
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of the Proposal, this Scheme Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a 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 Scheme Document and the accompanying forms of proxy to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This Scheme Document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of SanXing Trade Co., Ltd. or Changshouhua Food Company Limited.

SANXING TRADE CO., LTD.

(Incorporated in Mauritius with limited liability)

CHANGSHOUHUA FOOD COMPANY LIMITED

長壽花食品股份有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1006)

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHANGSHOUHUA FOOD COMPANY LIMITED
BY SANXING TRADE CO., LTD.
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHANGSHOUHUA FOOD COMPANY LIMITED**

Financial Adviser to the Offeror



Independent Financial Adviser to the Independent Board Committee



Unless the context otherwise requires, capitalised terms used in this Scheme Document (including this cover page) are defined in the section headed “Definitions” in Part I of this Scheme Document.

A letter from the Board is set out in Part IV of this Scheme Document. A letter from the Independent Board Committee containing its advice to the Independent Shareholders in relation to the Proposal is set out in Part V of this Scheme Document. A letter from Somerley, being the Independent Financial Adviser, containing its advice to the Independent Board Committee in relation to the Proposal is set out in Part VI of this Scheme Document. An Explanatory Memorandum regarding the Scheme is set out in Part VII of this Scheme Document.

The actions to be taken by the Shareholders are set out in Part II of this Scheme Document.

Notices convening the Court Meeting to be held at 10:00 a.m. on Thursday, 19 November 2020 and the Extraordinary General Meeting to be held at 10:30 a.m. (or, if later, immediately after the conclusion or adjournment of the Court Meeting) on Thursday, 19 November 2020 are set out in Appendix IV and Appendix V to this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the Extraordinary General Meeting or any adjournment thereof in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed thereon and to lodge them at the office of the Share Registrar at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event no later than the respective times and dates as stated under Part II — Actions to be taken of this Scheme Document. Completion and return of the forms of proxy for Court Meeting and/or the Extraordinary General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your forms of proxy, the returned forms of proxy will be revoked by operation of law.

This Scheme Document is issued jointly by SanXing Trade Co., Ltd. and Changshouhua Food Company Limited.

The English language text of this Scheme Document shall prevail over the Chinese version for the purpose of interpretation.

27 October 2020

NOTICE TO US INVESTORS

The Proposal is being made to cancel the securities of a company incorporated in the Cayman Islands by means of a scheme of arrangement provided for under the Companies Law and is subject to Cayman Islands and Hong Kong disclosure requirements, which are different from those of the United States. The financial information included in the relevant documentation, including this Scheme Document, has been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Securities Exchange Act of 1934, as amended. Accordingly, the Proposal is subject to the disclosure requirements and practices applicable in Cayman Islands to schemes of arrangement, which differ from the disclosure requirements of the US tender offer rules.

The receipt of cash pursuant to the Proposal by a US holder of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Proposal may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of Scheme Shares is urged to consult his/her/its independent professional adviser immediately regarding the tax consequences of the Proposal applicable to him/her/it.

US holders of Scheme Shares may encounter difficulty enforcing their rights and any claims arising out of the US federal securities laws, as the Offeror and the Company are located in a country outside the United States and some or all of their officers and directors may be residents of a country other than the United States. US holders of Scheme Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, US holders of Scheme Shares may encounter difficulty compelling a non-US company and its affiliates to subject themselves to a US court's judgement.

SPECIAL ARRANGEMENTS FOR THE COURT MEETING AND THE EXTRAORDINARY GENERAL MEETING

Taking into account the recent development of the epidemic caused by coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the Court Meeting and the Extraordinary General Meeting to protect Shareholders from the risk of infection:

- (a) compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;
- (b) every attending Shareholder or proxy is required to wear a surgical mask throughout the Court Meeting and the Extraordinary General Meeting; and
- (c) no refreshments will be served at the Court Meeting and/or the Extraordinary General Meeting. Furthermore, the Company wishes to advise all of the Shareholders, particularly any Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the Court Meeting and/or the Extraordinary General Meeting as a proxy to attend and vote on any of the resolutions, instead of attending the Court Meeting and/or the Extraordinary General Meeting in person. The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the HKSAR government, and if necessary will make further announcement(s) in case of any update regarding the precautionary measures to be implemented at the Court Meeting and/or the Extraordinary General Meeting.

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In this Scheme Document, the following expressions have the meanings set out below, unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code and “concert party” shall be construed accordingly
“Announcement”	the announcement dated 7 September 2020 issued jointly by the Offeror and the Company in relation to the Proposal
“Announcement Date”	7 September 2020, being the date of the Announcement
“associate”	has the meaning ascribed to it in the Takeovers Code
“Beneficial Owner(s)”	beneficial owner(s) of the Shares registered in the name of a Registered Owner(s)
“Board”	the board of Directors
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“Cancellation Price”	the cancellation price of HK\$4.19 per Scheme Share payable in cash pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a person admitted to participate in CCASS as a participant, including a CCASS Investor Participant
“China Cinda”	China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司), a joint stock company incorporated in the PRC with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1359)
“CICC”	China International Capital Corporation Hong Kong Securities Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Offeror in relation to the Proposal

“Cinda Capital”	Cinda Capital Management Co., Ltd (信達資本管理有限公司), an indirect wholly-owned subsidiary of China Cinda
“Cinda Fund”	Tianjin Changshou Xinzhi Equity Investment Partnership Fund (Limited Partnership) (天津長壽信智股權投資基金合夥企業(有限合夥))
“Cinda Group”	China Cinda and its subsidiaries and associated companies (including Cinda Fund)
“Company”	Changshouhua Food Company Limited, an exempted company incorporated in Cayman Islands with limited liability whose Shares are listed on the Main Board of the Stock Exchange (stock code: 1006)
“Companies Law”	the Companies Law (2020 Revision) of the Cayman Islands
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed “4. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Memorandum of this Scheme Document
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Grand Court at 10:00 a.m. on Thursday, 19 November 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong, at which the Scheme (with or without modification) will be voted upon, notice of which is set out in Appendix IV to this Scheme Document, or any adjournment thereof
“Director(s)”	the director(s) of the Company
“Effective Date”	the date on which the Scheme becomes effective in accordance with the Companies Law and which date will, in any event, be no later than the Long Stop Date
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate thereof
“exempt fund managers”	has the meaning ascribed to it in the Takeovers Code
“exempt principal traders”	has the meaning ascribed to it in the Takeovers Code
“Explanatory Memorandum”	the explanatory memorandum set out in Part VII of this Scheme Document

“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at 10:30 a.m. (or, if later, immediately after the conclusion or adjournment of the Court Meeting) on Thursday, 19 November 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong, notice of which is set out in Appendix V to this Scheme Document, or any adjournment thereof
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising Mr. Wang Aiguo, Mr. Wang Ruiyuan and Mr. Liu Shusong, established by the Board to make a recommendation to the Independent Shareholders in respect of the Proposal and the Scheme
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out 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 in connection with the Proposal
“Independent Shareholder(s)”	Shareholder(s) other than the Offeror and the Offeror Concert Parties (except in respect of the holding of Shares by the CICC group in the capacity of an exempt principal trader or exempt fund manager for the purposes of the Takeovers Code and excluding Shares held by the CICC group for and on behalf of its non-discretionary investment clients)
“Irrevocable Undertaking”	the irrevocable undertaking given by the IU Shareholder in favour of the Offeror dated 28 September 2020 in respect of an aggregate of 64,168,881 Shares
“IU Shareholder”	Koo Yuen Kim

“Last Trading Day”	2 September 2020, being the last trading day of Shares immediately before the suspension of trading in the Shares pending issuance of the Announcement
“Latest Practicable Date”	23 October 2020, being the latest practicable date for ascertaining certain information contained in this Scheme Document
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	15 January 2021
“Meeting Record Date”	Thursday, 19 November 2020, or such other date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of the Scheme Shareholders to attend and vote at the Court Meeting and the entitlement of Shareholders to attend and vote at the Extraordinary General Meeting
“Offeror”	SanXing Trade Co., Ltd., a company incorporated in Mauritius with limited liability and a wholly-owned subsidiary of Sanxing Grease
“Offeror Concert Party(ies)”	party(ies) acting in concert or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code, which include Mr. Wang Mingxing, Mr. Wang Mingfeng, Mr. Wang Mingliang, Cinda Group and CICC (except in the capacity of an exempt principal trader or exempt fund manager for the purpose of the Takeovers Code and excluding Shares held by the CICC group on behalf of non-discretionary investment clients)
“PRC”	the People’s Republic of China (for the purpose of this Scheme Document, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Proposal”	the proposed privatisation of the Company by the Offeror to be effected by way of the Scheme pursuant to Section 86 of the Companies Law
“Registered Owner(s)”	holder(s) of Shares (including without limitation a nominee, trustee, depository or any other authorised custodian or third party) whose name is entered in the register of members of the Company as a holder of Shares
“RMB”	Renminbi, the lawful currency of the PRC

“Sanxing LP”	Tianjin Changshou Xinnuo Investment Limited Partnership (天津長壽信諾投資合夥企業(有限合夥))
“Sanxing Grease”	Zouping Sanxing Grease Industry Company Limited (鄒平三星油脂工業有限公司), a company incorporated in the PRC which wholly owns the Offeror
“Sanxing Group”	Shandong Sanxing and its subsidiaries
“Shandong Sanxing”	Shandong Sanxing Group Company Limited (山東三星集團有限公司), a company incorporated in the PRC
“Scheme”	a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of all the Scheme Shares and the maintenance of the share capital of the Company at the amount immediately before the cancellation of the Scheme Shares
“Scheme Document”	this composite scheme document, including each of the letters, statements, memorandum, appendices and notices in it
“Scheme Record Date”	Thursday, 3 December 2020, or such other date as shall have been announced to the Shareholders, being the record date for the purpose determining the entitlements of the Scheme Shareholders under the Scheme
“Scheme Shareholder(s)”	the registered holder(s) of Scheme Shares
“Scheme Share(s)”	Share(s) in issue on the Scheme Record Date held by the Shareholders, other than those directly or indirectly held by the Offeror
“Securities and Futures Commission”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Share Registrar”	Tricor Investor Services Limited, the Company’s branch share registrar and transfer office in Hong Kong
“Shareholder(s)”	registered holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Takeovers Code”	the Code on Takeovers and Mergers in Hong Kong
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“United States” or “US”	the United States of America, its territories and possessions, any State of the United States and the District of Columbia

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified.

ACTIONS TO BE TAKEN BY SHAREHOLDERS

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and the entitlements of the Shareholders to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Monday, 16 November 2020 to Thursday, 19 November 2020 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 13 November 2020.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the Extraordinary General Meeting are enclosed with this Scheme Document. Subsequent purchasers of Scheme Shares will need to obtain the relevant proxy form from the transferor if any such purchaser wishes to attend or vote at the Court Meeting and/or the Extraordinary General Meeting.

Whether or not you are able to attend the Court Meeting and/or the Extraordinary General Meeting or any adjournment thereof in person, if you are a Scheme Shareholder, we strongly urge you to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed thereon, and to lodge them at the office of the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. **The pink form of proxy for use at the Court Meeting should be lodged no later than 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof although it may be handed to the chairman of the Court Meeting at the Court Meeting. The white form of proxy for use at the Extraordinary General Meeting must be lodged no later than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof in order to be accepted.** The completion and return of a form of proxy for the Court Meeting and/or the Extraordinary General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof. In such event, the returned form of proxy will be revoked by operation of law.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the Extraordinary General Meeting, you will still be bound by the outcome of the Court Meeting and the Extraordinary General Meeting if, among other things, the resolutions are passed by the requisite majorities of the Scheme Shareholders, Independent Shareholders or Shareholders (as the case may be). We therefore strongly urge you to attend and vote at the Court Meeting and the Extraordinary General Meeting in person or by proxy.

Voting at the Court Meeting and the Extraordinary General Meeting will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the Extraordinary General Meeting by no later than 7:00 p.m. on Thursday, 19 November 2020. If all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition to sanction the Scheme by the Grand Court and, if the Scheme is sanctioned,

the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD THROUGH TRUST OR DEPOSITED IN CASS

The Company will not recognise any person as holding any Shares through any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees), you should contact the Registered Owner and provide the Registered Owner with instructions and/or make arrangements with the Registered Owner in relation to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the Extraordinary General Meeting. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the Extraordinary General Meeting set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete the Registered Owner's proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the Extraordinary General Meeting, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the Extraordinary General Meeting personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the Extraordinary General Meeting and, for such purpose, the Registered Owner may appoint you as their proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into your own name.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the Extraordinary General Meeting shall be in accordance with all relevant provisions in the articles of association of the Company.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the Extraordinary General Meeting will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof. In the event that the Registered Owner attends and votes at the relevant meeting or any adjournment thereof after having lodged his forms of proxy, the returned form of proxy will be revoked by operation of law.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are a CCASS Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with other CCASS Participants, regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the Extraordinary General Meeting in respect of the Scheme. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the Extraordinary General Meeting set by them, in order to provide such person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the Extraordinary General Meeting. The procedure for voting in respect of the Scheme by HKSCC Nominees with respect to the Shares registered under the name of HKSCC Nominees shall be in accordance with the “*General Rules of CCASS*” and the “*CCASS Operational Procedures*” in effect from time to time.

HKSCC Nominees may also vote for and against the Scheme in accordance with instructions received from CCASS Participants.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are a Scheme Shareholder) and the Extraordinary General Meeting (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and the Extraordinary General Meeting, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

Only Scheme Shareholders whose Shares are registered in their own names in the register of members of the Company on the Meeting Record Date will be counted as Scheme Shareholders for the purpose of calculating whether or not a majority in number of Scheme Shareholders have approved the Scheme at the Court Meeting under Section 86 of the Companies Law. HKSCC Nominees is the Registered Owner in respect of all shares held in CCASS and will be counted as one Scheme Shareholder for the purpose of calculating whether or not a majority in number of Scheme Shareholders have approved the Scheme at the Court Meeting under Section 86 of the Companies Law. Beneficial Owners who wish to individually vote or be counted for the purpose of ascertaining whether a majority in number of Scheme Shareholders have approved the Scheme purposes should make arrangements to withdraw their Scheme Shares (or a board lot) from CCASS and become registered as a member of the Company in their own name prior to the Meeting Record Date.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE OFFEROR AND THE COMPANY STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE GENERAL MEETING.

IF YOU WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE “MAJORITY IN NUMBER” REQUIREMENT AT THE COURT MEETING, YOU SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF YOUR SHARES. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAM, THE OFFEROR AND THE COMPANY URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, THE OFFEROR AND THE COMPANY ENCOURAGE YOU TO PROVIDE HKSCC NOMINEES WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR AT THE GENERAL MEETING WITHOUT DELAY AND/OR WITHDRAWN FROM CCASS AND TRANSFERRED INTO YOUR NAME (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN – ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD THROUGH TRUST OR DEPOSITED IN CCASS” ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE SHOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE. YOU SHOULD ALSO REMIND THE RELEVANT BENEFICIAL OWNERS THAT IF THEY WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE “MAJORITY IN NUMBER” REQUIREMENT AT THE COURT MEETING, THEY SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF THEIR SHARES.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISOR.

PETITION HEARING IN THE GRAND COURT

SCHEME SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SCHEME SHARES WHO GAVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE WHICH SUBSEQUENTLY VOTED AT THE COURT MEETING) ARE ENTITLED TO APPEAR BEFORE OR BE REPRESENTED AT THE HEARING OF THE PETITION IN THE GRAND COURT WHICH IS EXPECTED TO BE ON MONDAY, 30 NOVEMBER 2020 AT WHICH THE COMPANY WILL SEEK THE SANCTION OF THE SCHEME.

**Hong Kong Time
unless indicated otherwise**

Date of despatch of this Scheme Document	Tuesday, 27 October 2020
Latest time for lodging transfers of Shares in order to become entitled to attend and vote at the Court Meeting and/or the Extraordinary General Meeting	4:30 p.m. on Friday, 13 November 2020
Register of members of the Company closed for determination of entitlements of holders of Scheme Shares to attend and vote at the Court Meeting and of Shareholders to attend and vote at the Extraordinary General Meeting (<i>Note 1</i>)	From Monday, 16 November 2020 to Thursday, 19 November 2020 (both days inclusive)
Latest time for lodging forms of proxy in respect of (<i>Note 2</i>)	
• Court Meeting	10:00 a.m. on Tuesday, 17 November 2020
• Extraordinary General Meeting	10:30 a.m. on Tuesday, 17 November 2020
Meeting Record Date	Thursday, 19 November 2020
Court Meeting (<i>Note 3</i>)	10:00 a.m. on Thursday, 19 November 2020
Extraordinary General Meeting (<i>Note 3</i>)	10:30 a.m. on Thursday, 19 November 2020 (or, if later, immediately after the conclusion or adjournment of the Court Meeting)
Announcement of the results of the Court Meeting and the Extraordinary General Meeting posted on the website of the Stock Exchange and the website of the Company	no later than 7:00 p.m. on Thursday, 19 November 2020
Expected latest time for trading in the Shares on the Stock Exchange	4:10 p.m. on Friday, 20 November 2020
Latest time for lodging transfer of Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Wednesday, 25 November 2020

Register of members of the Company closed for determining Scheme Shareholders qualified for entitlements under the Scheme (<i>Note 4</i>)	from Thursday, 26 November 2020 onwards
Court hearing of the petition to sanction the Scheme and to confirm the reduction of the share capital of the Company involved in the Scheme.	Monday, 30 November 2020 (Cayman Islands time)
Announcement of the results of the court hearing of the petition to sanction the Scheme and to confirm the reduction of the share capital of the Company involved in the Scheme, the expected Effective Date and the expected date of withdrawal of listing of Shares on the Stock Exchange.	At or before 8:30 a.m. on Wednesday, 2 December 2020
Scheme Record Date	Thursday, 3 December 2020
Effective Date (<i>Note 5</i>)	Thursday, 3 December 2020 (Cayman Islands time)
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange	At or before 8:30 a.m. on Friday, 4 December 2020
Expected withdrawal of the listing of Shares on the Stock Exchange becoming effective	9:00 a.m. on Monday, 7 December 2020
Cheques for cash payment under the Scheme to be despatched (<i>Note 6</i>)	on or before Monday, 14 December 2020

Notes:

1. The register of members of the Company will be closed during such period for the purpose of determining entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the Extraordinary General Meeting. For the avoidance of doubt, this period of closure is not for determining entitlements under the Scheme.
2. The **pink** form of proxy in respect of the Court Meeting and the **white** form of proxy in respect of the Extraordinary General Meeting should be completed and signed in accordance with the instructions respectively printed thereon and should be lodged at the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by the times and dates stated above. The **pink** form of proxy for use at the Court Meeting should be lodged no later than 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof although it may be handed to the chairman of the Court Meeting at the Court Meeting. The **white** form of proxy for use at the Extraordinary General Meeting must be lodged no later than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof in order to be accepted. The completion and return of a form of proxy for the Court Meeting and/or the Extraordinary General Meeting will not preclude a Scheme

Shareholder or Shareholder (as the case may be) from attending and voting in person at the relevant meeting or any adjournment thereof if he so wishes. In the event that the Scheme Shareholder or Shareholder (as the case may be) attends and votes at the relevant meeting or any adjournment thereof after having lodged his form of proxy, the returned form of proxy will be revoked by operation of law.

3. For further details relating to the Court Meeting and the Extraordinary General Meeting, please see the notice of Court Meeting set out in Appendix IV to this Scheme Document and the notice of Extraordinary General Meeting set out in Appendix V to this Scheme Document. If a tropical cyclone warning signal No. 8 or above is or is expected to be hoisted or a black rainstorm warning signal or “extreme conditions” caused by super typhoons is or is expected to be in force at any time after 7:00 a.m. on the date of the Court Meeting and the Extraordinary General Meeting, the Court Meeting and the Extraordinary General Meeting may be adjourned. The Company may post an announcement on the respective websites of the Stock Exchange and the Company to notify the Scheme Shareholders and Shareholders (as the case may be) of the date, time and venue of the reconvened meetings.
4. The register of members of the Company will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
5. The Scheme shall become effective upon all the Conditions set out in the paragraph headed “4. Conditions of the Proposal and the Scheme” in Part VII – Explanatory Memorandum of this Scheme Document having been fulfilled or (to the extent permitted) waived (as the case may be).
6. Cheques for the payment of the Cancellation Price under the Scheme will be sent within seven Business Days of the Effective Date by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in such registers in respect of the joint holding. All such cheques will be posted at the risk of the person(s) entitled thereto and none of the Offeror, the Company, CICC, the Independent Financial Adviser, the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in despatch.

