
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Changshouhua Food Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHANGSHOUHUA FOOD COMPANY LIMITED

長壽花食品股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1006)

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



紅日資本有限公司

RED SUN CAPITAL LIMITED

A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 40 of this circular and a letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on page 18 of this circular.

A notice convening the Extraordinary General Meeting (“EGM”) of Changshouhua Food Company Limited (the “Company”) to be held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 25 May 2018 at 10:00 a.m. (or so soon after the conclusion of the annual general meeting of the Company convened to be held on the same date and place at 9:30 a.m.) is set out on pages 48 to 50 of this circular.

Whether or not you intend to attend and/or vote at the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

3 May 2018

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DEFINITIONS

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

“2018 Master Supply Agreement”	the agreement entered into between Shandong Mingda and Corn Industry on 9 February 2018, pursuant to which Shandong Mingda agreed to supply steam and/or electricity to Corn Industry for production and operation for a term of three years ending 31 December 2020
“2018 Sale and Purchase Agreement”	the agreement entered into between Sanxing Grease and Corn Industry on 9 February 2018, pursuant to which Corn Industry agreed to procure from Sanxing Grease and its subsidiaries crude corn oil of quality standard set out in the 2018 Sale and Purchase Agreement for a term of three years ending 31 December 2020
“Agreements”	the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement
“Articles”	the articles of association of the Company adopted on 23 November 2009 and effective from 18 December 2009, and embodied all amendments passed by special resolutions up to 25 May 2012
“Board”	the board of Directors
“close associates”	has the meaning as defined under the Listing Rules
“Company”	Changshouhua Food Company Limited, an exempted company incorporated in the Cayman Islands on 9 September 2009 under the Companies Law with limited liability and the Shares of which are listed on the Stock Exchange
“Corn Industry”	山東三星玉米產業科技有限公司 (Shandong Sanxing Corn Industry Technology Company Limited*), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Director(s)”	director(s) of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 25 May 2018 at 10:00 a.m. (or so soon after the conclusion of the annual general meeting of the Company convened to be held on the same date and place at 9:30 a.m.)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors, namely Mr. Wang Aiguo, Mr. Liu Shusong and Mr. Wang Ruiyuan
“Independent Financial Adviser” or “Red Sun Capital”	Red Sun Capital Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and their proposed respective annual caps
“Independent Shareholders”	any Shareholder other than Shandong Sanxing, Mr. Wang Mingxing and their respective associates
“Independent Third Party(ies)”	person(s) and/or company(ies) who/which is (are) independent of the Company and its connected persons (as defined in the Listing Rules)
“Latest Practicable Date”	25 April 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Master Supply Agreement”	the agreement entered into between Shandong Mingda and Corn Industry on 30 March 2015 which was supplemented by a supplemental agreement dated 6 May 2016, pursuant to which Shandong Mingda agreed to supply steam and/or electricity to Corn Industry for production and operation which was expired on 31 December 2017
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Sale and Purchase Agreement”	the agreement entered into between Sanxing Grease and Corn Industry on 30 March 2015 which was supplemented by two supplemental agreements dated 6 May 2016 and 8 December 2017 respectively, pursuant to which Corn Industry agreed to procure from Sanxing Grease and its subsidiaries crude corn oil of quality standard set out in the Sale and Purchase Agreement which was expired on 31 December 2017
“Sanxing Grease”	鄒平三星油脂工業有限公司 (Zouping Sanxing Grease Industry Company Limited*), a company established in the PRC with limited liability, and is wholly-owned by Shandong Sanxing
“SanXing Trade”	SanXing Trade Co., Ltd., a company established in Mauritius with limited liability, and is wholly-owned by Sanxing Grease
“Shandong”	Shandong Province, the PRC
“Shandong Mingda”	山東明達熱電有限公司 (Shandong Mingda Heat and Electricity Company Limited*), a company established in the PRC with limited liability, and is wholly-owned by Shandong Sanxing
“Shandong Sanxing”	山東三星集團有限公司 (Shandong Sanxing Group Company Limited*), a company incorporated in the PRC with limited liability, which is owned as to 24.4% by Mr. Wang Mingxing, 24.8% by Mr. Wang Mingfeng and 24.4% by Mr. Wang Mingliang, all being executive Directors

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“Share(s)”	ordinary shares 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
“Yantai Wanke”	煙台萬科食品有限公司 (Yantai Wanke Food Company Limited*), a company incorporated in the PRC with limited liability and is wholly-owned by Shandong Sanxing
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

* for identification purpose only

LETTER FROM THE BOARD

CHANGSHOUHUA FOOD COMPANY LIMITED

長壽花食品股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1006)

Executive Directors:

Mr. WANG Mingxing (*Chairman*)

Mr. WANG Mingfeng

Mr. WANG Mingliang

Mr. CHENG Wenming

Mr. HUANG Da

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Independent Non-Executive Directors:

Mr. WANG Aiguo

Mr. WANG Ruiyuan

Mr. LIU Shusong

*Head Office and Principal Place
of Business in Hong Kong:*

Suites 1106-08, 11th Floor

The Chinese Bank Building

61-65 Des Voeux Road Central

Hong Kong

3 May 2018

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the Company's announcement dated 9 February 2018 in respect of the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement.

The purpose of this circular is (i) to provide you with further information in relation to the transactions contemplated under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement; (ii) to set out the opinions and recommendations of the Independent Board Committee and the Independent Financial Adviser; and (iii) to give you notice of the EGM at which ordinary resolutions will be proposed for approval of the transactions under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement and the proposed respective annual caps for the three years ending 31 December 2020.

LETTER FROM THE BOARD

BACKGROUND

Reference is made to the announcements of the Company dated 30 and 31 March 2015, 16 April 2015, 6 May 2016 and 8 December 2017, and the circulars dated 13 May 2015 and 30 June 2016, in relation to the continuing connected transactions under the Master Supply Agreement and the Sale and Purchase Agreement. As the Master Supply Agreement and the Sale and Purchase Agreement have expired on 31 December 2017, Corn Industry entered into the 2018 Master Supply Agreement with Shandong Mingda on 9 February 2018 and the 2018 Sale and Purchase Agreement with Sanxing Grease on 9 February 2018, both for a term of three years commencing with retrospective effect from 1 January 2018 and expiring on 31 December 2020.

CONTINUING CONNECTED TRANSACTIONS

1. 2018 Master Supply Agreement

Date

9 February 2018

Parties

- A. Corn Industry
- B. Shandong Mingda

Supply service

Pursuant to the 2018 Master Supply Agreement, Shandong Mingda agreed to supply steam and/or electricity to Corn Industry for production and operation. Shandong Mingda will give priority to Corn Industry in the supply of steam and/or electricity.

Term

The term of the 2018 Master Supply Agreement is three years commencing with retrospective effect from 1 January 2018 and expiring on 31 December 2020.

Condition

The 2018 Master Supply Agreement is conditional upon the resolution regarding the 2018 Master Supply Agreement (including the annual caps) and the transactions contemplated thereunder being approved by the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

Pricing

Pursuant to the 2018 Master Supply Agreement, the price payable for supply of steam and/or electricity by Shandong Mingda must be fair and reasonable, on normal commercial terms and shall be no less favourable than those offered by Independent Third Parties to Corn Industry. Currently, the price payable for provision of electricity by Shandong Mingda is RMB0.68/KWh, which was agreed by both parties and subject to adjustments by the National Development and Reform Commission (“NDRC”) and the Price Bureau of Shandong Province in accordance with the relevant rules and regulations while taking into account the quotations from other suppliers (all being Independent Third Parties).

The price payable for provision of steam by Shandong Mingda is calculated on the basis of 1.1 times of Shandong Mingda’s production cost. Such pricing mechanism was determined with reference to (i) arm’s length negotiation by the parties by taking into account the prevailing market price; and (ii) the price offered by other nearby Independent Third Party suppliers. In addition, steam is a by-product of the power generation process, the price of which is closely related to the price of coal, raw materials for power generation and steam production.

Payment

The relevant payment for the supply of steam and/or electricity shall be made by Corn Industry on a monthly basis in arrears. Corn Industry shall make payment for each calendar month to Shandong Mingda by wire transfer within seven working days in the immediately following calendar month.

Historical Transactions

The actual transaction amounts for the procurement of steam and/or electricity under the Master Supply Agreement for the three years ended 31 December 2017 were approximately RMB50,561,015, RMB47,800,000 and RMB58,562,774 respectively.

Proposed Annual Caps

From 1 January 2018 and up to the Latest Practicable Date, the transaction amounts for the supply of steam and/or electricity by Shandong Mingda to Corn Industry were approximately RMB21,510,000.

