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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 reply slips and forms 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)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND ANNUAL CAPS FOR YEARS 2021/2022/2023 AND PROPOSAL FOR ELECTION OF RETIRING DIRECTOR

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



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 22 of this circular and a letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 23 to 37 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 Thursday, 17 December 2020 at 3:30 p.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
- 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.

1 December 2020

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DEFINITIONS

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

“2017 COFCO Mutual Provision Agreement”	the framework agreement entered into between the Company and COFCO dated 10 November 2017
“2017 Concentrate Purchase Agreement”	the framework agreement entered into between the Company and Coca-Cola (Shanghai) dated 10 November 2017
“2017 Packaging Materials and Services Provision Agreement”	the framework agreement entered into between Tianjin Bottler and Zijiang dated 10 November 2017
“2017 Still Beverages Purchase Agreement”	the framework agreement entered into between the Company and Coca-Cola Bottlers (Shanghai) dated 10 November 2017
“2020 COFCO Mutual Provision Agreement”	the framework agreement entered into between the Company and COFCO dated 11 November 2020
“2020 Concentrate Purchase Agreement”	the framework agreement entered into between the Company and Coca-Cola (Shanghai) dated 11 November 2020
“2020 Framework Agreements”	the 2020 COFCO Mutual Provision Agreement, the 2020 Concentrate Purchase Agreement, the 2020 Still Beverages Purchase Agreement and the 2020 Packaging Materials and Services Provision Agreement
“2020 Packaging Materials and Services Provision Agreement”	the framework agreement entered into between Tianjin Bottler and Zijiang dated 11 November 2020
“2020 Still Beverages Purchase Agreement”	the framework agreement entered into between the Company and Coca-Cola Bottlers (Shanghai) dated 11 November 2020
“Announcement”	the Company’s announcement dated 11 November 2020 in relation to, among others, the 2020 Framework Agreements and the relevant annual caps
“Board”	the board of Directors of the Company
“Bye-laws”	the bye-laws of the Company, as amended from time to time
“China Foods (Holdings)”	China Foods (Holdings) Limited, 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

DEFINITIONS

“Coca-Cola (Asia)”	Coca-Cola Holdings (Asia) Limited, a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of The Coca-Cola Company and holding a 35% interest in COFCO Coca-Cola
“Coca-Cola (Shanghai)”	Coca-Cola Beverages (Shanghai) Company Limited* (可口可樂飲料(上海)有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of The Coca-Cola Company
“Coca-Cola Bottlers (Shanghai)”	Coca-Cola Bottlers Management Service (Shanghai) Limited* (可口可樂裝瓶商管理服務(上海)有限公司), a limited liability company established in the PRC in which The Coca-Cola Company and COFCO Coca-Cola indirectly holds 38% and 21% interest, respectively
“COFCO”	COFCO Corporation (中糧集團有限公司), a state-owned company established in the PRC currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) of the PRC 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 a 65% interest
“COFCO Group”	for the purpose of this circular, COFCO and its subsidiaries and associates but excluding the Group
“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
“Director(s)”	the director(s) of the Company
“Exempted Agreements”	the 2020 Concentrate Purchase Agreement, the 2020 Still Beverages Purchase Agreement and the 2020 Packaging Materials and Services Provision Agreement
“Existing Continuing Connected Transactions”	the continuing connected transactions contemplated under the Existing Framework Agreements
“Existing Framework Agreements”	the 2017 COFCO Mutual Provision Agreement, the 2017 Concentrate Purchase Agreement, the 2017 Still Beverages Purchase Agreement and the 2017 Packaging Materials and Services Provision Agreement

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“Group”	the Company and its subsidiaries
“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, established for the purpose of reviewing the 2020 COFCO Mutual Provision Agreement and the transactions contemplated thereunder and the Proposed Purchase Annual Caps
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed 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 as to the 2020 COFCO Mutual Provision Agreement and the transactions contemplated thereunder and the Proposed Purchase Annual Caps
“Independent Shareholder(s)”	Shareholder(s) other than COFCO and its associates and any other Shareholder(s) materially interested in the 2020 COFCO Mutual Provision Agreement and the transactions contemplated thereunder and the Proposed Purchase Annual Caps
“independent third party(ies)”	party(ies) not connected with any of the Directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Latest Practicable Date”	27 November 2020, the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Nomination Committee”	the nomination committee of the Board
“PRC”	the People’s Republic of China, which for the purpose of this circular shall not include Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prevailing Market Price”	the price of the same or similar products or services provided by independent third party(ies) during the same period in the ordinary course of business and on normal commercial terms

DEFINITIONS

“Proposed Provision Annual Caps”	the annual caps in respect of the provision of products and services by the Group to COFCO Group as set out in the table titled “Proposed Provision Annual Caps” under the section headed “Proposed Annual Caps” under “C. Annual caps” in the Letter from the Board
“Proposed Purchase Annual Caps”	the annual caps in respect of the purchase of products and services by the Group from COFCO Group as set out in the table titled “Proposed Purchase Annual Caps” under the section headed “Proposed Annual Caps” under “C. Annual caps” in the Letter from the Board
“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)
“SGM”	the special general meeting to be held by the Company to consider, and if thought fit, approve the 2020 COFCO Mutual Provision Agreement and the transactions contemplated thereunder and the Proposed Purchase Annual Caps
“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
“Tianjin Bottler”	COFCO Coca-Cola Beverages (Tianjin) Limited* (中糧可口可樂飲料(天津)有限公司), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company
“Zijiang”	Tianjin Shifa Zijiang Packaging Co., Ltd. *, (天津實發-紫江包裝有限公司), a limited liability company established in the PRC and a connected person of the Company

DEFINITIONS

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
Xiao Jianping

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

1 December 2020

To the Shareholders

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND
ANNUAL CAPS FOR YEARS 2021/2022/2023
AND
PROPOSAL FOR ELECTION OF RETIRING DIRECTOR**

I. INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the 2020 Framework Agreements and the relevant annual caps.

LETTER FROM THE BOARD

The Company intends to continue the Existing Continuing Connected Transactions and to renew the relevant agreements on or before their respective expiry dates for a term of three years commencing from 1 January 2021 and expiring on 31 December 2023. Accordingly, the Board announced that on 11 November 2020 (after trading hours), (a) the Company entered into (i) the 2020 COFCO Mutual Provision Agreement; (ii) the 2020 Concentrate Purchase Agreement; and (iii) the 2020 Still Beverages Purchase Agreement with COFCO, Coca-Cola (Shanghai) and Coca-Cola Bottlers (Shanghai), respectively, and (b) Tianjin Bottler, an indirect non-wholly owned subsidiary of the Company, entered into the 2020 Packaging Materials and Services Provision Agreement with Zijiang.

Since each of the counterparties to the four framework agreements mentioned above is a connected person of the Company under the Listing Rules, transactions under each of the framework agreements constitute a continuing connected transaction of the Company under the Listing Rules.

(i) Continuing connected transactions exempt from the Independent Shareholders' approval requirement

As (a) Coca-Cola (Shanghai), Coca-Cola Bottlers (Shanghai) and Zijiang are connected persons of the Company at the subsidiary level under the Listing Rules; (b) each of the Exempted Agreements have been approved by the Board; and (c) the Directors (including the independent non-executive Directors) are of the view that the terms of each of the Exempted Agreements are fair and reasonable and the transactions contemplated thereunder are on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole, therefore the continuing connected transactions contemplated under each of the Exempted Agreements are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but are exempt from the Independent Shareholders' approval requirement pursuant to Rule 14A.101 of the Listing Rules.

In addition, the applicable percentage ratios of the Proposed Provision Annual Caps in respect of the provision of products and services by the Group to the COFCO Group under the 2020 COFCO Mutual Provision Agreement are, on an annual basis, more than 0.1% but are less than 5%, therefore the Proposed Provision Annual Caps are only subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but are exempt from the Independent Shareholders' approval requirement pursuant to Rule 14A.76 of the Listing Rules.