All references to times and dates in this document are references to Hong Kong times and dates, unless otherwise stated.

CHANGSHOUHUA FOOD COMPANY LIMITED**長壽花食品股份有限公司***(incorporated in Cayman Islands with limited liability)***(Stock Code: 1006)***Executive Directors:*

Mr. Wang Mingxing
Mr. Wang Mingfeng
Mr. Wang Mingliang
Mr. Cheng Wenming
Mr. Ren Zaishun

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

27 October 2020

To: The Shareholders

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHANGSHOUHUA FOOD COMPANY LIMITED
BY SANXING TRADE CO., LTD.
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHANGSHOUHUA FOOD COMPANY LIMITED**

INTRODUCTION

On 7 September 2020, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange. Upon completion of the Scheme, the Company will become directly wholly-owned by the Offeror, and the listing of the Shares will be withdrawn from the Stock Exchange.

If the Proposal is approved and implemented, under the Scheme, the Scheme Shares will be cancelled on the Effective Date. Contemporaneously with such cancellation, the share capital of the Company will be maintained by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme

Shares cancelled. The reserve created in the Company's books of account as a result of the cancellation of the Scheme Shares will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal, the Scheme and the expected timetable and to give you notice of the Court Meeting and the Extraordinary General Meeting (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part V of this Scheme Document, the letter from Somerley, being the Independent Financial Adviser, set out in Part VI of this Scheme Document, the Explanatory Memorandum set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix III to this Scheme Document.

TERMS OF THE PROPOSAL

The Scheme

Subject to the fulfilment or waiver (as applicable) of the Conditions as described in the section headed "4. Conditions of the Proposal and the Scheme" in the Explanatory Memorandum set out in Part VII of this Scheme Document, the Proposal will be implemented by way of the Scheme. Subject to the Scheme becoming effective, each Scheme Shareholder will be entitled to receive the Cancellation Price of HK\$4.19 in cash for each Scheme Share cancelled under the Scheme as at the Effective Date.

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

The Company has not declared any dividend payable after the date of this Scheme Document, and does not intend to declare or pay any dividend before the Effective Date or the date on which the Scheme is not approved or the Proposal otherwise lapses (as the case may be). The Cancellation Price in any event does not include any dividend that may be declared by the Company after the date of this Scheme Document.

The Cancellation Price of HK\$4.19 per Scheme Share in cash represents:

- a premium of approximately 16.4% over the closing price of HK\$3.60 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 22.2% over the average closing price of approximately HK\$3.43 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- a premium of approximately 43.2% over the average closing price of approximately HK\$2.93 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 64.1% over the average closing price of approximately HK\$2.55 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

- a premium of approximately 65.8% over the average closing price of approximately HK\$2.53 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 66.1% over the average closing price of approximately HK\$2.52 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 3.2% over the closing price of HK\$4.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 36.0% to the audited consolidated net asset value of the Company of approximately RMB5.78 per Share (based on RMB to HK\$ exchange rate of RMB0.88227 to HK\$1, being the exchange rate as quoted by the People's Bank of China on the Last Trading Day) as at 31 December 2019; and
- a discount of approximately 38.5% to the audited consolidated net asset value of the Company of approximately RMB6.01 per Share (based on RMB to HK\$ exchange rate of RMB0.88227 to HK\$1, being the exchange rate as quoted by the People's Bank of China on the Last Trading Day) as at 30 June 2020.

The Offeror has advised the Company that the Cancellation Price has been determined on a commercial basis after taking into account, among others, the prices of the Shares traded on the Stock Exchange. The Board also refers to the analysis on the Cancellation Price against the prices at which the Shares were traded on the Stock Exchange since 1 January 2019 up to the Latest Practicable Date (including the historical price performance compared to the Cancellation Price, trading liquidity and historical discount of share price to the net asset value attributable to Shareholders per Share), the price-to-earning ratio and price-to-book ratio of the Company implied by the Cancellation Price and those of its comparable companies, and pricing premiums for privatisation transactions of companies listed on the Stock Exchange in recent years, the details of which are set out in the "Letter from the Independent Financial Adviser" on pages 23 to 54 in Part VI of this Scheme Document.

REASONS FOR, AND BENEFITS OF, THE PROPOSAL

You are urged to read carefully the section headed "10. Reasons for and Benefits of the Proposal" in the Explanatory Memorandum set out in Part VII of this Scheme Document.

On the basis set out above, the Board considers that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Shareholders as a whole.

Mr. Wang Mingxing, Mr. Wang Mingfeng, Mr. Wang Mingliang, each being an Offeror Concert Party, are considered to have a material interest in the Proposal and the Scheme and have abstained from voting on the relevant resolution(s) of the Board.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee which comprises Mr. Wang Aiguo, Mr. Wang Ruiyuan and Mr. Liu Shusong has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and whether to vote in favour of the Scheme at the Court Meeting and the Extraordinary General Meeting.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee comprises all non-executive Directors who have no direct or indirect interest in the Proposal.

The full text of the letter from the Independent Board Committee is set out in Part V of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER

Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal and the Scheme. The appointment of Somerley as the Independent Financial Adviser has been approved by the Independent Board Committee.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

IRREVOCABLE UNDERTAKING

The Offeror received the Irrevocable Undertaking from the IU Shareholder on 28 September 2020, pursuant to which, among others, the IU Shareholder irrevocably undertook to exercise (or procure the exercise) of all voting rights attached to the Shares held or owned by the IU Shareholder at the Court Meeting and the Extraordinary General Meeting in connection with the Proposal in favour of all the resolutions to approve the Scheme and any matters in connection with the Scheme (where applicable).

Please see the section headed “5. Irrevocable Undertaking” in the Explanatory Memorandum for further details.

INFORMATION ON THE GROUP AND THE OFFEROR**The Group**

The Company is a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange with the stock code 1006. The Group is principally engaged in the corn oil business, the production and sales of refined edible sunflower seed oil, olive oil, peanut oil and rice germ oil, and the production and sales of corn meal.

The Offeror

The Offeror is an investment holding company incorporated in Mauritius with limited liability and a wholly-owned subsidiary of Sanxing Grease (with all its shares pledged in favour of China Cinda in connection with a Sanxing Group debt restructuring). As at the Latest Practicable Date, Sanxing Grease is in turn held as to approximately 54.58% by Shandong Sanxing (the shares relating to which are pledged in favour of China Cinda in connection with a Sanxing Group debt restructuring) and 45.42% by Cinda Fund. Cinda Fund is managed by Cinda Capital as its general partner, which in turn is an indirect wholly-owned subsidiary of China Cinda.

Shandong Sanxing is owned as to 25.50% by Mr. Wang Mingxing, 29.49% by Mr. Wang Mingfeng, 29.39% by Mr. Wang Mingliang, 3.91% by Mr. Cheng Wenming, 3.91% by Mr. Xia Yingbin, 3.91% by Mr. Wang Luqiang and 3.89% by Mr. Wang Baoquan. Mr. Wang Mingxing, Mr. Wang Mingfeng, Mr. Wang Mingliang and Mr. Cheng Wenming are Directors, and Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang are brothers.

Your attention is drawn to the section headed “12. Information on the Offeror” in the Explanatory Memorandum set out in Part VII of this Scheme Document in respect of further details of the Offeror, as well as arrangements between China Cinda and Shandong Sanxing.

INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP

Your attention is drawn to the section headed “13. Intentions of the Offeror” in the Explanatory Memorandum set out in Part VII of this Scheme Document.

The Board has noted the intentions of the Offeror in respect of the Company and the employees of the Group as disclosed in the above section in the Explanatory Memorandum.

SHARE CERTIFICATES AND WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates in respect of the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

In that case, the Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect after the Effective Date.

The Scheme Shareholders will be notified by way of announcement of, among other things, the exact dates of the last day for dealing in the Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of Shares on the Stock Exchange will become effective. An expected timetable of the Proposal is included in Part III of this Scheme Document.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

Subject to the requirements of the Takeovers Code, the Scheme will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct and in all cases, as permitted by the Executive). The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with it) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

Shareholders and potential investors should exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

COURT MEETING AND EXTRAORDINARY GENERAL MEETING

For the purpose of exercising your right to vote at the Court Meeting and the Extraordinary General Meeting, you are requested to read carefully the section headed “20. Court Meeting and the Extraordinary General Meeting” in the Explanatory Memorandum set out in Part VII of this Scheme Document, “Part II — Actions to be taken” of this Scheme Document, and the notices of the Court Meeting and the Extraordinary General Meeting in Appendices IV and V, respectively, of this Scheme Document.

OVERSEAS SHAREHOLDERS

If you are an overseas Scheme Shareholder, your attention is drawn to the section headed “18. Overseas Shareholders” in the Explanatory Memorandum set out in Part VII of this Scheme Document.

ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out in “Part II — Actions to be taken” of this Scheme Document and the section headed “21. Actions to be Taken” in the Explanatory Memorandum set out in Part VII of this Scheme Document.

RECOMMENDATION

Your attention is drawn to the recommendation of the Independent Financial Adviser to the Independent Board Committee, in respect of the Proposal as set out in the “Part VI — Letter from the Independent Financial Adviser” of this Scheme Document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Proposal as set out in the “Part V — Letter from the Independent Board Committee” of this Scheme Document.

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed “17. Registration and Payment” in the Explanatory Memorandum.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “19. Taxation” in the Explanatory Memorandum.

It is emphasised that none of the Offeror, the Company, CICC and their agents or any of their respective directors, officers or associates or any other person involved in the Scheme accepts responsibility or has any liability for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Scheme. All Scheme Shareholders and/or Beneficial Owners are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal and they shall be solely responsible for their liabilities (including tax liabilities) in relation to the Scheme.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from the Independent Financial Adviser, as set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Memorandum as set out in Part VII of this Scheme Document, the Appendices to this Scheme Document, the Scheme as set out in Appendix III to this Scheme Document, the notice of Court Meeting as set out in Appendix IV to this Scheme Document and the notice of Extraordinary General Meeting as set out in Appendix V to this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting, a **white** form of proxy for the Extraordinary General Meeting and the Election Form are enclosed with this Scheme Document.

Yours faithfully
By order of the Board
CHANGSHOUHUA FOOD COMPANY LIMITED
WANG Mingxing
Chairman

CHANGSHOUHUA FOOD COMPANY LIMITED**長壽花食品股份有限公司***(incorporated in Cayman Islands with limited liability)***(Stock Code: 1006)**

27 October 2020

To: The Independent Shareholders

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHANGSHOUHUA FOOD COMPANY LIMITED
BY SANXING TRADE CO., LTD.
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHANGSHOUHUA FOOD COMPANY LIMITED**

We refer to the document dated 27 October 2020 jointly issued by the Offeror and the Company in relation to the Proposal (the “**Scheme Document**”) of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to make a recommendation to the Independent Shareholders in respect of the Proposal and the Scheme, respectively, details of which are set out in “Part IV — Letter from the Board” and “Part VII — Explanatory Memorandum” of this Scheme Document.

Somerley, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal and the Scheme. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in “Part VI — Letter from the Independent Financial Adviser” of this Scheme Document.

In the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal and the Scheme are fair and reasonable, and advises the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting to approve and implement the Proposal and the Scheme.

The Independent Board Committee, having considered the terms of the Proposal and the Scheme, and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that, as far as the Independent Shareholders are concerned, the terms of the Proposal and the Scheme are fair and reasonable.

Accordingly, the Independent Board Committee recommends:

- (a) at the Court Meeting, the Independent Shareholders to vote in favour of the resolution to approve the Scheme; and
- (b) at the Extraordinary General Meeting, the Independent Shareholders to vote in favour of the special resolution to (i) approve and give effect to any reduction of the share capital of the Company as a result of cancelling and extinguishing the Scheme Shares and (ii) contemporaneously therewith maintain the issued share capital of the Company at the amount prior to the cancellation of the Scheme Shares by applying the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror.

The Independent Board Committee draws the attention of the Independent Shareholders to (i) the letter from the Board set out in Part IV of the Scheme Document; (ii) the letter from the Independent Financial Adviser, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, set out in Part VI of the Scheme Document; and (iii) the Explanatory Memorandum set out in Part VII of the Scheme Document.

Yours faithfully,

The Independent Board Committee

WANG Aiguo

*Independent non-executive
Director*

WANG Ruiyuan

*Independent non-executive
Director*

LIU Shusong

*Independent non-executive
Director*

The following is the text of a letter of advice from Somerley to the Independent Board Committee, which has been prepared for the purpose of inclusion in this Scheme Document.



SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

27 October 2020

To: The Independent Board Committee of Changshouhua Food Company Limited

Dear Sirs,

**(1) PROPOSAL FOR THE PRIVATISATION OF
CHANGSHOUHUA FOOD COMPANY LIMITED
BY SANXING TRADE CO., LTD. BY WAY OF
A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
CHANGSHOUHUA FOOD COMPANY LIMITED**

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal. Details of the Proposal are contained in the Scheme Document dated 27 October 2020, of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 7 September 2020, as disclosed in the Announcement, the Offeror and the Company jointly announced that the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law. Under the Scheme, the Scheme Shares will be cancelled and, in consideration therefor, each Scheme Shareholder will be entitled to receive the Cancellation Price of HK\$4.19 in cash for each Scheme Share cancelled.

The Independent Board Committee, comprising Mr. Wang Aiguo, Mr. Wang Ruiyuan and Mr. Liu Shusong (each being an independent non-executive Director), has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and whether to vote in favour of the Scheme at the Court Meeting and the Extraordinary General Meeting of the Company. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise them as regards their recommendation on the Proposal.

During the past two years, Somerley has acted as the financial adviser to a substantial shareholder of the Company (holding approximately 11.19% equity interest in the Company as at the Latest Practicable Date), who is not acting nor presumed to be acting, in concert with the Company or the Offeror, and thus is one of the Scheme Shareholders as well as the Independent Shareholders and is eligible to vote in respect of the Proposal at both the Court Meeting and the Extraordinary General Meeting. The previous engagement is unrelated to the Proposal and Somerley received a fixed normal advisory fee from the engagement.

Save as disclosed above, we are not associated with the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them and, accordingly, considered ourselves eligible to give independent advice on the Proposal. Save as disclosed above, apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors, which we have assumed to be true, accurate and complete in all material respects at the Latest Practicable Date. We have also assumed that all representations contained or referred to in the Scheme Document were true, accurate and complete at the time they were made and remain so at the Latest Practicable Date. The Independent Shareholders will be informed of any material change in this regard as soon as possible up to the Effective Date. We have reviewed, among other things, the Announcement, the annual reports of the Company for the financial years ended 31 December 2018 and 2019 (the “**2018 Annual Report**” and “**2019 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”). We have also discussed with the Directors the “Material Change Statement” and the basis on which it is made, as set out in paragraph 4 of Appendix I – Financial Information Relating to the Group to the Scheme Document. We have sought and received confirmation from the Directors that no material fact has been omitted from the information supplied and opinions expressed to us by them. We consider that the information we have received is sufficient for us to reach our opinion and advice as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material fact has been omitted or withheld. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification on the information supplied.

For the purpose of illustration only and unless otherwise stated, amounts denominated in RMB in this letter have been translated into HK\$ at the rate of HK\$1.00 = approximately RMB0.88227 (being the exchange rate as quoted by the People’s Bank of China on the Last Trading Day).

II. TERMS OF THE PROPOSAL

Under the Scheme, if the Proposal is approved and implemented, the Scheme Shares will be cancelled and, in consideration therefor, each Scheme Shareholder will be entitled to receive the Cancellation Price of HK\$4.19 in cash for each Scheme Share cancelled. In addition, the Cancellation Price will not be increased and the Offeror does not reserve the right to do so.

III. CONDITIONS OF THE PROPOSAL

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following major Conditions:

- (i) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting provided that:
 - (a) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (b) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by all Independent Shareholders;
- (ii) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to:
 - (a) approve and give effect to any reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and
 - (b) contemporaneously therewith maintain the issued share capital of the Company at the amount prior to the cancellation of the Scheme Shares by applying the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and
- (iii) all authorisations, approvals, permissions, waivers and consents and all registrations and filings (including without limitation any which are required under or in connection with any applicable laws or regulations or any licences, permits or contractual obligations of the Company) in connection with the Proposal or its implementation and the withdrawal of listing of the Shares from the Stock Exchange in accordance with its terms which are required to be obtained (or, as the case may be, completed) prior to the completion of the Proposal having been obtained (or, as the case may be, completed) and remaining in full force and effect without modification.

With reference to Condition (iii), as at the Latest Practicable Date, other than those set out in other Conditions, and the approval of the Stock Exchange for the withdrawal of listing of the Shares upon the Scheme becoming effective, the Offeror and the Company are not aware of any outstanding authorisations, approvals,

permissions, waivers, consents, registrations or filings. Further details of the Conditions are set out in the section headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Memorandum in the Scheme Document. As at the Latest Practicable Date, the Conditions are subject to fulfilment (unless otherwise waived, where applicable) and none of have been waived.

IV. IRREVOCABLE UNDERTAKING

The Offeror received the Irrevocable Undertaking from the IU Shareholder on 28 September 2020, pursuant to which the IU Shareholder irrevocably undertook to:

- (a) exercise (or procure the exercise) of all voting rights attached to the Shares held or owned by the IU Shareholder at the Court Meeting and the Extraordinary General Meeting in connection with the Proposal in favour of all the resolutions to approve the Scheme and any matters in connection with the Scheme (where applicable);
- (b) exercise (or procure the exercise of) the voting rights attached to the Shares held or owned by the IU Shareholder against any resolution which (i) might reasonably be expected to restrict, impede or delay implementation of the Scheme; or (ii) approves or gives effect to (and will agree not to be bound by) a proposal by a person other than the Offeror, to acquire (or have issued to it) any Shares or any assets of the Company or to privatise the Company; and
- (c) withdraw such Shares held or owned by the IU Shareholder from CCASS (if such Shares are not registered in the name of the IU Shareholder) and to sign and deliver forms of proxy at the prescribed time after the publication of the Scheme Document, and not revoke or revise such forms of proxy or the voting instructions.

The IU Shareholder further irrevocably undertook that the IU Shareholder shall not (i) sell, transfer, charge, encumber, grant any option over or otherwise dispose of such Shares held or owned by the IU Shareholder, (ii) accept any other offer in respect of such Shares held or owned by the IU Shareholder, or (iii) take any action or enter into any agreement or arrangement which would or might impede or otherwise preclude the performance of the terms of the Irrevocable Undertaking. The Irrevocable Undertaking will be terminated and the obligations of the IU Shareholder under the Irrevocable Undertaking shall lapse and cease to be binding if the Scheme does not become effective, lapses or is withdrawn in accordance with its terms and no new, revised or replacement Scheme is announced by the Offeror and/or the Company at the same time.

As at the Latest Practicable Date, the 64,168,881 Shares held by the IU Shareholder which are the subject of the Irrevocable Undertaking represent approximately 11.19% of the total issued share capital of the Company, approximately 23.37% of the Scheme Shares, and approximately 23.90% of the Shares held by Independent Shareholders.

V. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange with the stock code 1006. The Group is principally engaged in the corn oil business, the production and sales of refined edible sunflower seed oil, olive oil, peanut oil and rice germ oil, and the production and sales of corn meal. The Group's products can be categorized into (i) own branded edible oil/food product under the kitchen series; (ii) non-branded edible oil; and (iii) corn meal. The Group has been continuing to prioritise own brand development and gradually introducing other different types of edible oil products and the series of Changshouhua Kitchen food products under the brand of “長壽花” (Longevity Flower). Set out below are the breakdown of the Group's revenue and gross profit margin for the six months ended 30 June 2020:

FIGURE 1: BREAKDOWN OF REVENUE BY BUSINESS SEGMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

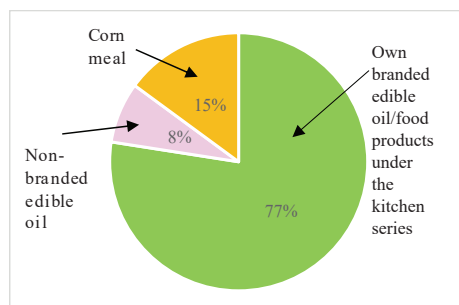
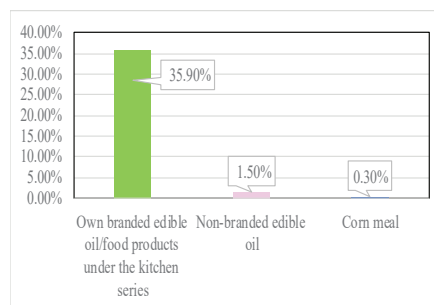


FIGURE 2: BREAKDOWN OF GROSS PROFIT MARGIN BY BUSINESS SEGMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020



As at 30 June 2020, the Group had a distribution network of 1,437 (2019: 1,410; 2018:1,479; 2017: 1,517) wholesale distributors and 150 (2019: 150; 2018: 153; 2017: 153) retailers, covering all provincial-level administrative regions of the PRC (except Tibet).