LETTER FROM THE BOARD

Having considered, among others (i) the historical transaction amounts for the supply of steam and/or electricity by Shandong Mingda during the three years ended 31 December 2017; (ii) the increase in production and sales volume of the Group's edible oil products due to the increasing reputation of the Changshouhua brand and the expected increase in the demand for electricity and steam for the production as a result of the above increase; and (iii) the headquarters in Shandong Province of the Group has built a new squeezing production line (the "**New Squeezing Capacity at Headquarters**") in the end of 2017 which has been put into production in January 2018 with a corresponding increase in demand for electricity and steam. The Directors estimate that the annual transaction amounts under the 2018 Master Supply Agreement for the three years ending 31 December 2020 will not exceed the annual caps of RMB90 million respectively.

Internal Control

The Company has specifically designated the manager of energy department to inquire about the price to be paid to Shandong Mingda for electricity and/or steam. In the event that NDRC and the Price Bureau of Shandong Province release new rules and notices relating to the price of electricity, the two parties shall make corresponding adjustments to the price of electricity under the 2018 Master Supply Agreement accordingly.

In addition, special power supply lines and steam pipelines were built for the purpose of electricity and/or steam supply by Shandong Mingda. Shandong Mingda and Corn Industry are both equipped with a recorder to detect the daily status of supply services. The designated personnel shall check the recorder on a monthly basis to confirm the actual usage of electricity and/or steam for that month and subsequently calculate the monthly transaction amount. Should there be no adjustments to the price for electricity and steam, the accounting department will proceed with payment based on current price. Furthermore, being the holding company of both parties, Shandong Sanxing will coordinate to make the cost accounting of Shandong Mingda available to Corn Industry.

Save as being employees of the Company, the employees involved in the above internal control procedures are independent of the Company, Shandong Mingda and their respective connected persons.

LETTER FROM THE BOARD

2. 2018 Sale and Purchase Agreement

Date

9 February 2018

Parties

- A. Corn Industry
- B. Sanxing Grease

Procurement business

Pursuant to the 2018 Sale and Purchase Agreement, Corn Industry and its subsidiaries agreed to procure from Sanxing Grease and its subsidiaries crude corn oil of quality standard set out in the 2018 Sale and Purchase Agreement.

Term

The term of the 2018 Sale and Purchase Agreement is three years commencing with retrospective effect from 1 January 2018 and expiring on 31 December 2020.

Condition

The 2018 Sale and Purchase Agreement is conditional upon the resolution regarding the 2018 Sale and Purchase Agreement (including the annual caps) and the transactions contemplated thereunder being approved by the Independent Shareholders at the EGM.

Pricing

Pursuant to the 2018 Sale and Purchase Agreement, the price payable for procurement of crude corn oil shall be negotiated by the two parties by taking into account the average market price, which is public available and daily updated by professional consulting firms via websites such as www.chem99.com and www.cofeed.com. Such price must be fair and reasonable, on normal commercial terms and shall be no less favourable than those offered by Independent Third Parties to Corn Industry.

Payment

The purchase fee is paid on delivery. Sanxing Grease shall issue value-added invoice to Corn Industry within ten days upon pick up of the goods by Corn Industry.

LETTER FROM THE BOARD

Historical Transactions

The actual transaction amounts for the procurement of crude corn oil under the Sale and Purchase Agreement for the three years ended 31 December 2017 were approximately RMB350,786,686, RMB398,300,000 and RMB347,412,356 respectively.

Proposed annual caps

From 1 January 2018 and up to the Latest Practicable Date, the transaction amounts for the purchase of crude corn oil by Corn Industry from Sanxing Grease and its subsidiaries were approximately RMB52,390,000.

The Directors estimate that the annual purchase fee under the 2018 Sale and Purchase Agreement for the three years ending 31 December 2020 will not exceed the annual caps of RMB350.0 million respectively. Such annual caps were calculated based on the following factors: (i) affected by the 2018 Chinese New Year, the edible corn oil market suffered an off-season effect in February and March 2018 which resulted in the decrease in purchase volume of crude corn oil by Corn Industry during the first quarter of 2018; however, the demand for edible corn oil is expected to rebound subsequently which will lead to an increasing demand for crude corn oil; and (ii) notwithstanding the completion and putting into production of the New Squeezing Capacity at Headquarters, which resulted in the increase of the annual production capacity of crude corn oil to approximately 260,000 tons, the Group still needs to carry out external procurement of crude corn oil of approximately 50,000 tonnes per annum to meet its refinement production demand; (iii) the average price for crude corn oil for the past three years of RMB7,000 per ton.

Internal Control

Corn Industry has designated specialized procurement staff to conduct telephone inquiries on the price of crude corn oil or to make inquiries through the above websites. In addition, the accounting department of Corn Industry will monitor the process of the transactions to be conducted hereunder by strictly calculating and checking the price to ensure such price is subject to the pricing terms of the 2018 Sales and Purchase Agreement.

Save as being employees of the Company, the employees involved in the above internal control procedures are independent of the Company, Sanxing Grease and their respective connected persons.

LETTER FROM THE BOARD

REASONS FOR THE 2018 MASTER SUPPLY AGREEMENT AND 2018 SALE AND PURCHASE AGREEMENT

2018 Master Supply Agreement

Shandong Mingda is primarily engaged in the provision of steam and electricity in the PRC.

Shandong Mingda has been providing steam and electricity to Corn Industry since 2006 and there had been no material disruptions. The prices for electricity and/or steam provided by Shandong Mingda is competitive as compared with other Independent Third Parties and electricity price is lower than the price charged by Shandong provincial state grid. As a result, the production cost of the Group has been maintained at a steady level. The Group can continue to obtain stable electricity and steam supply from Shandong Mingda to ensure the production of the Group's edible oil products and maintain the market competitiveness of the Company.

Given the aforesaid and after taking into account the terms of the 2018 Master Supply Agreement, the Directors (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser, but excluding Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang, executive Directors, who have material interests in the transactions contemplated under the 2018 Master Supply Agreement and have abstained from voting on the relevant Board resolutions) consider that entering into the 2018 Master Supply Agreement is in the interests of the Company and the Shareholders as a whole, and the terms thereof are on normal commercial terms and are fair and reasonable and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company.

2018 Sale and Purchase Agreement

Sanxing Grease is primarily engaged in production and sale of edible oil.

After the New Squeezing Capacity at Headquarters has been put into production, the current squeezing capacity of crude corn oil of the Group's headquarters in Shandong is approximately 260,000 tons per annum and will be maintained at that capacity for the three years ending 31 December 2020 with a lack of approximately 50,000 tons per annum to meet the demand for crude corn oil to be used in the refinement production of edible corn oil products.

LETTER FROM THE BOARD

The purchase volume of the Group of crude oil products from connected persons accounted for approximately 65.67% of the total purchase volume of crude oil products of the Group in 2017. The Group made the strategic decision to purchase crude oil products from Sanxing Grease for its stable supply and high quality. The squeezing techniques of Sanxing Grease meet the quality standard of the Group's refinement production of edible oil products. In addition, the acid value in crude oil will increase if it has been stored longer which will affect the quality of the refined oil product. The geographic location of Sanxing Grease is close to Corn Industry and therefore the crude oil products can be delivered to the Group's refinement factory immediately upon order which guaranteed the quality of the refined oil products. The Company is capable to monitor the production and purchase process to ensure the quality of the crude oil products provided by Sanxing Grease. In contrast, it may be difficult to monitor the quality of crude oil products of other third party suppliers and the Group will face the risk of blend oil mixed with impurities and low quality crude oil, which can hardly be detected by the Group.

Considering the above, and in view of the Group's historical transactions of procurement of crude corn oil from Sanxing Grease under the Sale and Purchase Agreement, the Group, after assessing the production capacity and quality of crude corn oil produced by other suppliers in the market, decided to continue its business with Sanxing Grease for the procurement of crude corn oil to fill the shortfall. The Group believes that the implementation of the above strategy can minimize procurement risks while maximizing production efficiency. The Group can continue to obtain stable supplemental supply of crude corn oil on the base of the New Squeezing Capacity at Headquarters to ensure the refinement production of the Group's edible corn oil products and maintain the market competitiveness of the Company.

Given the aforesaid and after taking into account the terms of the 2018 Sale and Purchase Agreement, the Directors (including the independent non-executive Directors, who have taken into account the advice of the Independent Financial Adviser, but excluding Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang, executive Directors, who are deemed to have material interests in the transactions contemplated under the 2018 Sale and Purchase Agreement and have abstained from voting on the relevant Board resolutions) consider that entering into the 2018 Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole, and the terms thereof are on normal commercial terms and are fair and reasonable and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company.

LETTER FROM THE BOARD

GENERAL

The principal activities of the Group are the production and sale of edible oil, crude oil and corn meal.