(ii) Non-exempt continuing connected transaction subject to the reporting, announcement and Independent Shareholders' approval requirements

As one or more of the applicable percentage ratios of the Proposed Purchase Annual Caps in respect of the purchase of products and services by the Group from the COFCO Group under the 2020 COFCO Mutual Provision Agreement are, on an annual basis, more than 5%, therefore the 2020 COFCO Mutual Provision Agreement and the relevant Proposed Purchase Annual Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

None of the Directors has a material interest in the transactions contemplated under the 2020 COFCO Mutual Provision Agreement, and none of them was required under the Listing Rules to abstain from voting on the respective Board resolutions approving the 2020 COFCO Mutual Provision 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 Ms. Xiao Jianping (being a director of one of the wholly-owned subsidiaries of COFCO) are related to COFCO, for good corporate governance, the non-executive Directors Mr. Chen Lang, Mr. Chen Zhigang, and Ms. Xiao Jianping have abstained from voting on the respective Board resolutions approving the 2020 COFCO Mutual Provision Agreement at a Board meeting.

The purpose of this circular is to provide you with, among other things, (i) further details of the 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps; (ii) the letter from the Independent Board Committee with its recommendations to the Independent Shareholders in relation to the 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps; (iii) a letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps; (iv) the election of the retiring Director; and (v) the notice of the SGM and other information as set out in the Appendices to this circular.

II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

1. Background

The Group has the following existing continuing connected transactions with the COFCO Group:

- (i) supply of certain raw materials, products, packaging materials and provision of certain services by the COFCO Group to the Group, and
- (ii) supply of certain products and provision of certain services by the Group to the COFCO Group

under the 2017 COFCO Mutual Provision Agreement, which will expire on 31 December 2020. Details of the 2020 COFCO Mutual Provision Agreement are set out below.

LETTER FROM THE BOARD

2. 2020 COFCO Mutual Provision Agreement

Background

Pursuant to the 2017 COFCO Mutual Provision Agreement entered into between the Company and COFCO on 10 November 2017 (details of which were also disclosed in the Company's circular dated 30 November 2017), (i) the COFCO Group shall supply to the Group certain raw materials (including but not limited to sugar, high fructose corn syrup and corn starch), packaging materials (including but not limited to crown caps and two-piece beverage cans); (ii) the Group shall, in the ordinary and usual course of its business, supply to the COFCO Group certain consumer products (including but not limited to sparkling beverages and still beverages) and other products manufactured, owned or resold by the Group and other services incidental to the supply of such products; and (iii) the COFCO Group shall provide property leasing and other services to the Group. Such services include but not limited to property management, catering services, warehouse leasing, warehouse storage, logistics, information technology, insurance and other related services.

The 2017 COFCO Mutual Provision Agreement will expire on 31 December 2020. Since the above transactions will continue in the ordinary and usual course of business of the Group, the Company and COFCO have entered into the 2020 COFCO Mutual Provision Agreement.

A. *Key terms*

Date:	11 November 2020
Contracting parties:	(a) the Company; and (b) COFCO.
Term:	Three years commencing from 1 January 2021 and expiring on 31 December 2023, renewable upon mutual agreement between the parties subject to compliance by the Company with the relevant requirements under the applicable laws and the Listing Rules.
Transaction:	The COFCO Group shall supply certain raw materials, packaging materials and provide property leasing and certain services to the Group while the Group shall supply certain consumer products and provide certain services to the COFCO Group. Details of the raw materials, packaging materials, property leasing and nature of the services received and provided are set out below.

LETTER FROM THE BOARD

Payment term: For the supply of certain raw materials, packaging materials, services and other services by the COFCO Group to the Group, the Group shall settle the payment within 30-60 days upon receipt of an invoice from the COFCO Group. With respect to the rental of the leased properties, the Group shall settle the rental payment monthly in advance; and

For the supply of certain consumer products and the provision of services by the Group to the COFCO Group, the COFCO Group shall settle payments within 30-60 days upon receipt of an invoice from the Group.

Pursuant to the 2020 COFCO Mutual Provision Agreement:

- (a) the COFCO Group shall supply to the Group certain raw materials (including but not limited to sugar, high fructose corn syrup and corn starch) and packaging materials (including but not limited to crown caps and two-piece beverage cans);
- (b) the Group shall supply to the COFCO Group certain consumer products (including but not limited to sparkling beverages and still beverages) and other products manufactured, owned or resold by the Group and other services incidental to the supply of such products;
- (c) the COFCO Group shall provide property leasing (including but not limited to office premises and warehouses located in Hong Kong and the PRC) and other services to the Group (including but not limited to property management, catering services, warehouse leasing, warehouse storage, logistics, information technology, insurance and other related services);
- (d) the transactions will be made on terms that are (i) no less favourable to the Group as compared with the terms available to the Group from independent third parties; and (ii) no less favourable to the COFCO Group as compared with the terms available to COFCO Group from independent third parties;
- (e) either party is free to choose its counterparties in respect of the supply of raw materials, products and services, but if the terms and conditions of the supply of products, services and/or raw materials offered by one party to the other are more favourable than those offered by any independent third party, the other party shall give priority in sourcing supplies from such party;
- (f) the quality of the raw materials/products to be supplied and services to be provided shall be in compliance with the applicable laws and regulations of the PRC;

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- (g) the relevant members of COFCO Group and the relevant members of the Group will enter into separate agreements which shall set out the specific scope of provision of products, services and/or raw materials and terms and conditions of providing such products, services and/or raw materials according to the principles laid down by the 2020 COFCO Mutual Provision Agreement and comply with requirements under the Listing Rules; and
- (h) the 2020 COFCO Mutual Provision Agreement is subject to and conditional upon the Company's compliance with the disclosure requirements and (if applicable) the Independent Shareholders' approval under the Listing Rules.

B. Pricing policy

The price for the mutual supply of products, services and/or raw materials shall be determined with reference to the Prevailing Market Price to each of the parties at the relevant time. Where any material changes in the market result in the fluctuation of the cost of such products or services, the parties shall adjust the pricing through amicable negotiations.

Pricing policies and payment terms for the purchase of products and services by the Group from the COFCO Group

In particular, the following pricing policies will be primarily applicable to each different type of transactions for the purchase of products and services by the Group from the COFCO Group:

- In determining the Prevailing Market Price of the raw materials, packaging materials and services to be provided by COFCO Group to the Group, the Group will seek to obtain the Prevailing Market Price through various channels including, among others, (a) comparable transactions with at least three independent third parties during the same period; (b) maintaining regular contacts with and from time to time obtain price quotations through enquires from at least three established suppliers (including COFCO Group and its connected suppliers) through telephone enquiries, email enquiries and meetings with suppliers; and (c) conduct market price research on a daily basis through various independent market data providers such as sugar prices on the Zheng Zhou Commodity Exchange (www.czce.com.cn), corn sugar prices on the Dalian Commodity Exchange (www.dce.com.cn) and aluminium prices on the Shanghai Futures Exchange (www.shfe.com.cn). Based on such market price information on the Prevailing Market Price, the Group will compare and negotiate terms of quotations with these suppliers or service providers after taking into account factors including the lowest price quotations, quality of products and services, technical advantages, ability and capacity in meeting the technical specifications and delivery schedules, qualifications and relevant experience. The contract will be awarded to the suppliers and service providers who offer the best commercial terms and technical terms to the Group after comprehensive assessment;

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- For property leasing, the rent shall be determined by the contract parties at the time of entry into the relevant leasing agreements with reference to the prevailing market rent based on (a) at least three quotations obtained for comparable properties in the nearby area; or (b) the rent charged by the COFCO Group to independent third parties of at least three leases in the same or comparable property. The Company will from time to time compare the rental information obtained above to ensure the property leasing provided by the COFCO Group to the Group is on normal commercial terms or better; and
- For warehouse and logistics services, the service fee shall be determined by the contract parties at the time of entry into the relevant service agreements with reference to at least three quotations obtained based on the weight and type of cargo and mode of transport and type of storage space required from independent third party logistics and warehouse providers. The Company will from time to time compare the service fee information obtained above to ensure the warehouse and logistics services provided by the COFCO Group to the Group is on normal commercial terms or better.

