivable.

(l) Termination of the 2018 Financial Services Agreement

Pursuant to the New Financial Services Agreement, the 2018 Financial Services Agreement will be terminated automatically upon the New Financial Services Agreement becomes effective.

5. Measures of Determining the Pricing Terms

In order to ensure that the pricing terms of individual transactions contemplated under the Deposit Services, the Entrustment Loan Services and the Other Financial Services will be made in accordance with the pricing principles as stated above, the Group and COFCO Finance shall carry out the measures below:

The Group has established an internal assessment mechanism on the COFCO Deposit Interest Rate and the COFCO Handling Fees based on fair market principle.

Prior to the engagement of the Deposit Services with COFCO Finance, the Group will obtain interest rates of deposit services offered by eight major PRC commercial banks and PBOC for the same type of deposits of the same period from their websites and select the highest of such quotations (the “**Quoted Deposit Interest Rate**”) to compare with the COFCO Deposit Interest Rate to ensure that the COFCO Deposit Interest Rate is not lower than the Quoted Deposit Interest Rate. In addition, the Group will conduct analysis and assessment between the COFCO Deposit Interest Rate and the rates offered by the eight major PRC commercial banks and PBOC every fortnight or regularly during the maintenance of such deposit accounts.

LETTER FROM THE BOARD

Prior to the engagement of the Entrustment Loan Services and the Other Financial Services, the Group will also conduct an analysis and assessment of the COFCO Handling Fees with the corresponding handling fees offered by the eight major PRC commercial banks and PBOC to the Group on similar type of services to ensure that the COFCO Handling Fees quoted by COFCO Finance is on the best term to the Group.

In the event that the relevant interest rates or handling fees quoted from the eight major PRC commercial banks and PBOC is better than those offered by COFCO Finance, the Group will inform COFCO Finance to adjust the same to ensure its interest rates or handling fees is on the same level or better than those offered by the eight major PRC commercial banks and PBOC.

Pursuant to the New Financial Services Agreement, in the event COFCO Finance violates its relevant obligations thereunder and adopts an interest rate or charged a handling fee which is not on a better term to the Group as compared to those offered by the eight major PRC commercial banks and PBOC, the Group may request COFCO Finance to compensate the differences to them.

COFCO Finance has established a risk management committee and an independent audit department where the risk management committee is responsible for, among others, approval for the decision-making on the pricing policies of deposits and various business risks of the company. The audit department of COFCO Finance is responsible for carrying out an independent audit on various businesses including the Deposit Services, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services under New Financial Services Agreement. In addition, to ensure that the New Financial Services Agreement is smoothly executed, COFCO Finance has appointed an independent external auditor to carry out a special audit on such connected transactions at the end of each quarter to manage and reduce the risk of the relevant business.

LETTER FROM THE BOARD

6. *Historical caps and transaction value of the Deposit Services under the 2018 Financial Services Agreement*

Under the 2018 Financial Services Agreement, the maximum daily deposit balance amount (including the corresponding interest accrued thereon) placed by the Group with COFCO Finance for the period from 14 December 2018 to 13 December 2019, the period from 14 December 2019 to 13 December 2020 and the period from 14 December 2020 to 13 December 2021 are RMB250 million, RMB300 million and RMB400 million, respectively.

The historical maximum daily deposit balance amount (including the corresponding interest accrued thereon) for the period from 14 December 2018 to 13 December 2019, the period from 14 December 2019 to 13 December 2020 and the period from 14 December 2020 to 30 September 2021 are as follows:-

Transaction	Historical maximum daily deposit balance for the period from		
	14 December 2018 to	14 December 2019 to	14 December 2020 to
	13 December 2019	13 December 2020	30 September 2021
	<i>(RMB million or its equivalent in any other currency)</i>		
Maximum daily deposit balance amount (including the corresponding interest accrued thereon) placed by the Group with COFCO Finance	<u>250</u>	<u>300</u>	<u>390</u>

7. *Proposed Daily Deposit Cap for the New Financial Services Agreement and the basis thereof*

The Board proposed the Proposed Daily Deposit Cap in the amount of RMB800 million or its equivalent (including the corresponding interest accrued therein) on a daily basis after considering the maximum daily outstanding balance of deposits (including the corresponding interest accrued thereon) to be placed by the Group with COFCO Finance pursuant to the New Financial Services Agreement.

LETTER FROM THE BOARD

In arriving the Proposed Daily Deposit Cap for the Term, the Company has taken into account of the following factors:

- (a) as at 30 June 2021, the Group had maintained a high level of cash and cash equivalents which amounted to approximately RMB1.9 billion and is available to be utilised by subsidiaries of the Company;
- (b) the business development plans and the financial needs of each of the subsidiaries of the Company during the Term;
- (c) the historical cash position of the Group, the historical transaction value and the expected growth of the business operation of the Group. In particular, the utilisation of the historical caps was 100%, 100% and approximately 97.5% for the respective periods under the 2018 Financial Services Agreement. In addition, during peak seasons, the daily transaction amount of the Group as a whole would be up to approximately RMB700 million to RMB900 million, as a result, multiple transfers of funds had to be made given the maximum daily deposit balance at COFCO Finance under the 2018 Financial Services Agreement for the period from 14 December 2020 to 13 December 2021 is only RMB400 million. The increase in the Proposed Daily Deposit Cap to RMB800 million can therefore reduce multiple transfers of funds and effectively improve the efficiency of the Entrustment Loan Services;
- (d) the control of financial risks in selecting financial services providers; and
- (e) the benefits to the Group and the shareholders of the Company as a whole as set out in the paragraph headed “Reasons for and benefits of entering into the New Financial Services Agreement”.

In order to ensure that the Proposed Daily Deposit Cap will not be exceeded, the Group will adopt the following measures to monitor the daily balance of the deposits made by the Group:

- (a) the finance department of the Company will monitor the daily balance of the deposit made by the Group with all financial institutions, including those with COFCO Finance, and will report on the Group’s overall cash flow position to the relevant senior management of the Company for review and consideration of the overall funding position of the Group;

LETTER FROM THE BOARD

- (b) the Group will have the discretion to request for the withdrawal of all or part of the deposit placed with COFCO Finance to ensure the liquidity and safety of the deposited fund; and
- (c) COFCO Finance will provide an online platform to allow the finance department of the Company to monitor the balance of the Group's deposit on a daily basis, so as to ensure the deposit amount will not exceed the Proposed Daily Deposit Cap.

8. Risk Management

In order to safeguard the interests of the shareholders of the Company, the Group will adopt the following guidelines and principles in monitoring the Arrangements:

- (a) the title of the funds in respect of the Entrustment Loans Services pursuant to the New Financial Services Agreement will not be passed to COFCO Finance;
- (b) funds received by Supply Chain (Tianjin) pursuant to the New Financial Services Agreement are only to be applied for intra-Group use;
- (c) specifically designated personnel from Supply Chain (Tianjin) will be responsible for daily operations under the Arrangements and specifically designated personnel from the finance department of the Company will be responsible for the regular monitoring of the Arrangements, and reporting to the general manager of the finance department and the management of the Company on a regular basis;
- (d) the finance department of the Company will report to the independent non-executive Directors of the Company twice a year in relation to the Arrangements;
- (e) under the relevant rules of PBOC and CBIRC, the clients of COFCO Finance are restricted to COFCO and COFCO's subsidiaries (including the Company and the subsidiaries of the Company). COFCO Finance is hence exposed to a lower level of potential risk than, if clients included, external entities;