Shandong Mingda is a company wholly-owned by Shandong Sanxing, whereas Shandong Sanxing and Sanxing Grease are both controlling Shareholders which are beneficially interested in approximately 52.14% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, Shandong Mingda and Sanxing Grease are connected persons of the Company under Chapter 14A of the Listing Rules. The transactions under the 2018 Master Supply Agreement and 2018 Sale and Purchase Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

Reference is also made to the announcement of the Company dated 8 December 2017 and the circular dated 9 February 2018, in relation to the continuing connected transactions entered into between the Company and Sanxing Grease and Yantai Wanke respectively (the “**New Continuing Connected Transactions**”). As one of the parties to the 2018 Sale and Purchase Agreement is Sanxing Grease, the transactions contemplated under the 2018 Sale and Purchase Agreement should be aggregated with the New Continuing Connected Transactions pursuant to Rule 14A.83 of the Listing Rules. In addition, pursuant to Rule 14A.81 of the Listing Rules, as the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement were entered into by the Company with parties connected with one another and subject matters under each of the Agreements are of similar nature or otherwise related, the continuing connected transactions contemplated under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement should be aggregated and should also be aggregated with the New Continuing Connected Transactions. The New Continuing Connected Transactions were subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules and consequently at the extraordinary general meeting of the Company held on 9 March 2018, the New Connected Transactions have been approved by the Independent Shareholders.

As the aggregate proposed annual caps under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement for each of the three years ending 31 December 2020 are more than HK\$10,000,000 and the applicable ratios calculated thereof are more than 5%, the transactions contemplated under the Agreements and the aggregate proposed annual caps for each of the three years ending 31 December 2020 are subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

After taking into account the actual transaction amounts under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement for the period from 1 January 2018 and up to the Latest Practicable Date as well as the applicable percentage ratios calculated thereof under the Listing Rules, the Directors expect that the aggregate transaction amount payable by the Group to Shandong Mingda and Sanxing Grease under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement will not exceed the de minimis threshold under Chapter 14A of the Listing Rules before the EGM. The Company will strictly monitor to ensure such de minimis threshold would not be exceeded before the EGM.

As executive Directors Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang respectively holds 24.4%, 24.8% and 24.4% of Shandong Sanxing, which is a controlling Shareholder of the Company, Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang are deemed to have material interests in the transactions contemplated under the 2018 Master Supply Agreement and 2018 Sale and Purchase Agreement and they have abstained from voting on the Board resolutions approving the 2018 Master Supply Agreement and 2018 Sale and Purchase Agreement and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Wang Aiguo, Mr. Wang Ruiyuan and Mr. Liu Shusong, has been established to advise the Independent Shareholders, in respect of (i) the transactions under the 2018 Master Supply Agreement and the proposed annual caps; and (ii) the transactions under the 2018 Sale and Purchase Agreement and the proposed annual caps.

No member of the Independent Board Committee has any material interest in the Agreements and the respective proposed annual caps. A letter from the Independent Board Committee is set out on page 18 of this circular.

Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding (i) the transactions under the 2018 Master Supply Agreement and the proposed annual caps; and (ii) the transactions under the 2018 Sale and Purchase Agreement and the proposed annual caps. A letter from the Independent Financial Adviser is set out on pages 19 to 40 of this circular.

LETTER FROM THE BOARD

EXTRAORDINARY GENERAL MEETING

Set out on pages 48 to 50 of this circular is a notice convening the EGM to consider and, if appropriate, to approve the ordinary resolutions relating to the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement and the proposed respective annual caps for the three years ended 31 December 2020.

A form of proxy for use at the EGM is enclosed herewith. Whether or not you are able to attend and/or vote at the EGM in person, you are requested to complete the form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

According to Rule 2.15 of the Listing Rules, any shareholder that has a material interest in the transaction or arrangement shall abstain from voting on the resolution(s) approving the transaction or arrangement at the general meeting. As at the Latest Practicable Date, 573,560,000 Shares were in issue, among which, 290,612,249 Shares (representing approximately 50.67% of the issued Shares) were held by SanXing Trade, which is wholly-owned by Sanxing Grease, which together with Shandong Mingda are wholly-owned by Shandong Sanxing, which in turn is owned as to 24.4% by Mr. Wang Mingxing, 24.8% by Mr. Wang Mingfeng, 24.4% by Mr. Wang Mingliang, all being executive Directors. Pursuant to Rule 2.16 of the Listing Rules, SanXing Trade is deemed to have a material interest in the transactions under the Agreements for being a close associate to the parties to the Agreements.

Mr. Wang Mingxing, except from Shares held through controlled corporations, holds 5,996,000 Shares, representing approximately 1.05% of the issued Shares.

Therefore, SanXing Trade and Mr. Wang Mingxing shall all abstain from voting in favour of the resolutions to approve the transactions contemplated under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement and the proposed respective annual caps at the EGM.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date whereby he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his Shares to a third party, either generally or on a case-by-case basis. Accordingly, to the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, there existed no discrepancy between any Shareholder's beneficial shareholding interest in the Company and the number of Shares in respect of which such Shareholder will control or will be entitled to exercise control over the voting right at the EGM in respect of the resolutions approving the transactions contemplated under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement and the proposed respective annual caps.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 18 May 2018 to Friday, 25 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 17 May 2018.

RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Financial Adviser as set out on pages 19 to 40 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in connection with the transactions under the Agreements and the proposed respective annual caps and the letter from the Independent Board Committee set out on page 18 of this circular which contains its recommendation to the Independent Shareholders in relation to the transactions under the Agreements and the proposed respective annual caps.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Agreements and the proposed respective annual caps are fair and reasonable so far as the Independent Shareholders are concerned and entering into the Agreements is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM for approving the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement and the proposed respective annual caps.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors who have taken into account the advice from the Independent Financial Adviser), having taken into account the advice from the Independent Board Committee, consider the Agreements and the proposed respective annual caps are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM for approving the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement and the proposed respective annual caps.

GENERAL

Your attention is also drawn to the appendix to this circular.

MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

By Order of the Board
Changshouhua Food Company Limited
Wang Mingxing
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

CHANGSHOUHUA FOOD COMPANY LIMITED

長壽花食品股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1006)

3 May 2018

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as the members of the Independent Board Committee to advise the Independent Shareholders in respect of the resolutions to approve the transactions contemplate under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement and the proposed respective annual caps for the three years ending 31 December 2020, the details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 3 May 2018 (the “Circular”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of Red Sun Capital in its capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the terms and conditions of the 2018 Master Supply Agreement and 2018 Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and are in the ordinary and usual course of business of the Company as set out in the “Letter from the Independent Financial Adviser” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by Red Sun Capital in relation thereto as stated in its letter, we consider the terms and conditions of the transactions contemplated under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement to be on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and the transactions contemplated hereunder are in the ordinary and usual course of business of the Company. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the transactions contemplated under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement and the proposed respective annual caps for the three years ending 31 December 2020.

Yours faithfully
Independent Board Committee

Mr. Wang Ruiyuan
*Independent non-executive
Director*

Mr. Wang Aiguo
*Independent non-executive
Director*

Mr. Liu Shusong
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



紅日資本有限公司
RED SUN CAPITAL LIMITED

3 May 2018

*To: The Independent Board Committee and the Independent Shareholders of
Changshouhua Food Company Limited*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 3 May 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the Company’s announcement dated 9 February 2018 in respect of the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement. As the Master Supply Agreement and the Sale and Purchase Agreement have expired on 31 December 2017, Corn Industry entered into (i) the 2018 Master Supply Agreement with Shandong Mingda; and (ii) the 2018 Sale and Purchase Agreement with Sanxing Grease on 9 February 2018, both for a term of three years commencing with retrospective effect from 1 January 2018 and expiring on 31 December 2020.

As Shandong Mingda (the counterparty to the 2018 Master Supply Agreement) is a company wholly-owned by Shandong Sanxing, whereas Shandong Sanxing and Sanxing Grease (the counterparty to the 2018 Sale and Purchase Agreement) are both controlling Shareholders of the Company which are interested in approximately 52.14% of the issued capital of the Company as at the Latest Practicable Date. Accordingly, Shandong Mingda and Sanxing Grease are both connected persons of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Reference is also made to the announcement of the Company dated 8 December 2017 and the circular dated 9 February 2018, in relation to the continuing connected transactions entered into between the Company and Sanxing Grease and Yantai Wanke respectively (the “**New Continuing Connected Transactions**”). As one of the parties to the 2018 Sale and Purchase Agreement is Sanxing Grease, the transactions contemplated under the 2018 Sale and Purchase Agreement should be aggregated with the New Continuing Connected Transactions pursuant to Rule 14A.83 of the Listing Rules.

In addition, pursuant to Rule 14A.81 of the Listing Rules, as the 2018 Master Supply Agreement and the 2018 Sales and Purchase Agreement were entered into by the Company with parties connected with one another and subject matters under each of the agreements are of similar nature or otherwise related, the continuing connected transactions contemplated under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement should be aggregated and should also be aggregated with the New Continuing Connected Transactions.

The New Continuing Connected Transactions were subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules, and consequently at the extraordinary general meeting of the Company held on 9 March 2018, the New Connected Transactions have been approved by the Independent Shareholders.