The payment terms for the purchase of products and services and the lease of the properties by the Group from the COFCO Group are made with reference to the payment terms of similar transactions between the COFCO Group and independent third parties.

Pricing policies and payment terms for the provision of products and services by the Group to the COFCO Group

In particular, the following pricing policies will be primarily applicable to each different type of transactions for the provision of products and services by the Group to the COFCO Group:

- In determining the Prevailing Market Price of such products and services to be provided by the Group to the COFCO Group, the Group will make reference to the pricing prescribed in the existing distribution-based pricing system of the Group. Distribution-based pricing system refers to a pricing structure which aligns with expected market demand and competition strategy of the Group by reference to the designated mark-ups for different distributor customers at different channels for different types of products and customers. The mark-ups rate varies depending on the category of the Group's product and the Prevailing Market Price of such category of products and it generally ranges from approximately 20% to 50%. In addition, the mark-up rate will also take into account the prevailing market conditions at the material time. The Group will mainly refer to the pricing of distributor customers in the pricing system, and consider the business reputation, financing capacity of goods or service purchasers, credit terms for payment of price of goods or services, goods delivery arrangement, overall purchasing volume or services demanded (the "**Pricing Criteria**"). The Group's sales department will conduct market research on the price of the products which are in the same category as the Group's and will

LETTER FROM THE BOARD

analysis the information obtained in order to determine the price of each products be provided by the Group. The Company will from time to time review the prevailing market conditions, the Pricing Criteria and conduct market researches to ensure the products and services to be provided by the Group to the COFCO Group is on normal commercial terms.

The payment terms for the provision of products and services by the Group to the COFCO Group are made with reference to the payment terms of similar transactions between the Group and independent third parties to ensure that the payment terms are no more favourable to the COFCO Group than those available to independent third parties.

Reasons and benefits for the 2020 COFCO Mutual Provision Agreement

The Company considers that the purchase of products and services from the COFCO Group and the provision of products and services by the Group to the COFCO Group are conducted in the Group's ordinary and usual course of business based on the commercial needs of the Group and the COFCO Group.

The products and services to be purchased by the Group from the COFCO Group pursuant to the 2020 COFCO Mutual Provision Agreement will be mainly used for the production and operations of the Group, while the products and services to be provided by the Group to the COFCO Group are mainly end products.

The Company expects that the transactions contemplated under the 2020 COFCO Mutual Provision Agreement will contribute to the business of the Group through providing a stable supply of the raw materials and services required by the Group for its production and operations, while the products and services provided by the Group to the COFCO Group, acting as a distributor, are expected to add value to the sales and distribution of beverage products of the Group.

C. Annual caps

Historical Transaction Values and Annual Caps

For each of the years ended 31 December 2018, 31 December 2019 and the nine months ended 30 September 2020, the aggregate value of raw materials, products, packaging materials supplied, property leasing and the provision of logistics and other related services by the COFCO Group to the Group under the 2017 COFCO Mutual Provision Agreement was RMB1,114.9 million, RMB1,212 million and RMB863.9 million, respectively. The annual caps in respect of such purchase of products and services by the Group from COFCO Group under the 2017 COFCO Mutual Provision Agreement for the years ended 31 December 2018, 31 December 2019 and the year ending 31 December 2020 are RMB2,350 million, RMB2,816 million and RMB3,374 million, respectively.

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For each of the years ended 31 December 2018, 31 December 2019 and the nine months ended 30 September 2020, the aggregate value of consumer products, services and others provided by the Group to COFCO Group under the 2017 COFCO Mutual Provision Agreement was RMB3.93 million, RMB3.98 million and RMB4.29 million, respectively. The annual caps in respect of such provision of products and services by the Group to COFCO Group under the 2017 COFCO Mutual Provision Agreement for the years ended 31 December 2018, 31 December 2019 and the year ending 31 December 2020 are RMB199 million, RMB229 million and RMB263 million, respectively.

Proposed Annual Caps

- (1) *For the purchase of products and services by the Group from the COFCO Group*

Proposed Purchase Annual Caps For the year ending 31 December		
2021	2022	2023
	<i>(RMB million)</i>	
3,374	4,048.8	4,858.56

In arriving at the above proposed annual caps for the supply of certain raw materials, packaging materials, services and others by the COFCO Group to the Group, the Company has taken into consideration:

- (a) the historical transaction values under the 2017 COFCO Mutual Provision Agreement;
- (b) the expected further growth and development of the beverage business of the Group contributed by the long-term strategy of the Group to continuously increase the production capacity through increasing investment in bottling plant and production lines in the next few years. In particular, a new bottling plant in Guizhou Province, PRC is expected to commence operation by the end of 2021, and two, one and one new production lines will also be put into operation in 2021, 2022 and 2023, respectively. Accordingly, it is expected that the Group's annual production capacity for sparkling drinks is expected to increase by approximately 10% in 2021;
- (c) the expected annual growth in the production volume of sparkling beverages products of the Group at a rate of approximately 20%;

LETTER FROM THE BOARD

- (d) the Group intends to strengthen further its control on the quality and safety of food supplies and is satisfied that the COFCO Group has been supplying quality products to the Group during their long-term business relations; hence, the Group has evaluated the maximum possible transaction value of its transactions with the COFCO Group by assuming that a larger quantity of material will be supplied by the COFCO Group when considering the proposed annual caps; and
- (e) the expected increase in the price of raw materials after considering the historical volatility in raw material prices to make room for any unexpected price increase.

The Group is exposed to the volatility of commodity price movements with sudden price hikes occurring in the past, a clear demonstration of the erratic nature of such price changes. In particular,

- (i) during the approximate 5-year period, the international sugar price reached its peak at US\$23.30cents/pound in September 2016 and reached a low of US\$9.42 cents/pound in April 2020. The maximum price represented approximately 2.47 times of the lowest price.
- (ii) during the approximate 5-year period, the international corn price reached its peak at US\$5.98/bushel in June 2019 and reached a low of US\$3.49/bushel in August 2017. The maximum price represented approximately 1.71 times of the lowest price.
- (iii) during the approximate 5-year period, the A00 aluminum price in PRC reached its peak at RMB16,570/ton in September 2017 and reached a low of RMB10,500/ton in February 2016. The maximum price represented approximately 1.58 times of the lowest price.

Future commodity price movements are difficult to forecast with a high level of precision, and therefore the annual caps comprise an annual buffer of approximately 33% to cater for the volatility in the price of raw materials, packaging materials and other items subject to the transactions contemplated under the 2020 COFCO Mutual Provision Agreement which is set conservatively with room to accommodate any unexpected price increases.

As part of the Proposed Purchase Annual Caps, the proposed annual caps for the three years ending 31 December 2021, 2022 and 2023 in respect of the leases of the premises provided by the COFCO Group are RMB100.0 million, RMB105.0 million and RMB110.0 million, respectively. The proposed annual caps are set on the total value of the relevant right-of-use assets recognised according to HKFRS 16 relating to the leases and the estimated growth rate of rental for the years 2021, 2022 and 2023.