Comments

The Company has been engaged in the production and sale of edible corn oil since its listing in 2009 with less than 20% of its revenue derived from the sale of its own branded products in 2009 to over 70% for the six months ended 30 June 2020. With the gross profit margin of around 36%, the Group's own branded products contributed almost 100% of its total gross profit over the past three years. As stated in the 2020 Interim Report, the Group has strived to emerge from a single-product company to a retail brand corporation by prioritizing own brand development and gradually introducing other different

types of edible oil products and the series of Changshouhua Kitchen food products under the brand of “長壽花” (Longevity Flower) as well as new series of condiment products including vinegar, soy sauce, oyster sauce and soybean paste.

Profitability of the Group has demonstrated a general increasing trend since its listing with a couple of years registered 1%-20% year-on-year decline in profit. Despite that the Group was able to achieve a stable sales performance of the own branded products, for the year ended 31 December 2019, the poor performance of non-branded corn oil and corn meal led to a decrease in the total revenue of the Group by approximately 12.4% to approximately RMB3,003.5 million (2018: RMB3,428.2 million) as well as a decrease in profit attributable to Shareholders by 7.6% to approximately RMB320.5 million (2018: RMB346.9 million). For the six months ended 30 June 2020, the profit attributable to Shareholders decreased by 13.3% year-on-year to RMB132.9 million mainly due to the increase in selling and distribution costs. This is further discussed in the sections below.

2. Industry overview and prospects of the Group’s businesses

Over 83.5% of the Group’s revenue is derived from the sale of edible oil products and all of them were sold in the PRC for the year ended 31 December 2019. As advised by the management of the Group, the principal raw materials used in the production of the Group’s edible oil products are corn embryo and crude corn oil which are mainly sourced from domestic suppliers in the PRC.

FIGURE 3: MONTHLY CORN PRICE (NOTE) FOR 2018 – 2020

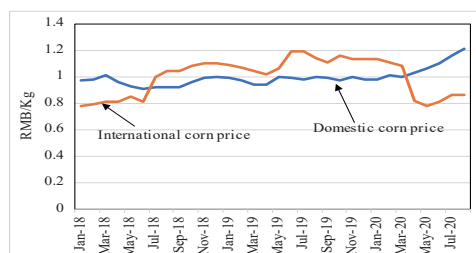
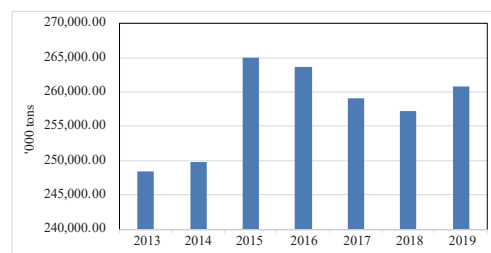


FIGURE 4: PRODUCTION OUTPUT OF CORN IN THE PRC FOR 2013 – 2019



Source: Ministry of Agriculture and Rural Affairs of the PRC (“MOA”) Source: WIND

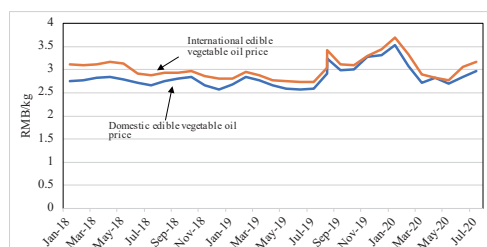
Note: Domestic corn price refers to the closing price of the corn (class 2) delivered from Northeast China to Huangpu Port in Guangzhou and the international corn price refers to cost insurance and freight (“CIF”) after tax price of corn (class 2) shipped from US Gulf of Mexico to Huangpu Port

As shown in Figure 3 above, significant fluctuations in international corn price were seen while the domestic corn price had been relatively stable ranging from RMB0.90/kg to RMB1.00/kg since January 2018 before it rose to above RMB1.00/kg in April 2020 and closed at RMB1.21/kg in August 2020.

According to the agricultural products monthly report (“**Monthly Report**”) issued by MOA for August 2020, the recent increase in domestic corn price was led by the speculative activities of the traders who are optimistic about the market outlook and the increasing demand for protein meal. It is anticipated that the domestic corn price will gradually flatten out due to the increasing supply.

As shown in Figure 4 above, fluctuations were seen in the production output of corn in the PRC for 2013 – 2019. The output of corn increased from 249.8 million tons in 2014 to 265.0 million tons in 2015, representing an increase of 6.1% and then stabilised at 257.2 million tons to 263.6 million tons in 2016 – 2019.

FIGURE 5: MONTHLY EDIBLE VEGETABLE OIL PRICE FOR 2018 – 2020 **TABLE 1: ESTIMATED 12-MONTH PRODUCTION OF EDIBLE VEGETABLE OIL FOR 2019 – 2020**



(’000 tons)	2019	2020
January	26,090	25,460
February	26,110	26,400
March	25,910	26,400
April	25,460	26,400
May	25,430	26,820
June	25,430	26,430
July	25,440	27,390
August	25,180	27,720
September	25,500	27,810
October	25,480	28,090
November	25,460	n.a.
December	25,460	n.a.

Source: MOA

Note: Domestic edible vegetable oil price refers to soybean oil (Class 4) ex-factory price in Shandong and the international edible vegetable oil price refers to CIF after tax price of soybean oil shipped from South America to Shandong Port

Source: MOA

As shown in Figure 5 above, the domestic edible vegetable oil price had been slightly cheaper than, but had moved in line with, the international one. The domestic edible vegetable oil price ranged RMB2.57/kg – RMB2.85/kg during the period from January 2018 to July 2019. The domestic edible vegetable oil price started to increase in November 2019 due to strong domestic demand ahead of the new year holidays and reached its highest at RMB3.53/kg in January 2020. It then retreated but stayed in a range of RMB2.70/kg – RMB3.25/kg in the recent months. According to the recent Monthly Report, in view of the rising international price and increasing demand in the PRC following the effective epidemic containment and work resumption, it is expected that the domestic edible vegetable oil price will continue to increase.

Table 1 sets out the estimated 12-month production of edible vegetable oil in the PRC as extracted from a monthly publication by MOA. Following the estimated 12-month production of edible vegetable oil decreased from 26.1 million tons in January 2019 to 25.5 million tons in April 2019, a general increasing trend from April 2019 to October 2020 with an average month-on-month growth rate of 0.6% is seen.

FIGURE 6: AVERAGE PER CAPITA EDIBLE VEGETABLE OIL CONSUMPTION FOR 2013 – 2018 **TABLE 2: ESTIMATED 12-MONTH CONSUMPTION OF EDIBLE VEGETABLE OIL FOR 2019 – 2020**



Source: National Bureau of Statistics of China

(’000 tons)	2019	2020
January	33,310	33,380
February	33,310	33,390
March	33,310	33,390
April	33,310	32,430
May	33,300	32,430
June	33,300	32,560
July	33,300	32,560
August	33,300	32,890
September	33,300	32,890
October	33,300	32,890
November	33,380	n.a.
December	33,380	n.a.

Source: MOA

As shown in Figure 6 above, the average per capita edible vegetable oil consumption in the PRC had been stable in 2013 to 2017 in both urban and rural households. The per capita consumption in urban households dropped from 10.3 kg in 2017 to 8.9kg in 2018. We have discussed with the management of the Group on the operating environment and noted that the decrease might be due to less consumption of edible oil on the back of improvement in health consciousness in the PRC. Table 2 sets out the estimated 12-month consumption of edible vegetable oil in the PRC as extracted from a monthly publication by MOA. The estimated 12-month consumption of edible vegetable oil in the PRC in 2019 – 2020 has been stable except for mild decline in April – July 2020 due to the impact of COVID-19 pandemic over the catering industry. MOA also reported that the revenue of the PRC catering industry increased in July 2020 amounting to about 40%-80% of that before COVID-19 pandemic. The estimated 12-month consumption of edible vegetable oil in the PRC increased from 32.6 million tons in July 2020 to 32.9 million tons in October 2020.

According to a research report issued by the Research and Markets, a market insights and analysis provider headquartered in Dublin Ireland, in 2018, the edible vegetable oils consumed in the PRC are mainly soybean oil, palm oil, rapeseed oil and peanut oil which account for approximately 90% of the total

consumption. Rapeseed oil and soybean oil are most popular among Chinese residents while minor oils such as olive oil, corn oil and sunflower seed oil are becoming more acceptable with the improvement in health consciousness and consumption trend. Although high-end oils are gaining market share with Chinese consumers requiring more in the health benefits and nutritional value of edible oils, there are numerous edible oil companies in the PRC and it takes time for the Chinese consumers to switch to high-end healthy edible oils, which brings about increasingly fierce competition to the industry. Top quality enterprises are accelerating brand building and sales network distribution. There is an excess supply of edible vegetable oils in China with the expanding production capacity of domestic oil processing enterprises.

We have discussed with the management of the Group on the outlook of the Group and are advised that edible corn oil accounts for about 2-3% of the total edible vegetable oil market. Both procurement and sales of the Group have been conducted in the PRC. The production output of corn in the PRC has fluctuated in a narrow range in the past three years (see Figure 4) while the corn price has displayed a general increasing trend (see Figure 3). The Group is also facing intensive competition from its peers not only for limited supply of raw material as evidenced by increasing production of edible vegetable oil as well as corn oil as opposed to stagnant growth of corn production output which has led to an increase in corn price but also customers' preference over healthier edible oil products which is affected by competitive pricing offered by traditional edible oil products.

Comments

The competition of the China edible oil industry has been intensive. With the improving health consciousness in the PRC, the Group's corn oil products are becoming more acceptable in the Chinese consumer market. However, with the expanding production output of domestic oil processing enterprises, efforts need to be spent on brand building and distribution capability. As stated in the 2019 Annual Report, the Group continued to expand and optimize its sales network, which had 1,410 wholesale distributors (30 June 2020: 1,437) and 150 retailers (30 June 2020: 150) for its distribution network, covering all provincial level administrative regions in the PRC (except Tibet) and there was approximately 390,000 additional domestic sales locations. The Group's future objective is to gradually expand its distribution network into all counties, townships and communities in the PRC. In addition, the Group also reviews and optimizes the layout of traditional sales channel by exploring cooperation with small and medium sized supermarkets and new distributors and e-commerce sales channel. In addition, the Group has successively opened Changshouhua's healthy kitchen experience stores in order to complement the future series of "Changshouhua Shang Ai Kitchen" products and offer consumers the one-stop shopping experience of healthy kitchen supplies. The Group also sponsors different television programmes and promotes the products through different media channels. The Group's efforts in brand building and enhancing distribution capability have been evidenced by its increase in selling and distribution cost increased by 13.6% year-on-year for the six months ended 30 June 2020 which led to a drop in profit attributable to Shareholders by 13.3%.

In sum, the profitability of the Group's business, which offers corn oil products to consumers in the PRC, is dependent on its capability to enhance its brand awareness and market share as well as to implement effective cost control.

3. Reasons for and benefits of the Proposal

The following has been extracted from section headed "10. Reasons for and Benefits of the Proposal" – Explanatory Memorandum in the Scheme Document.

For the Scheme Shareholders

- The Offeror considers that the Proposal will provide an opportunity to Scheme Shareholders to realise their investment in the Company at an attractive premium over the prevailing price of the Shares. The Cancellation Price of HK\$4.19 per share represents a premium of approximately 64.1%, 65.8% and 66.1% over the average closing price of approximately HK\$2.55, HK\$2.53 and HK\$2.52 per Share as quoted on the Stock Exchange for the 60, 90 and 120 trading days up to and including the Last Trading Day. The Cancellation Price of HK\$4.19 per share represents a premium of approximately 3.2% over the closing price of HK\$4.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date.
- The average daily trading volume of the Shares for the 120 trading days up to and including the Last Trading Day was approximately 548,028 Shares per day, representing only approximately 0.1% of the issued Shares. The relatively low trading liquidity of the Shares of the Company makes it difficult for the Shareholders to sell their shareholdings in large volume on the secondary market. The Proposal will provide a good opportunity for the Scheme Shareholders to realise their investment in the Company without suffering any illiquidity discount.

For the Offeror and the Company

- Due to the low liquidity in the trading of the Company's Shares, the depressed share price in recent years and a high compliance cost for maintain listing status, the Company's current listing platform no longer sufficiently serves as a source of funding for its long term growth, and the Company's ability to raise funds in the equity capital markets for future development and growth is limited. Meanwhile, since share price and market capitalisation value could be viewed as a reflection of the public perception of the Company's intrinsic value and growth potential, the depressed share price negatively impacted brand awareness of end-use customers and distributors, which in turn was unfavourable to the Company's effort in attracting new distributors and end-use customers, as well as the reputation of the Company among suppliers, which in turn adversely affected the Company's bargaining power with its suppliers. In light of the above, the depressed share price has had an adverse impact on the Company's business and operations.

- The Proposal, if successful, will be helpful to streamline the Company's governance structures and avoiding additional governance costs and management fees resulting from maintaining listing status. The Proposal, if successful, will also enhance the Offeror and Sanxing Group's comprehensive consolidation and integration of the Company's operations and provide the Offeror and Sanxing Group with more flexibility in supporting the long-term business development of the Company, without being concerned about the fluctuation of its short-term share performance, which in turn will enable the Offeror and Sanxing Group to realise their own long-term development strategy.

Comments

The limited usefulness of a listed platform to raise funds for financing business development has been a common reason for the recent privatisation proposals in Hong Kong, principally due to low liquidity of the shares and depressed valuations. Against this backdrop, listed companies (including the Company) are receiving proposals from their controlling shareholders at offer prices representing considerable premiums over the prevailing market prices in circumstances where the liquidity of the shares is generally low.

4. Analysis of the financial information of the Group

(a) Income statement

Set out below are the summarised consolidated statements of profit or loss of the Group for (i) each of the three years ended 31 December 2019 as extracted from the 2018 Annual Report and the 2019 Annual Report; and (ii) six months ended 30 June 2019 and 2020 as extracted from the 2020 Interim Report:

TABLE 3: SUMMARISED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS OF THE COMPANY

<i>in RMB'000</i>	Six months ended		Year ended 31 December ("FY")		
	30 June ("1H") 2020 <i>(Unaudited)</i>	2019	2019	2018	2017
Revenue	1,287,428	1,440,203	3,003,471	3,428,155	3,379,679
Cost of sales	(928,843)	(1,116,892)	(2,275,327)	(2,630,290)	(2,574,040)
Gross profit	358,585	323,311	728,144	797,865	805,639
Profit attributable to the Shareholders	132,910	153,383	320,544	346,905	295,521
Dividend (<i>HK cents</i>)	—	—	—	10	10

(i) Revenue

Set out below is a summary of the Group's segment revenue (from external customers) for (i) each of the three years ended 31 December 2019; and (ii) the six months ended 30 June 2019 and 2020:

TABLE 4: SEGMENT REVENUE OF THE GROUP

	Own branded products RMB'000	Non- branded products RMB'000	Corn meal RMB'000	Total RMB'000
1H2020	997,346	97,890	192,192	1,287,428
% of total revenue	77.5%	7.6%	14.9%	100.0%
1H2019	842,236	357,587	240,380	1,440,203
% of total revenue	58.5%	24.8%	16.7%	100.0%
FY2019	2,043,533	507,280	452,658	3,003,471
% of total revenue	68.0%	16.9%	15.1%	100.0%
FY2018	1,985,294	827,037	615,824	3,428,155
% of total revenue	57.9%	24.1%	18.0%	100.0%
FY2017	2,201,880	729,329	448,470	3,379,679
% of total revenue	65.2%	21.6%	13.3%	100.0%

Note: Due to rounding, the percentages may not add up to the total of 100%.

As shown in table 3, for the six months ended 30 June 2019 and 2020, the Group recorded revenue of RMB1,440.2 million and RMB1,287.4 million, respectively, which represents a decrease of 10.6% in the first half of 2020 as compared to that of the first half of 2019. The decrease was principally attributable to the decreased revenue generated by the Group's non-branded products and corn meal due to (i) the production suspension of the non-branded products and corn meal customers in the PRC as a result of the COVID-19 pandemic; and (ii) a wait-and-see attitude of the non-branded products and corn meal customers towards procurement in view of the increased volatility in both overseas and domestic corn oil and corn meal prices as a result of ongoing conflict between the PRC and the United States; and (iii) the Group's commitment to profitable sales (i.e. no price cut for loss making sales). For the three years ended 31 December 2019, the Group recorded revenue of RMB3,379.7 million, RMB3,428.2 million and RMB3,003.5 million, respectively, representing a year-on-year increase of 1.4% for 2018 and a year-on-year decrease of 12.4% for 2019. The mild increase in 2018 was achieved by 13.4% increase in non-branded products sales and 37.3% increase in corn meal sales which offset the 9.8% decline in own branded products sales. The decrease in

2019 revenue was largely due to the poor performances of non-branded products under weak domestic consumption and the decline in the demand for corn meal due to weak performance of the poultry farming industry in the PRC during the second half of 2019.

(ii) *Cost of sales*

The Group's cost of sales mainly comprise costs of raw materials, direct labour and manufacturing overhead, among which the costs of raw materials accounted for approximately 85% — 91% of the total cost of sales in 2017 to the first half of 2020. Compared to that of the first half of 2019, the Group's cost of sales decreased by 16.8% to RMB928.8 million in the first half of 2020. The decrease in the first half of 2020 was largely due to the 10.6% decrease in sales, during the corresponding period. The cost of sales of the Group increased by 2.2% from RMB2,574.0 million in 2017 to RMB2,630.3 million in 2018 and decreased by 13.5% from RMB2,630.3 million in 2018 to RMB2,275.3 million in 2019, largely in line with the 1.4% increase and 12.4% decrease in the Group's sales in the corresponding period.

(iii) *Gross profit and gross profit margin*

TABLE 5: GROSS PROFIT/(LOSS) BY PRODUCT CATEGORIES

<i>in RMB'000</i>	1H2020	1H2019	FY2019	FY2018	FY2017
Own branded products					
Corn oil	307,932	256,483	596,307	635,520	669,190
Other edible oil and products	<u>48,599</u>	<u>64,690</u>	<u>135,051</u>	<u>153,323</u>	<u>129,114</u>
	356,531	321,173	731,358	788,843	798,304
Non-branded products					
Corn oil	1,489	19,928	22,852	17,281	21,497
Other edible oil	<u>(11)</u>	<u>382</u>	<u>27</u>	<u>(213)</u>	<u>(881)</u>
	1,478	20,310	22,879	17,068	20,616
Corn meal	576	(18,172)	(26,093)	(8,046)	(13,281)
Overall gross profit	<u><u>358,585</u></u>	<u><u>323,311</u></u>	<u><u>728,144</u></u>	<u><u>797,865</u></u>	<u><u>805,639</u></u>
Gross profit margin	27.9%	22.4%	24.2%	23.3%	23.8%

TABLE 6: GROSS PROFIT/(LOSS) MARGINS BY PRODUCT CATEGORIES

	Own branded products			Non-branded products			Corn meal
	Corn oil	Other edible oil	Overall	Corn oil	Other edible oil	Overall	
1H2020	37.2%	29.1%	35.9%	1.6%	(0.4)%	1.5%	0.3%
1H2019	38.6%	38.7%	38.6%	5.6%	23.2%	5.7%	(7.6)%
FY2019	36.8%	33.6%	36.2%	4.6%	0.2%	4.5%	(5.8)%
FY2018	40.9%	37.8%	40.3%	2.1%	(5.2)%	2.1%	(1.3)%
FY2017	37.4%	32.1%	36.5%	3.0%	(3.8)%	2.8%	(3.0)%

Note: Due to rounding, numbers presented may not add up precisely to the totals indicated.

The Group's own branded products comprising corn oil and other edible oils enjoyed a 36%-40% gross profit margin while non-branded products only managed to generate a 1%-6% gross profit margin, in the past three and a half years. Corn meal, which is a by-product, recorded a minor gross profit in 1H2020 after having suffered from gross losses for FY2017-FY2019.