As the aggregate proposed annual caps under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement for each of the three years ending 31 December 2020 are more than HK\$10,000,000 and the applicable ratios calculated thereof are more than 5%, the transactions contemplated under both Agreements and the aggregate proposed annual caps for each of the three years ending 31 December 2020 are subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

After taking into account the actual transaction amounts under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement for the period from 1 January 2018 and up to the Latest Practicable Date, the Directors expect that the aggregate transaction amount payable by the Group to Shandong Mingda and Sanxing Grease under the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement will not exceed the de minimis threshold under Chapter 14A of the Listing Rules before the EGM. The Company will strictly monitor to ensure such de minimis threshold would not be exceeded before the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Wang Aiguo, Mr. Liu Shusong and Mr. Wang Ruiyuan, all the independent non-executive Directors, has been established to advise the Independent Shareholders, in respect of (i) the transactions under the 2018 Master Supply Agreement and the proposed annual caps; and (ii) the transactions under the 2018 Sale and Purchase Agreement and the proposed annual caps. We, Red Sun Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the financial adviser to the Company or its subsidiaries. Apart from normal professional fees paid or payable to us in connection with (i) the appointment as the Independent Financial Adviser for the continuing connected transactions as stated in the circular of the Company dated on 9 February 2018 and (ii) this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that the aforementioned appointment would not affect our independence, and that we are independent from the Company pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted any independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of (i) the transactions under the 2018 Master Supply Agreement and the proposed annual caps; and (ii) the transactions under the 2018 Sale and Purchase Agreement and the proposed annual caps, we have taken the following principal factors and reasons into consideration:

1. 2018 Master Supply Agreement

Background and reasons for the 2018 Master Supply Agreement

Reference is made to the announcements of the Company dated 9 February 2018 in relation to, among other things, the transactions contemplated under the 2018 Master Supply Agreement.

As stated in the Company's circular dated 13 May 2015, Corn Industry and Shandong Mingda entered into the Master Supply Agreement. As the Master Supply Agreement has expired on 31 December 2017, Corn Industry had entered into the 2018 Master Supply Agreement with Shandong Mingda to continue the continuing connected transactions.

Information of the Group

The principal activities of the Group are the production and sale of edible oil, crude oil and corn meal. Corn Industry is a wholly-owned subsidiary of the Company engaged in the production and sale of edible oil.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Information of Shandong Mingda

Shandong Mingda is a company established in the PRC with limited liability, and is wholly owned by Shandong Sanxing, whereas Shandong Sanxing and Shandong Mingda are both controlling Shareholders of the Company which are interested in approximately 52.14% of the issued share capital of the Company as at the Latest Practicable Date. Shandong Mingda is principally engaged in production of steam and electricity in the PRC.

Reasons for and benefits of the 2018 Master Supply Agreement

We understand that the Group's principal activities are production and sale of edible oil and it is demanding the steam and electricity for production of edible oil. In August 2015, the Company has initially launched a five-year business development plan (2016-2020) (the "**Five-Year Business Development Plan**"). We have reviewed the Five-Year Business Development Plan and noted that the Group aims to increase the sales of own-brand products including own-brand edible oil. Given the Five-Year Business Development Plan, the Group had recorded an increase in sales volume of own-brand edible oil for 2015 and 2016 as compared to respective corresponding period. According to the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**"), the overall sales volume of edible oil increased by approximately 5.5% to 259,892 tons for 2015. According to the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**"), the overall sales volume of edible oil further increased by approximately 11.1% to 288,787 tons for 2016. According to the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**"), the overall sales volume of edible oil increased by 6.9% to 308,731 tons for the year ended 31 December 2017. In addition, as discussed with the management of the Company, we note that Company will further proceed with the Five-Year Business Development Plan and it is anticipated that the production and sales volumes of own-brand edible oil will further increase. Therefore, we consider having stable supply of steam and/or electricity is essential for the Group to meet its increasing production needs.

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As stated in the Letter from the Board, considered that (i) there had been no material disruptions of supply of steam and/or electricity by Shandong Mingda; and (ii) the production cost of the Group has been maintained at a steady level because the prices for electricity and/or steam provided by Shandong Mingda is competitive as compared with other Independent Third Parties and electricity price is lower than the price charged by Shandong provincial state grid, the Directors consider that as the Group can continue to obtain stable electricity and steam supply from Shandong Mingda to ensure the production of the Group's edible oil products and maintain the market competitiveness of the Company.

Given that (i) the Group announced and commenced the implementation of the Five-Year Business Development Plan; (ii) the Group's overall sales volume of edible oil increased for each of the three years ended 31 December 2017; (iii) the Company will further proceed with the Five-Year Business Development Plan and it is anticipated that the production and sales volume of the Group's edible oil will further increase; (iv) the stable supplies of steam and/or electricity are essential to meet the Group's increasing production needs; (v) Shandong Mingda has provided stable steam and/or electricity to the Group since 2006; and (vi) the prices of steam and/or electricity provided by Shandong Mingda are lower than the Independent Third Parties, we concur with the Directors' view that it is fair and reasonable to purchase steam and/or electricity from Shandong Mingda and entering of the 2018 Master Supply Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole, and the terms thereof are on normal commercial terms and fair and reasonable.

Principal terms of the 2018 Master Supply Agreement

Set out below are the extracted terms of the 2018 Master Supply Agreement and details of which are set out in the Letter from the Board:

Date:	9 February 2018
Parties:	Corn Industry Shandong Mingda
Service:	Shandong Mingda shall supply steam and/or electricity to Corn Industry for production and operation. Shandong Mingda will give priority to Corn Industry in the supply of steam and/or electricity
Term:	Three years commencing with retrospective effect from 1 January 2018 and expiring on 31 December 2020 upon fulfilment of the following condition

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Condition: The 2018 Master Supply Agreement is conditional upon the resolution regarding the 2018 Master Supply Agreement (including the annual caps) and the transactions contemplated thereunder being approved by the Independent Shareholders at the EGM

Pricing: The price payable for supply of steam and/or electricity by Shandong Mingda must be fair and reasonable, on normal commercial terms and shall be no less favourable than those offered by Independent Third Parties to Corn Industry

Currently, the price payable for provision of electricity by Shandong Mingda is RMB0.68/KWh, which was agreed by both parties and subject to adjustments by the National Development and Reform Commission (“NDRC”) and the Price Bureau of Shandong Province in accordance with the relevant rules and regulations while taking into account the quotations from other suppliers (all being Independent Third Parties)

The price payable for provision of steam by Shandong Mingda is calculated on the basis of 1.1 times of Shandong Mingda’s production cost. Such pricing mechanism was determined with reference to (i) arm’s length negotiation by the parties by taking into account the prevailing market price; and (ii) the price offered by other nearby Independent Third Party suppliers. In addition, steam is a by-product of the power generation process, the price of which is closely related to the price of coal, raw materials for power generation and steam production

Payment: The relevant payment for the supply of steam and/or electricity shall be made by Corn Industry on a monthly basis in arrears. Corn Industry shall make payment for each calendar month to Shandong Mingda by wire transfer within seven working days in the immediately following calendar month

For further details of the 2018 Master Supply Agreement, please refer to the section headed “Continuing Connected Transactions – 1. 2018 Master Supply Agreement” in the Letter from the Board.

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Pricing policy and internal control procedures relating to the 2018 Master Supply Agreement

Under the 2018 Master Supply Agreement, the price payable for supply of steam and/or electricity by Shandong Mingda must be fair and reasonable, on normal commercial terms and shall be no less favourable than those offered by Independent Third Parties to Corn Industry.

Currently, the price payable for provision of electricity by Shandong Mingda is RMB0.68/KWh, which was agreed by both parties and subject to adjustments by the NDRC and the Price Bureau of Shandong Province in accordance with the relevant rules and regulations while taking into account the quotations from other suppliers (all being Independent Third Parties).

The price payable for provision of steam by Shandong Mingda is calculated on the basis of 1.1 times of Shandong Mingda's production cost. Such pricing mechanism was determined with reference to (i) arm's length negotiation by the parties by taking into account the prevailing market price; and (ii) the price offered by other nearby Independent Third Party suppliers. In addition, steam is a by-product of the power generation process, the price of which is closely related to the price of coal, raw materials for power generation and steam production.

In order to ensure that steam and electricity prices quoted by Shandong Mingda will be no less favourable than those offered by independent suppliers, we understand the Group has adopted the following internal control procedures to ensure that transactions with Shandong Mingda will be conducted in accordance with the pricing policy as set out by the Group:

- (i) The Company has specifically designated the manager of energy department to inquire about the price to be paid to Shandong Mingda for electricity and/or steam. In the event that NDRC and the Price Bureau of Shandong Province release new rules and notices relating to the price of electricity, the two parties shall make corresponding adjustments to the price of electricity under the 2018 Master Supply Agreement accordingly; and

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- (ii) Special power supply lines and steam pipelines were built for the purpose of electricity and/or steam supply by Shandong Mingda. Shandong Mingda and Corn Industry are both equipped with a recorder to detect the daily status of supply services. The designated personnel shall check the recorder on a monthly basis to confirm the actual usage of electricity and/or steam for that month and subsequently calculate the monthly transaction amount. Should there be no adjustments to the price for electricity and steam, the accounting department will proceed with payment based on current price. Furthermore, being the holding company of both parties, Shandong Sanxing will coordinate to make the cost accounting of Shandong Mingda available to Corn Industry.