LETTER FROM THE BOARD

- (2) *For the provision of products and services by the Group to the COFCO Group*

Proposed Provision Annual Caps For the year ending 31 December		
2021	2022	2023
	<i>(RMB million)</i>	
200	240	288

In arriving at the above proposed annual caps for the supply of certain products, services and others by the Group to the COFCO Group, the Company has taken the following into consideration:

- (a) the historical transaction values under the 2017 COFCO Mutual Provision Agreement;
- (b) the projected growth and development of the Group's product portfolio. Since 1 January 2020 and up to the date of this circular, the Group had launched more than 20 new products, including but not limited to sparkling beverages, flavoured juice, ready-to-drink tea and ready-to-drink coffee. The Group plans to continue to diversify its product portfolio and expand its revenue base;
- (c) the demand of the COFCO Group for the products to be purchased from the Group, mainly beverages and others, is anticipated to increase steadily in the next few years due to the expected development of e-commerce retail businesses of the COFCO Group; and
- (d) the overall business outlook of the Group, with incorporation of price and volume projections on a conservative basis.

The low utilization rate for the existing annual purchase caps was primarily an outcome of the Group's actual operations (in particular, the existing purchase annual caps were determined taking into account the then estimated maximum purchase from COFCO Group, while the Group could also purchase from independent third parties); while the low utilization rate for the existing provision annual caps was mainly due to (i) the development of e-commerce business of the COFCO Group was slow and did not meet the Group's then estimated sales to the COFCO Group in the previous two financial years; and (ii) the demand of our products from the COFCO Group was further affected by the outbreak of the novel coronavirus in 2020.

LETTER FROM THE BOARD

Considering that the situation of the novel coronavirus had improved in the PRC and the economic is steadily improving, it is expected that the impact of the above factors will be alleviated in the years 2021/2022/2023 for reasons set out above.

D. Internal Control Measures

The Company has (1) reporting, approval and, if required, selected verification procedures in place to ensure that the agreed price and terms of continuing connected transactions are no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties and also compliance with the pricing policy; and (2) procedures and policies for identifying connected persons and monitoring the annual caps of the continuing connected transactions. The below are certain internal control measures which had been adopted by the Group:

Prior to the entry of the 2020 COFCO Mutual Provision Agreement, the Group's legal department was responsible for the preparation of the framework agreement. The Group's sales and procurement departments are responsible for determining the pricing of the material and services to be provided by (a) the COFCO Group to the Group; and (b) the Group to the COFCO Group, respectively. and terms of agreements for transactions contemplate under the 2020 COFCO Mutual Provision Agreement shall set out according to the principles laid down by the 2020 COFCO Mutual Provision Agreement.

The internal audit department shall conduct audit review on the transactions contemplated under the 2020 COFCO Mutual Provision Agreement twice a year and report the audit results to the audit committee of the Board, which consists of all the independent non-executive Directors and the Board.

In addition, the Company has also adopted a threshold warning mechanism whereby the Group's finance department will monitor the annual caps under the 2020 COFCO Mutual Provision Agreement. When the utilization rate of the annual caps reaches 75%, the Group's finance department will report to the Board which they will then consider to implement relevant measures including the revision of the annual caps under the 2020 COFCO Mutual Provision Agreement.

E. Implications under the Listing Rules

COFCO is the ultimate controlling shareholder of the Company which through its indirect wholly-owned subsidiary, China Foods (Holdings), is indirectly interested in approximately 74.1% of the Company's issued share capital, and thus it is a connected person of the Company. Accordingly, the mutual provision of products and services between the Company and the COFCO Group pursuant to the 2020 COFCO Mutual Provision Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

The applicable percentage ratios in respect of the transaction value of raw materials, packaging materials, services and others to be supplied by the COFCO Group to the Group under the 2020 COFCO Mutual Provision Agreement are on an annual basis more than 5%, the 2020 COFCO Mutual Provision Agreement and the relevant Proposed Purchase Annual Caps, will be subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The applicable percentage ratios in respect of the transaction value of products, services and others to be supplied by the Group to the COFCO Group under the 2020 COFCO Mutual Provision Agreement are on an annual basis more than 0.1% but are less than 5%, therefore the relevant Proposed Provision Annual Caps, will be only subject to the reporting and announcement requirements but exempted from the Independent Shareholders' approval requirement under the Listing Rules.

China Foods (Holdings) and its associates will abstain from voting at the SGM in relation to the resolution approving the 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps.

3. The Directors' view

The Directors are of the view that the 2020 COFCO Mutual Provision Agreement should be entered into with the relevant connected person of the Company to govern in order to provide certainty to the terms of the continuing connected transactions contemplated thereunder and to ensure compliance with the Listing Rules.

None of the Directors has a material interest in the continuing connected transactions contemplated under the 2020 COFCO Mutual Provision Agreement, and none of them was required under the Listing Rules to abstain from voting on the respective Board resolutions approving the 2020 COFCO Mutual Provision 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 Ms. Xiao Jianping (being a director of one of the wholly-owned subsidiaries of COFCO) are related to COFCO, for good corporate governance, the non-executive Directors, namely Mr. Chen Lang, Mr. Chen Zhigang, and Ms. Xiao Jianping have abstained from voting on the respective Board resolutions approving the 2020 COFCO Mutual Provision Agreement.

The Directors (including the independent non-executive Directors, after taking into account of the advice from Gram Capital, whose views and opinion are set out separately in this circular) consider that the 2020 COFCO Mutual Provision Agreement was entered into in the ordinary and usual course of business of the Group after arm's length negotiations and on normal commercial terms and, together with the Proposed Purchase Annual Caps, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the opinion that the Proposed Provision Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Having considered that the Company has (1) reporting, approval and, if required, selected verification procedures in place to ensure that the agreed price and the terms of continuing connected transactions are no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties and also compliance with the pricing policy; and (2) procedures and policies for identifying connected persons and monitoring the annual caps of the continuing connected transactions, the Directors are of the view that the internal control procedures of the Company on continuing connected transactions are in place to ensure the continuing connected transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders.

4. General Information on the Parties

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

COFCO is a state-owned company established in the PRC with business interest in agricultural commodities trading, agricultural products processing, food and beverages, hotel management, real estate, logistics and financial services.

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 Zhigang (“**Mr. Chen**”) who was appointed as a non-executive Director on 12 October 2020 will retire and, being eligible, offer himself for election at the SGM.

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.

LETTER FROM THE BOARD

IV. SPECIAL GENERAL MEETING

The SGM will be held for the purposes of considering and, if thought fit, approving (1) by the Independent Shareholders the transactions contemplated under the 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps; and (2) by the Shareholders the election of Mr. Chen as a non-executive Director.

Under Rules 14.36 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) and its associates will abstain from voting on the resolution in relation to the 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps. As of the Latest Practicable Date, based on the knowledge the Company has and after having made all reasonable enquiries by the Company, China Foods (Holdings) and its associates together hold approximately 74.1% of the voting rights of the Company.

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 Thursday, 17 December 2020 at 3:30 p.m. is set out on pages SGM-1 to SGM-3 of this circular for the purpose of considering and, if thought fit, approving the transactions under the 2020 COFCO Mutual Provision Agreement and its relevant annual caps.

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, Thursday, 17 December 2020, the register of members of the Company will be closed from Monday, 14 December 2020 to Thursday, 17 December 2020 (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 Friday, 11 December 2020.

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 authorized 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.

LETTER FROM THE BOARD

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.