LETTER FROM THE BOARD

- (f) the Arrangements between the Group and COFCO Finance under the New Financial Services Agreement is non-exclusive, and the Group has its own discretion in selecting providers of financial services;
- (g) the audit and supervision department of the Group will review the appropriateness of the system of internal controls relating to the operation of the Arrangements and report the results of the review to the management and the audit committee/independent non-executive Directors twice a year;
- (h) where COFCO Finance applies the funds deposited with it by Supply Chain (Tianjin) and the subsidiaries of the Company in breach of any provisions of the New Financial Services Agreement or in any other inappropriate ways which results in Supply Chain (Tianjin) and/or the subsidiaries of the Company failing to recover such deposit funds, Supply Chain (Tianjin) and the subsidiaries of the Company will be entitled to use such deposit funds in full to set off any payments payable to COFCO Finance by Supply Chain (Tianjin) or the subsidiaries of the Company. COFCO Finance will not be entitled to such set off rights;
- (i) in addition to the default events provided by the Civil Code of the PRC (中華人民共和國民法典), the New Financial Services Agreement shall be terminated with immediate effect if COFCO Finance fails to satisfy any operation standard as follows:
 - (i) its capital adequacy ratio shall not be less than 12% (whereas CBIRC requires such ratio shall not be less than 10%); or
 - (ii) its non-performing assets ratio shall not be more than 2% (whereas CBIRC requires such ratio shall not be more than 4%); or
 - (iii) its bad loan ratio shall not be more than 3% (whereas CBIRC requires such ratio shall not be more than 5%); or
 - (iv) its self-owned fixed assets to equity ratio shall not be more than 10% (whereas CBIRC requires such ratio shall not be more than 20%); or
 - (v) its investment balance to net capital ratio shall not be more than 70% (whereas CBIRC requires such ratio shall not be more than 70%); and
- (j) the external auditors of the Company will review the transactions contemplated under the New Financial Services Agreement and report its findings to the audit committee of the Board and the independent non-executive Directors on an annual basis.

LETTER FROM THE BOARD

9. *Guarantee letter from COFCO*

On 2 November 2021, COFCO issued a guarantee letter to the subsidiaries of the Company which are established in the PRC to guarantee unconditionally and irrevocably that, during the Term of the New Financial Services Agreement, COFCO will:

- (i) maintain its effective control of COFCO Finance and guarantee the proper and orderly operation of COFCO Finance;
- (ii) use its best endeavors and take all reasonable steps to guarantee that COFCO Finance will perform its obligations in respect of the financial services contemplated under the New Financial Services Agreement; and
- (iii) bear all the losses incurred due to the failure in performing the obligations under the New Financial Services Agreement by COFCO Finance, including but not limited to, the deposit amount, interest and the relevant expenses incurred, within ten business days after such failure occurs.

COFCO confirms that it has obtained all approvals and authorisations for execution the abovementioned guarantee letter and such execution does not violate any PRC laws, regulations or any agreement to which COFCO is a party.

INFORMATION OF THE COMPANY

The Company is an investment holding company incorporated in Bermuda. Through its subsidiaries and associated companies, it is principally engaged in beverage business.

LETTER FROM THE BOARD

INFORMATION OF SUPPLY CHAIN (TIANJIN)

Supply Chain (Tianjin) is a limited liability company established in the PRC and a non-wholly owned subsidiary of COFCO Coca-Cola, which is in turn a 65%-owned subsidiary of the Company. The Company holds as to 63.7% beneficial interest in Supply Chain (Tianjin) and the remainder of the 36.3% beneficial interests is held as to 34.3% by Coca-Cola Holdings (Asia) Limited and as to 2.0% by seven shareholders, namely (i) Tianjin Bohai Light Industry Investment Group Co., Ltd.* (天津渤海輕工投資集團有限公司)⁽¹⁾; (ii) Sinolight International Holdings Corporation* (中國中輕國際控股有限公司)⁽²⁾; (iii) China National Food Industry (Group) Corp.* (中國食品工業(集團)有限公司)⁽²⁾; (iv) Xinjiang Youhao (Group) Co., Ltd.* (新疆友好(集團)股份有限公司)⁽³⁾; (v) Qingdao HUATONG Technology Investment Ltd.* (青島華通科技投資有限責任公司)⁽⁴⁾; (vi) Beijing Zhongyin Industrial & Trade Company* (北京中飲工貿公司)⁽⁵⁾; and (vii) BCOF International Trading Co., Ltd.* (北京北糧國際經貿有限公司)⁽⁶⁾. Coca-Cola Holdings (Asia) Limited is an indirectly wholly-owned subsidiary of The Coca-Cola Company, a listed company on the New York Stock Exchange. Supply Chain (Tianjin) is mainly engaged in the wholesale and retail of pre-packaged foods, raw and auxiliary materials, supply chain information consultation, management services and others.

Notes:

- (1) The ultimate beneficial owner is Tianjin Bohai State-owned Assets Administration Co., Ltd.* (天津渤海國有資產經營管理有限公司), a wholly state-owned enterprise under the direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.
- (2) The ultimate beneficial owner is China Poly Group Corporation Limited* (中國保利集團有限公司), a wholly state-owned enterprise under the direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.
- (3) It is a company which shares are listed on the Shanghai Stock Exchange.
- (4) The ultimate beneficial owner is Qingdao HUATONG State-owned Capital Operation (Group) Ltd.* (青島華通國有資本運營(集團)有限責任公司), a wholly state-owned enterprise under the direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.
- (5) The ultimate beneficial owner is China Beverage Industry Association* (中國飲料工業協會), a non-profit making association set up by market players of the beverage industry in the PRC.
- (6) The ultimate beneficial owner is Beijing Xianglong Assets Management Co., Ltd.* (北京祥龍資產經營有限責任公司), a wholly state-owned enterprise under the direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

LETTER FROM THE BOARD

INFORMATION OF COFCO FINANCE

COFCO Finance is a non-banking financial institution and an indirect wholly-owned subsidiary of COFCO established in the PRC since 2002 with approval of PBOC. It is subject to the supervision of the PBOC and CBIRC. According to its business licence, it is authorised to provide to the Group all services set out in the New Financial Services Agreement. According to the business licence, COFCO Finance is authorised to provide services such as (a) the provision of financial and financing consultation services, credit appraisal and relevant consulting services and agency business service; (b) assisting implementation of payables and receivables of the transaction amounts; (c) handling of deposits, loans and bills acceptance and discounting; (d) conduct settlements and other relevant settlements; and (e) the provisions of loans and financing leases.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW FINANCIAL SERVICES AGREEMENT

PRC laws do not permit companies, including subsidiaries and associate companies, other than regulated financial institutions, to extend intra-group loans directly. Any such loans must be directed through a regulated financial institution or agency. COFCO Finance is a non-banking financial institution established in the PRC since 2002 with the approval of PBOC and it is subject to the supervision of PBOC and CBIRC. According to its business licence, COFCO Finance is authorised to provide various kinds of financial services to the Group, including deposit taking and loan services. The main reasons for, and benefits of, the transactions under the New Financial Services Agreement (collectively the “**Arrangements**”) are as follows:

- (i) COFCO Finance has well established operating networks with eight major PRC commercial banks, namely the Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China, China Merchants Bank, Bank of Communications, Agricultural Development Bank of China and China CITIC Bank, and such networks have become the channel for collecting the funds of the subsidiaries of the Company;
- (ii) the Company believes that COFCO Finance may provide more diversified and flexible financial services to the Group compared with a single or a small number of third-party commercial banks;
- (iii) COFCO Finance was established in 2002. During the past 19 years’ operation of COFCO Finance, its operations has been stable, financial performance has been excellent and no violation of any rules has occurred. The Company believes that the risk profile of COFCO Finance, as a financial services provider to the Group, is not greater than that of independent commercial banks in the PRC;

LETTER FROM THE BOARD

- (iv) the use of COFCO Finance as a vehicle through which the funds of the subsidiaries of the Company, including Supply Chain (Tianjin), will allow a more efficient deployment of funds between subsidiaries of the Company;
- (v) the Arrangements will allow the greater utilisation of available funds, utilise the collected funds to repay the external commercial loans of the subsidiaries of the Company and optimise the efficiency of the Group's funds;
- (vi) the Arrangements will help reduce financial costs, thereby increasing the profitability of the Group and benefitting the shareholders of the Company, including the minority shareholders of the Company. The handling fee offered by COFCO Finance in relation to the Entrustment Loan Services is lower than that offered by the eight major PRC commercial banks and PBOC. In addition, the Group can utilise the Bank-Enterprise direct link system (銀企直聯服務) offered by COFCO Finance free of charge;
- (vii) the Arrangements will allow a prompt and accurate monitoring and regulation of the application of funds of the Group including Supply Chain (Tianjin);
- (viii) the Arrangements will promote liquidity among the Group, including Supply Chain (Tianjin), enhance the overall ability of the Group to repay debts, and assist in monitoring and controlling financial risks;
- (ix) COFCO Finance has maintained good working relationship with the Company and its subsidiaries over the years and developed a good understanding of the Group's operation and its needs and their continuous cooperation can ensure higher work efficiency; and
- (x) as the COFCO Deposit Interest Rate offered to the Group is better than the Quoted Deposit Interest Rate, the Arrangements can increase the interest income of the Group and therefore is beneficial to the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this circular, COFCO Finance is an indirect wholly-owned subsidiary of COFCO, the ultimate controlling shareholder of the Company. Therefore, COFCO Finance is a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the New Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