The gross profit for the six months ended 30 June 2019 and 2020 were RMB323.3 million and RMB358.6 million, respectively, representing a year-on-year increase of 10.9%. The gross profit margin improved by 5.5% to 27.9% in the first half of 2020 as compared to that of the corresponding period in 2019, mainly attributable to (i) a substantial decrease in sales of non-branded products which only had a single digit gross profit margin; (ii) an 18.4% increase in the sales of own branded products which had over 30% gross profit margin; and (iii) minor gross profit from sales of corn meal as opposed to a gross loss of RMB18.2 million in 2019.

For the three years ended 31 December 2019, the Group recorded gross profit of RMB805.6 million, RMB797.9 million and RMB728.1 million respectively, representing year-on-year decreases of 1.0% in 2018 and 8.7% in 2019. The slight decrease in 2018 was mainly attributable to the decrease in revenue from sale of own branded products which had an average gross margin of 40.3% and the increase in revenue from sale of corn meal which had a gross loss margin of 1.3%. The decrease in 2019 is mainly due to a drop in gross profit margin of own branded products from 40.3% in 2018 to 36.2% in 2019 and corn meal from -1.3% in 2018 to -5.8% in 2019.

(iv) *Profit attributable to the Shareholders*

The net profit attributable to the Shareholders for the six months ended 30 June 2019 and 2020 were RMB153.4 million and RMB132.9 million, respectively, representing a decrease of 13.3% year-on-year. The decrease in the first half of 2020 as compared to that of 2019 was mainly attributable to the decrease of RMB29.0 million in other income and the increase of RMB27.8 million in selling and distribution costs and administrative expenses in the first half of 2020, which offset the increase of RMB35.3 million in gross profit. For the three years ended 31 December 2019, the Group recorded profit attributable to the Shareholders of RMB295.5 million, RMB346.9 million and RMB320.5 million, respectively, representing an increase of 17.4% and a decrease of 7.6% year-on-year, respectively. The increase in the Group's profit attributable to the Shareholders in 2018 was mainly due to the 12.4% decrease in the selling and distribution costs in 2018. The decrease in the Group's profit attributable to the Shareholders in 2019 was in line with the 8.7% decrease in the Group's gross profit in 2019.

(v) *Dividends*

The Company declared final dividends in 2017 and 2018 but did not declare any dividend in 2019 and the first half of 2020, due to the increasing uncertainty brought by the COVID-19 pandemic and foreseeable large capital expenditure required for the Group's production expansion and healthy kitchen market campaign.

Comments

We have discussed the Company's historical operational and financial performance with the management of the Group. The own branded products business, which enjoyed 36% – 40% gross profit margin in the past three and a half years, is the largest contributor to the Group's total revenue and profit, accounting for 68.0% of the total revenue and 100.4% of the total gross profit of the Group for the year ended 31 December 2019. Furthermore, among the business segments of the Group, own branded products have delivered consistently resilient financial performance, while non-branded products and corn meal, which offer a single digit gross profit margin and, in case of corn meal, a gross loss margin, have been sensitive to the market conditions and thus reported some volatilities in their sales performances.

Despite the Group suffered setbacks in its recent profitability amid the domestic consumption market underwent dramatic changes brought by the China-US tension and COVID-19 pandemic, with own brand “長壽花” development as its top priority and continuous expansion of sales network, the Group's operation has been sustainable and has strived to increase the sales of its higher margin own branded products through additional sales and marketing campaigns and investments.

(b) Financial position

Set out below are the summarised consolidated balance sheets of the Company as at 31 December 2017, 2018 and 2019 and 30 June 2020 as extracted from the 2018 Annual Report and the 2019 Annual Report and the 2020 Interim Report:

TABLE 7: SUMMARISED CONSOLIDATED BALANCE SHEETS OF THE GROUP

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December		
		2019 RMB'000 (Audited)	2018 RMB'000 (Audited)	2017 RMB'000 (Audited)
Total assets	3,830,927	3,857,051	3,535,102	3,439,043
Non-current assets	1,076,679	1,122,645	950,549	1,012,364
— Right-of-use assets/ land use right	167,372	169,345	173,036	176,175
Current assets	2,754,248	2,734,406	2,584,553	2,426,679
— Amount due from related companies	117,728	106,188	11,206	71,470
— Cash and bank balances	1,862,055	1,832,463	1,807,836	1,585,032
Total liabilities	384,984	543,532	491,831	693,060
Non-current liabilities	15,776	15,520	—	33,477
— Borrowings	15,756	15,476	—	33,477
Current liabilities	369,208	528,012	491,831	659,583
— Borrowings	—	—	—	166,560
— Amount due to related companies	20,894	16,289	22,745	6,155
Net assets attributable to Shareholders (“NAV”)	3,445,943	3,313,519	3,043,271	2,745,983
Gearing ratio ^(Note)	0.5%	0.5%	N/A	7.3%

Note: The gearing ratio was calculated based on interest-bearing borrowings divided by total equity.

(i) Total assets and total liabilities

As at 31 December 2017, 2018 and 2019 and 30 June 2020, the total assets of the Group were RMB3,439.0 million, RMB3,535.1 million, RMB3,857.1 million and RMB3,830.9 million, respectively, representing increases of 2.8% in 2018 and 9.1% in 2019 and a decrease of 0.7% in the first half of 2020. The increase in 2018 was largely attributable to the increase in cash and bank

balances as a result of the profit generated from its operation and enhanced capability in collecting trade receivable during the year. The increase in 2019 was mainly due to (i) the purchase of property, plant and equipment and deposit paid for acquisition of capital assets and land use rights; (ii) the purchase of software; and (iii) an increase in the amount due from related companies. The amount due from related companies which are controlled or wholly owned by the Offeror, amounted to RMB106.2 million as at 31 December 2019 as compared to RMB11.2 million as at 31 December 2018. The balances with related companies are unsecured, interest-free and repayable on demand. The total assets of the Group as at 30 June 2020 was about the same as that as at 31 December 2019.

The total liabilities of the Group decreased by 29.0% to RMB491.8 million as at 31 December 2018 mainly due to the repayment of bank borrowings, increased by 10.5% to RMB543.5 million as at 31 December 2019 largely due to the increase in contract liabilities relating to the advance considerations received from customers and dividend payables and taking out a short term borrowing, then decreased by 29.2% to RMB385.0 million as at 30 June 2020 mainly due to the decreases in trade payables and contract liabilities. The borrowings as at 31 December 2017, 2018 and 2019 and 30 June 2020 were RMB200.0 million, nil, RMB15.5 million and RMB15.8 million, respectively, and the gearing ratio of the Group for the corresponding dates were 7.3%, nil, 0.5% and 0.5%, respectively.

The Group's current ratio was 3.7 times, 5.3 times, 5.2 times and 7.5 times as at 31 December 2017, 2018 and 2019 and as at 30 June 2020 respectively.

(ii) *NAV*

The NAV of the Group were RMB2,746.0 million, RMB3,043.3 million, RMB3,313.5 million and RMB3,445.9 million as at 31 December 2017, 2018 and 2019 and 30 June 2020, respectively. The NAV per Share as at 30 June 2020 was RMB6.01 or HK\$6.81 (calculated based on a total of 573,560,000 Shares in issue as at the Latest Practicable Date).

Comments

The Group paid out steady dividends since its listing but did not pay any in 2019 and the first half of 2020 due to uncertainty brought by the COVID-19 pandemic and foreseeable large capital expenditure required for the Group's production expansion and healthy kitchen market campaign. The Group has a strong balance sheet with a gearing ratio of 0.5% as at 30 June 2020. The NAV of the Group attributable to the Shareholders as at 30 June 2020 was

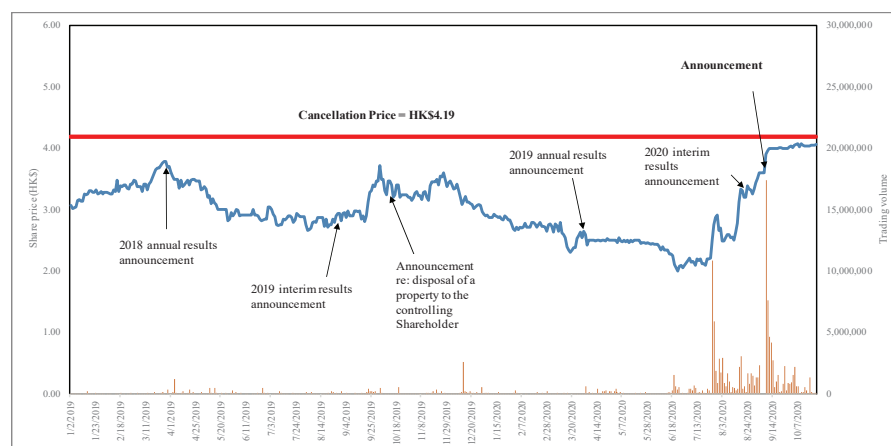
RMB3,445.9 million. The NAV per Share as at 30 June 2020 was RMB6.01 or HK\$6.81. The Cancellation Price represents a discount of 38.5% to the NAV per Share as at 30 June 2020. This is further discussed in the sections below.

5. Analysis of market price of the Shares

(a) Historical price performance compared to the Cancellation Price of HK\$4.19 per Scheme Share

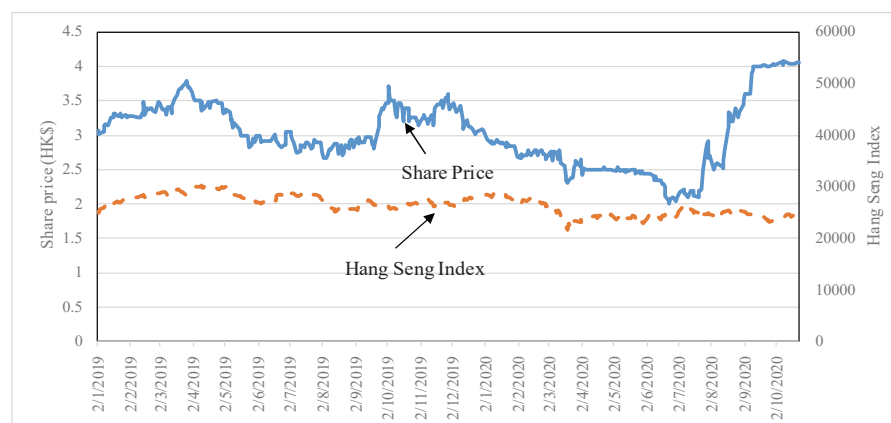
Set out below is the movement of the closing prices of the Shares during the period from 1 January 2019 up to and including the Latest Practicable Date (the “Review Period”):

FIGURE 7: SHARE PRICE PERFORMANCE



Source: Bloomberg and the Stock Exchange website

FIGURE 8: SHARE PRICE PERFORMANCE COMPARED TO HANG SENG INDEX



The Shares have traded below the Cancellation Price all the time and between HK\$2.00 and HK\$4.08 all the time during the Review Period. It recorded the highest closing price of HK\$4.08 on 7 October 2020 and the lowest closing price of HK\$2.00 on 23 June 2020.

The closing Share price saw a downward trend after it reached HK\$3.79 at the end of March 2019 when the Company released its 2018 annual results announcement. The Shares were traded most of the time at below HK\$3.00 from the end of May until the first half of September 2019. The Share closing price surged significantly to HK\$3.50 at the beginning of October 2019. On 11 October 2019, the Company announced a disposal of an employee quarters to the controlling Shareholder at a consideration of RMB11.5 million. The Share closing price then displayed a decreasing trend until end of July 2020. The Share closing price was about HK\$2.10-2.20 within the 30 days before the significant increase trading volume on 24 July 2020. About 10.9 million Shares changed hands on 24 July 2020 as opposed to the average daily trading volume of 201,083 Shares in June 2020. The Share price rose significantly thereafter and closed at HK\$3.60 before the release of the Announcement. As shown in the above Figure 8, it is observed that the Share price did not follow the movement of the Hang Seng Index during Review Period. We have discussed with the management of the Group for the fluctuations of the Share price during the Review Period and they are unaware of the reasons for the fluctuations.

Trading was halted on 3, 4 and 7 September 2020 pending the publication of the Announcement. Following the Announcement, we consider the Share price has been largely influenced by the Cancellation Price of HK\$4.19 per Share. The Shares closed at HK\$4.06 as at the Latest Practicable Date. The Cancellation Price of HK\$4.19 per Share represents a premium of approximately 3.2% over the closing Share price on the Latest Practicable Date.

(a) *Trading Liquidity*

Set out below are the monthly total trading volumes of the Shares and the percentages of the monthly total trading volume to the total issued Shares and public float of the Company since 1 January 2019:

TABLE 8: TRADING LIQUIDITY OF THE SHARES

	Monthly total trading volume of the Shares	Percentage of the monthly total trading volume of the Shares to the total issued Shares <i>(Note 1)</i>	Percentage of the monthly total trading volume of the Shares to public float of the Company <i>(Note 2)</i>
2019			
January	812,000	0.14%	0.30%
February	504,026	0.09%	0.19%
March	1,484,000	0.26%	0.55%
April	2,893,229	0.50%	1.08%
May	2,518,000	0.44%	0.94%
June	1,178,500	0.21%	0.44%
July	1,056,959	0.18%	0.39%
August	1,659,500	0.29%	0.62%
September	2,219,040	0.39%	0.83%
October	1,842,000	0.32%	0.69%
November	1,896,000	0.33%	0.71%
December	4,378,000	0.76%	1.63%
2020			
January	1,654,000	0.29%	0.62%
February	1,405,089	0.24%	0.52%
March	1,019,000	0.18%	0.38%
April	3,564,000	0.62%	1.33%
May	1,375,795	0.24%	0.51%
June	4,222,747	0.74%	1.57%
July	28,581,686	4.98%	10.64%
August	23,572,172	4.11%	8.78%
September	51,777,000	9.03%	19.28%
October (up to the Latest Practicable Date)	6,699,044	1.17%	2.49%

Source: Bloomberg

Notes:

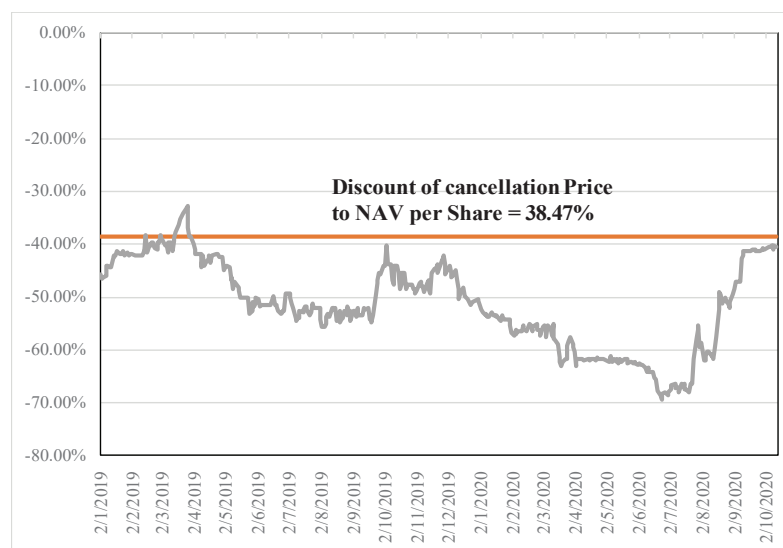
- (1) The calculation is based on the monthly total trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month or at the Latest Practicable Date, as applicable
- (2) The calculation is based on the monthly total trading volumes of the Shares divided by the total number of Shares held by the public as at the Latest Practicable Date

Based on the above table, the liquidity of the Shares during the Review Period has been, in our view, generally thin. Volume increased in July and August 2020 when the Share price picked up its upward momentum and reached HK\$3.60 before trading halt pending the issue of the Announcement. We have discussed with the management of the Group for the fluctuations of the Share price during the Review Period and they are unaware of the reasons for the increase. We consider that the unusual increase in trading volume is not supported by the fundamentals of the Group, and may not continue in the future. The relatively higher trading volume following publication of the Announcement is in our view principally related to Shareholders' positive expectation regarding the Proposal, and may not continue after it closes.

(c) *Discount of the Share price to the NAV per Share*

The Cancellation Price of HK\$4.19 per Scheme Share represents a discount of approximately 38.47% to the NAV per Share of approximately HK\$6.81 as at 30 June 2020 (calculated based on a total of 573,560,000 Shares in issue as at the Latest Practicable Date). We have reviewed the discounts of Share price to the NAV per Share (based on the interim and annual results announcements and the monthly returns) from time to time, which is set out in the following figure:

FIGURE 9: MOVEMENTS OF THE DISCOUNTS OF THE SHARE PRICE TO THE NAV PER SHARE



As set out in the figure above, the Shares have been trading at a discount to NAV per Share throughout the Review Period, ranging from 32.85% to 69.46% and at discounts deeper than the discount of 38.47% as represented by the Cancellation Price in 436 trading days out of a total of 447 trading days during the period from 1 January 2019 to the Latest Practicable Date.

The discounts of the closing price of the Shares were approximately 40.09-47.13% up to and including the Latest Practicable Date. Based on the Cancellation Price of HK\$4.19 per Scheme Share and the NAV per Share of approximately HK\$6.81 as at 30 June 2020, the Cancellation Price represents a discount to the NAV per Share of approximately 38.47%, which is significantly less than the historical discounts of the Shares for most of the time as shown in Figure 9 above.

Comments

As mentioned above, the Shares (i) closed significantly lower than the Cancellation Price; and (ii) has been traded at deeper discounts to NAV per Share most of the time during the Review Period. The Shares have been traded at discount to the NAV per Share during the Review Period and have less discount to 38.47% as represented by the Cancellation Price in only 11 trading days in February and March 2019 during the Review Period. The Share price retreated after the release of the 2018 annual results announcement on 27 March 2019 and represented deeper discount to the NAV per Share as compared to that of the Cancellation Price until the Latest Practicable Date. This might be due to the limited growth in the sales of its own branded product as evidenced by the Group's year-on-year decrease of 9.8% and increase of 2.9% in the sales of own branded products, which carried significantly higher profit margin than non-branded products and corn meal, for the year ended 31 December 2018 and 2019, respectively. The Share price before the release of the 2018 annual results announcement, in our view, had not yet reflected the latest trading position of the Group.

In addition, we are of the view that the Shares have not been actively traded during the Review Period except for July and August 2020 and therefore the Proposal provides an opportunity for the Scheme Shareholders to exit at a fixed cash with a favourable premium. The recent over-performance of the Shares is, in our opinion, due to the release of the Announcement. Shareholders should therefore be aware that the current Share price may not be sustainable if the Proposal and the Scheme lapse and the Share price may return to the level before the release of the Announcement.

6. Comparable companies analysis

The Group is principally engaged in the corn oil business, the production and sales of refined edible sunflower seed oil, olive oil, peanut oil and rice germ oil, and the production and sales of corn meal in the PRC with corn embryo as its major raw material. Therefore, based on Bloomberg and AASTOCKS's equity screening tools and with reference to the relevant company descriptions, we have identified, on a best effort basis, the companies listed in Hong Kong which are profitable in the latest financial year with majority of their revenue derived from the PRC market and are primarily engaged in manufacture and sale of oilseeds business or corn related food additives (the "**Comparable Companies**"). The Comparable Companies, based on the above selection

criteria as far as we are aware of, are exhaustive, and are thus considered to be fair and representative samples. In conducting our analysis, we have compared the price-to-earning ratio (“PER”) and price-to-book ratio (“PBR”) of the Company implied by the Cancellation Price and those of the Comparable Companies, which, we consider, are widely accepted methods to evaluate a profitable business. Details of the Comparable Companies are set out in the table below:

TABLE 9: COMPARABLE COMPANIES

Company	Principal business ⁽¹⁾	Market capitalisation as at the Last Trading Day ⁽²⁾ (HK\$ million)	PER ⁽³⁾ (times)	PBR ⁽⁴⁾ (times)
Lam Soon (Hong Kong) Limited (411)	Manufacture and sale of a broad range of food products including flour and edible oil, around 85% of its revenue generated from the PRC.	2,983.5	9.42	1.20
China Starch Holdings Limited (3838)	Manufacture and sale of cornstarch, lysine, starch-based sweetener, modified starch, ancillary corn-based and corn-refined products, around 90% of its revenue from the PRC.	911.4	4.99	0.28
Fufeng Group Limited (546)	Manufacture and sale of food additives and amino acid products with corn as major raw materials for production, around 72% of its revenue from the PRC.	6,764.8	6.60	0.52
		Minimum	4.99	0.28
		Maximum	9.42	1.20
		Average	7.00	0.67
		Median	6.60	0.52
The Company	Manufacture and sale of corn oil and other edible oil, and corn meal	2,064.2	6.07 ⁽⁵⁾ 7.06 ⁽⁶⁾	0.53 ⁽⁵⁾ 0.62 ⁽⁶⁾

Source: Bloomberg, the website of the Stock Exchange and AASTOCKS

Notes:

- (1) The percentages of the revenue generated from the PRC of the Comparable Companies are calculated based on the revenue generated from the PRC divided by the total revenue as referenced from their most recently published annual reports.
- (2) The market capitalisation of the Comparable Companies and the Company are calculated based on the closing price of the respective companies as at the Last Trading Day multiplied by the number of ordinary shares as set out in their respective monthly return for 31 August 2020.
- (3) The PERs of the Comparable Companies and the Company are calculated based on the market capitalisation of the respective companies as at the Last Trading Day divided by the earnings of the respective companies for the trailing 12 months as referenced from their most recently published annual reports/interim results.
- (4) The PBRs of the Comparable Companies and the Company are calculated based on the market capitalisation of the respective companies as at the Last Trading Day divided by net asset attributable to the shareholders of the relevant companies as referenced from their most recently published annual reports/interim results.
- (5) The PER and PBR of the Company are calculated based on the Share price of HK\$3.60 as at the Last Trading Day.
- (6) The PER and PBR of the Company are calculated based on the Cancellation Price of HK\$4.19.