V. RECOMMENDATION

- (1) Your attention is drawn to the Letter from the Independent Board Committee set out on page 22 of this circular. The Independent Board Committee, having taken into account the advice of Gram Capital, the text of which is set out on pages 23 to 37 of this circular, consider that the terms of the 2020 COFCO Mutual Provision Agreement and the transactions contemplated thereunder as well as the Proposed Purchase Annual Caps 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 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps. 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 2020 COFCO Mutual Provision 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 Purchase Annual Caps, 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 transactions under the 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps 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
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)

1 December 2020

To the Independent Shareholders of the Company

Dear Sir and Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND
ANNUAL CAPS FOR YEARS 2021/2022/2023**

We have been appointed as the Independent Board Committee to give a recommendation to the Independent Shareholders of the Company in connection with the transactions under the 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps, details of which are set out in the Letter from the Board contained in the circular to the Shareholders of the Company dated 1 December 2020 (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 2020 COFCO Mutual Provision Agreement, and the advice and opinion of Gram Capital in relation thereto as set out on pages 23 to 37 of the Circular, we are of the opinion that the 2020 COFCO Mutual Provision 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 Purchase Annual Caps, are 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 transactions under the 2020 COFCO Mutual Provision Agreement and the Proposed Purchase Annual Caps.

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 GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the purchase of products and services by the Group from COFCO Group under the 2020 COFCO Mutual Provision Agreement for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

1 December 2020

To: *The independent board committee and the independent shareholders of China Foods Limited*

Dear Sir/Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND ANNUAL CAPS FOR YEARS 2021/2022/2023

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the purchase of products and services by the Group from COFCO Group under the 2020 COFCO Mutual Provision Agreement (the “**Purchase Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 1 December 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Company intends to continue the Existing Continuing Connected Transactions and to renew the relevant agreements on or before their respective expiry dates for a term of three years commencing from 1 January 2021 and expiring on 31 December 2023. On 11 November 2020 (after trading hours), the Company entered into the 2020 COFCO Mutual Provision Agreement with COFCO, pursuant to which (a) the COFCO Group shall supply to the Group certain raw materials (including but not limited to sugar, high fructose corn syrup and corn starch) and packaging materials (including but not limited to crown caps and two-piece beverage cans); (b) the Group shall supply to the COFCO Group certain consumer products (including but not limited to sparkling beverages and still beverages) and other products manufactured, owned or resold by the Group and other services incidental to the supply of such product; and (c) the COFCO Group shall provide property leasing and other services to the Group (including but not limited to property management, catering services, warehouse leasing, warehouse storage, logistics, information technology, insurance and other related services) ((a) and (c), collectively, the Purchase Transactions).

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Purchase Transactions constitute continuing connected transactions of the Company and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising Mr. Stephen Edward Clark, Mr. Li Hung Kwan, Alfred and Mr. Mok Wai Bun, Ben (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Purchase Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Purchase Transactions are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Purchase Transactions at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

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

Apart from the advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

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

LETTER FROM GRAM CAPITAL

The 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 the 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 statements therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion (including the 2020 COFCO Mutual Provision Agreement, relevant agreements and invoices of transactions contemplated under the 2017 COFCO Mutual Provision Agreement, information regarding the Company's basis and calculation regarding the Proposed Purchase Annual Caps, and the Company's annual reports for each of the two years ended 31 December 2019 and the interim report for the six months ended 30 June 2020). We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, COFCO or their respective subsidiaries or associates, nor have we considered the taxation implications on the Group or the Shareholders as a result of the Purchase Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of that information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Purchase Transactions, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Purchase Transactions

Information on the Group

With reference to the Board Letter, the Company is an investment holding company. Through its subsidiaries and associated companies, it is principally engaged in the beverage business.

LETTER FROM GRAM CAPITAL

Set out below are the consolidated financial information of the Group for the six months ended 30 June 2020, the six months ended 30 June 2019 and the two years ended 31 December 2019 as extracted from the Company's interim report for the six months ended 30 June 2020 (the "2020 Interim Report") and the annual report for the year ended 31 December 2019 (the "2019 Annual Report"):

	For the year ended 31 December 2019 ("FY2019") (audited) RMB'000	For the year ended 31 December 2018 ("FY2018") (audited) RMB'000	Year-on-year change %
Revenue	17,172,027	15,648,051	9.74
– Sparkling drinks	12,621,050	11,427,782	10.44
– Juices	2,269,742	2,255,625	0.63
– Water	1,507,733	1,319,519	14.26
– Others	773,502	645,125	19.90

The revenue of the Group amounted to approximately RMB17.17 billion for FY2019, representing an increase of approximately 9.74% as compared to that for FY2018. Revenue from the sparkling drinks category amounted to approximately RMB12.62 billion for FY2019, representing an increase of approximately 10.44% as compared to that for FY2018 and contributing approximately 73.50% to the Group's revenue for FY2019.

	For the six months ended 30 June 2020 ("1H2020") (unaudited) RMB'000	For the six months ended 30 June 2019 ("1H2019") (unaudited) RMB'000	Year-on-year change %
Revenue	9,401,153	9,551,038	(1.57)
– Sparkling drinks	7,381,941	7,138,394	3.41
– Juices	1,036,601	1,260,692	(17.78)
– Water	704,915	875,185	(19.46)
– Others	277,696	276,767	0.34

The revenue of the Group amounted to approximately RMB9.40 billion for 1H2020, representing a decrease of approximately 1.57% as compared to that for 1H2019. Despite recording a decrease in total revenue for 1H2020 (as compared to that for 1H2019), the Group recorded revenue from sparkling drinks category of approximately RMB7.38 billion for 1H2020, representing an increase of approximately 3.41% as compared to that for 1H2019 and contributing approximately 78.52% to the Group's revenue for 1H2020.

LETTER FROM GRAM CAPITAL

Information on COFCO

With reference to the Board Letter, COFCO is a state-owned company established in the PRC with business interest in agricultural commodities trading, agricultural products processing, food and beverages, hotel management, real estate, logistics and financial services.

Reasons and benefits for the Purchase Transactions

With reference to the Board Letter, the products and services to be purchased by the Group from the COFCO Group pursuant to the 2020 COFCO Mutual Provision Agreement will be mainly for the production and operations of the Group. As advised by the management of the Company (the “**Management**”), the Purchase Transactions mainly cater for the Group’s purchase of the required materials in the manufacturing of sparkling drinks and the leasing of the Group’s office locations.

As mentioned in the Board Letter, the Company expects that the transactions contemplated under the 2020 COFCO Mutual Provision Agreement will contribute to the business of the Group through providing a stable supply of the raw materials and services required in the Group’s production and operations.

In light of the above, we concur with the Directors that the Purchase Transactions are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group.

2. Principal terms of the Purchase Transactions

Set out below are the principal terms of the 2020 COFCO Mutual Provision Agreement as extracted from the Board Letter:

Date: 11 November 2020

Parties: The Company and COFCO

Term: Three years commencing from 1 January 2021 and expiring on 31 December 2023, renewable upon mutual agreement between the parties subject to compliance by the Company with the relevant requirements under the applicable laws and the Listing Rules

LETTER FROM GRAM CAPITAL

Pursuant to the 2020 COFCO Mutual Provision Agreement (in respect of the Purchase Transactions):

- (a) the COFCO Group shall supply to the Group certain raw materials (including but not limited to sugar, high fructose corn syrup and corn starch) and packaging materials (including but not limited to crown caps and two-piece beverage cans);
- (b) the COFCO Group shall provide property leasing (including but not limited to office premises and warehouses located in Hong Kong and the PRC) and other services to the Group (including but not limited to property management, catering services, warehouse leasing, warehouse storage, logistics, information technology, insurance and other related services);
- (c) the transactions will be made on terms that are no less favourable to the Group as compared with the terms available to the Group from independent third parties;
- (d) either party is free to choose its counterparties in respect of the supply of raw materials, products and services, but if the terms and conditions of the supply of products, services and/or raw materials offered by one party to the other are more favourable than those offered by any independent third party, the other party shall give priority in sourcing supplies from such party;
- (e) the quality of the raw materials/products to be supplied and services to be provided shall be in compliance with the applicable laws and regulations of the PRC;
- (f) the relevant members of COFCO Group and the relevant members of the Group will enter into separate agreements which shall set out the specific scope of provision of products, services and/or raw materials and terms and conditions of providing such products, services and/or raw materials according to the principles laid down by the 2020 COFCO Mutual Provision Agreement and comply with requirements under the Listing Rules; and
- (g) the 2020 COFCO Mutual Provision Agreement is subject to and conditional upon the Company's compliance with the disclosure requirements and (if applicable) the Independent Shareholders' approval under the Listing Rules.