The provision of the Deposit Services to the Group under the New Financial Service Agreement also constitutes the provision of financial assistance by the Group to COFCO Finance under Rule 14.04(1)(e) of the Listing Rules. Since the highest applicable percentage ratio for the provision of the Deposit Services in respect of the Proposed Daily Deposit Cap exceeds 5% but is less than 25%, it constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The Deposit Services are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios in respect of the estimated aggregate amount of the handling fees in connection with the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services is on an annual basis less than 0.1%, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services are exempted from the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, China Foods (Holdings), an indirectly wholly-owned subsidiary of COFCO and the substantial shareholder of the Company which holds as to 2,072,688,331 Shares of the Company, representing approximately 74.1% of the total issued share capital of the Company, will abstain from voting at the SGM on the resolution regarding the New Financial Services Agreement, the transactions contemplated thereunder and the Proposed Daily Deposit Cap.

GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Deposit Services and the Proposed Daily Deposit Cap, and to advise the Independent Shareholders on how to vote at the SGM.

Chanceton Capital has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services and the Proposed Daily Deposit Cap.

The SGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve the New Financial Services Agreement, the transactions contemplated thereunder and the Proposed Daily Deposit Cap.

LETTER FROM THE BOARD

DIRECTORS' VIEWS

The Directors (including the independent non-executive Directors) consider that the terms of the New Financial Services Agreement have been negotiated on an arm's length basis and on normal commercial terms, the transactions contemplated thereunder and the Proposed Daily Deposit Cap are fair and reasonable and in the interests of the Company and its Shareholders as a whole. In addition, the Group has effective risk management measures and internal controls in place to monitor the Arrangement and Deposit Services under the New Financial Services Agreement.

The Directors (including the independent non-executive Directors) also believe that the risk profile of COFCO Finance, as a financial services provider to the Group, is not greater than that of independent commercial banks in the PRC. As far as the Directors are aware, COFCO Finance has established stringent internal control measures to ensure effective risk management and compliance with laws and regulations.

None of the Directors has a material interest in the transactions contemplated under the New Financial Services Agreement. However, as the non-executive Director Mr. Chen Lang is the executive vice president of COFCO, while the non-executive Directors Mr. Chen Zhigang (being a director of the quality and safety management department of COFCO and directors of two subsidiaries of COFCO) and Mr. Chen Gang (being the director of the Cooperation and Development Department and the general manager of the Supply Assurance Department of COFCO) are related to COFCO, for good corporate governance, the non-executive Directors, namely Mr. Chen Lang, Mr. Chen Zhigang, and Mr. Chen Gang have abstained from voting on the respective Board resolutions approving the New Financial Services Agreement.

III. ELECTION OF RETIRING DIRECTOR

Pursuant to bye-law 94 of the Bye-laws, any Director appointed by the Board either to fill a casual vacancy or as an additional director to the Board shall hold office only until the first general meeting of the Company after the appointment and be subject to election at such meeting. In this regard, Mr. Chen Gang (“**Mr. Chen**”) who was appointed as a non-executive Director with effective from 25 August 2021 will retire and, being eligible, offer himself for election at the SGM.

LETTER FROM THE BOARD

The Nomination Committee has nominated Mr. Chen to the Board for it to recommend to Shareholders for election as a non-executive Director at the SGM. The nomination was made in accordance with the nomination policy of the Company and took into account the diversity aspects (including without limitation to gender, age, cultural and educational background, work and professional experience, skills, knowledge and length of service), with due regard for the benefits of diversity, as set out under the board diversity policy of the Company. The Nomination Committee also took into account the extensive knowledge and working experience of Mr. Chen and contributions which he may bring to the Board. The Board accepted the nomination from the Nomination Committee and an ordinary resolution will put forward to the Shareholders in relation to the proposed election of Mr. Chen as a non-executive Director.

Particulars of the retiring Director proposed to be elected at the SGM is set out in Appendix II to this circular.

IV. SGM

The SGM will be held for the purposes of considering and, if thought fit, approving (1) by the Independent Shareholders the New Financial Services Agreement, the transactions contemplated thereunder and the Proposed Daily Deposit Cap; and (2) by the Shareholders the election of Mr. Chen as a non-executive Director.

Under Rule 14A.36 of the Listing Rules, any shareholder who has a material interest in a proposed transaction must abstain from voting at the relevant general meeting on the relevant resolution(s). In accordance with the Listing Rules, China Foods (Holdings), an indirect wholly-owned subsidiary of COFCO and the substantial shareholder of the Company which holds as to approximately 74.1% of the total issued share capital of the Company (representing 2,072,688,331 Shares as at the Latest Practicable Date) will abstain from voting on the resolution(s) regarding the New Financial Services Agreement, the transactions contemplated thereunder and the Proposed Daily Deposit Cap.

A notice convening the SGM to be held at Mandarin's Suite, World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 10 December 2021 at 9:30 a.m. is set out on pages SGM-1 to SGM-3 of this circular.

LETTER FROM THE BOARD

A form of proxy for use by the Shareholders at the SGM is enclosed with this circular. For determining the entitlement to attend and vote at the SGM to be held on Friday, 10 December 2021, the register of members of the Company will be closed from Tuesday, 7 December 2021 to Friday, 10 December 2021 (both days inclusive) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the SGM, unregistered holders of Shares of the Company should ensure that all transfer forms accompanied by the relevant Share certificates must be lodged for registration with Tricor Progressive Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in any case no later than 4:30 p.m. on Monday, 6 December 2021.

Pursuant to bye-law 75 of the Bye-laws, any vote of Shareholders at a general meeting must be taken by poll.

On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for each Share registered in his/her/its name in the register of members. A Shareholder entitled to more than one vote need not use all votes or cast all the votes in the same way.

Whether or not you are able to attend the SGM (or any adjournment thereof), please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to Tricor Progressive Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM (or any adjournment thereof) in person should you so wish.

LETTER FROM THE BOARD

V. RECOMMENDATION

- (1) Your attention is drawn to the Letter from the Independent Board Committee set out on page 26 of this circular. The Independent Board Committee, having taken into account the advice of Chanceton Capital, the text of which is set out on pages 27 to 45 of this circular, consider that the terms of Deposit Services under the New Financial Services Agreement as well as the Proposed Daily Deposit Cap are fair and reasonable and are in the interests of the Company and the Independent Shareholders. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the New Financial Services Agreement, the transactions contemplate thereunder and the Proposed Daily Deposit Cap. Based on the relevant information disclosed herein, the Directors (including the independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee to this circular), consider that the New Financial Services Agreement was entered into in the ordinary and usual course of business of the Group after arm's length negotiation and on normal commercial terms and, together with the Proposed Daily Deposit Cap, are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders of the Company to vote in favour of the resolution in respect of the New Financial Services Agreement, the transactions contemplate thereunder and the Proposed Daily Deposit Cap to be proposed at the SGM.
- (2) The Directors consider that election of the retiring Director, as a non-executive Director is in the interest of the Company and the Shareholders and accordingly recommend that all Shareholders vote in favour of the resolution in respect of the election of Mr. Chen as a non-executive Director to be proposed at the SGM.