A total of 3 Comparable Companies have been identified. As shown above, the PER of the Comparable Companies ranged from 4.99 times to 9.42 times with an average of 7.00 times and a median of 6.60 times. The PBR of the Comparable Companies ranged from 0.28 times to 1.24 times with an average of 0.67 times and a median of 0.52 times. The Company's PER of 7.06 times and PBR of 0.62 times as represented by the Cancellation Price are within the range of the Comparable Companies and, in case of PER, higher than both the average and median of the Comparable Companies and, in case of PBR, slightly lower than the average but higher than the median of the Comparable Companies.

Comments

Three Comparable Companies are identified and are considered to engage in similar business segment as the Company or have same raw material exposure to some extent. As shown in Table 9, Comparable Companies' businesses include manufacture and sale of a broad range of food products, corn starch and food additives but none of them has edible corn oil as its single principal product and, thus, their multiples could only provide a general reference. On this basis, we are of the view that the Comparable Companies are not useful to draw a meaningful comparison to the Cancellation Price.

7. Privatisation Precedents

We have compared the Proposal with privatisation proposals of other companies listed on the Main Board of the Stock Exchange announced during the Review Period, excluding privatisation proposals which were not or are yet to be approved (or, where applicable, required acceptance level were not

or yet to be achieved) or involving a share consideration (the “**Privatisation Precedents**”). The Privatisation Precedents, in our view, not only provide the premium or discount that an offeror is willing to pay for taking the listed companies private but also the premium or discount that most of the independent shareholders (subject to the required thresholds as stipulated under the Takeovers Code) are willing to accept for tendering their shares to the offeror. Thus, privatisation precedents excluding the failed ones are considered appropriate for comparison purpose. The Privatisation Precedents represent an exhaustive list of privatisation proposals meeting the said criteria and reflect the pricing of recent transactions of this type.

The following table is the comparison of premiums over the then market prices at which the Privatisation Precedents were priced and the level of premium or discount to NAV per share at which the Privatisation Precedents were made, although the business nature and scale of each company vary and some aspects of pricing may be industry-specific.

TABLE 10: Privatisation Precedents

Date of Rule 3.5/3.7 announcement	Company (stock code)	Premium/(discount) of offer price/ cancellation price over/to closing share price/average share price on/over						Premium/(discount) of NAV per share ⁽²⁾⁽³⁾
		Last trading day ⁽²⁾⁽⁴⁾	5 trading days ⁽²⁾⁽⁴⁾	30 trading days ⁽²⁾⁽⁴⁾	60 trading days ⁽²⁾⁽⁴⁾	90 trading days ⁽²⁾⁽⁴⁾	120 trading days ⁽²⁾⁽⁴⁾	
29-Jul-20	Xinhua Port Holdings Ltd (1990)	23.67%	31.29%	52.67%	89.12%	120.62%	136.09%	102.42%
8-Jul-20	O-Net Technologies (Group) Ltd (877)	23.57%	25.29%	24.71%	27.84%	33.02%	37.80%	126.48%
2-Jul-20	Vantage International (Holdings) Limited (15)	80.00%	90.68%	119.51%	113.69%	106.24%	95.42%	(61.70)%
22-Jun-20	EVOC Intelligent Technology Company Ltd (2308)	70.45%	83.82%	100.53%	104.36%	101.52%	96.04%	(35.34)%
21-Jun-20	China Baofeng (International) Limited (3966)	27.45%	57.77%	52.34%	42.49%	38.91%	37.09%	(5.45)%
17-Jun-20	Golden Meditech Holdings Ltd (801)	41.94%	48.65%	61.86%	59.52%	41.58%	31.82%	(33.23)%
12-Jun-20	Jinmao Hotel and Jinmao (China) Hotel Investments and Management Ltd (6139)	30.43%	57.79%	82.32%	88.22%	67.88%	52.62%	81.13%
5-Jun-20	Capxon International Electronic Company Ltd (469)	79.10%	89.27%	88.09%	90.48%	78.10%	67.64%	(37.50)%
1-Jun-20	Huadian Fuxin Energy Corporation Ltd (816)	65.56%	82.22%	87.45%	89.54%	86.41%	79.14%	(14.09)%

Date of Rule 3.5/3.7 announcement	Company (stock code)	Premium/(discount) of offer price/ cancellation price over/to closing share price/average share price on/over						Premium/ (discount) of NAV per share ⁽²⁾⁽³⁾
		Last trading day ⁽²⁾⁽⁴⁾	5 trading days ⁽²⁾⁽⁴⁾	30 trading days ⁽²⁾⁽⁴⁾	60 trading days ⁽²⁾⁽⁴⁾	90 trading days ⁽²⁾⁽⁴⁾	120 trading days ⁽²⁾⁽⁴⁾	
3-Apr-20	Elec & Eltek International Company Limited (1151) ("Elec & Eltek")	67.55% ⁽⁶⁾	46.53% ⁽⁶⁾	39.05% ⁽⁶⁾	38.72% ⁽⁶⁾	42.51% ⁽⁶⁾	44.88% ⁽⁶⁾	3.15% ⁽⁶⁾
20-Mar-20	Li & Fung Ltd (494)	150.00%	157.73%	95.16%	72.67%	62.12%	56.96%	8.23% ⁽⁶⁾
20-Jan-20	BBI Life Sciences Corporation (1035)	16.28%	23.76%	42.45%	46.10%	47.92%	55.65%	109.74%
12-Dec-19	Joyce Boutique Group Limited (647)	91.78%	91.26%	82.17%	62.70%	50.05%	39.81%	19.91%
27-Nov-19	China Agri-Industries Holdings Limited (606)	34.07%	35.61%	53.17%	64.73%	72.49%	72.62%	(23.56)%
1-Nov-19	Springland International Holdings Limited (1700)	63.12%	67.88%	56.82%	55.39%	53.22%	51.33%	(18.15)%
20-Oct-19	Dah Chong Hong Holdings Limited (1828)	37.55%	37.34%	54.85%	55.93%	54.22%	49.81%	(28.16)%
3-Oct-19	Huaneng Renewables Corporation Limited (958)	46.08% ⁽⁵⁾	50.95% ⁽⁵⁾	55.72% ⁽⁵⁾	51.17% ⁽⁵⁾	51.28% ⁽⁵⁾	47.77% ⁽⁵⁾	(4.52)%
2-Oct-19	AVIC International Holdings Ltd (161)	29.12%	43.82%	81.31%	88.63%	100.17%	96.09%	18.42% ⁽⁶⁾
12-Aug-19	TPV Technology Limited (903)	41.39%	46.77%	54.50%	75.04%	87.41%	104.03%	(24.76)%
27-Jun-19	Asia Satellite Telecommunications Holdings Ltd (1135)	23.43%	31.46%	44.44%	50.44%	56.52%	63.48%	10.01%
18-Jun-19	C.P. Lotus Corporation (121)	10.00%	10.22%	29.36%	30.33%	26.50%	28.13%	52.78%
14-Jun-19	China Automation Group Limited (569)	23.97% ⁽⁵⁾	27.33% ⁽⁵⁾	47.78% ⁽⁵⁾	47.44% ⁽⁵⁾	46.63% ⁽⁵⁾	45.43% ⁽⁵⁾	16.01%
4-Apr-19	China Hengshi Foundation Company Ltd (1197)	10.62%	14.57%	17.50%	19.03%	24.39%	25.40%	42.05%
28-Mar-19	China Power Clean Energy Development Company Ltd (735)	41.93%	54.92%	78.36%	94.07%	101.76%	105.74%	(35.08)%
5-Dec-18	Hopewell Holdings Limited (54)	46.69%	48.83%	55.52%	54.09%	49.62%	48.21%	(35.56)%
30-Oct-18	Advanced Semiconductor Manufacturing Corporation Limited (3355)	66.67%	85.64%	99.29%	93.38%	90.19%	87.40%	89.87%
27-Sep-18	Sinotrans Shipping Ltd (368)	50.00%	54.82%	43.11%	37.43%	32.64%	32.46%	(25.21)%

Date of Rule 3.5/3.7 announcement	Company (stock code)	Premium/(discount) of offer price/ cancellation price over/to closing share price/average share price on/over						Premium/(discount) of NAV per share ⁽²⁾⁽³⁾
		Last trading day ⁽²⁾⁽⁴⁾	5 trading days ⁽²⁾⁽⁴⁾	30 trading days ⁽²⁾⁽⁴⁾	60 trading days ⁽²⁾⁽⁴⁾	90 trading days ⁽²⁾⁽⁴⁾	120 trading days ⁽²⁾⁽⁴⁾	
10-Jun-18	Hong Kong Aircraft Engineering Company Limited (44)	63.20%	63.24%	62.44%	60.24%	56.96%	54.20%	99.25%
7-Jun-18	Portico International Holdings Ltd (589)	50.18%	51.63%	49.18%	45.18%	45.82%	48.14%	(9.89)%
10-Nov-17	Welling Holding Ltd. (382)	30.38%	30.38%	34.20%	35.84%	28.81%	25.22%	22.62%
3-Jul-17	China Assets (Holdings) Limited (170)	61.52%	70.26%	76.73%	77.11%	76.60%	75.43%	(53.82)%
19-Jun-17	Bloomage BioTechnology Corporation Limited (963)	13.99%	20.92%	24.40%	30.25%	33.73%	35.19%	215.28%
	Maximum	150.00%	157.73%	119.51%	113.69%	120.62%	136.09%	215.28%
	Minimum	10.00%	10.22%	17.50%	19.03%	24.39%	25.22%	(61.70)%
	Average	47.24%	54.15%	60.84%	62.22%	61.43%	60.22%	17.85%
	Median	41.93%	49.89%	55.19%	57.72%	53.72%	51.98%	(0.68)%
	The Company	16.39%	22.16%	43.23%	64.10%	65.78%	66.13%	(38.47)%

Source: Bloomberg and the Stock Exchange website

Notes:

- (1) Unless otherwise stated, the above premium/(discount) of the offer/cancellation price over the last trading price and average closing price per share (up to and including the relevant last trading day) are calculated based on the last trading price prior to the commencement of the offer period.
- (2) Subject to rounding differences.
- (3) It represents the premium/(discount) of offer price/cancellation price over or to the NAV per share quoted from the respective privatisation documents without taking into account any adjustments arising from, amongst other, revaluation of properties set out therein.
- (4) Up to and including the last trading day of the shares prior to the publication of the Rule 3.5 announcement or Rule 3.7 announcement (where applicable).
- (5) The premium/(discount) is calculated based on the share offer price over the last trading day and the average of the respective trading days (up to and including the relevant last trading day) prior to the publication of the initial Rule 3.7 announcement.
- (6) The relevant premiums of Elec & Eltek are calculated based on the ex-dividend offer price.

(a) *Premiums/(discounts) over/to the prevailing share price*

The premiums/(discounts) of the above Privatisation Precedents represented by the offer or cancellation price over/to their respective share closing price on the last trading day prior to the earlier of publication of the Rule 3.5 announcement or initial Rule 3.7 announcement (if any) and 5-, 30-, 60-, 90- and 120-trading day average share price (up to and including the last trading day) ranged from 10.00% to 150.00%, 10.22% to 157.73%, 17.50% to 119.51%, 19.03% to 113.69%, 24.39% to 120.62% and 25.22% to 136.09% with averages of 47.24%, 54.15%, 60.84%, 62.22%, 61.43% and 60.22%, respectively and with medians of 41.93%, 49.89%, 55.19%, 57.72%, 53.72% and 51.98%, respectively.

The premiums represented by the Cancellation Price over the closing Share price on the Last Trading Day and 5-, 30-, 60-, 90-, and 120-trading day average Share price (up to and including the Last Trading Day) are 16.39%, 22.16%, 43.23%, 64.10%, 65.78% and 66.13%, respectively, are all within the range of the respective premiums of the Privatisation Precedents, and among which (i) the relevant Last Trading Day and 5-, and 30-trading day premiums are lower than the averages and medians of those of the Privatisation Precedents; and (ii) the relevant 60-, 90- and 120-trading day premiums are higher than the averages and medians of those of the Privatisation Precedents.

(b) *Premiums/(discounts) over the NAV per Share*

The Cancellation Price of HK\$4.19 per Share as compared with the NAV per Share of HK\$6.81, represents a discount of 38.47%.

From the Privatisation Precedents, we have observed the consideration as compared with the respective NAV ranging from a discount of 61.70% to a premium of 215.28%, with an average of 17.85% and a median of (0.68)%. Out of the 32 Privatisation Precedents, the consideration in 16 cases represent premiums ranging from 3.15% to 215.28% over the respective NAV per share with an average premium of 63.58% and a median premium of 47.42% and 16 cases represent a discount ranging from 4.52% to 66.32% to the respective NAV per share with an average discount of 27.88% and a median discount of 26.69%.

The discount represented by the Cancellation Price per Scheme Share as compared with the NAV per Share fell within the range of those of the Privatisation Precedents and the range of the 16 cases with discounts to their respective NAV per share but is a slightly deeper than both the average and median of the 16 cases. Despite deeper than both the average and median of the 16 cases, the discount represented by the Cancellation Price to NAV per Share, as discussed in the sub-section headed “5.(c) Discount of the Share Price to the NAV per Share” of this letter, is actually narrower than the discounts represented by historical Share price to the NAV per Share most of the time during the Review Period.

Comments

As discussed in sub-section “5. (a) Historical price performance compared to the Cancellation Price of HK\$4.19 per Scheme Share”, the Share price started to rise when the trading volume increased significantly on 24 July 2020 and significantly outgrew the performance of the Hang Seng Index, for which the management of the Group is unaware of the reasons. The unusual Share price movements and trading volume on and after 24 July 2020, which are unrelated to the fundamentals of the Group or the industry outlook or change of market sentiment, have significantly increased the valuation of the Company. It is uncertain as to whether such enhanced valuation is sustainable and therefore, we tend to place more weight on premiums represented by the Cancellation Price over 60-, 90- and 120-trading day average Share price periods which are higher than the respective averages of the Privatisation Precedents. In fact, the Cancellation Price represents 92.2%, 80.32% and 75.96% premiums over the average Share price during the 30-, 60- and 90-trading day period ended on 23 July 2020.

The cancellation/offer prices of a total of 32 Privatisation Precedents represented from a discount of 61.70% to a premium of 215.28% to/over their respective NAV per share. The Cancellation Price represents a discount of 38.47% to the NAV per Share which falls within the range of those of a total of 16 Privatisation Precedents from 4.52% to 61.70 % with discounts to their respective NAV per share but is deeper than both the average and median of the 16 cases and represents a narrower discount than those represented by historical Share prices to the NAV per Share most of the time during the Review Period. The wide range across the Privatisation Precedents, in our view, is due to different business nature, scale and industries in which the companies operate and therefore suggests that no concrete conclusion can be drawn from the comparison between their cancellation price and their respective NAV per share.

VI. DISCUSSION OF THE PRINCIPAL FACTORS AND REASONS

In forming our opinion and recommendation below, we have taken into account the factors set out under the section headed “IV. Principal factors and reasons considered” above, none of which can be considered in isolation. We would like to draw the attention of the Scheme Shareholders in particular to the points summarised below:

(a) Premium over market price as compared with Privatisation Precedents

The realisable value of the Shareholders’ investment in the Company depends on the Share price. The Cancellation Price is higher than the closing Share prices in all trading days not only during the Review Period but also since the beginning of 2017. Given all the Privatisation Precedents offer cancellation/offer price representing premiums over the prevailing market price, it is important to assess the fairness of the Cancellation Price by comparing its premium over recent Share prices with those of the Privatisation Precedents. The Share price rose significantly from around HK\$2.10-HK\$2.20 within the 30 days before the significant increase in trading volume on 24 July 2020 to HK\$3.60 on the Last Trading Day. The Cancellation Price represents premiums

of 16.39%, 22.16% and 43.23% over the closing/average Share price on the Last Trading Day and last 5- and 30-trading days as opposed to premiums of 64.10% - 65.78% over 60-, 90- and 120-trading day average price. The unusual Share price movements and trading volume on and after 24 July 2020, which are unrelated to the fundamentals of the Group or the industry outlook or change of market sentiment, have significantly increased the valuation of the Company. It is uncertain as to whether such enhanced valuation is sustainable if the Proposal lapses and therefore, we tend place more weight on premiums represented by the Cancellation Price over 60-, 90- and 120-trading day average Share price periods which are higher than both the respective averages and medians of the Privatisation Precedents.

The Company has been listed since December 2009 at an initial public offering (“IPO”) price of HK\$3.59 per Share. The Cancellation Price represents 16.71% premium over its IPO price.

The Proposal is to be implemented at the Cancellation Price of HK\$4.19 per Scheme Share in cash and, if the Proposal becomes effective, will offer the Scheme Shareholders an opportunity to exit with a considerable premium as compared with the historical Share price. The Company will not increase the Cancellation Price for the Proposal and does not reserve the right to increase the Cancellation Price. If the Proposal fails, the Company cannot in normal circumstances put forward another such proposal for at least twelve months.

(b) Profitability and competitive operating environment

The Company has been engaged in production and sale of edible corn oil products since its listing in 2009 with less than 20% of its revenue derived from the sale of its own branded products in 2009 to over 70% for the six months ended 30 June 2020. Profitability of the Group has demonstrated a general increasing trend since its listing with a couple of years registered 1%-20% year-on-year decline in profit. The Company recorded year-on-year decline in profit attributable to Shareholders for the year ended 31 December 2019 and the six months ended 30 June 2020 of 7.6% and 13.3%, respectively, due to the decrease in gross profit margin of own branded products by 4.1% for 2019 and the increase in transportation cost for the first half of 2020.

The competition of the China edible oil industry has been intensive. With the improving health consciousness in the PRC, the Group’s edible corn oil products are becoming more acceptable in the Chinese consumer market. The Group has been accelerating brand building by increased investment in advertising and promotion and optimizing its sales network with an aim to gradually expand its distribution network into all counties, townships and communities in the PRC. The Group’s efforts in brand building and enhancing distribution capability has been evidenced by its increase in sales of own branded products by 18.4% and selling and distribution cost by 13.6%, year-on-year, for the six months ended 30 June 2020 which led to a drop in profit attributable to Shareholders by 13.3%. The Group’s profitability is dependent on its capability to enhance its brand awareness and market share by extending its geographical reach as well as to implement effective cost control in future.

(c) The Scheme presents a good opportunity to realise the Shares given the low trading volume

Since the beginning of 2019 up to the release of the Announcement, we are of the view that the liquidity of the Shares was generally low (except for July to September 2020). An unusual increase in trading volume recorded on 24 July 2019 for which the management of the Group is unaware of the reason. The trading volume had been relatively higher until the trading halt pending the publication of the Announcement. Otherwise, we are however of the view that the Shares cannot be regarded as having been actively traded. Accordingly, the Proposal provides an exit opportunity for the Scheme Shareholders (especially those with relatively sizeable shareholdings) who would like to realise their investments in the Shares at a fixed cash price without disturbing the market price.

(d) The Cancellation Price represents a narrower discount to NAV per Share than the historical ones most of the time during the Review Period

The Cancellation Price represents a discount of approximately 38.47% to the NAV per Share of HK\$6.81. However, the Shares have been trading at discounts to NAV per Share throughout the Review Period, ranging from 32.85% to 69.46% and had discounts deeper than the discount of 38.47% as represented by the Cancellation Price in 430 trading days out of a total of 441 during the period from 1 January 2019 to the Latest Practicable Date. Less discounts in 11 trading days recorded in February and March 2019 before the release of the 2018 annual results announcement by the Company and the then Share price had not yet reflected the latest trading position of the Group. The discounts of the closing price to the NAV of the Shares narrowed after the Company issued the Announcement on 7 September 2020 which in our view may not be sustainable at the current level if the Proposal and the Scheme lapse.