According to the Board Letter, for the supply of certain raw materials, packaging materials, services and other services by the COFCO Group to the Group, the Group shall settle the payment within 30-60 days upon receipt of an invoice from the COFCO Group. The payment terms for the purchase of products and services by the Group from the COFCO Group are made with reference to the payment terms of similar transactions between the COFCO Group and independent third parties.

LETTER FROM GRAM CAPITAL

With reference to the 2019 Annual Report and 2020 Interim Report, the Group's accounts payables are normally settled in one to three months from the invoice date. Accordingly, the payment term of the Purchase Transactions (for the supply of certain raw materials, packaging materials, services and other services by the COFCO Group to the Group) are in line with the Group's normal practice.

According to the Board Letter, with respect to the rental of the leased properties, the Group shall settle the rental payment monthly in advance. The payment terms for the lease of the properties by the Group from the COFCO Group are made with reference to the payment terms of similar transactions between the COFCO Group and independent third parties.

As advised by the Management, the payment terms for the Purchase Transactions (for the lease of the properties by the Group from the COFCO Group) are standard terms set by the landlord (i.e. COFCO Group). Accordingly, the Group and other independent third party tenants are normally subject to the same payment terms for the same property.

With reference to the Board Letter, the price for the mutual supply of products, services and/or raw materials shall be determined with reference to the Prevailing Market Price to each of the parties at the relevant time. Where any material changes in the market result in the fluctuation of the cost of such products or services, the parties shall adjust the pricing through amicable negotiations. In particular, the following pricing policies will be primarily applicable to each different type of transactions for the purchase of products and services by the Group from the COFCO Group:

- In determining the Prevailing Market Price of the raw materials, packaging materials and services to be provided by COFCO Group to the Group, the Group will seek to obtain the Prevailing Market Price through various channels including, among others, (a) comparable transactions with at least three independent third parties during the same period; (b) maintaining regular contacts with and from time to time obtain price quotations through enquires from at least three established suppliers (including COFCO Group and its connected suppliers) through telephone enquiries, email enquiries and meetings with suppliers; and (c) conduct market price research on a daily basis through various independent market data providers such as sugar prices on the Zheng Zhou Commodity Exchange (www.czce.com.cn), corn sugar prices on the Dalian Commodity Exchange (www.dce.com.cn) and aluminum prices on the Shanghai Futures Exchange (www.shfe.com.cn). Based on such market price information on the Prevailing Market Price, the Group will compare and negotiate terms of quotations with these suppliers or service providers after taking into account factors including the lowest price quotations, quality of products and services, technical advantages, ability and capacity in meeting the technical specifications and delivery schedules, qualifications and relevant experience. The contract will be awarded to the suppliers and service providers who offer the best commercial terms and technical terms to the Group after comprehensive assessment;

LETTER FROM GRAM CAPITAL

- For property leasing, the rental shall be determined by the contract parties at the time of entry into the relevant leasing agreements with reference to the prevailing market rent based on (a) at least three quotations obtained for comparable properties in the nearby area; or (b) the rent charged by the COFCO Group to independent third parties of at least three leases in the same or comparable property. The Company will from time to time compare the rental information obtained above to ensure the property leasing provided by the COFCO Group to the Group is on normal commercial terms or better; and
- For warehouse and logistics services, the service fee shall be determined by the contract parties at the time of entry into the relevant service agreements with reference to at least three quotations obtained based on the weight and type of cargo and mode of transport and type of storage space required and the services fees charged by independent third party logistics and warehouse providers. The Company will from time to time compare the services fee information obtained above to ensure the warehouse and logistics services provided by the COFCO Group to the Group is on normal commercial terms or better.

For due diligence purposes, in respect of the purchase of raw materials and packaging materials, we obtained individual invoices regarding the purchase of raw materials and packaging materials (a) by the Group from COFCO Group and (b) by the Group from independent third parties, during 2018 to 2020 (i.e. at least one invoice with COFCO Group and at least one invoice with independent third parties were obtained for each quarter in 2018 and 2019 and for each of the first three quarters in 2020). As the invoices cover historical transactions of the Group throughout the term of the 2017 COFCO Mutual Provision Agreement, we consider such documents to be fair and representative. We noted from the above documents that for the same types of products, the prices offered by COFCO Group to the Group were not higher than those offered by independent third parties.

For due diligence purposes, in respect of the property leasing, we obtained (a) property leasing agreements for the Group's two office locations in Beijing and Hong Kong entered into between the Group and COFCO Group during 2018 to 2020; and (b) information regarding the market rents of comparable properties in the nearby area to the relevant leased properties. We noted from the above documents that the rents per square metre for properties leased by the COFCO Group were within the range of the relevant comparable properties.

In respect of the warehouse and logistics services, we understood that the Group entered into individual agreements with COFCO Group for the logistics of products during 2018 to 2020. As advised by the Management, comparison of the pricing of storage and logistics services for different products is not meaningful given the differences in the nature of products, storage requirements, storage duration and logistic requirements. Before entering into the aforementioned transactions, the Group has made verbal enquiries of at least two other independent third parties to obtain relevant quotations (the terms of which were less favourable than those offered by COFCO Group).

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Company has (1) reporting, approval and, if required, selected verification procedures in place to ensure that the agreed price and terms of continuing connected transactions are no less favourable to the relevant member(s) of the Group than those available to or from (as appropriate) independent third parties and also compliance with the pricing policy; and (2) procedures and policies for identifying connected persons and monitoring the annual caps of the continuing connected transactions. For due diligence purposes, we obtained the internal control measures governing continuing connected transactions of the Group (the “**Measures**”). Pursuant to the Measures, (i) prior to entering into any connected transactions, relevant functional departments should submit agreements to the legal department for vetting; (ii) relevant functional departments should input information of the relevant transactions into the Group’s information system or report to the finance department and record the actual amount of the transactions; (iii) relevant functional departments should provide on a timely basis accurate information on the background, reasons, budgets and related information on the transactions to the company secretary, responsible personnel of the legal department and the Group’s financial controller; and (iv) relevant functional departments should on a monthly basis prepare a report regarding the continuing connected transactions for approval and submission to the Group’s financial controller and company secretary. The Directors also confirmed that auditor of the Company will conduct annual review of the continuing connected transactions entered into by the Group to ensure compliance with the Group’s pricing policies (details are set out in the section headed “Listing Rules implication” below).

The Company’s auditor has been engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Listing Rules, the auditor of the Company, provided a letter to the Board regarding the continuing connected transactions during FY2018 and FY2019 respectively (the “**Auditor’s Letters**”) confirming that: (i) nothing had come to their attention that caused them to believe that the continuing connected transactions had not been approved by the Board; (ii) for transactions involving the provisions of goods or services by the Group, nothing had come to their attention that caused them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing had come to their attention that caused them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each continuing connected transaction, nothing had come to their attention that caused them to believe that such continuing connected transactions had exceeded the annual cap as set by the Company.

LETTER FROM GRAM CAPITAL

In addition, with reference to the Company's annual report for FY2018 and the 2019 Annual Report, the then independent non-executive Directors had reviewed relevant continuing connected transactions of the Company (including the transactions contemplated under the 2017 COFCO Mutual Provision Agreement) during FY2018 and FY2019 and the Auditor's Letters, and confirmed that such continuing connected transactions were (i) entered into in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the terms of respective agreements governing the transactions and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

In light of the above, we are of the view that the terms of the Purchase Transactions are on normal commercial terms and are fair and reasonable.