Yours faithfully,
For and on behalf of the Board
China Foods Limited
Chen Lang
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA FOODS LIMITED 中國食品有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

23 November 2021

To the Independent Shareholders of the Company

Dear Sir and Madam,

CONTINUING CONNECTED TRANSACTIONS RELATING TO THE NEW FINANCIAL SERVICES AGREEMENT

We have been appointed as the Independent Board Committee to give a recommendation to the Independent Shareholders of the Company in connection with the terms of the Deposit Services under the New Financial Services Agreement and the Proposed Daily Deposit Cap, details of which are set out in the Letter from the Board contained in the circular to the Shareholders of the Company dated 23 November 2021 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the New Financial Services Agreement, and the advice and opinion of Chanceton Capital in relation thereto as set out on pages 27 to 45 of the Circular, we are of the opinion that the New Financial Services Agreement was entered into in the ordinary and usual course of business of the Group after arm’s length negotiation, and Deposit Services provided by COFCO Finance under the New Financial Services Agreement and the Proposal Daily Deposit Cap are on normal commercial terms, and the Proposed Daily Deposit Cap is fair and reasonable and in the interests of the Company and its Shareholders as a whole. We therefore recommend that the Independent Shareholders of the Company vote in favour of the resolution(s) to be proposed at the SGM in respect of the New Financial Services Agreement, the transactions contemplate thereunder and the Proposed Daily Deposit Cap.

Yours faithfully,

For and on behalf of the Independent Board Committee

Stephen Edward Clark
Independent
Non-executive Director

Li Hung Kwan, Alfred
Independent
Non-executive Director

Mok Wai Bun, Ben
Independent
Non-executive Director

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser in connection with the Deposit Services (including the Proposed Daily Deposit Cap thereunder), which have been prepared for inclusion in this circular.



川盟融資有限公司
Chanceton Capital Partners Limited

Flat C, 16/F., MG Tower
133 Hoi Bun Road
Kwun Tong, Hong Kong

23 November 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS RELATING TO THE NEW FINANCIAL SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services under the New Financial Services Agreement and the Proposed Daily Deposit Cap thereunder, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular of the Company dated 23 November 2021 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

As the 2018 Financial Services Agreement will expire on 13 December 2021, with the intention to continue carrying out various types of transactions contemplated under the 2018 Financial Services Agreement, the Company and Supply Chain (Tianjin) have, on 2 November 2021, entered into the New Financial Services Agreement with COFCO Finance, pursuant to which COFCO Finance shall provide, among others, the Deposit Services, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services to the subsidiaries of the Company. COFCO Finance is an indirect wholly-owned subsidiary of COFCO and is therefore a connected person of the Company. Accordingly, the New Financial Services Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under the Listing Rules.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The provision of the Deposit Services to the Group under the New Financial Service Agreement also constitutes the provision of financial assistance by the Group to COFCO Finance under Rule 14.04(1)(e) of the Listing Rules. Since the highest applicable percentage ratio for the provision of the Deposit Services in respect of the Proposed Daily Deposit Cap exceeds 5% but is less than 25%, it constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The Deposit Services are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios in respect of the estimated aggregate amount of the handling fees in connection with the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services is on an annual basis less than 0.1%, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services are exempted from the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In the last two years, save for appointment as the independent financial adviser to the independent board committee and the independent Shareholders of the Company in respect of the financial services agreement dated 21 April 2021 and the transactions contemplated of which the letter of advice was published on 11 May 2021 together with the circular, we did not have any engagement with the Group as an independent financial adviser. As at the Latest Practicable Date, we did not have any relationships or interests with the Group or any other parties that could reasonably be regarded as relevant to the independence of us. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the captioned transactions, and therefore we are considered to be eligible to give independent advice on the terms of the Deposit Services (including the Proposed Daily Deposit Cap).

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete in all material respects at the time they were made and continue to be true, accurate and complete in all material respects as at the date of the Circular. We have reviewed, among other things, the New Financial Services Agreement, the 2018 Financial Services Agreement, the guarantee letter dated 2 November 2021 issued by COFCO to the subsidiaries of the Company (the **"COFCO Guarantee"**), the annual report of the Company for the year ended 31 December 2019 (the **"2019 Annual Report"**), the annual report of the Company for the year ended 31 December 2020 (the **"2020 Annual Report"**), the interim report of the Company for the six months ended 30 June 2021 (the **"2021 Interim Report"**), certain financial information of COFCO Finance and the information set out in the Circular. We have also relied on our discussion with the management of the Company regarding the Group and the respective terms of the Deposit Services (including the Proposed Daily Deposit Cap), including the information and representations contained in the Circular.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs, financial position or future prospect of the Group, COFCO Finance or their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied, representations made or opinion expressed by the Company, the Directors and the management of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Deposit Services (including the Proposed Daily Deposit Cap) under the New Financial Services Agreement, we have taken the following principal factors and reasons into consideration:

1. Information on the parties

(i) Information on the Company and Supply Chain (Tianjin)

The Company is an investment holding company incorporated in Bermuda. Through its subsidiaries and associated companies, it is principally engaged in beverage business.

Supply Chain (Tianjin) is a limited liability company established in the PRC and a non-wholly owned subsidiary of COFCO Coca-Cola, which is in turn a 65%-owned subsidiary of the Company. The Company holds as to 63.7% beneficial interest in Supply Chain (Tianjin). Supply Chain (Tianjin) is mainly engaged in the wholesale and retail of pre-packaged foods, raw and auxiliary materials, supply chain information consultation, management services and others.

(ii) Information on COFCO Finance

COFCO Finance is a non-banking financial institution and an indirect wholly-owned subsidiary of COFCO established in the PRC since 2002 with the approval of PBOC. It is subject to the supervision of the PBOC and CBRIC.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(a) Scope of business

According to its business licence, COFCO Finance is authorised to provide services such as (a) the provision of financial and financing consultation services, credit appraisal and relevant consulting services and agency business services; (b) assisting implementation of payables and receivables of the transaction amounts; (c) handling of deposits, loans and bills acceptance and discounting; (d) conduct settlements and other relevant settlements; and (e) the provision of loans and financing leases. Therefore, COFCO Finance is authorised to provide to the Group all services set out in the New Financial Services Agreement.

(b) Regulatory environment

COFCO Finance is subject to stringent regulations and is regulated by PBOC and CBIRC. In particular, it only provides financial services to group members of COFCO in accordance with the Measures for the Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法)(the “**Administrative Measures**”). Pursuant to the Administrative Measures, COFCO Finance is required to submit annual audited financial statements and regularly report its operation status to the CBIRC. CBIRC’s supervision includes regular examination of the audited financial statements and other relevant materials required to be filed by group finance companies as well as on-site inspections and interviews with the senior management of group finance companies. To ensure compliance with the applicable laws and regulations, CBIRC has powers to issue corrective and/or disciplinary orders and to impose penalties and/or fines on a group finance company. In addition, COFCO Finance must comply with certain financial ratio requirements set by the CBIRC from time to time.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As part of our due diligence, we have obtained and reviewed the risk management internal control review reports of COFCO Finance issued by an external auditor. The below table sets out the key financial ratios of the COFCO Finance, and the corresponding requirements set by the CBIRC and those set out in the 2018 Financial Services Agreement, as at 31 December 2018, 2019, 2020 and 30 June 2021 as set out in the review reports, respectively:

Financial ratios	Requirements of the CBIRC	Requirements under 2018 Financial Services Agreement	As at			
			31 December 2018	31 December 2019	31 December 2020	30 June 2021
Capital adequacy ratio	Not less than 10%	Not less than 12%	23.21%	21.28%	20.33%	21.82%
Non-performing asset ratio	Not more than 4%	Not more than 2%	0%	0%	0%	0%
Bad loan ratio	Not more than 5%	Not more than 3%	0%	0%	0%	0%
Total amount of investment to net capital ratio	Not more than 70%	Not more than 70%	12.11%	5.15%	4.37%	50.15%
Self-owned fixed assets to equity ratio	Not more than 20%	Not more than 10%	0.03%	0.06%	0.04%	0.05%

As shown in the table above, COFCO Finance complied with the key financial ratio requirements of the CBIRC and those set out in the 2018 Financial Services Agreement as at 31 December 2018, 31 December 2019, 31 December 2020 and 30 June 2021, respectively. It is also stated in the review reports by the external auditor that COFCO Finance's internal control system is thoroughly designed and effectively implemented. For cash management, related policies, provisions, and workflows are generated to relatively successfully control the risk of cash flow; for credit business, related risks control procedures are established to control overall risks at a reasonable level; for investment and asset management, related internal control system is designed and implemented to effectively control investments and asset management risks. We have been advised by the management of the Company that, to the best of their knowledge up to the Latest Practicable Date, COFCO Finance has no record of material non-compliance with the relevant laws, rules and regulations in the PRC.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(c) *Financial Information*

The table below sets out a summary of the basic financial information of COFCO Finance based on the audited accounts of COFCO Finance prepared in accordance with PRC accounting principles for the three years ended 31 December 2020:

<i>RMB million</i>	For the year ended		
	31 December 2018	31 December 2019	31 December 2020
Operating revenue	440.0	472.4	318.1
Profit before tax	322.0	379.0	240.8
Profit after tax	248.0	290.6	187.9
Net assets	3,674.0	3,939.4	4,109.4

2. Background to and reasons for the New Financial Services Agreement and the Proposed Daily Deposit Cap

We understand that PRC laws do not permit companies, including subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loan must be directed through a regulated financial institution. COFCO Finance is a non-banking financial institution approved and regulated by PBOC and CBIRC, and is authorised to provide various kinds of financial services to COFCO and its member companies in the PRC, including deposit-taking and loan services.