The wide range of premiums over and discounts to the NAV per share across the Privatisation Precedents as discussed in section “7. Privatisation Precedents” above, in our view, suggests that no concrete conclusion can be drawn from the comparison between their cancellation price and their respective NAV per share and may not be of immediate relevance to our analysis.

(e) Cross check against Comparable Companies

The Cancellation Price of HK\$4.19 per Scheme Share represents a PER of 7.06 times (based on the net profit attributable to the Shareholders for the trailing 12 months) which is higher than both the average and median of the Comparable Companies, ranging from 4.99 times to 9.42 times as at the Last Trading Day and a PBR of 0.62 times (based on its NAV as at 30 June 2020) which is slightly below the average but higher than the median of the Comparable Companies, ranging from 0.28 times to 1.20 times as at the Last Trading Day. As shown in Table 9, Comparable Companies’ businesses include manufacture and sale of a broad range of food products, corn starch

and food additives but none of them has edible corn oil as its single principal product and, thus, their multiples could only provide a general reference. On this basis, the comparison of cancellation consideration to the NAV per share in the Comparable Companies, in our view, may not be of immediate relevance to our analysis.

VII. OPINION AND RECOMMENDATION

Based on the above analysis, in particular, (i) the Cancellation Price has been higher than the closing Share price not only throughout the Review Period but also since the beginning of 2017; (ii) the Cancellation Price represented premiums of 64.10% - 65.78% over 60-, 90- and 120-trading day average price, which are higher than both the respective averages and medians of the Privatisation Precedents; (iii) the liquidity of the Shares was generally low (except for July to September 2020); (iv) the recent profitability of the Group declined due to the efforts made to increase the sales of own branded products by incurring additional selling distribution cost under competitive operating environment; (v) the current Share price may not be sustainable if the Proposal and the Scheme lapse and the Share price may return to the level before the release of the Announcement; and (vi) it is uncertain as to whether the enhanced valuation of the Company in the 30 days before the release of the Announcement is sustainable, which is unrelated to the fundamentals of the Group or the industry outlook or change of market sentiment, if the Proposal lapses, we consider the terms of the Proposal and the Scheme to be fair and reasonable so far as the Independent Shareholders are concerned and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the Extraordinary General Meeting to approve and implement the Proposal and the Scheme.

The closing Share price at the Latest Practicable Date was HK\$4.06 per Share, below the Cancellation Price of HK\$4.19 per Scheme Share. However, there is still a possibility, not in our view likely, that the Share price may exceed the Cancellation Price in the period up to 20 November 2020, being the expected last day for trading in the Shares on the Stock Exchange. Accordingly, Scheme Shareholders are reminded to monitor the trading price and liquidity of the Shares during this period and, having regard to their own circumstances, for Scheme Shareholders, consider selling their Shares in the open market if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the net proceeds expected to be received under the Scheme.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Jenny Leung
Director

Ms. Jenny Leung is a licensed person and responsible officer of Somerley registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.

This Explanatory Memorandum constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

1. INTRODUCTION

On 7 September 2020, the Offeror and the Company jointly announced that on 7 September 2020, the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of the Scheme. Assuming no new Shares are issued after the Scheme Record Date, upon completion of the Scheme, the Company will become directly wholly-owned by the Offeror, and the listing of the Shares will be withdrawn from the Stock Exchange.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal and to provide Scheme Shareholders with additional information in relation to the Proposal.

2. TERMS OF THE PROPOSAL

The Proposal will be implemented by way of a scheme of arrangement under section 86 of the Companies Law.

The implementation of the Proposal is conditional upon the fulfillment or waiver, as applicable, of the Conditions as described in the section headed “4. Conditions of the Proposal and the Scheme” below.

The Scheme

The Scheme will become effective and binding on the Company and all Shareholders subject to the fulfilment or waiver, as applicable, of the Conditions as described in the section headed “4. Conditions of the Proposal and the Scheme” below.

The Scheme involves the cancellation of the Scheme Shares. Contemporaneously with such cancellation, the share capital of the Company will be maintained by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company’s books of account as a result of the cancellation of the Scheme Shares will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror. Assuming that no new Shares are issued after the Scheme Record Date, upon completion of the Scheme, the Company will become directly wholly-owned by the Offeror, and the listing of the Shares will be withdrawn from the Stock Exchange.

The Scheme provides that, in consideration of the cancellation of the Scheme Shares, the Scheme Shareholders will be entitled to receive from the Offeror the Cancellation Price of HK\$4.19 in cash for each Scheme Share cancelled under the Scheme as at the Effective Date.

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

The Company has not declared any dividend payable after the date of this Scheme Document, and does not intend to declare or pay any dividend before the Effective Date or the date on which the Scheme is not approved or the Proposal otherwise lapses (as the case may be). The Cancellation Price in any event does not include any dividend that may be declared by the Company after the date of this Scheme Document.

The Cancellation Price of HK\$4.19 per Scheme Share in cash represents:

- a premium of approximately 16.4% over the closing price of HK\$3.60 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 22.2% over the average closing price of approximately HK\$3.43 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- a premium of approximately 43.2% over the average closing price of approximately HK\$2.93 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 64.1% over the average closing price of approximately HK\$2.55 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 65.8% over the average closing price of approximately HK\$2.53 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 66.1% over the average closing price of approximately HK\$2.52 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 3.2% over the closing price of HK\$4.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 36.0% to the audited consolidated net asset value of the Company of approximately RMB5.78 per Share (based on RMB to HK\$ exchange rate of RMB0.88227 to HK\$1, being the exchange rate as quoted by the People's Bank of China on the Last Trading Day) as at 31 December 2019; and
- a discount of approximately 38.5% to the audited consolidated net asset value of the Company of approximately RMB6.01 per Share (based on RMB to HK\$ exchange rate of RMB0.88227 to HK\$1, being the exchange rate as quoted by the People's Bank of China on the Last Trading Day) as at 30 June 2020.

The Cancellation Price has been determined on a commercial basis after taking into account, among others, the prices of the Shares traded on the Stock Exchange.

3. TOTAL CONSIDERATION AND FINANCIAL RESOURCES CONFIRMATION

On the assumption that no further Shares are issued before the Scheme Record Date, the maximum cash consideration payable for the Proposal is approximately HK\$1,150,250,327.

As at the Latest Practicable Date, the Offeror is financing the entire cash consideration payable for the Proposal from funds received from the Sanxing Grease Equity Contribution (as defined below).

CICC, the financial adviser to the Offeror in connection with the Proposal, is satisfied that sufficient financial resources are available to the Offeror for satisfying its obligations in respect of the full implementation of the Proposal in accordance with its terms.

4. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following:

- (1) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting provided that:
 - (a) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
 - (b) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by all Independent Shareholders;
- (2) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to (i) approve and give effect to any reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and (ii) contemporaneously therewith maintain the issued share capital of the Company at the amount prior to the cancellation of the Scheme Shares by applying the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror;

- (3) the sanction of the Scheme (with or without modifications) by the Grand Court and, to the extent necessary, its confirmation of any reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (4) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to any reduction of the issued share capital of the Company;
- (5) all authorisations, approvals, permissions, waivers and consents and all registrations and filings (including without limitation any which are required under or in connection with any applicable laws or regulations or any licences, permits or contractual obligations of the Company) in connection with the Proposal or its implementation and the withdrawal of listing of the Shares from the Stock Exchange in accordance with its terms which are required to be obtained (or, as the case may be, completed) prior to the completion of the Proposal having been obtained (or, as the case may be, completed) and remaining in full force and effect without modification;
- (6) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme;
- (7) since the Announcement Date, there having been no adverse change in the business, assets, financial or trading position, profits or prospects of any member of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal or its implementation in accordance with its terms) whether or not as a result of the implementation of the Proposal; and
- (8) since the Announcement Date, each member of the Group (a) remaining solvent and not being subject to any insolvency, reorganisation, moratorium, receivership, administration, bankruptcy or similar proceedings or any other enforcement proceedings anywhere in the world; and (b) no injunction or freezing order having been made, and no liquidator, receiver, administrator or other person carrying out any similar function having been appointed, anywhere in the world in respect of the whole or any substantial part of the assets and undertakings of any member of the Group.

The Offeror reserves the right to waive Conditions (5) to (8) (inclusive) either in whole or in part, either generally or in respect of any particular matter. Conditions (1), (2), (3) and (4) (inclusive) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the

Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. The Company has no right to waive any of the Conditions.

With reference to Condition (5), as at the Latest Practicable Date, other than those set out in Conditions (1) to (4) (inclusive) and the approval of the Stock Exchange for the withdrawal of listing of the Shares upon the Scheme becoming effective, the Offeror and the Company are not aware of any outstanding authorisations, approvals, permissions, waivers, consents, registrations or filings. As at the Latest Practicable Date, the Offeror and the Company are not aware of any circumstances which may result in Condition (6) not being satisfied.

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct and in all cases, as permitted by the Executive), failing which the Proposal will not be implemented and the Scheme will lapse.

As at the Latest Practicable Date, the Conditions are subject to fulfilment (unless otherwise waived, where applicable) and none of the Conditions have been waived.

Assuming that the above Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or about Thursday, 3 December 2020 (Cayman Islands time). Further announcements will be made including in particular in relation to (i) the results of the Court Meeting and the Extraordinary General Meeting and, if all the resolutions are passed at those meetings, (ii) the result of the hearing of the petition for the sanction of the Scheme and, to the extent necessary, confirmation of any reduction of the share capital of the Company associated with the Scheme by the Grand Court, (iii) the Scheme Record Date, (iv) the Effective Date and (v) the date of withdrawal of the listing of the Shares on the Stock Exchange as further set out in “Part III — Expected Timetable” of this Scheme Document.

If approved, the Scheme will be binding on all of the Scheme Shareholders, irrespective of whether or not they attended or voted or how they voted at the Court Meeting or the Extraordinary General Meeting. If the Scheme is not approved or the Proposal otherwise lapses, an announcement will be made by the Offeror and the Company.

Shareholders and potential investors should be aware that the implementation of the Scheme and the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented, and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

5. IRREVOCABLE UNDERTAKING

The Offeror received the Irrevocable Undertaking from the IU Shareholder on 28 September 2020, pursuant to which the IU Shareholder irrevocably undertook to:

- (a) exercise (or procure the exercise) of all voting rights attached to the Shares held or owned by the IU Shareholder at the Court Meeting and the Extraordinary General Meeting in connection with the Proposal in favour of all the resolutions to approve the Scheme and any matters in connection with the Scheme (where applicable);
- (b) exercise (or procure the exercise of) the voting rights attached to the Shares held or owned by the IU Shareholder against any resolution which (i) might reasonably be expected to restrict, impede or delay implementation of the Scheme; or (ii) approves or gives effect to (and will agree not to be bound by) a proposal by a person other than the Offeror, to acquire (or have issued to it) any Shares or any assets of the Company or to privatise the Company; and
- (c) withdraw such Shares held or owned by the IU Shareholder from CCASS (if such Shares are not registered in the name of the IU Shareholder) and to sign and deliver forms of proxy at the prescribed time after the publication of the Scheme Document, and not revoke or revise such forms of proxy or the voting instructions.

The IU Shareholder further irrevocably undertook that the IU Shareholder shall not (i) sell, transfer, charge, encumber, grant any option over or otherwise dispose of such Shares held or owned by the IU Shareholder, (ii) accept any other offer in respect of such Shares held or owned by the IU Shareholder, or (iii) take any action or enter into any agreement or arrangement which would or might impede or otherwise preclude the performance of the terms of the Irrevocable Undertaking. The Irrevocable Undertaking will be terminated and the obligations of the IU Shareholder under the Irrevocable Undertaking shall lapse and cease to be binding if the Scheme does not become effective, lapses or is withdrawn in accordance with its terms and no new, revised or replacement Scheme is announced by the Offeror and/or the Company at the same time.

As at the Latest Practicable Date, the 64,168,881 Shares held by the IU Shareholder which are the subject of the Irrevocable Undertaking represent approximately 11.19% of the total issued share capital of the Company, approximately 23.37% of the Scheme Shares, and approximately 23.90% of the Shares held by Independent Shareholders.

6. SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Grand Court directs to agree such an arrangement.

It is expressly provided in Section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company.

7. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements under the Companies Law as summarised above, under Rule 2.10 of the Takeovers Code, except with the consent of the Executive, the Scheme may only be implemented if:

- (a) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by all Independent Shareholders.

For the purpose of counting the votes for (a) and (b) above, Independent Shareholders comprise all Shareholders as at the Meeting Record Date other than the Offeror and the Offeror Concert Parties (except in respect of the holding of Shares by the CICC group in the capacity of an exempt fund manager for the purposes of the Takeovers Code and excluding Shares held by the CICC group for and on behalf of its non-discretionary investment clients). Shares held by any member of the CICC group acting in the capacity of an exempt principal trader shall not be voted at the Court Meeting in accordance with the requirement of Rule 35.4 of the Takeovers Code, except that Shares held by any member of the CICC group in the capacity of an exempt principal trader for and on behalf of non-discretionary investment clients shall not be voted at the Court Meeting unless otherwise confirmed with the Executive. For the avoidance of doubt, Independent Shareholders include any member of the CICC group acting in the capacity of an exempt fund manager for the purpose of the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 268,526,751 Scheme Shares. On that basis, and assuming that no new Shares are issued on or before the Meeting Record Date, 10% of the votes attached to all the Scheme Shares held by all Independent Shareholders referred to in (b) above would represent approximately 26,852,676 Shares.

8. BINDING EFFECT OF THE SCHEME

Upon the Scheme becoming effective, it will be binding on the Company and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the Extraordinary General Meeting.

9. SHAREHOLDING STRUCTURE OF THE COMPANY AND SCHEME SHARES

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Proposal, assuming that there is no other change in shareholding of the Company before completion of the Proposal:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Proposal	
	Number of Shares	Approximate % (Note 3)	Number of Shares (Note 4)	Approximate % (Note 3)
Offeror	299,037,249	52.14	573,560,000	100.00
Offeror Concert Parties				
<i>Shares held subject to the Scheme</i>				
Mr. Wang Mingxing (Note 1)	5,996,000	1.05	—	—
Aggregate number of Shares held by the Offeror and Offeror Concert Parties (Note 2)	305,033,249	53.18	573,560,000	100.00
IU Shareholder	64,168,881	11.19		
Other Independent Shareholders	204,357,870	35.63	—	—
Total	<u>573,560,000</u>	<u>100.00</u>	<u>573,560,000</u>	<u>100.00</u>
Total number of Scheme Shares	<u>274,522,751</u>	<u>47.86</u>	<u>—</u>	<u>—</u>

Notes:

- Mr. Wang Mingxing is a director of the Offeror. The Shares held by Mr. Wang Mingxing will form part of the Scheme Shares and will be cancelled upon the Scheme becoming effective, but as an Offeror Concert Party, Mr. Wang Mingxing's vote at the Court Meeting will not be counted as vote of an Independent Shareholder in determining whether the requirements under Conditions 1(a) and (b) under the section headed "4. Conditions of the Proposal and the Scheme" above (as required under Rule 2.10 of the Takeovers Code) are satisfied, and will only be counted as vote of a Scheme Shareholder in determining whether the requirement in the first paragraph of Condition 1 in the section headed "4. Conditions of the Proposal and the Scheme" above (as required under Companies Law) is satisfied.
- CICC is the financial adviser to the Offeror in respect of the Proposal. Accordingly, CICC and relevant members of the CICC group are presumed to be acting in concert with the Offeror in accordance with class (5) of the definition of "Acting in concert" in the Takeovers Code (except in respect of Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding Shares held on behalf of non-discretionary investment clients of the CICC group).

3. All percentages in the above table are approximations and rounded to the nearest 2 decimal places.
4. On the assumption that there is no other change in the shareholding of the Company before completion of the Proposal. Under the Scheme, the Scheme Shares will be cancelled and contemporaneously with such cancellation the share capital of the Company will be maintained by the issuance at par to the Offeror, credited as fully paid, of the same number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the cancellation of the Scheme Shares will be applied in paying up in full the new Shares so issued to the Offeror.

Assuming no new Shares are issued after the Scheme Record Date, upon completion of the Scheme, the Company will become directly wholly-owned by the Offeror, and the listing of the Shares will be withdrawn from the Stock Exchange.

As at the Latest Practicable Date, (i) the authorised share capital of the Company was HK\$900,000,000 divided into 9,000,000,000 Shares, and the Company had 573,560,000 Shares in issue; (ii) the Scheme Shares, comprising 274,522,751 Shares, represented approximately 47.86% of the issued share capital of the Company.

As at the Latest Practicable Date, save for the IU Shareholder, no person had irrevocably committed themselves to accept or reject, or vote in favour or against, the Proposal.

10. REASONS FOR AND BENEFITS OF THE PROPOSAL

For the Scheme Shareholders

- The Offeror considers that the Proposal will provide an opportunity to Scheme Shareholders to realise their investment in the Company at an attractive premium over the prevailing price of the Shares. The Cancellation Price of HK\$4.19 per share represents a premium of approximately 64.1%, 65.8% and 66.1% over the average closing price of approximately HK\$2.55, HK\$2.53 and HK\$2.52 per Share as quoted on the Stock Exchange for the 60, 90 and 120 trading days up to and including the Last Trading Day. The Cancellation Price of HK\$4.19 per share represents a premium of approximately 3.2% over the closing price of HK\$4.06 per Share as quoted on the Stock Exchange on the Latest Practicable Date.
- The average daily trading volume of the Shares for the 120 trading days up to and including the Last Trading Day was approximately 548,028 Shares per day, representing only approximately 0.1% of the issued Shares. The relatively low trading liquidity of the Shares of the Company makes it difficult for the Shareholders to sell their shareholdings in large volume on the secondary market. The Proposal will provide a good opportunity for the Scheme Shareholders to realise their investment in the Company without suffering any illiquidity discount.

For the Offeror and the Company

- Due to the low liquidity in the trading of the Company Shares, the depressed share price in recent years and a high compliance cost for maintain listing status, Company's current listing platform no longer sufficiently serves as a source of funding for its long term growth, and Company's ability to raise funds in the equity capital markets for future development and growth is limited. Meanwhile, since share price and market capitalisation value could be viewed as a reflection of the public perception of the Company's intrinsic value and growth potential, the depressed share price negatively impacted brand awareness of end-use customers and distributors, which in turn was unfavourable to the Company's effort in attracting new distributors and end-use customers, as well as the reputation of the Company among suppliers, which in turn adversely affected the Company's bargaining power with its suppliers. In light of the above, the depressed share price has had an adverse impact on the Company's business and operations.
- The Proposal, if successful, will be helpful to streamline the Company's governance structures and avoiding additional governance costs and management fees resulting from maintaining listing status. The Proposal, if successful, will also enhance the Offeror and Sanxing Group's comprehensive consolidation and integration of the Company's operations and provide the Offeror and Sanxing Group with more flexibility in supporting the long-term business development of the Company, without being concerned about the fluctuation of its short-term share performance, which in turn will enable the Offeror and Sanxing Group to realise their own long-term development strategy.

11. INFORMATION ON THE GROUP

The Company is an exempted company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Main Board of the Stock Exchange with the stock code 1006. The Group is principally engaged in the corn oil business, the production and sales of refined edible sunflower seed oil, olive oil, peanut oil and rice germ oil, and the production and sales of corn meal.

12. INFORMATION ON THE OFFEROR**The Offeror**

The Offeror is an investment holding company incorporated in Mauritius with limited liability and a wholly-owned subsidiary of Sanxing Grease (with all its shares pledged in favour of China Cinda in connection with a Sanxing Group debt restructuring). As at the Latest Practicable Date, Sanxing Grease is in turn held as to approximately 54.58% by Shandong Sanxing (the shares relating to which are pledged in favour of China Cinda in connection with a Sanxing Group debt restructuring) and 45.42% by Cinda Fund. Cinda Fund is managed by Cinda Capital as its general partner, which in turn is an indirect wholly-owned subsidiary of China Cinda.