Save as being an employee of the Company, the employees involved in the above internal control procedures would be independent of the Company, Shandong Mingda and their respective connected persons.

We have obtained and reviewed over 20 invoices relating to the supply of electricity during the year ended 31 December 2017 under the Master Supply Agreement and we noted that the electricity price (including tax) provided by Shandong Mingda to Corn Industry was RMB0.66 per kilowatt-hour during the year ended 31 December 2017 while the electricity price in 2017 as quoted by the Price Bureau of Shandong Province was RMB0.7525 per kilowatt-hour. We noted that the price charged to the Group by Shandong Mingda was lower than the price quoted by the Price Bureau of Shandong Province, which presents a discount of approximately 12.3% to the local government's stipulated electricity prices charged by Shandong provincial state grid.

Regarding to the price payable for the provision of steam, we have obtained and reviewed over 20 invoices relating to the supply of steam during the year ended 31 December 2017 under the Master Supply Agreement and we noted that the steam price (including tax) charged by Shandong Mingda to Corn Industry was RMB110 per ton for the year ended 31 December 2017. As discussed with the management of the Company, considered that purchases of steam from other independent suppliers which is relatively far away from Corn Industry would incur higher costs, we concur with the Directors' view that it is more reasonable to compare the prices provided by Shandong Mingda with those quoted by other independent steam suppliers nearby Corn Industry. Therefore, we have enquired the Company to provide the quotations from other independent steam suppliers nearby Corn Industry for price comparison. However, since there is only one independent steam supplier nearby Corn Industry, we have obtained and reviewed the quotation received by Corn Industry from this one independent steam supplier in the end of 2017 and noted that the prices charged by Shandong Mingda are more favourable than those quoted by the independent steam supplier.

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As electricity price paid by the Group for the past three years was benchmarked against the local government's stipulated electricity prices charged by Shandong provincial state grid and steam prices paid were not less favourable than those quoted by the neighbouring independent electricity company, we are of the view that the Group had followed the terms under the Master Supply Agreement for the years ended 31 December 2017.

As (i) the price payable by Corn Industry to Shandong Mingda for the supply of electricity makes reference to State-prescribed prices published by the relevant government authorities from time to time and will not be higher than the local government stipulated rates whereas the prices for steam will make reference to rates as quoted by at least two neighboring independent electricity companies (if any) and shall not be higher than any of those comparable quotes; and (ii) the above continuing connected transactions will be subject to annual review by the independent non-executive Directors and the Company's auditors in order to confirm those transactions are indeed conducted in accordance with the 2018 Master Supply Agreement and its pricing policy, we concur with the Directors' view that the terms of the Master Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Annual caps for the transaction under the 2018 Master Supply Agreement for the three years ending 31 December 2020

Historical figures and previous Caps

The table below sets out the historical transaction amounts paid by Corn Industry and the historical annual caps for the procurement of steam and/or electricity from Shandong Mingda for the three years ended 31 December 2015, 2016 and 2017, under the Master Supply Agreement.

	For the year ended 31 December		
	2015	2016	2017
	<i>(RMB in thousands)</i>	<i>(RMB in thousands)</i>	<i>(RMB in thousands)</i>
Historical transaction amounts	50,561	47,800	58,563
Historical annual caps	55,700	65,000	75,000

As stated in the Letter form the Board, the transaction amounts for the supply of steam and/or electricity by Shandong Mingda to Corn Industry were approximately RMB21,510,000 from 1 January 2018 up to the Latest Practicable Date.

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Proposed Annual Caps

The table below sets out the proposed annual caps for the three years to 31 December 2018, 2019 and 2020, respectively, under the 2018 Master Supply Agreement.

	For the year ended 31 December		
	2015	2016	2017
	(RMB in thousands)	(RMB in thousands)	(RMB in thousands)
Proposed annual caps	90,000	90,000	90,000

Basis of determining of proposed annual caps

In determining the annual cap amounts for the three years ending 31 December 2020, the Group has assumed (i) there will be no change in electricity price and (ii) steam price stays constant at around RMB110 per ton (current steam price) for the three years ending 31 December 2020. The above cap amounts are calculated based on (i) the historical transaction amounts for the supply of steam and/or electricity by Shandong Mingda during the three years ended 31 December 2017; (ii) the increase in production and sales volume of the Group's edible oil products due to the increasing reputation of the Changshouhua brand and the expected increase in the demand for electricity and steam for the production as a result of the above increase; and (iii) the headquarters in Shandong Province of the Group has built a new squeezing production line (the "New Squeezing Capacity at Headquarters") in the end of 2017 which has been put into production in January 2018 with a corresponding increase in demand for electricity and steam.

Assessment of reasonableness of the proposed annual caps

We have noted that, for the three years ended 31 December 2017, transaction amounts for the procurement of steam and/or electricity under the Master Supply Agreement were approximately RMB50.6 million, RMB47.8 million and RMB58.6 million respectively, representing an average growth rate of approximately 7.6% p.a. in accordance with its production expansion needs. We also noted that the proposed annual caps of RMB90 million represent (i) an estimated increase of approximately 53.6% in 2018 as compared with the actual transaction amount in 2017; and (ii) an estimated average growth rate of approximately 15.4% p.a. for the three years ending 31 December 2020, from RMB58.6 million actual transaction amounts in 2017 to RMB90 million expected transaction amount in 2020.

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As discussed with the management of the Company, we understand that the Company has established a new squeezing production line and which has been put into production since January 2018 and we concur the Directors view that the Group's demand on steam and/or electricity will increase in the coming years due to the New Squeezing Capacity at Headquarters. Therefore, we are of view that proposed annual caps which represent an estimated increase of 53.6% in 2018 is fair and reasonable.

To assess the reasonableness of the above proposed annual caps as contemplated under the 2018 Master Supply Agreement, we have looked at the historical sales volume of own-brand edible oil by the Group and expected future sales of edible oil. As mentioned above, the Company has initially launched a Five-Year Business Development Plan in late 2015 and the overall sales of edible oil increased thereafter. According to the 2015 Annual Report, 2016 Annual Report and 2017 Annual Report, the overall sales volume of edible oil increased by approximately 5.5% to 259,892 tons in 2015, increased by approximately 11.1% to 288,787 tons in 2016 and further increased by approximately 6.9% to 308,731 tons in 2017. Being a long-term business plan with an eye on the future, the Five-Year Business Development Plan will continue to stimulate the sales of edible oil of the Company by way of brand upgrading, product diversification and expanding and optimizing sales network. To meet the increasing sales of edible oil, we concur with the Directors' view that the Group's production volume of edible oil is expected to increase and therefore provides the Group with greater demand for steam and/or electricity to support its refining production.

As far as the price is concerned, we have reviewed the past continuing connected transactions under the Master Supply Agreement and note that (i) the prices of steam charged by Shandong Mingda to Corn Industry remain at RMB110 per ton from July 2016 and up to December 2017; and (ii) the prices of electricity charged by Shandong Mingda to Corn Industry remain at RMB0.66 per kilowatt-hour from July 2016 and up to December 2017. Therefore, we consider using the past steam price of RMB110 per ton and the electricity price of RMB0.66 per kilowatt-hour for determining the proposed annual cap amounts is reasonable.

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Having considered (i) the Group needs to procure the steam and/or electricity for its refining production needs; (ii) the usage of electricity will increase due to a new production line which is built in the end of 2017; (iii) the increasing sales volume of edible oil since the implementation of the Five-Year Business Development Plan and expected increasing trend of future sales of edible oil; and (iv) the Directors' expectation that due to the Company' enhanced strategies in the marketing and promotion of consumer-pack edible oil, the usage of electricity for refining production will increase considerably, we consider the basis for determining the proposed annual cap amounts with respect to the 2018 Master Supply Agreement is fair and reasonable.

Our view

Having considered (i) the Group is required to purchase steam and electricity to satisfy its refining production needs; (ii) the continuing connected transactions under the 2018 Master Supply Agreement are in the Group's ordinary and usual course of business; and (iii) the terms of the continuing connected transactions under that agreement and the basis for determining the proposed cap amounts are fair and reasonable as discussed above, we are of the view that the 2018 Master Supply Agreement and the continuing connected transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole, and each of the proposed caps is fair and reasonable.

2. 2018 Sale and Purchase Agreement

Background and reasons for the 2018 Sale and Purchase Agreement

Reference is made to the announcements of the Company dated 9 February 2018 in relation to, among other things, the transactions contemplated under the 2018 Sale and Purchase Agreement.

As stated in the Company's circular dated 13 May 2015, Corn Industry and Sanxing Grease entered into the Sale and Purchase Agreement. As the Sale and Purchase Agreement has expired on 31 December 2017, Corn Industry had entered into the 2018 Sale and Purchase Agreement with Sanxing Grease to continue the continuing connected transactions.