As set out in the Letter from the Board, the Board is of the view that there are a number of advantages of utilising the financial services provided by COFCO Finance over similar services provided by other independent commercial banks in the PRC, and that it is in the interests of the Group to use the financial services offered by COFCO Finance under the New Financial Services Agreement. Summarised below are some of the major reasons and benefits as set out in the Letter from the Board and based on our discussion with the management of the Company:

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(i) Better understanding of the Group's operation and its needs

We noted that COFCO Finance has been providing various financial services, including the Deposit Services, to members of the Group for more than 7 years since 2014. The entering into of the New Financial Services Agreement therefore represents a continuation of the existing services provided by COFCO Finance to the Group. As discussed with the management of the Company, we understand that COFCO Finance has maintained a good working relationship with the Group and its members over the years. As compared to other commercial banks in the PRC, COFCO Finance has a better understanding of the Group's operations which should render more expedient and efficient services. Therefore, the use of COFCO Finance as a vehicle to manage the funds of the Group would allow more efficient deployment of funds between members of the Group.

(ii) Enhanced flexibility for deposit services

While the pricing policies of COFCO Finance and the independent financial institutions in the PRC are subject to guidelines set by the PBOC, the deposit rates offered by COFCO Finance for the Deposit Services to the Group will not be lower than the deposit rates promulgated by PBOC for the same type of deposit nor lower than those offered by the eight major commercial banks in the PRC for similar deposit, pursuant to the New Financial Services Agreement. Furthermore, the Deposit Services contemplated under the New Financial Services Agreement are conducted on a non-exclusive basis. The Group is not obliged to engage COFCO Finance for any particular services under the New Financial Services Agreement. Since the Group can deposit its money to and withdraw its money from COFCO Finance on a voluntary basis, the Group will not be restricted to approach or engage any commercial banks or financial institutions in the PRC for deposit services if the relevant terms provided by such banks or financial institutions are more competitive and favourable than those provided by COFCO Finance. As such, the entering into of the New Financial Services Agreement allows the Group to secure a stable source of financial services to place its deposits on terms no less favourable than those of major commercial banks in the PRC.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(iii) Centralised and facilitated fund management

The arrangements under the New Financial Services Agreement would allow for prompt and accurate monitoring and regulation of the application of funds within the Group, thus enhancing the capital management and control of the Group. The use of COFCO Finance as a vehicle to manage the funds of the Group would also allow more efficient deployment of funds between members of the Group. By maintaining accounts with COFCO Finance by the Group and leveraging on COFCO Finance as the settlement platform, fund transmission time can be reduced to expedite the turnaround of funds, and thus strengthen the Company's centralised fund management. In addition, enabling the Group to access a centralised fund pool can provide flexibility to the Group in making timely inter-group transfer from time to time without any restriction in meeting its funding needs, utilise idle cash balances within the Group, and reduce funding cost of the Group in general. Therefore, the provision of the Deposit Services as well as other financial services by COFCO Finance will help to facilitate the fund management amongst the members of the Group in a more efficient manner.

(iv) Better risk control and lowered risk exposure

With reference to the Administrative Measures, the customers of COFCO Finance are limited to the group members of COFCO, which effectively reduces the risks that COFCO Finance may otherwise be exposed to if its customers include other entities unrelated to COFCO. We also understand that COFCO Finance has appointed an external auditor to perform audit on the internal controls, risk management, completeness and impartiality of the operational system and to provide relevant risk management reports on a regular basis. Moreover, COFCO has provided the COFCO Guarantee to the Company in connection with the New Financial Services Agreement which provides security and comfort to the Company by reducing the risks which the Group may be exposed to in the event of default of COFCO Finance under the New Financial Services Agreement.

Having considered the reasons for and benefits of the Deposit Services above, we concur with the Directors' view that the provision of the Deposit Services by COFCO Finance under the New Financial Services Agreement is in the ordinary and usual course of the business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

3. Principal terms of the Deposit Services

Major terms of the Deposit Services as extracted from the New Financial Services Agreement are as follows:

Date: 2 November 2021

Effective Date and the Term: The New Financial Services Agreement shall be for a term of three years commencing from 14 December 2021 and expiring on 13 December 2024 and shall become effective upon the approval of the Independent Shareholders at the SGM.

Parties:

- (i) the Company;
- (ii) Supply Chain (Tianjin); and
- (iii) COFCO Finance

Major terms: (i) Deposit Services

COFCO Finance shall provide the Deposit Services to subsidiaries of the Company. The subsidiaries of the Company will open and maintain RMB and foreign currency deposit accounts with COFCO Finance. COFCO Finance will pay interest on deposits made by the subsidiaries of the Company.

The interest rates for the deposits placed by the subsidiaries of the Company with COFCO Finance (the “**COFCO Deposit Interest Rate**”) will not be lower than the standard deposit rates promulgated by PBOC for the same type of deposits of the same period and will not be lower than the interest rates offered by the eight major PRC commercial banks for the same type of deposits of the same period.

The maximum daily deposit amount (including the corresponding interest accrued thereon) placed by the Group with COFCO Finance shall not exceed RMB800 million or its equivalent (including the corresponding interest accrued thereon).

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- (ii) Settlement Terms in relation to the interest income from the Deposit Services

COFCO Finance shall pay the interest under the Deposit Services on a quarterly basis where the interest will be automatically deposited into the demand deposit account of the subsidiaries of the Company opened at COFCO Finance on the 21st day of the end of each quarter.

- (iii) The Group may obtain financial services from other financial institutions in addition to those provided by COFCO Finance pursuant to the New Financial Services Agreement.

Conditions Precedent:

The New Financial Services Agreement is conditional upon:

- (i) compliance with all necessary requirements under the Listing Rules, which including but not limited to obtaining the approval of the Independent Shareholders from the SGM; and
- (ii) obtaining any other relevant approvals as may be required for the New Financial Services Agreement to take effect.

Termination:

Apart from the default events provided by the Civil Code of the PRC (中華人民共和國民法典), the New Financial Services Agreement will be terminated with immediate effect if COFCO Finance fails to satisfy any operational standard set out as follows:

- (i) the capital adequacy ratio shall not be less than 12%;
- (ii) the non-performing assets ratio shall not be more than 2%;
- (iii) the bad loan ratio shall not be more than 3%;

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- (iv) the self-owned fixed assets to equity ratio shall not be more than 10%; or
- (v) its investment balance to net capital ratio shall not be more than 70%.

Upon termination of the New Financial Services Agreement, Supply Chain (Tianjin) or the subsidiaries of the Company may withdraw their deposits with COFCO Finance at any time without costs.