In order to restructure its existing debt profile and to obtain further financing, Sanxing Group has undertaken the following arrangements involving Cinda Group:

- i. China Cinda has acquired certain intra-group debt owed by Shandong Sanxing to Sanxing Grease in the aggregate amount of RMB1.31 billion (the “**Outstanding Debt**”), with the proceeds received by Sanxing Grease being used to repay existing indebtedness of Sanxing Group. To secure the repayment of the Outstanding Debt, China Cinda has required a number of measures to be undertaken by Sanxing Group, including but not limited to the pledging of all the shares in Sanxing Grease held by Shandong Sanxing in favour of China Cinda, the provision of guarantee by, among others, Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang, and the appointment of a representative of China Cinda to each of the board of Sanxing Grease and the Offeror, each with limited veto rights; and
- ii. in order to fund the Proposal, Cinda Fund was set up by Cinda Capital as the general partner, China Cinda as the preferential limited partner (with contribution of RMB 1 billion made prior to the Announcement Date) and Shandong Zhichuang Enterprise Management Company Limited (山東智創企業管理諮詢有限公司), a wholly-owned subsidiary of Shandong Sanxing, as the deferred limited partner (with contribution of RMB200 million made prior to the Announcement Date). Cinda Fund then provided equity contribution of approximately RMB605 million for approximately 45.42% of the equity interests in Sanxing Grease and shareholder’s loan of approximately RMB568 million to Sanxing Grease, with the repayment of the shareholder’s loan guaranteed by, among others, Shandong Sanxing, Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang. The funds under the equity contribution and shareholder’s loan received by Sanxing Grease were then injected by Sanxing Grease into the Offeror by way of equity contribution for funding the Proposal (the “**Sanxing Grease Equity Contribution**”).

As part of Sanxing Group’s debt restructuring arrangements, after the Proposal has become effective (or has lapsed, as applicable), all the shares held by Shandong Sanxing in Sanxing Grease (representing approximately 54.58% of the equity interests in Sanxing Grease) will be transferred to Sanxing LP (a limited partnership set up by Shandong Nuoda Enterprise Management Consultation Company Limited (山東諾達企業管理諮詢有限公司, “**Shandong Nuoda**”), a wholly-owned subsidiary of Shandong Sanxing, as its general partner, and Shandong Sanxing and China Cinda as its deferred limited partner and preferential limited partner, respectively), as Shandong Sanxing’s capital contribution to Sanxing LP. The Outstanding Debt owed by Shandong Sanxing and acquired by China Cinda in the debt restructuring will also be transferred to Sanxing LP as China Cinda’s capital contribution to Sanxing LP. Sanxing LP is managed by Shandong Nuoda, and China Cinda, as a limited partner of Sanxing LP, only has limited veto rights.

As a minority shareholder of Sanxing Grease, Cinda Fund does not have any decision-making power on the daily operation of Sanxing Grease, and has obtained limited veto rights in Sanxing Grease commensurate with its position as a financing party. Further, in line with its role as a financier, Cinda Group will be provided with an agreed return which will be ranked in priority under Sanxing LP and Cinda Fund,

and other protective measures (including any shortfall in providing such agreed return to Cinda Group will be assumed and repaid by Shandong Sanxing, Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang).

If and after the Proposal becomes effective, further internal group restructuring involving certain subsidiaries of the Company will take place for the purpose of the group debt restructuring and the Outstanding Debt will thereafter be repaid from internal funds of Sanxing Group and other funding sources. Shandong Sanxing will re-acquire all the equity interests held by each of Sanxing LP and Cinda Fund in Sanxing Grease, with the consideration of re-acquisition based on the valuation of Sanxing Grease at the time of the transfer, which will be conducted by a valuer to be approved by China Cinda (with a minimum set at the net asset value of certain assets in Sanxing Grease), and Sanxing LP and Cinda Fund will be dissolved. China Cinda would have the right to reinvest any excess returns into Sanxing Group.

On the other hand, if the Proposal lapses, the above internal restructuring will not be undertaken, all investment in Sanxing Grease by China Cinda will be repaid by Shandong Sanxing and Sanxing Grease to China Cinda by way of capital reduction, distribution, repayment of shareholder's loan or share repurchase, and Cinda Fund will be dissolved. The Outstanding Debt will be repaid from the funds contributed to Cinda Fund and returned to the wholly-owned subsidiary of Shandong Sanxing upon dissolution of Cinda Fund, other resources within Sanxing Group and/or external funding.

Shandong Sanxing

Shandong Sanxing is owned as to 25.50% by Mr. Wang Mingxing, 29.49% by Mr. Wang Mingfeng, 29.39% by Mr. Wang Mingliang, 3.91% by Mr. Cheng Wenming, 3.91% by Mr. Xia Yingbin, 3.91% by Mr. Wang Luqiang and 3.89% by Mr. Wang Baoquan. Mr. Wang Mingxing, Mr. Wang Mingfeng, Mr. Wang Mingliang and Mr. Cheng Wenming are Directors, and Mr. Wang Mingxing, Mr. Wang Mingfeng and Mr. Wang Mingliang are brothers.

13. INTENTIONS OF THE OFFEROR

It is the intention of the Offeror that the Group will continue to carry on its current business, and the Offeror does not have specific plans to make any major changes to the business of the Group (including any redeployment of fixed assets of the Group) upon the successful delisting of the Company other than developing deeper synergies with the Offeror group, exploring new development opportunities and implementing long-term growth strategies, including but not limited to internal group restructuring involving certain subsidiaries of the Company.

The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group.

Upon the Scheme becoming effective, the Offeror expects that (i) the accounts of the Offeror will continue to consolidate the accounts of the Group (including assets, liabilities, profits and losses of the Group), and (ii) its investment in the Group will remain the principal business of the Offeror.

14. WITHDRAWAL OF LISTING OF THE SHARES

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

In that case, the Company does not intend to maintain its listing on the Stock Exchange and will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect after the Effective Date.

The Scheme Shareholders will be notified by way of announcement of, among other things, the exact dates of the last day for dealing in the Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of Shares on the Stock Exchange will become effective. An expected timetable of the Proposal is included in Part III of this Scheme Document.

15. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

Subject to the requirements of the Takeovers Code, the Scheme will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct and in all cases, as permitted by the Executive). The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with it) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

16. COSTS OF THE SCHEME

Pursuant to Rule 2.3 of the Takeovers Code, if the Proposal is either not recommended by the Independent Board Committee or not recommended as fair and reasonable by the Independent Financial Adviser, all expenses incurred by the Company in connection with the Proposal shall be borne by the Offeror if the Scheme is not approved. Given that the Proposal is recommended by the Independent Board Committee and is recommended as fair and reasonable by the Independent Financial Adviser, Rule 2.3 of the Takeovers Code is not applicable.

All costs, charges and expenses incurred by the Company and/or its advisers and counsels, including the Independent Financial Adviser, will be borne by the Company, whereas all costs, charges and expenses incurred by the Offeror and/or their advisers and counsels will be borne by the Offeror, and other costs, charges and expenses of the Scheme and the Proposal will be shared between the Offeror and the Company equally.

17. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Thursday, 3 December 2020, it is proposed that the register of members of the Company will be closed from Thursday, 26 November 2020 (or such other date as Shareholders may be notified by announcement) in order to determine entitlements under the Scheme. In order to qualify for entitlements under the Scheme, holders of Scheme Shares should ensure that the transfers of Shares to them are lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration in their names or in the names of their nominees before the closure of the register of members of the Company.

Payment of Cancellation Price to Scheme Shareholders

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Scheme Record Date as soon as possible but in any event within 7 Business Days. Assuming that the Scheme becomes effective on Thursday, 3 December 2020, the cheques for the payment of the Cancellation Price are expected to be despatched on or before Monday, 14 December 2020.

Cheques for the payment of the Cancellation Price will be sent by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in such registers in respect of the joint holding. All such cheques will be posted at the risk of the person(s) entitled thereto and none of the Offeror, the Company, CICC, the Independent Financial Adviser, the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror (or its nominee) shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the name of the Offeror (or its nominee) with a licensed bank in Hong Kong selected by the Offeror (or its nominee).

The Offeror (or its nominee) shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums to persons who satisfy the Offeror (or its nominee) that they are respectively entitled thereto, provided that such cheques referred to in the paragraph above of which they are payees have not been cashed. Any payments made by the Offeror (or its nominee) shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to the Scheme. The Offeror (or its nominee) shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror (or its nominee) to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

On the expiry of six years from the Effective Date, the Offeror (and, if applicable, its nominee) shall be released from any further obligation to make any payments under the Scheme and the Offeror (and, if applicable, its nominee) shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, the register of members of the Company will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on or about Thursday, 3 December 2020.

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

18. OVERSEAS SHAREHOLDERS

General

The making of the Proposal to the Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located.

Such Scheme Shareholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders, wishing to take an action in relation to the Proposal, respectively, to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with any other necessary formalities and the payment of any issue, transfer or other taxes in such jurisdiction.

Any acceptance by such Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to the Company, the Offeror and their respective advisers (including CICC), that those laws and regulatory requirements have been complied with. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees will give or be subject to the above warranty and representation. If you are in doubt as to your position, you should consult your professional advisers.

Notice to US investors

The Proposal is being made to cancel the securities of a company incorporated in the Cayman Islands by means of a scheme of arrangement provided for under the Companies Laws and is subject to Cayman Islands and Hong Kong disclosure requirements, which are different from those of the United States. The financial information included in the relevant documentation, including this Scheme

Document, has been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Securities Exchange Act of 1934, as amended. Accordingly, the Proposal is subject to the disclosure requirements and practices applicable in Cayman Islands to schemes of arrangement, which differ from the disclosure requirements of the US tender offer rules.

The receipt of cash pursuant to the Proposal by a US holder of Scheme Shares as consideration for the cancellation of its Scheme Shares pursuant to the Proposal may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of Scheme Shares is urged to consult his/her/its independent professional adviser immediately regarding the tax consequences of the Proposal applicable to him/her/it.

US holders of Scheme Shares may encounter difficulty enforcing their rights and any claims arising out of the US federal securities laws, as the Offeror and the Company are located in a country outside the United States and some or all of their officers and directors may be residents of a country other than the United States. US holders of Scheme Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, US holders of Scheme Shares may encounter difficulty compelling a non-US company and its affiliates to subject themselves to a US court's judgement.

19. TAXATION

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Scheme and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of the Offeror, the Company, CICC and their agents or any of their respective directors, officers or associates or any other person involved in the Scheme accepts responsibility or has any liability for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Scheme. All Scheme Shareholders and/or Beneficial Owners are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal and they shall be solely responsible for their liabilities (including tax liabilities) in relation to the Scheme.

20. COURT MEETING AND THE EXTRAORDINARY GENERAL MEETING

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting, provided that only votes of Independent Shareholders will be counted for the purposes of determining whether the requirements set out in the section headed “7. Additional requirements as imposed by Rule 2.10 of the Takeovers Code” above in this Explanatory Memorandum are satisfied in accordance with the Takeovers Code. The Scheme will be subject to the approval by the holders of Scheme Shares at the Court Meeting in the manner referred to in the subsection headed “Court Meeting” below.

For the avoidance of doubt, Scheme Shareholders who may vote at the Court Meeting also include Mr. Wang Mingxing for the purposes of the requirements of Cayman Islands law, provided that his votes will not be counted for the purposes of counting the number of Independent Shareholders (in relation to Conditions (1) (a) and (1) (b) set out in the section headed “4. Conditions of the Proposal and the Scheme” and the requirements set out in the section headed “7. Additional requirements as imposed by Rule 2.10 of the Takeovers Code” in this Explanatory Memorandum above) in accordance with the requirements under the Takeovers Code.

The Extraordinary General Meeting will be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing, among other things, special resolution to (i) approve and give effect to any reduction of the issued share capital of the Company as a result of cancelling and extinguishing the Scheme Shares, and (ii) contemporaneously maintain the issued share capital of the Company at the amount prior to the cancellation of the Scheme Shares by applying the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme for issue to the Offeror.

Court Meeting

The Scheme is conditional upon, among other things, approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders present and voting in person or by proxy at the Court Meeting provided that:

- (a) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

Holders of Scheme Shares whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting for the purposes of Cayman Islands law, provided that, for the purpose of satisfying the voting requirements described in (a) and (b) above (which are contained in and imposed by the Takeovers Code), only the votes in respect of the Scheme Shares of Independent Shareholders present and voting either in person or by proxy, will be counted. In accordance with the Companies Law, the “three-fourths in value” requirement, as described above, will be met if the total value of Scheme Shares being voted in favour of the Scheme is at least three-fourth of the total value of the Scheme Shares voted at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement, as described above, will be met if the number of Scheme Shareholders voting in favour of the Scheme exceeds the number of Scheme Shareholders voting against the Scheme at the Court Meeting. Only Scheme Shareholders whose Shares are registered in their own names in the register of members of the Company on the Meeting Record Date will be counted as Scheme Shareholders for the purpose of calculating whether or not a majority in number of Scheme Shareholders have approved the Scheme at the Court Meeting under Section 86 of the Companies Law. HKSCC Nominees is the Registered Owner in respect of all Shares held in CCASS and will be counted as one Scheme Shareholder for the purpose of calculating whether or not a majority in number of Scheme Shareholders have approved the Scheme at the Court Meeting under Section 86 of the Companies Law. Beneficial Owners who wish to individually vote or be counted for the purpose of ascertaining whether a majority in number of Scheme Shareholders have approved the Scheme should make arrangements to withdraw their Scheme Shares (or a board lot) from CCASS and become registered as a member of the Company in their own name prior to the Meeting Record Date.

Notice of the Court Meeting is set out in Appendix V to this Scheme Document. The Court Meeting will be held at 10:00 a.m. (Hong Kong time) on Thursday, 19 November 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong.

Extraordinary General Meeting

All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Extraordinary General Meeting with respect to the special resolution to (i) approve and give effect to any reduction of the issued share capital of the Company as a result of cancelling and extinguishing the Scheme Shares, and (ii) contemporaneously maintain the issued share capital of the Company at the amount prior to the cancellation of the Scheme Shares by applying the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme for issue to the Offeror.

The special resolution described in the paragraph above will be passed if not less than 75% of the votes cast by the Shareholders, present and voting in person or by proxy at the Extraordinary General Meeting, are in favour of the special resolution.

At the Extraordinary General Meeting, the special resolution will be put to the vote by way of poll as required under article 66 of the Company's articles of association and Rule 13.39 (4) of the Listing Rules. Each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of such Shareholder's Shares in favour of (or against) the special resolution. Alternatively, such Shareholder may vote some of their Shares in favour of the special resolution and any of the balance of their Shares against the special resolution (and vice versa).

The Offeror and Mr. Wang Mingxing have indicated that if the Scheme is approved at the Court Meeting, those Shares held by them will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting.

Notice of the Extraordinary General Meeting is set out in Appendix VI to this Scheme Document. The Extraordinary General Meeting will be held at 10:30 a.m. (Hong Kong time) (or immediately after the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Thursday, 19 November 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or about Thursday, 3 December 2020 (Cayman Islands time). Further announcements will be made giving details of the results of the Court Meeting and the Extraordinary General Meeting and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for, among other things, the sanction of the Scheme and, to the extent necessary, confirmation of any reduction of the share capital of the Company associated with the Scheme by the Grand Court, the Scheme Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Stock Exchange.

21. ACTIONS TO BE TAKEN

Action to be taken by Shareholders

For the purpose of determining the entitlements of holders of Scheme Shares to attend and vote at the Court Meeting and the entitlements of the Shareholders to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Monday, 16 November 2020 to Thursday, 19 November 2020 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 13 November 2020.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the Extraordinary General Meeting are enclosed with this Scheme Document. Subsequent purchasers of Scheme Shares will need to obtain the relevant proxy form from the transferor if they wish to attend or vote at the Court Meeting and/or the Extraordinary General Meeting.

Whether or not you are able to attend the Court Meeting and/or the Extraordinary General Meeting or any adjournment thereof in person, if you are a Scheme Shareholder, we strongly urge you to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed thereon, and to lodge them at the office of the Share Registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. **The pink form of proxy for use at the Court Meeting should be lodged no later than 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof although it may be handed to the chairman of the Court Meeting at the Court Meeting. The white form of proxy for use at the Extraordinary General Meeting should be lodged no later than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof in order to be accepted.** The completion and return of a form of proxy for the Court Meeting and/or the Extraordinary General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof. In such event, the returned form of proxy will be revoked by operation of law.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the Extraordinary General Meeting, you will still be bound by the outcome of the Court Meeting and the Extraordinary General Meeting if, among other things, the resolutions are passed by the requisite majorities of the Scheme Shareholders, Independent Shareholders or Shareholders (as the case may be). We therefore strongly urge you to attend and vote at the Court Meeting and the Extraordinary General Meeting in person or by proxy.

Voting at the Court Meeting and the Extraordinary General Meeting will be taken by poll as required under the Listing Rules and the Takeovers Code.

The Company and the Offeror will make an announcement in relation to the results of the Court Meeting and the Extraordinary General Meeting by no later than 7:00 p.m. on Thursday, 19 November 2020. If all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition to sanction the Scheme by the Grand Court and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

Actions to be taken by Beneficial Owners whose Shares are held through Trust or deposited in CCASS

The Company will not recognise any person as holding any Shares through any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees), you should contact the Registered Owner and provide the Registered Owner with instructions and/or make arrangements with the Registered Owner in relation to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the Extraordinary General Meeting. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting

and the Extraordinary General Meeting set by the Registered Owner in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the Extraordinary General Meeting, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the Extraordinary General Meeting personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the Extraordinary General Meeting and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the Shares registered in the name of the Registered Owner to be transferred into your own name.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the Extraordinary General Meeting shall be in accordance with all relevant provisions in the articles of association of the Company.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the Extraordinary General Meeting will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof. In the event that the Registered Owner attends and votes at the relevant meeting or any adjournment thereof after having lodged his forms of proxy, the returned form of proxy will be revoked by operation of law.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are a CCASS Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with other CCASS Participants, regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the Extraordinary General Meeting in respect of the Scheme. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the Extraordinary General Meeting set by them, in order to provide such person with sufficient time to provide HKSCC Nominees with instructions or make arrangements with HKSCC Nominees in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the Extraordinary General Meeting. The procedure for voting in respect of the Scheme by HKSCC Nominees with respect to the Shares registered under the name of HKSCC Nominees shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

HKSCC Nominees may also vote for and against the Scheme in accordance with instructions received from CCASS Participants.

If you are a Beneficial Owner whose Shares are deposited in CCASS, you may also elect to become a Shareholder of record, and thereby have the right to attend and vote at the Court Meeting (if you are a Scheme Shareholder) and the Extraordinary General Meeting (as a Shareholder). You can become a Shareholder of record by withdrawing all or any of your Shares from CCASS and becoming a Registered Owner of such Shares. For withdrawal of Shares from CCASS and registration thereof, you will be required to pay to CCASS a withdrawal fee per board lot withdrawn, a registration fee for each share certificate issued, stamp duty on each transfer instrument and, if your Shares are held through a financial intermediary, any other relevant fees charged by your financial intermediary. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for lodging transfers of the Shares into your name so as to qualify to attend and vote at the Court Meeting and the Extraordinary General Meeting, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to withdraw the Shares from CCASS and register them in your name.

Only Scheme Shareholders whose Shares are registered in their own names in the register of members of the Company on the Meeting Record Date will be counted as Scheme Shareholders for the purpose of calculating whether or not a majority in number of Scheme Shareholders have approved the Scheme at the Court Meeting under Section 86 of the Companies Law. HKSCC Nominees is the Registered Owner in respect of all Shares held in CCASS and will be counted as one Scheme Shareholder for the purpose of calculating whether or not a majority in number of Scheme Shareholders have approved the Scheme at the Court Meeting under Section 86 of the Companies Law. Beneficial Owners who wish to individually vote or be counted for the purpose of ascertaining whether a majority in number of Scheme Shareholders have approved the Scheme should make arrangements to withdraw their Scheme Shares (or a board lot) from CCASS and become registered as a member of the Company in their own name prior to the Meeting Record Date.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE OFFEROR AND THE COMPANY STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE GENERAL MEETING.

IF YOU WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE “MAJORITY IN NUMBER” REQUIREMENT AT THE COURT MEETING, YOU SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF YOUR SHARES PRIOR TO THE MEETING RECORD DATE. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAM, THE OFFEROR AND THE COMPANY URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, THE OFFEROR AND THE COMPANY ENCOURAGE YOU TO PROVIDE HKSCC NOMINEES WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC NOMINEES IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR AT THE GENERAL MEETING WITHOUT DELAY AND/OR WITHDRAWN FROM CCASS AND TRANSFERRED INTO YOUR NAME (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN – ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD THROUGH TRUST OR DEPOSITED IN CCASS” ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE SHOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE. YOU SHOULD ALSO REMIND THE RELEVANT BENEFICIAL OWNERS THAT IF THEY WISH TO BE COUNTED INDIVIDUALLY IN THE CALCULATION OF THE “MAJORITY IN NUMBER” REQUIREMENT AT THE COURT MEETING, THEY SHOULD MAKE ARRANGEMENTS TO BECOME A REGISTERED OWNER OF SOME OR ALL OF THEIR SHARES.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISOR.