Information of Sanxing Grease

Sanxing Grease is a company incorporated in the PRC with limited liability, which is wholly-owned by Shandong Sanxing, whereas Shandong Sanxing and Sanxing Grease are both controlling Shareholders of the Company which are interested in approximately 52.14% of the issued share capital of the Company as at the Latest Practicable Date. Sanxing Grease is principally engaged in the production and sale of edible oil.

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Reliance on Connected Persons

As stated in the Letter from the Board, the Group's historical purchase amount of crude oil products from connected persons counted for approximately 65.67% of the Group's total purchase volume of crude oil products in 2017. Since the historical purchase amount of crude oil products by the Group from connected persons represents more than 60% of the Group's total purchase of such products in aggregate, we are of the view that the level of reliance of the Company on connected persons in this relation was high. On the other hand, in view of that (i) Sanxing Grease has stable supply and high quality of crude oil products; (ii) the squeezing techniques of Sanxing Grease meet the high quality standard of the Group's refinement production of edible oil products; (iii) the geographic location of Sanxing Grease is close to Corn Industry and therefore the crude oil products can be delivered to the Group's refinement factory immediately upon order which guaranteed the quality of the refined oil products; and (iv) as both Corn Industry and Sanxing Grease are subsidiaries of Shandong Sanxing, the Company is capable to monitor the production and purchase process to ensure the quality of the crude oil products provided by Sanxing Grease, we are of the view that the high reliance of the Group on connected persons in this relation is justifiable.

Reasons for the 2018 Sale and Purchase Agreement

One of the Group's principal activities are production and sale of edible corn oil. As discussed with the management of the Company, we note that (i) the production of edible corn oil can be broadly categorized in two main processes – squeezing corn kernels into crude corn oil and then refining crude corn oil into edible corn oil and (ii) the Group is involved in both these two production processes. As stated in the Letter from the Board, the current squeezing capacity of the Group is approximately 260,000 tons per annum and will be maintained at that capacity for the three years ending 31 December 2020 with a lack of approximately 50,000 tons per annum to meet the demand for corn oil to be used in the refinement production of edible oil products. Consequently, there is a need for the Group to purchase crude corn oil from other parties.

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In August 2015, the Company has initially launched the Five-Year Business Development Plan. We have reviewed the Five-Year Business Development Plan and noted that the Group aims to increase its sales volume in different types of edible oil including the edible corn oil. Given the Five-Year Business Development Plan, the Group had recorded an increase in sales volume for 2015, 2016 and 2017 as compared to respective corresponding period. According to the 2015 Annual Report, the overall sales volume of own-brand edible oil increased by approximately 5.5% to 259,892 tons for 2015. According to the 2016 Annual Report, the overall sales of edible oil further increased by approximately 11.1% to 288,787 tons for 2016. According to 2017 Annual Report, the overall sales volume of edible oil increased by 6.9% to 308,732 tons for the year ended 31 December 2017. In addition, as discussed with the management of the Company, we note that Company will further proceed with the Five-Year Business Development Plan and it is anticipated that the production and sales volumes of own-brand edible corn oil will further increase. Therefore, we consider the purchases of crude corn oil is essential for the Group to meet its production needs. Furthermore, after the New Squeezing Capacity at Headquarters has been put into production, the current squeezing capacity of the Group's headquarters in Shandong is 260,000 tons per annum and will be maintained at that capacity for the three years ending 31 December 2020 with a lack of 50,000 tons to meet the demand for crude corn oil to be used in the refinement production of edible oil products.

Given that (i) the Group announced and commenced the implementation of the Five-Year Business Development Plan; (ii) the Group's overall sales volume of the edible oil increased for each of the three years ended 31 December 2017; (iii) the Company will further proceed with the Five-Year Business Development Plan and it is anticipated that the production and sales volume of the Group's edible corn oil will further increase; (iv) the supplies of crude corn oil from Sanxing Grease are essential to meet the Group's production needs; and (v) the price of crude corn oil offered by Sanxing Grease is competitive, we concur with the Directors' view that it is fair and reasonable to purchase crude corn oil from Sanxing Grease and entering of the Sale and Purchase Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole, and the terms thereof are on normal commercial terms and fair and reasonable.

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Principal terms of the 2018 Sale and Purchase Agreement

Set out below are the extracted terms of the 2018 Sale and Purchase Agreement and details of which are set out in the Letter from the Board:

Date:	9 February 2018
Parties:	Corn Industry Sanxing Grease
Service:	Sanxing Grease and its subsidiaries shall supply crude corn oil of quality standard set out in the 2018 Sale and Purchase Agreement to Corn Industry and its subsidiaries
Term:	Three years commencing with retrospective effect from 1 January 2018 and expiring on 31 December 2020 upon fulfilment of the following condition
Condition:	The 2018 Sale and Purchase Agreement is conditional upon the resolution regarding the 2018 Sale and Purchase Agreement (including the annual caps) and the transactions contemplated thereunder being approved by the Independent Shareholders at the EGM
Pricing:	The price payable for procurement of crude corn oil shall be negotiated by the two parties by taking into account the average market price, which is public available and daily updated by professional consulting firms via websites such as www.chem99.com and www.cofeed.com . Such price must be fair and reasonable, on normal commercial terms and shall be no less favourable than those offered by Independent Third Parties to Corn Industry
Payment:	The purchase fee is paid on delivery. Sanxing Grease shall issue value-added invoice to Corn Industry within ten days upon pick up of the goods by Corn Industry

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For further details of the 2018 Sale and Purchase Agreement, please refer to the section headed “Continuing Connected Transactions – 2. 2018 Sale and Purchase Agreement” in the Letter from the Board.

Pricing policy and internal control relating to the 2018 Sale and Purchase Agreement

Under the 2018 Sale and Purchase Agreement, the price payable for procurement of crude corn oil shall be negotiated by the two parties by taking into account the average market price. Market prices for crude corn oil products can be found on independent consulting companies’ portals such as Zhuochuang Information Website (卓創資訊)(www.chem99.com) and Tianxia Liangcang Liangyou Siliao Website (天下糧倉糧油飼料網)(www.cofeed.com). Zhuochuang Information Website is established and operated by Sublime China Information Co., Ltd. (“SCI”) and is a well-known data provider for the Chinese commodity market. SCI was established back in 2004. SCI has over 1,500 employees, including over 800 analysts, researchers and consultants. SCI has provided products and services for 1,300,000 clients in over 30 countries. 287 of the Fortune Global 500 are clients of SCI. The Department of Price of the NDRC and SCI have signed the Memorandum of Understanding on Strengthening the Price Monitoring and Early-warning Analysis. The Department of Price of NDRC takes SCI as the national direct reporting site for commodity prices monitoring. Tianxia Liangcang Liangyou Siliao Website (i) is established and operated by Beijing Tianxia Liangchang Technology Limited (北京天下糧昌科技有限公司) since 2002 to provide the information of grains & oil and animal feed industry to commercial enterprises, (ii) is a well-known commodity data provider in PRC and (iii) awarded “The Most Influential Industry Portal (最具影響力行業門戶)” in China’s E-commerce Industry Portal Conference (中國電子商務行業門戶大會) held by seven ministries and commissions of the PRC (including the National Development and Reform Commission and Ministry of Industry and Information Technology) in 2015. These prices from these independent consulting companies’ portals are updated on every business day.

In addition, under the 2018 Sale and Purchase Agreement, such transaction price must be fair and reasonable, on normal commercial terms and shall be no less favourable than those offered by independent suppliers of crude corn oil to Corn Industry.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to ensure that crude corn oil prices quoted by Sanxing Grease will be no less favourable than those offered by independent suppliers, we understand the Group has adopted the following internal control procedures to ensure that transactions with Sanxing Grease will be conducted in accordance with the pricing policy as set out by the Group:

- (i) Corn Industry has designated specialized procurement staff to conduct telephone inquiries on the price of crude corn oil or to make inquiries through the above websites;
- (ii) the accounting department of Corn Industry will monitor the process of the transactions to be conducted hereunder by strictly calculating and checking the price to ensure such price is subject to the pricing terms of the 2018 Sales and Purchase Agreement

Save as being an employee of the Company, the employees involved in the above internal control procedures would be independent of the Company, Sanxing Grease and their respective connected persons.

We have obtained and reviewed over 60 invoices relating to the supply of crude corn oil during the three years ended 31 December 2017 from Sanxing Grease and other independent suppliers for price comparison and noted that the crude corn oil prices charged by Sanxing Grease are not less favourable than other independent suppliers. We have noted that (i) the price payable by Corn Industry to Sanxing Grease under the 2018 Sales and Purchase Agreement makes reference to market prices published by independent consulting companies' portals (such as www.chem999.com and www.cofeed.com) from time to time and will not be less favourable than those quoted by the independent crude corn oil suppliers; (ii) the above continuing connected transactions will be subject to annual review by the independent non-executive Directors and the Company's auditors in order to confirm those transactions are indeed conducted in accordance with the 2018 Sale and Purchase Agreement and its pricing policy. Therefore, we are of the view that the above internal control procedures adopted by the Group is sufficient to ensure transactions with Sanxing Grease will be no less favourable compared to those offered to other independent suppliers.