As set out in the Letter from the Board, there is an internal integrated assessment mechanism of the Group on the COFCO Deposit Interest Rate based on fair market principle. Analysis and assessment will be conducted between (1) the deposit rates offered by COFCO Finance; and (2) the highest quotations among interest rates of similar deposit services offered by eight major PRC commercial banks and PBOC for the same type of deposits of the same period from their websites before the Group deposits with COFCO Finance, as well as the analysis and assessment between the deposit rates offered by COFCO Finance and the rates offered by the eight major PRC commercial banks and PBOC every fortnight or regularly during the maintenance of such deposit accounts. In the event the relevant interest rates quoted from the eight major PRC commercial banks and PBOC is better than those offered by COFCO Finance, the Group will inform COFCO Finance to adjust the same to ensure its interest rates are no less favourable than those offered by the eight major PRC commercial banks and PBOC.

We have obtained and reviewed the New Financial Services Agreement and compared the terms of the provision of deposit services thereunder with those under the 2018 Financial Services Agreement. We noted that the provision of Deposit Services contemplated under the New Financial Services Agreement, save for the increase in the annual caps, is in general on the same terms as those under the 2018 Financial Services Agreement. We have also obtained the COFCO Guarantee provided by COFCO to the Company in connection with the New Financial Services Agreement, pursuant to which COFCO undertakes to the Company that (i) it will maintain its effective control of COFCO Finance and guarantee the proper and orderly operation of COFCO Finance; (ii) it shall use its best endeavours and take all reasonable steps to guarantee that COFCO Finance will perform its obligations in respect of the financial services contemplated under the New Financial Services Agreement; and (iii) bear all the losses incurred due to the failure in performing the obligations under the New Financial Services Agreement by COFCO Finance, including but not limited to, the deposit amount, interest and the relevant expenses incurred, within ten business days after such failure occurs.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

We understand that the Group will obtain interest rates of similar deposit services from eight major PRC commercial banks and PBOC and select the highest of such quotations (the “**Quoted Deposit Interest Rate**”) to compare with the COFCO Deposit Interest Rate. If the Quoted Deposit Interest Rate is higher than the COFCO Deposit Interest Rate, the Group will request COFCO Finance to increase the COFCO Deposit Interest Rate to a level the same as the Quoted Deposit Interest Rate. For our due diligence purpose, we have reviewed the historical interest rates offered by COFCO Finance to the Group in the past for the deposits placed by the Group to COFCO Finance under the 2018 Financial Services Agreement and compared them with the standard deposit rates promulgated by PBOC and the interest rates offered by major commercial banks in the PRC. With reference to the website of PBOC and eight major PRC commercial banks, we noted that the benchmark interest rates promulgated by PBOC as well as the deposit interest rates offered by eight major PRC commercial banks remain unchanged since October 2015. As shown in the list of deposits placed by the Group with COFCO Finance, we noted that the interest rates offered by COFCO Finance to the Group were at least equal to or higher than the relevant interest rates offered by the major commercial banks in the PRC for the same term of deposits. As such, we consider that the Group and COFCO Finance have complied with the aforesaid pricing policy.

Having considered the above, in particular that (i) the deposit interest rates offered to the Group by COFCO Finance will be no less favourable than those offered to the Group by major commercial banks in the PRC for comparable deposits; (ii) the Deposit Services contemplated under the New Financial Services Agreement are conducted on a non-exclusive basis; and (iii) the New Financial Services Agreement will be terminated with immediate effect if COFCO Finance fails to satisfy the operating conditions as set out thereunder, we are of the view that (i) the Deposit Services contemplated under the New Financial Services Agreement are entered into on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Deposit Services contemplated under the New Financial Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

4. The Proposed Daily Deposit Cap

As stated in the Letter from the Board, the Proposed Daily Deposit Cap is determined after taking into account (i) the Group had maintained a high level of cash and cash equivalents to be utilised by subsidiaries of the Group as at 30 June 2021; (ii) the business development plans and the financial needs of the Company and its subsidiaries during the Term; (iii) the historical cash position of the Group and the expected growth of the business operation of the Group; (iv) the control of financial risks in selecting financial services providers; and (v) the benefit to the Group and the Shareholders of the Company as a whole as set out in the paragraph headed “Reasons for and benefit of entering into the New Financial Services Agreement” in the Circular.

In assessing the fairness and reasonableness of the Proposed Daily Deposit Cap, we have taken into account the following factors:

(i) Scale of business operations

The Group has achieved a growth of business operation in terms of total revenue in 2019 and was able to maintain a similar level of revenue in 2020 despite of the COVID-19 epidemic. With reference to the 2019 Annual Report, the total revenue of the Group increased by approximately 9.7% from approximately RMB15,648.1 million for the year ended 31 December 2018 to approximately RMB17,172.0 million for the year ended 31 December 2019. With reference to the 2020 Annual Report, the total revenue of the Group increased by approximately 0.4% from approximately RMB17,172.0 million for the year ended 31 December 2019 to approximately RMB17,249.1 million for the year ended 31 December 2020. With reference to the 2021 Interim Report, the total revenue of the Group increased by approximately 19.3% from approximately RMB9,401.2 million for the six months ended 30 June 2020 to approximately RMB11,218.8 million for the six months ended 30 June 2021. The profit attributable to owners of the Company increased by approximately 30.2% from approximately RMB320.9 million for the year ended 31 December 2018 to approximately RMB417.8 million for the year ended 31 December 2019, followed by a further increase of approximately 19.4% to approximately RMB498.7 million for the year ended 31 December 2020. The profit attributable to owners of the Company increased by approximately 22.5% from approximately RMB330.4 million for the six months ended 30 June 2020 to approximately RMB404.5 million for the six months ended 30 June 2021. As advised by the management of the Company, the Group thoroughly implements the three strategies of “balanced development, lean growth, transformation and upgrading” by actively grasping the historical opportunities of domestic consumption upgrading and deepening reform, and implements the development concept of “improving quality, enhancing efficiency, innovation, system, and openness”, it is expected that the Group’s operational scale will increase in the coming years, which will lead to an increase in the Group’s operating cash flows and cash level of the Group and thus the Group’s demand for the Deposit Services.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(ii) Size of cash and cash equivalent

With reference to the 2019 Annual Report, the cash and cash equivalent of the Group recorded a significant increase of approximately 243.2% from approximately RMB243.2 million as at 31 December 2018 to approximately RMB834.8 million as at 31 December 2019. With reference to the 2020 Annual Report, the cash and cash equivalent of the Group increased further by approximately 122.9% from approximately RMB834.8 million as at 31 December 2019 to approximately RMB1,860.4 million as at 31 December 2020. With reference to the 2021 Interim Report, the cash and cash equivalent of the Group increased further by approximately 3.7% from approximately RMB1,860.4 million as at 31 December 2020 to approximately RMB1,929.0 million as at 30 June 2021. We have reviewed the condensed consolidated statement of cash flows of the Group for the two years ended 31 December 2020 and the six months ended 30 June 2021 as set out in the 2020 Annual Report and 2021 Interim Report and noticed that, the increase in cash and cash equivalent of the Group during the two years ended 31 December 2020 and the six months ended 30 June 2021 was mainly due to the increase in net cash from operating activities mainly attributable to the increase in cash generated from operations.

(iii) Historical deposit amounts and utilisation rate

With respect to the 2018 Financial Services Agreement, the (i) historical maximum daily balance of deposits placed with COFCO Finance by the Group; (ii) the relevant annual caps for the provision of deposit services by COFCO Finance; and (iii) the historical maximum daily utilisation rate during the term thereunder are set out below:

	Maximum historical deposit amount on a daily basis (RMB)	Daily Deposit cap under the 2018 Financial Services Agreement (RMB)	Utilisation rate (%)
For the period from 14 December 2018 to 13 December 2019	250 million	250 million	100.0
For the period from 14 December 2019 to 13 December 2020	300 million	300 million	100.0
For the period from 14 December 2020 to 30 September 2021	390 million	400 million	97.5