3. Proposed Purchase Annual Caps

According to the Board Letter, for each of FY2018, FY2019 and the nine months ended 30 September 2020, the aggregate value of raw materials, products, packaging materials supplied, property leasing and the provision of logistics and other related services by the COFCO Group to the Group under the 2017 COFCO Mutual Provision Agreement (the "**Historical Transactions Amount(s)**") were approximately RMB1,114.9 million, RMB1,212 million and RMB863.9 million, respectively. The annual caps in respect of such purchase of products and services by the Group from COFCO Group under the 2017 COFCO Mutual Provision Agreement for FY2018, FY2019 and the year ending 31 December 2020 are RMB2,350 million, RMB2,816 million and RMB3,374 million, respectively.

With reference to the Board Letter, the Proposed Purchase Annual Caps for each of the three years ending 31 December 2021, 2022 and 2023 are RMB3,374 million, RMB4,048.8 million and RMB4,858.56 million respectively. With reference to the Board Letter, in arriving at the above proposed annual caps for the supply of certain raw materials, packaging materials, services and others by the COFCO Group to the Group, the Company has taken into consideration:

- (a) the historical transaction values under the 2017 COFCO Mutual Provision Agreement;
- (b) the expected further growth and development of the beverage business of the Group contributed by the long-term strategy of the Group to continuously increase the production capacity through increasing investment in bottling plants and production lines in the next few years. In particular, a new bottling plant in Guizhou Province, PRC, is expected to commence operation by the end of 2021; and two, one and one new production line(s) will also be put into operation in 2021, 2022 and 2023, respectively. Accordingly, the Group's annual production capacity for sparkling drinks will increase by approximately 10% in 2021;
- (c) the expected annual growth in the production volume of sparkling beverages products of the Group at a rate of approximately 20%;

LETTER FROM GRAM CAPITAL

- (d) the Group intends to further strengthen its control on the quality and safety of food supplies and is satisfied that the COFCO Group has been supplying quality products to the Group during their long-term business relations; hence, the Group has evaluated the maximum possible transaction value of its transactions with the COFCO Group by assuming that a larger quantity of material will be supplied by the COFCO Group when considering the proposed annual caps; and
- (e) the expected increase in the price of raw materials after considering the historical volatility in raw material prices to make allowances for any unexpected price increase.

To assess the fairness and reasonableness of the Proposed Purchase Annual Caps, we enquired into the basis of the Proposed Purchase Annual Caps and obtained relevant calculations regarding the same. We understand that the Proposed Purchase Annual Caps mainly cater for the Group's purchase of raw materials and packaging materials (“**Material Purchase**”) from COFCO Group, and are based on:

- (i) the estimated Material Purchase amount from COFCO Group for the year ending 31 December 2021;
- (ii) an estimated annual growth rate of approximately 20% in the quantity of Material Purchase from COFCO Group during each of the year ending 31 December 2022 and 31 December 2023; and
- (iii) an annual buffer of approximately 33% to cater for (a) the volatility in the price of raw materials and packaging materials, and (b) other types of transactions that are covered under the 2020 COFCO Mutual Provision Agreement.

The estimated Material Purchase amount from COFCO Group for 2021

Based on information provided by the Company, the historical amount of Material Purchase from COFCO Group represented more than 97% of the Historical Transactions Amounts for each of FY2018 and FY2019. In determining the Proposed Purchase Annual Caps for the three years ending 31 December 2023, the Management mainly referred to the estimated Material Purchase amount from COFCO Group.

We noted from the calculation a breakdown of the estimated Material Purchase amount from COFCO Group for the year ending 31 December 2021 (including the quantity required and purchase amount for different kinds of raw materials and packaging materials). As advised by the Management, such amount was estimated with reference to factors including, among others, (i) the estimated Material Purchase amount for the year ending 31 December 2020 (which was based on the historical Material Purchase amount for the nine months ended 30 September 2020 and the expected Material Purchase amount from COFCO Group for the three months ending 31 December 2020 according to the Management's understanding on the Group's purchase plan); (ii) the maximum possible Material Purchase amount with COFCO Group; and (iii) the improvement in production capacity of the Group, in particular, due to the addition of a newly constructed sparkling drinks production plant in Guizhou by 2021.

LETTER FROM GRAM CAPITAL

We noted that the estimated Material Purchase amount from COFCO Group for the year ending 31 December 2021 represents approximately 170% of the estimated Material Purchase amount from COFCO Group for the year ending 31 December 2020. For due diligence purposes, we enquired into the Management of the basis for such increase in estimated Material Purchase amount and considered the following explanations:

Maximum possible Material Purchase amount with COFCO Group

The Historical Transactions Amounts represented utilization rates of approximately 47% and 43% of the historical annual caps for FY2018 and FY2019 respectively. As advised by the Management, the difference between the historical annual caps and the Historical Transactions Amounts was primarily an outcome of the Group's actual operations (in particular, the existing annual caps were determined taking into account the then estimated maximum purchase from COFCO Group, while the Group could also purchase from independent third parties).

As mentioned above, the Group intends to strengthen further its control on the quality and safety of food supplies and is satisfied that the COFCO Group has been supplying quality products to the Group during their long-term business relations; hence, the Group has evaluated the maximum possible transaction value of its transactions with the COFCO Group by assuming that a larger quantify of material will be supplied by the COFCO Group when considering at the proposed annual caps.

As advised by the Management, (a) the historical Material Purchase amount with COFCO Group only represented a portion of the total Material Purchase amount of the Group (that is including those with independent third parties) and (b) such historical total Material Purchase amounts (including both purchase from COFCO Group and independent third parties) are higher than the estimated Material Purchase amount from COFCO Group for the year ending 31 December 2021.

Improvement in production capacity

As advised by the Management, it is the Group's long term strategy to improve continuously its production capacity. The Group's annual production capacity for sparkling drinks is expected to increase by around 10% in 2021.

We also noted from a news release dated 1 April 2020 published on the Company's website that COFCO Coca-Cola (a 65%-owned joint-venture held and operated by the Company) would launch the construction of a production plant in Guizhou with two sparkling drinks production lines. Such production plant is the first production plant of COFCO Coca-Cola in Guizhou province and is expected to commence operation in late 2021. According to the news release, as the Guizhou market continues to develop, COFCO Coca-Cola will increase its investment in the production plant.

LETTER FROM GRAM CAPITAL

Taking into account the above, we do not doubt the Group's estimated Material Purchase amount from COFCO Group (which is an estimated maximum transaction amount with COFCO Group) for the year ending 31 December 2021, and we consider the estimated Material Purchase amount from COFCO Group for the year ending 31 December 2021 to be justifiable.

The estimated annual growth rate of approximately 20% on quantity for Material Purchase for 2022 and 2023

The Management advised us that the 20% annual growth rates cater for the estimated increase in the production of sparkling drinks products of the Group, in particular due to the launch of new products and the continuous improvement of the Group's production capacity.

As mentioned in the section above, the Group recorded a revenue increase from its sparkling drinks category of approximately 10.44% for FY2019 (as compared to that for FY2018) and 3.41% for 1H2020 (as compared to that for 1H2019). With reference to the 2020 Interim Report, the Group will continue to enhance the promotion of new products and upgrade packaging of existing products, and will further explore the synergy effect of regional integration from both sales and supply chain perspectives, striving to achieve a revenue growth higher than the average of the industry.

As mentioned above, it is the Group's long term strategy to improve continuously its production capacity. COFCO Coca-Cola had constructed its first production plant in Guizhou province and will step up investment in the production plant as the Guizhou market continues to develop.

Accordingly, we consider the estimated annual growth rate of approximately 20% in the quantity of Material Purchase during each of the year ending 31 December 2022 and 31 December 2023 to be justifiable.