With the above mentioned internal control procedures to ensure that prices offered by Sanxing Grease are no less favourable than those offered by other independent suppliers, we are of the view that the internal control system currently adopted by the Group is adequate.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Annual caps for the transaction under the 2018 Sale and Purchase Agreement for the three years ending 31 December 2020

Historical figures and previous Caps

The table below sets out the historical transaction amounts paid by Corn Industry and the historical annual caps for the purchase of crude corn oil from Sanxing Grease for the three years ended 31 December 2015, 2016 and 2017, under the 2018 Sale and Purchase Agreement.

	For the year ended 31 December		
	2015	2016	2017
	<i>(RMB in thousands)</i>	<i>(RMB in thousands)</i>	<i>(RMB in thousands)</i>
Historical transaction amounts	350,786	398,300	347,412
Historical annual caps	420,000	525,000	525,000

Historical Transaction Amount

As stated in the Letter form the Board, from 1 January 2018 up to the Latest Practicable Date, the transaction amounts for the purchase of crude corn oil by Corn Industry from Sanxing Grease and its subsidiaries were approximately RMB52,390,000.

Proposed Annual Caps

The Directors currently estimate that the annual purchase fee under the 2018 Sale and Purchase Agreement from Sanxing Grease for the three years ending 31 December 2020 will not exceed RMB350,000,000, RMB350,000,000 and RMB350,000,000 respectively and such amount will serve as the cap amount for each of the three years to 31 December 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Basis of determining of proposed annual caps

The above cap amounts are calculated based on the following factors: (i) affected by the 2018 Chinese New Year, the edible corn oil market suffered an off season effect in February and March 2018 which resulted in the decrease in purchase volume of crude corn oil by Corn Industry during the first quarter of 2018; however, the demand for edible corn oil is expected to rebound subsequently which will lead to an increasing demand for crude corn oil; (ii) notwithstanding the completion and putting into production of the New Squeezing Capacity at Headquarters, which resulted in the increase of the annual production capacity of crude corn oil to approximately 260,000 tons, the Group still needs to carry out external procurement of crude corn oil of approximately 50,000 tons per annum to meet its refinement production demand; and (iii) the average price for crude corn oil for the past three years of RMB7,000 per ton.

Assessment of reasonableness of the proposed annual caps

To assess the reasonableness of the above projected annual purchase volume of crude corn oil by the Company, we have looked at the aggregate historical production volume of crude corn oil and the aggregate historical purchase volume of crude corn oil by the Company. We have noted that for the three years ended 31 December 2017, (i) the aggregate historical production volume of crude corn oil by the Group were 157,881 tons, 205,071 tons and 220,574 tons, respectively; (ii) the aggregate purchases volume of the crude corn oil by the Group were 77,451 tons, 82,973 tons and 60,796 tons, respectively. Thus, the historical production and purchases volume of the crude corn oil by the Group for the three years ended 31 December 2017 was 235,332 tons (157,881 tons+77,451 tons), 288,044 tons (205,071 tons+82,973 tons) and 281,370 tons (220,574 tons+60,796 tons), respectively, representing of approximately 75.9%, 92.9% and 90.8% of the projected maximum annual production and purchase volume of 310,000 tons (equivalent of the annual production capacity of 260,000 tons and the projected maximum annual purchase volume of 50,000 tons). Although the Directors' current projected production and purchases volume together is higher compared to the historical volume for the three years to 31 December 2017, given that, as discussed with the management of the Company, the Company will commence promoting its own-brand edible corn oil in the coming years by introducing spokespersons, advertising campaigns as well as organising marketing events, therefore, we concur with the Directors' view that the sales volume of edible corn oil and the purchases volume of crude corn oil will increase, we consider the Directors' expectation in purchasing 50,000 tons of crude corn oil each year to 2020 is reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group needs to purchase crude corn oil for its refining production needs and we understand the Group will be able to purchase and utilise of approximately 50,000 tons of crude corn oil each year to 2020. Therefore, we are of the view that the cap calculation, on which such expected purchase volume is based, is fair and reasonable.

We note that, from 1 January 2018 up to the Latest Practicable Date, the transaction amount for purchase of crude corn oil from Sanxing Grease was only RMB52.4 million, representing of approximately 15.0% of the projected annual purchases volume of the crude corn oil. As discussed with the management of the Company, we note that the edible corn oil market suffered an off-season effect in February 2018 and in March 2018 due to 2018 Chinese New Year and the sales of edible corn oil is expected to rebound afterwards. We have obtained and reviewed the Group's monthly sales summary of edible corn oil for the three years ended 31 December 2017 and noted that (i) the sales volume of edible corn oil in February and in March were much lower than in other months and (ii) therefore the sales volume of edible corn oil during the first quarter of each year were lower than in other quarters. Therefore, we concur with the Directors' view that the sales of edible corn oil will increase in the coming months in 2018 and we are of the view that the cap calculation, on which such expected purchase volume is based, is fair and reasonable.

Having considered (i) the Group needs to purchase crude corn oil for its refining production needs; (ii) the aggregate historical production and purchases volume of crude corn oil, for each of the three years ended 31 December 2017, represent of approximately 75.9%, 92.9% and 90.8% of the current projected maximum annual production and purchase volume of crude corn oil; (iii) after the New Squeezing Capacity at Headquarters has been put into production, the current squeezing capacity of the Group's headquarters in Shandong is 260,000 tons per annum and will be maintained at that capacity for the three years ending 31 December 2020 with a lack of 50,000 tons to meet the demand for crude corn oil to be used in the refinement production of edible oil products; and (iv) the Directors' expectation that due to the Company' enhanced strategies in the marketing and promotion of consumer-pack edible oil, the purchase volume of the crude corn oil (used for refining production) from Sanxing Grease will increase, we concur with the Directors' view that the cap calculation, on which such expected purchase volume is based, is fair and reasonable.

Our view

Having considered (i) the Group is required to purchase crude corn oil from third parties to satisfy its refining production needs; (ii) the continuing connected transactions under the 2018 Sale and Purchase Agreement are in the Group's ordinary and usual course of business; and (iii) the terms of the continuing connected transactions under that agreement and the basis for determining the proposed cap amounts are fair and reasonable as discussed above, we are of the view that the 2018 Sale and Purchase Agreement and the continuing connected transactions contemplated thereunder are in the ordinary and usual

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

course of business of the Group, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole, and each of the proposed caps is fair and reasonable.

RECOMMENDATIONS

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that the entering of the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement is in the ordinary and usual course of business of the Group, on normal commercial terms (including the proposed annual caps), and on terms thereof which are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the 2018 Master Supply Agreement and the 2018 Sale and Purchase Agreement.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited
Robert Siu **Angel Ip**
Managing Director *Director*

Mr. Robert Siu is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 19 years of experience in corporate finance industry.

Ms. Angel Ip is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 6 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

Substantial Shareholders' Interests in Securities

As at the Latest Practicable Date, to the best knowledge of the Directors and the senior management of the Company, the interests or short positions of every person, other than Directors or chief executive of the Company, in the Shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out as follows:

Name of Shareholder	Nature of Interest	Long position/ Short position	Number of ordinary shares/ underlying shares	Approximate percentage of shareholding in the Company
SanXing Trade	Beneficial owner	Long position	299,037,249 <i>(Note 1)</i>	52.14%
Sanxing Grease	Interest of controlled corporations	Long position	299,037,249 <i>(Note 1)</i>	52.14%
Shangdong Sanxing	Interest of controlled corporations	Long position	299,037,249 <i>(Note 1)</i>	52.14%
Koo Yuen Kim	Beneficial owner	Long position	64,168,881	11.19%
FIL LIMITED	Interest of controlled corporations	Long position	46,065,000 <i>(Note 2)</i>	8.03%

Notes:

1. These include 290,612,249 Shares and 8,425,000 derivative Shares held by SanXing Trade. SanXing Trade is wholly-owned by Sanxing Grease, which is wholly-owned by Shandong Sanxing, which in turn is owned as to 24.4% by Mr. Wang Mingxing, 24.8% by Mr. Wang Mingfeng and 24.4% by Mr. Wang Mingliang. The 8,425,000 derivative Shares were derived from the zero coupon secured exchangeable bond due 2018 (“Exchangeable Bond”) pursuant to the subscription agreement entered into between SanXing Trade and Munsun Financial Investment Fund LP dated 30 April 2015. The relevant details are set out in the announcement made by the Company dated 30 April 2015.
2. These include:
 - (i) 24,381,000 Shares held by FIL Investment Management (Hong Kong) Limited, and 17,934,000 Shares held by FIL Investment Management (Singapore) Limited, both of which are wholly-owned by FIL Asia Holding Pte Limited which in turn is wholly-owned by FIL Limited. Therefore, each of FIL Limited and FIL Asia Holding Pte Limited is deemed to be interested in these 24,381,000 Shares held by FIL Investment Management (Hong Kong) Limited, and 17,934,000 Shares held by FIL Investment Management (Singapore) Limited pursuant to the SFO; and
 - (ii) 3,750,000 Shares held by Fidelity Investments Canada ULC. Fidelity Investments Canada ULC is wholly-owned by FIC Holdings ULC which in turn is wholly-owned by BlueJay Lux 1 S.a.r.l. BlueJay Lux 1 S.a.r.l is wholly-owned by 483A Bay Street Holdings LP which in turn is owned as to 36% by FIL Limited. Therefore, FIL Limited is deemed to be interested in these 3,750,000 Shares held by Fidelity Investments Canada ULC pursuant to the SFO.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at the Latest Practicable Date.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the interest or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), are set out below:

(1) Interests in shares, underlying shares of the Company

Name of Director	Nature of Interest	Long position/ Short Position	Number of Shares/ underlying share	Approximate percentage of shareholding in the Company
Mr. Wang Mingxing	Interest of controlled corporations	Long position	299,037,249 (Note)	52.14%
	Beneficial owner	Long position	5,996,000	1.05%
Mr. Wang Mingfeng	Interest of controlled corporations	Long position	299,037,249 (Note)	52.14%
Mr. Wang Mingliang	Interest of controlled corporations	Long position	299,037,249 (Note)	52.14%

Note: Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang are deemed to be interested in 290,612,249 Shares and 8,425,000 derivative Shares held by SanXing Trade, whereby SanXing Trade is wholly-owned by Sanxing Grease, which is wholly-owned by Shandong Sanxing, which in turn is owned as to 24.4% by Mr. Wang Mingxing, 24.8% by Mr. Wang Mingfeng, and 24.4% by Mr. Wang Mingliang. The 8,425,000 derivative Shares were derived from the Exchangeable Bond.

(2) Interests in associated corporations

Name of Director	Name of associated corporation	Nature of interest	Long position/ Short position	Approximate percentage of shareholding in the Company
Mr. Wang Mingxing	Shandong Sanxing	Beneficial owner	Long position	24.4%
	Sanxing Grease	Interest of controlled corporations	Long position	24.4%
	SanXing Trade	Interest of controlled corporations	Long position	24.4%
Mr. Wang Mingfeng	Shandong Sanxing	Beneficial owner	Long position	24.8%
	Sanxing Grease	Interest of controlled corporations	Long position	24.8%
	Sanxing Trade	Interest of controlled corporations	Long position	24.8%
Mr. Wang Mingliang	Shandong Sanxing	Beneficial owner	Long position	24.4%
	Sanxing Grease	Interest of controlled corporations	Long position	24.4%
	SanXing Trade	Interest of controlled corporations	Long position	24.4%

Save as disclosed above, none of the Directors or chief executive of the Company or their respective close associates, had any interest in short position in the shares, underlying shares or debentures of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code as at the Latest Practicable Date.

3. COMPETING INTERESTS

As at the Latest Practicable Date, the Directors were not aware that any of the Directors and their respective close associates has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has not been any material adverse change in the financial or trading position of the Company since 31 December 2017 being the date of the latest published audited financial statements of the Company.

5. LITIGATION

As at the Latest Practicable Date, none of the Company or any of its subsidiaries has received notice of any litigation or arbitration proceedings pending or threatened against the Company or any of the subsidiaries of the Company.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into or proposed to enter into any service contract with the Company or any of its subsidiaries which will not expire or may not be terminated by the Group within one (1) year without the payment of compensation other than statutory compensation.

7. DIRECTORS' INTEREST IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors of the Company had any interest in any assets which have been since 31 December 2017 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, save for the Agreements as well as those disclosed below, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

- (1) Corn Industry entered into a sale and purchase agreement (the "Crude Sunflower Seed Oil SP Agreement") with Sanxing Grease on 8 December 2017 in relation to the provision of crude sunflower seed oil by Sanxing Grease and its subsidiaries to Corn Industry for a term of three years from 1 January 2018 to 31 December 2020, with the annual transaction caps for each of these three years of RMB400,000,000, RMB500,000,000 and RMB600,000,000 respectively. Please refer to the circular of the Company dated 9 February 2018 for further details.

- (2) Corn Industry entered into a processing agreement (the “Processing Agreement”) with Yantai Wanke on 8 December 2017 pursuant to which Yantai Wanke shall be commissioned by Corn Industry to process and produce packaged soy sauce and soybean paste for a term of three years from 1 January 2018 to 31 December 2020, with the annual transaction caps for each of these three years of RMB68,000,000 respectively. Please refer to the circular of the Company dated 9 February 2018 for further details.

8. EXPERT

- (a) The following is the qualification of Red Sun Capital, which has given its opinion or advice which is contained in this circular:

Name	Qualification
Red Sun Capital Limited	a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the Latest Practicable Date, Red Sun Capital did not have any shareholding, direct or indirect, in the Company or any other member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the other member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since 31 December 2017, being the date up to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.

Red Sun Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

9. MISCELLANEOUS

- (a) The company secretary of the Company is Ms. Chan Yuen Ying, Stella who is a fellow member of the Institute of Chartered Secretaries and Administrators and a fellow member of the Hong Kong Institute of Chartered Secretaries.
- (b) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principle place of business of the Company in Hong Kong is located at Suites 1106-08, 11th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

10. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the principle place of business in Hong Kong of the Company at Suites 1106-08, 11th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong during normal business hours on any business day for a period of 14 days from the date of this circular:

- (a) this circular;
- (b) the Articles;
- (c) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out in this circular;
- (e) the written consent of Red Sun Capital referred to in the paragraph headed “Expert” above;
- (f) the 2018 Master Supply Agreement;
- (g) the 2018 Sale and Purchase Agreement;
- (h) the Crude Sunflower Seed Oil SP Agreement;
- (i) the Processing Agreement; and
- (j) the 2017 Annual Report of the Company.

NOTICE OF EXTRAORDINARY GENERAL MEETING

CHANGSHOUHUA FOOD COMPANY LIMITED

長壽花食品股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1006)

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting (the “EGM”) of Changshouhua Food Company Limited (the “Company”) will be held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 25 May 2018 at 10:00 a.m. (or so soon after the conclusion of the annual general meeting of the Company convened to be held on the same date and place at 9:30 a.m.) for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

1. **“THAT:**

- (a) the agreement dated 9 February 2018 (the “2018 Master Supply Agreement”) entered into between 山東三星玉米產業科技有限公司 (Shandong Sanxing Corn Industry Technology Company Limited*) (“Corn Industry”), a wholly-owned subsidiary of the Company, and 山東明達熱電有限公司 (Shandong Mingda Heat and Electricity Company Limited*) (“Shandong Mingda”), a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose, pursuant to which Shandong Mingda agreed to supply steam and/or electricity to Corn Industry for production and operation be and is hereby approved, confirmed and ratified;
- (b) the annual caps under the 2018 Master Supply Agreement as set out in the circular of the Company dated 3 May 2018 (the “Circular”) for the three years ending 31 December 2020 be and are hereby approved and confirmed; and
- (c) any one director of the Company be and is hereby authorised to do all such acts or things and sign all documents deemed necessary by him to be incidental to, ancillary to or in connection with the matters contemplated under the 2018 Master Supply Agreement.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “THAT:

- (a) the agreement dated 9 February 2018 (the “2018 Sale and Purchase Agreement”) entered into between Corn Industry and 鄒平三星油脂工業有限公司 (Zouping Sanxing Grease Industry Company Limited*) (“Sanxing Grease”), a copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purpose, pursuant to which Corn Industry agreed to procure from Sanxing Grease and its subsidiaries crude corn oil of quality standard set out in the 2018 Sale and Purchase Agreement be and is hereby approved, confirmed and ratified;
- (b) the annual caps under the 2018 Sale and Purchase Agreement as set out in the Circular for the three years ending 31 December 2020 be and are hereby approved and confirmed; and
- (c) any one director of the Company be and is hereby authorised to do all such acts or things and sign all documents deemed necessary by him to be incidental to, ancillary to or in connection with the matters contemplated under the 2018 Sale and Purchase Agreement.”

By Order of the Board
Changshouhua Food Company Limited
Chan Yuen Ying, Stella
Company Secretary

Hong Kong, 3 May 2018

* *for identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A member of the Company entitled to attend and vote at the EGM is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose, seniority will be determined by the order in which names stand in the register of members.
3. In order to be valid, the form of proxy must be signed under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours before the time fixed for the holding of the EGM.
4. For determining the identity of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 18 May 2018 to Friday, 25 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 17 May 2018.
5. As at the date of this notice, the board of directors of the Company consists of eight directors, five of whom are executive directors, namely Mr. Wang Mingxing, Mr. Wang Mingfeng, Mr. Wang Mingliang, Mr. Cheng Wenming and Mr. Huang Da, and three of whom are independent non-executive directors, namely, Mr. Wang Aiguo, Mr. Wang Ruiyuan and Mr. Liu Shusong.