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As set out in the table above, we noted that the annual cap of maximum daily balance of deposits placed with COFCO Finance by the Group was fully utilised during the term of the 2018 Financial Services Agreement. It has reached a utilisation rate of approximately 100.0% during the period from 14 December 2018 to 13 December 2020. We noticed that the Proposed Daily Deposit Cap represents a double of the respective annual cap of RMB400 million for the period from 14 December 2020 to 13 December 2021 under the 2018 Financial Services Agreement. However, the bank balances and cash of the Group has also increased substantially to approximately RMB1,860.4 million as at 31 December 2020 and further to approximately RMB1,929.0 million as at 30 June 2021, representing an increase of approximately 664.9% and 693.0% as compared to the cash position of the Group as at 31 December 2018, respectively. Notwithstanding the fact the Proposed Daily Deposit Cap of RMB800 million only represents approximately 41.5% of the cash and bank balances of RMB1,929.0 million of the Group as at 30 June 2021, we are given to understand that the treasury function of the Group regularly and closely monitors its overall cash and debt positions, reviews its funding costs and maturity profiles to maintain healthy liquidity and financial management of the Group for which it is unlikely that most of the cash and bank balance of the Group would be placed as deposit to COFCO Finance. In addition, during peak seasons, the daily transaction amount of the Group as a whole would be up to approximately RMB700 million to RMB900 million, as a result, multiple transfers of funds had to be made given the maximum daily deposit balance at COFCO Finance under the 2018 Financial Services Agreement for the period from 14 December 2020 to 13 December 2021 is only RMB400 million. The increase in the Proposed Daily Deposit Cap to RMB800 million can therefore reduce multiple transfers of funds and effectively improve the efficiency of the Entrustment Loan Services. As such, we are of the view that setting the Proposed Daily Deposit Cap at a relatively lower level to the cash and bank balance of the Group is a prudent and reasonable approach. Therefore, the Proposed Daily Deposit Cap is set at RMB800 million during the term of the New Financial Services Agreement in order to cater the need of the Group on Deposit Services and Entrustment Loan Services given the existing substantial scale of cash position while maintaining a prudent treasury and liquidity management of the Group.

Having considered the above and in particular (i) the growth in operational scale and cash position of the Group since the entering into the 2018 Financial Services Agreement; and (ii) the Proposed Daily Deposit Cap of RMB800 million as compared to the cash position of the Group of approximately RMB1,929.0 million as at 30 June 2021, we consider the Proposed Daily Deposit Cap under the New Financial Services Agreement is fair and reasonable.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

5. Internal control measures and measures to ensure compliance with the Hong Kong Listing Rules

As stated in the Letter from the Board, the Group has adopted certain internal control measures to monitor the Deposit Services offered by COFCO Finance to the Group. In respect of the internal control measures for the Deposit Services, we understand that there is an internal integrated assessment mechanism on the deposit rates, an analysis and assessment will be conducted between (1) the deposit rates offered by COFCO Finance; and (2) the rates offered by the eight major PRC commercial banks to the Group every fortnight or regularly. We have reviewed the relevant internal control policies of the Group and noticed that, in the event the Quoted Deposit Interest Rate is higher than the COFCO Deposit Interest Rate, the Group will inform COFCO Finance to adjust the COFCO Deposit Interest Rate to ensure that it is not lower than the Quoted Deposit Interest Rate. Nonetheless, if COFCO Finance violates its relevant obligations under the New Financial Services Agreement and adopted a COFCO Deposit Interest Rate which is lower than the Quoted Deposit Interest Rate, the Group may request COFCO Finance to compensate the differences to the Group. We have been advised by the management of the Company that, to the best of their knowledge up to the Latest Practicable Date, COFCO Finance has no record of violates its relevant obligations under the 2018 Financial Services Agreement and adopted a COFCO Deposit Interest Rate which was lower than the Quoted Deposit Interest Rate. In order to ensure that the Proposed Daily Deposit Cap will not be exceeded, we are given to understand that the finance department of the Company will check on the online platform of COFCO Finance and report the deposit balance with COFCO Finance on a daily basis to relevant senior management of the Group to ensure the Proposed Daily Deposit Cap will not be exceeded.

The external auditors of the Company will report by issuing a letter to the Board every year on the continuing connected transactions of the Company in relation to the terms and annual caps of the continuing connected transactions (including the Deposit Services contemplated under the New Financial Services Agreement) of the Company conducted during the preceding financial year pursuant to the Listing Rules. We noted from the 2019 Annual Report and 2020 Annual Report that the auditors of the Company confirmed that the continuing connected transactions (i) had been approved by the Board; (ii) had been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iii) the actual transaction amount did not exceed the respective annual caps/daily deposit caps during the two years ended 31 December 2020.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The independent non-executive Directors of the Company will conduct an annual review with respect to the Deposit Services throughout the preceding financial year and confirm the transaction amounts and terms of the continuing connected transactions in the annual report of the Company pursuant to the requirements under the Listing Rules, and to ensure that they are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the relevant agreements governing the continuing connected transactions. We noted from the 2019 Annual Report and 2020 Annual Report that the independent non-executive Directors of the Company confirmed that the continuing connected transactions were (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Pursuant to Rules 14A.55 to 14A.59 of the Hong Kong Listing Rules, the Deposit Services are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Deposit Services every year and confirm in the annual report and accounts that the Deposit Services have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company must engage its auditors to report on the Deposit Services every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Deposit Services:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the continuing connected transactions involve the provision of goods or services by the Group;

LETTER FROM INDEPENDENT FINANCIAL ADVISER

- (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the Deposit Services; and
- (iv) have exceeded the Proposed Daily Deposit Cap;
- (c) the Company must allow, and ensure that the counterparties to the Deposit Services allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Deposit Services as set out in paragraph (b);
- (d) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the result of our review and the reporting requirements attached to the Deposit Services, in particular, (i) the Group and COFCO Finance have been compiling with the pricing mechanism on the deposit placed during the term of the 2018 Financial Services Agreement, (ii) the restriction of the value of the Deposit Services by way of the Proposed Daily Deposit Cap; and (iii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms and the Proposed Daily Deposit Cap not being exceeded, we are of the view that appropriate internal control measures are in place to govern the conduct of the Deposit Services and to ensure the Proposed Daily Deposit Cap will not be exceeded.

RECOMMENDATION

Having taken into account the above principal reasons and factors, we consider that the terms of the Deposit Services contemplated under the New Financial Services Agreement (including the Proposed Daily Deposit Cap thereunder) are fair and reasonable so far as the Independent Shareholders are concerned and that the Deposit Services contemplated under the New Financial Services Agreement (including the Proposed Daily Deposit Cap thereunder) are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to, and also recommend the Independent Shareholders to, vote in favour of the relevant resolution to approve the Deposit Services contemplated under the New Financial Services Agreement (including the Proposed Daily Deposit Cap thereunder).

Yours faithfully,
For and on behalf of
Chanceton Capital Partners Limited
Wong Kam Wah
Managing Director

Note:

Mr. Wong Kam Wah is a licensed person registered with the SFC and regarded as a responsible officer of Chanceton Capital Partners Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 17 years of experience in corporate finance industry.

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 Company. 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 OF DIRECTORS

As at the Latest Practicable Date and in accordance with the records of the Company maintained in accordance with the SFO and the Listing Rules, none of the Directors has any interests and short positions in the Shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register of members of the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contracts with the Company or any other member of the Group save for those expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTEREST IN ASSETS OR CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired, disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors were materially interested, directly or indirectly, in any subsisting contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their associates had interests in a business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading positions of the Group since 31 December 2020 (being the date up to which the latest published audited financial statements of the Company were made up).

7. QUALIFICATION

The following is a qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualifications
Chanceton Capital	a licenced corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Chanceton Capital was not beneficially interested in the share capital of any member of the Group or 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 did not have any interest, either directly or indirectly, in any assets which, have been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. CONSENT

Chanceton Capital has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter, report or certificate or summary of its opinion (as the case may be) and references to its name in the form and context in which they appear herein.

9. DOCUMENTS ON DISPLAY

Copies of the following documents are published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.chinafoodsltd.com) from the date of this circular up to and including the date of the SGM:

- (i) the New Financial Services Agreement;
- (ii) the Bye-laws;
- (iii) the letter from the Independent Board Committee, the text of which is set out on page 26 of this circular;
- (iv) the letter from Chanceton Capital, the text of which is set out on pages 27 to 45 of this circular;
- (v) the written consent from Chanceton Capital referred to in paragraph 8 in this appendix; and
- (vi) the annual reports of the Company for each of the two financial years ended 31 December 2019 and 31 December 2020.