The annual buffer of approximately 33%

In determining the Proposed Purchase Annual Caps, the Management applied an annual buffer of approximately 33% to cater for (a) the volatility in the price of raw materials and packaging materials, and (b) other types of transactions that are covered under the 2020 COFCO Mutual Provision Agreement.

With reference to the Board Letter, the Group is exposed to the volatility of commodity price movements with sudden price hikes occurring in the past, a clear demonstration of the erratic nature of such price changes. Future commodity price movements are difficult to forecast with a high level of precision, and therefore the annual caps comprise an annual buffer of approximately 33% to cater for the volatility in the price of raw materials, packaging materials and other items subject to the transactions contemplated under the 2020 COFCO Mutual Provision Agreement.

LETTER FROM GRAM CAPITAL

Raw materials and packaging materials price volatility

For due diligence purposes, we examined the prices of the major raw materials for Material Purchase from 2016 until the date of the 2020 COFCO Mutual Provision Agreement, based on information obtained from Wind Financial Terminal. We selected an approximate five-year period to illustrate the volatility of materials prices in recent years. Given that the Purchase Transactions to be contemplated under the 2020 COFCO Mutual Provision Agreement would cover a relatively long term (that is three years commencing from 2021), we consider it is fair and reasonable to take into account the volatility of the prices of materials in recent years.

- (i) During the approximate 5-year period, the international sugar price reached its peak at US\$23.30cents/pound in September 2016 and reached a low of US\$9.42 cents/pound in April 2020. The maximum price represented approximately 2.47 times of the lowest price.
- (ii) During the approximate 5-year period, the international corn price reached its peak at US\$5.98/bushel in June 2019 and reached a low of US\$3.49/bushel in August 2017. The maximum price represented approximately 1.71 times of the lowest price.
- (iii) During the approximate 5-year period, the A00 aluminum price in PRC reached its peak at RMB16,570/ton in September 2017 and reached a low of RMB10,500/ton in February 2016. The maximum price represented approximately 1.58 times of the lowest price.

Other types of transactions covered in the under the 2020 COFCO Mutual Provision Agreement

Apart from the Material Purchase transactions, the Purchase Transactions also include property leasing and other services provided by COFCO Group to the Group (including but not limited to property management, catering services, warehouse leasing, warehouse storage, logistics, information technology, insurance and other related services). In arriving at the Proposed Purchase Annual Caps, the Management took into account the total value of the relevant right-of-use assets recognized according to Hong Kong Financial Reporting Standard 16 relating to the leases and the estimated growth rate of the rental for 2021, 2022 and 2023. Such lease of premises is also considered in the buffer.

Having considered the above, we are of the view that the annual buffer of approximately 33% is justifiable.

In light of the above, we consider the Proposed Purchase Annual Caps to be fair and reasonable.

LETTER FROM GRAM CAPITAL

4. Listing Rules implication

The Directors have confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the value of the Purchase Transactions must be restricted by the Proposed Purchase Annual Caps; (ii) the terms of the Purchase Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Purchase Transactions must be included in the Company's subsequent published annual reports. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Purchase Transactions (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the Purchase Transactions; and (iii) have exceeded the Proposed Purchase Annual Caps. In the event that the total amounts of the Purchase Transactions are anticipated to exceed the respective Proposed Purchase Annual Caps, or that there is any proposed material amendment to the terms of the Purchase Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Purchase Transactions and thus the interest of the Independent Shareholders will be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Purchase Transactions are on normal commercial terms and fair and reasonable; and (ii) the Purchase Transactions are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Purchase Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

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

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 of 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 of 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 of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have since 31 December 2019, 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 of 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 of 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 2019 (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
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As of the Latest Practicable Date, Gram 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 2019 (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

Gram 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 AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal office in Hong Kong at 33/F., COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the SGM:

- (i) the 2020 COFCO Mutual Provision Agreement;
- (ii) the Bye-Laws;
- (iii) the letter from the Independent Board Committee, the text of which is set out on page 22 of this circular;

- (iv) the letter from Gram Capital, the text of which is set out on pages 23 to 37 of this circular;
- (v) the written consent from Gram 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.

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 Hong Kong Institute of Chartered Secretaries.

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 Zhigang
Non-Executive Director

Mr. Chen, 56, was appointed as a non-executive director of the Company in October 2020. Mr. Chen is currently a director of each of COFCO Coca-Cola Beverages Limited and COFCO Coca-Cola Beverages (China) Investment Limited, both of which are 65%-owned subsidiaries of the Company, and the director of the quality and safety management department of COFCO and concurrently a director of each of Shenzhen Qianhai COFCO Development Co., Ltd. and COFCO & Technology Co., Ltd. (both subsidiaries of COFCO). Mr. Chen joined COFCO in 2008 and has held various positions, including the director of the safety production department, the deputy director of the audit and legal risk management department, an audit specialist, and the deputy director of the quality and safety management department and the general manager of safety and environment protection division of the quality and safety management department. Prior to joining COFCO, Mr. Chen has served various positions, including the deputy director of the department of technical and equipment of National Workplace Emergency Management Center, the director of the first division of the department of work safety coordination of The State Administration of Work Safety, the director assistant of the safety science and technology research center and the director of the department of technology development of The State Administration of Work Safety, and the deputy director of the department of advisory of technology development of the safety science and technology research center under The State Economic and Trade Commission of the People's Republic of China.

Mr. Chen graduated from Anhui Normal University with a major in chemistry, and then graduated from Beijing Institute of Technology with a master of science degree in engineering, specializing in energetic materials. Mr. Chen has extensive experience in quality and safety management.

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 of the Latest Practicable Date, pursuant to the relevant letter of appointment, Mr. Chen was appointed for a term of three years commencing from 12 October 2020 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 of the Company unless otherwise shall be determined by the Board based on the recommendation of the Remuneration Committee with reference to the Company's remuneration policy.

As of 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 Thursday, 17 December 2020 at 3:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions:

AS ORDINARY RESOLUTIONS

- (1) “**THAT** (1) the 2020 COFCO Mutual Provision Agreement (as defined in the circular of the Company dated 1 December 2020) (the “Circular”) entered into between the Company and COFCO Corporation (中糧集團有限公司) (“COFCO”) dated 11 November 2020 (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 (a) the purchase of certain raw materials, packaging materials, and certain services by the Group from the COFCO Group; and (b) the provision of certain consumer products and the provision of certain services by the Group to the COFCO Group, and all the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and (2) the following annual caps for the purchase of raw materials, packaging materials, services and others by the Group from the COFCO Group as contemplated under the 2020 COFCO Mutual Provision Agreement be and are hereby approved and confirmed:

Annual caps for the years ending 31 December

2021	2022	2023
	(RMB million)	
3,374	4,048.8	4,858.56

and **THAT** any one or more directors of the Company be and are hereby authorized 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 2020 COFCO Mutual Provision Agreement and the implementation of all the transactions contemplated thereunder.”

NOTICE OF SGM

- (2) To elect Mr. Chen Zhigang as a non-executive Director.

By Order of the Board
China Foods Limited
Chen Lang
Chairman

Beijing, 1 December 2020

Notes:

1. Shareholders are reminded to read carefully details of the 2020 COFCO Mutual Provision Agreement and its relevant annual caps 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 Thursday, 17 December 2020, the register of members of the Company will be closed from Monday, 14 December 2020 to Thursday, 17 December 2020 (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 Friday, 11 December 2020.
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 or at any time after 2:00 p.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.

NOTICE OF SGM

9. In this notice, reference to one gender includes all genders and reference to the singular includes the plural and vice versa.
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 announcement, 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 Ms. Xiao Jianping as non-executive directors; and Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Mok Wai Bun, Ben as independent non-executive directors.