10. MISCELLANEOUS

- (i) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (ii) The principal office and principal place of business of the Company in Hong Kong is 33/F., COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.
- (iii) The Company's branch share registrar and transfer office in Hong Kong is Tricor Progressive Limited whose business address is at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iv) The company secretary of the Company is Ms. Liu Kit Yee, Linda. She is an associate member of the Chartered Governance Institute and the The Hong Kong Chartered Governance Institute.

In the event of any inconsistencies, the English text of this circular and form of proxy shall prevail over the Chinese text.

APPENDIX II PARTICULARS OF RETIRING DIRECTOR PROPOSED TO BE ELECTED

Particulars of retiring Director standing for election at the SGM are set out below:

Mr. Chen Gang

Non-executive Director

Mr. Chen, 50, was appointed as a non-executive Director in August 2021. Mr. Chen joined COFCO in 1994 and is currently the director of the Cooperation and Development Department and the general manager of the Supply Assurance Department of COFCO. Mr. Chen has been the executive deputy general manager of COFCO Yellowsea Grain and Oil Industries (Shandong) Co., Ltd., and the general manager of COFCO Northsea Grain and Oil Industries (Tianjin) Co., Ltd.. Mr. Chen has also held various management positions of the Group during the period from 2008 to 2016, including a deputy general manager, an assistant general manager, the chief legal counsel, the general manager of each of the confectionery business unit, kitchen food business unit and procurement department of the Company. From October 2016 to April 2019, he served as the deputy general manager of China Agri-Industries Holdings Limited, once a company listed in Hong Kong, and a director of the preparatory office of the COFCO Yingkou Lingang Grain, Oil and Food Industrial Park.

Mr. Chen has extensive experience in the research and practices of operating management of national policies, industrial development, international trade, production and processing, brand marketing and technological innovation in the field of grain, oil and food. Mr. Chen also serves as the Vice President of the China National Vegetable Oil Association, the Vice President of the Oil Chapter of the Chinese Cereals and Oils Association, and a member of the National Cereals and Oils Standardisation Technical Committee.

Mr. Chen graduated from Peking University with a Bachelor of Arts degree in law, and from Tsinghua University with a degree of Executive Master of Business Administration. Mr. Chen also held a PhD degree in Economics from Institute of Population and Labour Economics, Chinese Academy of Social Sciences.

Save as disclosed above, Mr. Chen does not have any other relationship with any Directors, senior management, or substantial or controlling shareholders of the Company, and has not held any directorship in other listed companies in the last three years.

As at the Latest Practicable Date, pursuant to the relevant letter of appointment, Mr. Chen was appointed for a term of three years commencing from 25 August 2021 subject to termination by giving three months' prior written notice. Mr. Chen is also subject to retirement by rotation and re-election provisions in accordance with the Bye-laws. Mr. Chen is not entitled to any remuneration as a non-executive Director unless otherwise shall be determined by the Board based on the recommendation of the Remuneration Committee with reference to the Company's remuneration policy.

APPENDIX II PARTICULARS OF RETIRING DIRECTOR PROPOSED TO BE ELECTED

As at the Latest Practicable Date, Mr. Chen does not have any interest in any shares or, underlying shares or debenture of the Company or its associated corporations within the meaning of Part XV of the SFO.

Save as disclosed above, there is no other matter relating to Mr. Chen's election that needs to be brought to the attention of the Shareholders, nor other information which is required to be disclosed pursuant to any of the requirements set out in Rule 13.51(2) of the Listing Rules.

NOTICE OF SGM



CHINA FOODS LIMITED 中國食品有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of China Foods Limited (the “Company”) will be held at Mandarin’s Suite, World Trade Centre Club Hong Kong, 38/F., World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 10 December 2021 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

AS ORDINARY RESOLUTIONS

1. **“THAT** (1) the New Financial Services Agreement (as defined in the circular of the Company dated 23 November 2021) (the “Circular”) entered into between the Company, COFCO Coca-Cola Supply Chain (Tianjin) Limited (中糧可口可樂供應鏈(天津)有限公司) and COFCO Finance Corporation Limited (中糧財務有限責任公司) (“COFCO Finance”) dated 2 November 2021 (a copy of which has been produced to the SGM and marked “A” and initialled by a Director for the purpose of identification) (details of which are set out in the Circular) relating to the provision of Deposit Services, Fund Transfer Services, Entrustment Loan Services and Other Financial Services such as settlement, sale and purchase of foreign exchange and relevant advisory services by COFCO Finance to the Company and its subsidiaries (the “Group”), and all the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and (2) the proposed maximum daily outstanding balance of deposit (including the corresponding interest accrued thereon) (the “Proposed Daily Deposit Cap”) placed by the Group with COFCO Finance in the amount RMB800 million or its equivalent (including the corresponding interest accrued therein) be and are hereby approved and confirmed; and **THAT** any one or more directors of the Company be and are hereby authorised to do all such things and execute all such documents as they in their absolute discretion deem fit or appropriate to give effect to the New Financial Services Agreement and the implementation of all the transactions contemplated thereunder.”
2. **“THAT** Mr. Chen Gang be elected as a non-executive Director.”

By Order of the Board
China Foods Limited
Chen Lang
Chairman

Beijing, 23 November 2021

NOTICE OF SGM

Notes:

1. Shareholders are reminded to read carefully details of the New Financial Services Agreement and its Proposed Daily Deposit Cap as set out in the circular to which this notice forms part.
2. For determining the entitlement to attend and vote at the SGM to be held on Friday, 10 December 2021, the register of members of the Company will be closed from Tuesday, 7 December 2021 to Friday, 10 December 2021 (both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the SGM, unregistered holders of shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged for registration with Tricor Progressive Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in any case no later than 4:30 p.m. on Monday, 6 December 2021.
3. Any member of the Company entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged at Tricor Progressive Limited, the branch share register and transfer office of the Company in Hong Kong, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM (or any adjournment thereof).
5. Where there are joint holders of any share of the Company, any one of such holders may vote at the SGM, either in person or by proxy, in respect of such share as if he were solely entitled to vote, but if more than one of such joint holders are present at the SGM in person or by proxy, the person so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote.
6. Completion and return of the form of proxy will not preclude a member from attending and voting at the SGM (or any adjournment thereof) in person should he so wish. In such event, the form of proxy shall be deemed to be revoked.
7. Pursuant to the bye-law 75 of the bye-laws of the Company, the voting at the SGM will be taken by poll.
8. If a black rainstorm warning signal, or a tropical cyclone warning signal no.8 or above or "extreme conditions" caused by super typhoons is in force at any time between 6:00 a.m. and 9:30 a.m. on the date of the SGM, the SGM will be automatically postponed. The Company will publish an announcement on the Company's website at www.chinafoodsltd.com and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk to notify members of the date, time and place of the rescheduled meeting.

The SGM will be held as scheduled when an amber or a red rainstorm warning is in force. Shareholders should decide on their own whether they would attend the SGM under bad weather condition bearing in mind their own situations.

9. In this notice, reference to one gender includes all genders and reference to the singular includes the plural and vice versa.

NOTICE OF SGM

10. In view of the ongoing epidemic caused by novel coronavirus pneumonia (COVID-19) and recent requirements for prevention and control of its spread, the Company will implement the following precautionary measures at the SGM against the epidemic to protect attending Shareholders, staff and other stakeholders from the risk of infection:

- (i) compulsory body temperature checks will be conducted on every Shareholder and proxy and other attendee at the entrance of the SGM venue. Any person with a body temperature of over 37.5 degrees Celsius will be denied entry into the SGM venue or be required to leave the SGM venue;
- (ii) every attendee is required to wear surgical facial mask before he/she is permitted to attend, and throughout his/her attendance of the SGM at all times; and
- (iii) no refreshment will be served, and no souvenirs will be distributed.

Any person who does not comply with the precautionary measures may be denied entry into the SGM venue.

As at the date of this notice, the Board comprises: Mr. Chen Lang as the chairman of the Board and a non-executive director; Mr. Qing Lijun and Mr. Shen Peng as executive directors; Mr. Chen Zhigang and Mr. Chen Gang as non-executive directors; and Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Mok Wai Bun, Ben as independent non-executive directors.