22. RECOMMENDATION

Your attention is drawn to the following:

- (i) the paragraph headed “Recommendation” in the “Letter from the Board” set out in Part IV of this Scheme Document;
- (ii) the letter from the Independent Board Committee set out in Part V of this Scheme Document; and
- (iii) the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document.

23. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum.

Shareholders and Scheme Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, CICC, the Independent Financial Adviser, the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

1. FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2017, 31 December 2018 and 31 December 2019 and for the six months ended 30 June 2020 of which the material items of income or expenses for each of the three years ended 31 December 2017, 31 December 2018 and 31 December 2019 and for the six months ended 30 June 2020 are included. The figures for the years ended 31 December 2017 and 31 December 2018 are extracted from the annual report of the Company for the year ended 31 December 2018, the figures for the year ended 31 December 2019 are extracted from the annual report of the Company for the year ended 31 December 2019, and the figures for the six months ended 30 June 2020 are extracted from the interim report of the Company for the six months ended 30 June 2020.

	(Unaudited)		(Audited)		
	For the six months ended 30 June		For the year ended 31 December		
	2020	2019	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,287,428	1,440,203	3,003,471	3,428,155	3,379,679
Cost of sales	(928,843)	(1,116,892)	(2,275,327)	(2,630,290)	(2,574,040)
Gross profit	358,585	323,311	728,144	797,865	805,639
Other income	27,298	56,248	97,507	97,463	86,999
Selling and distribution costs	(181,338)	(159,525)	(362,079)	(380,936)	(435,016)
Administrative expenses	(44,417)	(38,434)	(84,685)	(98,709)	(90,274)
Other operating expenses	—	—	—	(986)	(138)
Profit from operations	160,128	181,600	378,887	414,697	367,210
Finance costs	(43)	(18)	(60)	(3,215)	(7,455)
Profit before income tax	160,085	181,582	378,827	411,482	359,755
Income tax expense	(27,175)	(28,199)	(58,283)	(64,577)	(64,234)
Profit for the period attributable to owners of the Company	132,910	153,383	320,544	346,905	295,521
Other comprehensive income/ (loss) that may be reclassified subsequently to profit or loss:					
Exchange difference arising on translation of foreign operations	(486)	101	86	(933)	124
Total comprehensive income/ (loss) for the period attributable to owners of the Company	132,424	153,484	320,630	345,972	295,645

	(Unaudited)		(Audited)		
	For the six months ended 30 June		For the year ended 31 December		
	2020	2019	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total dividends declared	—	—	—	50,382	47,766
Earnings per share attributable to owners of the Company:					
Basic	23.173 RMB cents	26.742 RMB cents	55.89 RMB cents	60.48 RMB cents	51.52 RMB cents
Diluted	23.173 RMB cents	26.742 RMB cents	55.89 RMB cents	60.48 RMB cents	51.52 RMB cents
Total dividends per share	—	—	—	10 HK cents	10 HK cents

The auditors' reports issued by the auditors of the Company, BDO Limited, in respect of the audited consolidated financial statements of the Group for the three years ended 31 December 2017, 31 December 2018 and 31 December 2019, did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

2. CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out or refer to in this Scheme Document the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the “**2019 Financial Statements**”) and (ii) the unaudited consolidated interim results of the Group for the six months ended 30 June 2020 (the “**2020 Interim Results**”), together with the notes to the relevant published financial statements and results which are of major relevance to the appreciation of the above financial information.

The 2019 Financial Statements are set out on pages 52 to 121 of the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”), which was published on 27 April 2020. The 2019 Annual Report is posted on the Company's website (<http://www.chinacornoil.com/>) and the website of the Stock Exchange (www.hkexnews.hk). Please also see below a direct link to the 2019 Annual Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042702065.pdf>

The 2020 Interim Financial Statements are set out on pages 20 to 38 of the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”), which was published on 21 September 2020. The 2019 Interim Report is posted on the Company's website (<http://www.chinacornoil.com/>) and the website of the Stock Exchange (www.hkexnews.hk). Please also see below a direct link to the 2020 Interim Report:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0921/2020092100445.pdf>

The 2019 Financial Statements and the 2020 Interim Financial Statements (but not any other part of the 2019 Annual Report and 2020 Interim Report in which they respectively appear) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. INDEBTEDNESS STATEMENT

As at the close of business on 31 August 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Scheme Document, the Group had the following indebtedness:

	As at 31 August 2020 <i>RMB'000</i>
Other borrowing (<i>note 1</i>)	15,816
Amounts due to related companies (<i>note 2</i>)	11,039
Lease liabilities	<u>350</u>

Notes:

- (1) The other borrowing was unsecured, interest-bearing at a fixed rate of 0.36% per annum and repayable on 17 June 2022.
- (2) The balances with related companies were unsecured, interest-free and repayable on demand.

Save as aforesaid and apart from intra-group liabilities, intra-group guarantees and normal trade payables, the Group did not, as at 31 August 2020, have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Group or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgage or charges; or (iv) guarantees or other contingent liabilities.

4. MATERIAL CHANGE

The Directors confirm that, save for the following matter, there has been no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2019, the date to which the latest published audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date:

- (i) as set out in the Company's Interim Results Report published on 21 September 2020 ("**Interim Results Report**"), the Group recorded a 10.6% year-on-year decrease in revenue to RMB1,287.4 million for the six months ended 30 June

2020 mainly attributable to 72.6% decrease in revenue of the Group's non-branded products due to the declining economy and business environment in China under the impact of the COVID-19 pandemic; and

- (ii) as set out in the Company's Interim Results Report, the profit attributable to the Shareholders of the Company was RMB132.9 million, representing a decrease of 13.3% as compared to the corresponding period of 2019. The decrease was mainly due to the decrease of RMB29.0 million in other income and the increase of RMB27.8 million in selling and distribution costs and administrative expenses in the first half of 2020, which offset the increase of RMB35.3 million in gross profit.

1. RESPONSIBILITY STATEMENTS

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document relating to the Group and the Directors and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Scheme Document by the Company or the Directors have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement contained in this Scheme Document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group and Cinda Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Group and Cinda Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statements in this Scheme Document misleading.

The directors of Shandong Sanxing jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group and Cinda Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Group and Cinda Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The members of the investment committee of Cinda Fund jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document relating to Cinda Group and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Scheme Document by Cinda Group have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2. ISSUED SHARES OF THE COMPANY

As at the Latest Practicable Date:

- (A) the authorised share capital of the Company was HK\$900,000,000 divided into 9,000,000,000 Shares, and the issued and paid-up shares of the Company comprised 573,560,000 Shares;
- (B) all of the Shares ranked *pari passu* in all respects as regards rights to capital, dividends and voting;
- (C) no new Shares had been issued since 31 December 2019, being the end of the last financial year of the Company; and

- (D) there were no options, derivatives, warrants or other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

3. MARKET PRICES

The table below sets out the closing price of the Shares on the Stock Exchange on (i) the last Business Day of each of the calendar months during the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date, (ii) the Last Trading Day, and (iii) the Latest Practicable Date:

Date	Closing price for each Share (HK\$)
31 March 2020	2.65
29 April 2020	2.50
29 May 2020	2.45
30 June 2020	2.10
31 July 2020	2.70
31 August 2020	3.44
2 September 2020 (Last Trading Day)	3.60
30 September 2020	4.01
23 October 2020 (Latest Practicable Date)	4.06

The lowest and highest closing prices of Shares as quoted on the Stock Exchange during the period commencing six months preceding the Announcement Date and ending on the Latest Practicable Date were HK\$2.00 per Share on 23 June 2020 and HK\$4.08 per Share on 7 October 2020, respectively.

4. DISCLOSURE OF INTERESTS

For the purpose of this paragraph, (i) “interested” have the same meanings as given to them in Part XV of the Securities and Futures Ordinance; and (ii) the “Disclosure Period” means the period commencing on the date which is six months prior to the Announcement Date and ending on the Latest Practicable Date, both dates inclusive.

- (A) As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties were interested in the following Shares:

	Number of Shares	Approximate % of issued Shares
Offeror	299,037,249	52.14
Mr. Wang Mingxing (<i>Note 1</i>)	5,996,000	1.05

Note:

- (1) These Shares are held by Mr. Wang Mingxing, a director of the Offeror, who is a party presumed to be acting in concert with the Offeror for the purposes of the Takeovers Code.

- (B) Save as disclosed above, as at the Latest Practicable Date, none of the Offeror and the Offeror Concert Parties (including the directors of the Offeror) owned or controlled, or was interested in, any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares, and no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (C) As at the Latest Practicable Date, none of the Offeror and the Offeror Concert Parties had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares, save for any borrowed Shares which have been either on-lent or sold.
- (D) As at the Latest Practicable Date, save for the IU Shareholder, no person had irrevocably committed themselves to accept or reject, or vote in favour or against, the Proposal, and save as disclosed below, the IU Shareholder has not dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period:

Date	Purchase/Sale	Number of Shares	Average Price per Share (HK\$)
3 July 2020	Purchase	20,000	2.1800
6 July 2020	Purchase	9,000	2.2000
21 July 2020	Purchase	43,000	2.2053
24 July 2020	Sale	72,000	2.2400

- (E) As at the Latest Practicable Date, the IU Shareholder, which has entered into the Irrevocable Undertaking with the Offeror (being an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code that existed between any person and the Offeror) was interested in 64,168,881 Shares (i.e. approximately 11.19% of the shareholding in the Company).
- (F) As at the Latest Practicable Date, none of the Company and the Directors owned or controlled, or was interested in, any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror, and no such person had dealt for value in any shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror during the Disclosure Period.
- (G) As at the Latest Practicable Date, the following Director was interested in the following Shares:

	Number of Shares	Approximate % of issued Shares
Mr. Wang Mingxing	5,996,000	1.05

Mr. Wang Mingxing intends, in respect of his own beneficial shareholdings, to vote in favour of/against the Scheme.

- (H) Save as disclosed above, none of the Directors was interested in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares, and no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares during the Disclosure Period.
- (I) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or advisor of the Company as specified in class (5) of the definition of acting in concert or class (2) of the definition of associate under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares, and no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares during the period commencing on the Announcement Date and ending on the Latest Practicable Date, both days inclusive.
- (J) As at the Latest Practicable Date, no fund managers connected with the Company (other than exempt fund managers) owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of any Shares, in each case which are managed on a discretionary basis, and no such person had dealt for value in the Shares or convertible securities, warrants, options or derivatives in respect of any Shares during the period commencing on the Announcement Date and ending on the Latest Practicable Date, both days inclusive.
- (K) As at the Latest Practicable Date, none of the Company or any Director has borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares, save for any borrowed Shares which have been either on-lent or sold.

5. ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL

5.1 Arrangements affecting Directors

As at the Latest Practicable Date:

- (A) no benefit would be given to any Director as compensation for loss of office or otherwise in connection with the Proposal;
- (B) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal; and
- (C) there was no material contract entered into by the Offeror in which any Director has a material personal interest.

5.2 Arrangements with the Offeror in connection with the Proposal

As at the Latest Practicable Date:

- (A) the Offeror had no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Scheme to any other person, and had no agreement, arrangement or understanding with any third party to do so;
- (B) save for the Irrevocable Undertaking, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code that existed between any person and the Offeror or any Offeror Concert Party;
- (C) save as disclosed in the section headed “12. Information on the Offeror” in Part VII — Explanatory Memorandum of this Scheme Document, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any Offeror Concert Party on the one hand and any of the Directors, recent Directors, Shareholders or recent Shareholders on the other hand having any connection with or dependence upon the Proposal; and
- (D) there was no agreement or arrangement to which the Offeror was a party which related to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

5.3 Arrangements with the Company in connection with the Proposal

As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code that existed between any person and the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert under the Takeovers Code or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

7. SERVICE CONTRACTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into or amended within the 6 months before the date of the Announcement; (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period:

Name of the Director under contract	Date of the contract	Expiry date of the contract	Amount of fixed remuneration payable, excluding arrangements for pension payments	Amount of any variable remuneration payable under the contract
Mr. Wang Mingxing	18 December 2018	17 December 2021 (previously 17 December 2018)	RMB500,000 per annum (same as earlier contract)	Discretionary bonus taking into account factors such as the Company's business and individual performance (same as earlier contract)
Mr. Wang Mingfeng	18 December 2018	17 December 2021 (previously 17 December 2018)	RMB500,000 per annum (same as earlier contract)	Discretionary bonus taking into account factors such as the Company's business and individual performance (same as earlier contract)
Mr. Wang Mingliang	18 December 2018	17 December 2021 (previously 17 December 2018)	RMB500,000 per annum (same as earlier contract)	Discretionary bonus taking into account factors such as the Company's business and individual performance (same as earlier contract)
Mr. Ren Zaishun	27 March 2019	26 March 2022	RMB500,000 per annum	Discretionary bonus taking into account factors such as the Company's business and individual performance (same as earlier contract)
Mr. Cheng Wenming	31 March 2020	22 May 2022 (previously 22 May 2019)	RMB500,000 per annum (same as earlier contract)	Discretionary bonus taking into account factors such as the Company's business and individual performance (same as earlier contract)

8. MATERIAL CONTRACTS

Save as disclosed below, there has been no material contracts (not being contracts entered into the ordinary course of business carried on or intended to be carried on by any member of the Group) entered into by a member of the Group after the date two years before the Announcement Date up to and including the Latest Practicable Date:

- (a) the second-hand property sale and purchase agreement with Sanxing Grease dated 11 October 2019 entered into between Shandong Sanxing Corn Industry Technology Company Limited (“**Corn Industry**”), a wholly-owned subsidiary of the Company and Sanxing Grease, pursuant to which Corn Industry agreed to sell the property located at the north side of Fuqian Road, Handian Town, Zouping City, the PRC to Sanxing Grease for a consideration of RMB11,530,418.

9. EXPERTS AND CONSENTS

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

Name	Qualification
CICC	a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO
Somerley	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the text of its opinions, letters and/or reports and/or the references to its name, opinions, letters and/or reports in the form and context in which they respectively appear.

10. MISCELLANEOUS

- (A) Principal members of the Offeror's concert group include the Offeror and Shandong Sanxing.
- (B) The registered office and principal office of the Offeror is situated at First Floor, Felix House, 24 Dr. Joseph Riviere Street, Port Louis, Mauritius.
- (C) The registered office of Shandong Sanxing is situated at Handian Town, Zouping County, Binzhou City, Shandong Province, the PRC.
- (D) The directors of Shandong Sanxing are Mr. Wang Mingfeng, Mr. Wang Mingxing and Mr. Wang Mingliang.
- (E) The directors of the Offeror are Mr. Wang Mingxing and Mr. Yang Pengfei.
- (F) CICC is the financial adviser to the Offeror in relation to the Proposal, and its registered address is at 29/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (G) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the correspondence address of the Company is situated at Suites 1106-08, 11th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) on the website of the Securities and Futures Commission (www.sfc.hk); (ii) on the website of the Company (<http://www.chinacornoil.com/>); and (iii) (during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and gazetted public holidays in Hong Kong)) (Hong Kong time) at the head office of the Company at Suites 1106-08, 11th Floor, The Chinese Bank Building, 61-65 Des Voeux Road Central, Hong Kong, from the date of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn:

- (A) the memorandum of association and articles of association of the Company;
- (B) the constitution of the Offeror;
- (C) the annual reports of the Company for each of the years ended 31 December 2018 and 31 December 2019;
- (D) the interim report of the Company for the six months ended 30 June 2020;
- (E) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (F) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (G) the letter from the Independent Financial Adviser, the text of which is set out in Part VI of this Scheme Document;
- (H) service contracts referred to in the section headed “7. Service Contracts” in this Appendix II to this Scheme Document;
- (I) material contracts referred to in the section headed “8. Material Contracts” in this Appendix II to this Scheme Document;
- (J) written consents referred to in the section headed “9. Experts and Consents” in this Appendix II to this Scheme Document;
- (K) the Irrevocable Undertaking; and
- (L) this Scheme Document.

Certain personal information contained in item (K) — the Irrevocable Undertaking in the copies to be made available for inspection has been redacted on the basis that (1) it is personal data; and (2) individually or taken together with other disclosures, such redacted information is not material information for Scheme Shareholders and Shareholders to reach an informed decision as to how to vote at the Court Meeting and the Extraordinary General Meeting, respectively.

IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

Cause No. FSD 229 of 2020

IN THE MATTER OF SECTION 86 OF THE COMPANIES LAW (2020 REVISION)
(AS REVISED)
AND IN THE MATTER OF ORDER 102 OF THE GRAND COURT RULES 1995
(AS REVISED)
AND IN THE MATTER OF CHANGSHOUHUA FOOD COMPANY LIMITED

SCHEME OF ARRANGEMENT

Between

CHANGSHOUHUA FOOD COMPANY LIMITED

長壽花食品股份有限公司

and

THE SCHEME SHAREHOLDERS

(as hereinafter defined)

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code and “concert party” shall be construed accordingly
“Board”	the board of directors of the Company
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“Cancellation Price”	the cancellation price of HK\$4.19 per Scheme Share payable in cash pursuant to the Scheme
“China Cinda”	China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司), a joint stock company incorporated in the PRC with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1359)
“CICC”	China International Capital Corporation Hong Kong Securities Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Offeror in relation to the Proposal
“Cinda Fund”	Tianjin Changshou Xinzhi Equity Investment Partnership Fund (Limited Partnership) (天津長壽信智股權投資基金合夥企業(有限合夥))

“Cinda Group”	China Cinda and its subsidiaries and associated companies (including Cinda Fund)
“Companies Law”	the Companies Law (2020 Revision) of the Cayman Islands
“Company”	Changshouhua Food Company Limited, a company incorporated in Cayman Islands with limited liability whose Shares are listed on the Main Board of the Stock Exchange (stock code: 1006)
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed “4. Conditions of the Proposal and the Scheme” in Part VII — Explanatory Memorandum of the Scheme Document
“Court Meeting”	the meeting(s) of the Scheme Shareholders convened and held at the direction of the Grand Court at which the Scheme will be voted upon
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with the Companies Law, being the date on which a copy of the order of the Grand Court sanctioning the Scheme is delivered to the Registrar of Companies for registration pursuant to Section 86(3) of the Companies Law
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate thereof
“Explanatory Memorandum”	the explanatory memorandum set out in Part VII of the Scheme Document
“Grand Court”	the Grand Court of the Cayman Islands
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising Mr. Wang Aiguo, Mr. Wang Ruiyuan and Mr. Liu Shusong, established by the Board to make a recommendation to the Independent Shareholders in respect of the Proposal and the Scheme
“Independent Financial Adviser” or “Sommerley”	Sommerley Capital Limited, a corporation licensed to carry out 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 in connection with the Proposal

“Independent Shareholder(s)”	Shareholder(s) other than the Offeror and the Offeror Concert Parties (except in respect of the holding of Shares by the CICC group in the capacity of an exempt principal trader or exempt fund manager for the purposes of the Takeovers Code and excluding Shares held by the CICC group for and on behalf of its non-discretionary investment clients)
“Latest Practicable Date”	23 October 2020, being the latest practicable date for ascertaining certain information contained in the Scheme Document
“Long Stop Date”	15 January 2021
“Offeror”	SanXing Trade Co., Ltd., a company incorporated in Mauritius with limited liability and a wholly-owned subsidiary of Sanxing Grease
“Offeror Concert Party(ies)”	party(ies) acting in concert or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code, which include Mr. Wang Mingxing, Mr. Wang Mingfeng, Mr. Wang Mingliang, Cinda Group and CICC (except in the capacity of an exempt principal trader or exempt fund manager for the purpose of the Takeovers Code and excluding Shares held by the CICC group on behalf of non-discretionary investment clients)
“PRC”	the People’s Republic of China (for the purpose of this Scheme, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme, and for the withdrawal of the listing of the Shares from the Stock Exchange, on the terms and subject to the conditions set out in the Scheme
“Scheme”	the scheme of arrangement under Section 86 of the Companies Law involving the cancellation of all the Scheme Shares and the maintenance of the share capital of the Company at the amount immediately before the cancellation of the Scheme Shares
“Scheme Document”	the composite scheme document dated 27 October 2020 issued jointly by the Company and the Offeror, including each of the letters, statements, memorandum, appendices (including this Scheme) and notices in it
“Scheme Record Date”	Thursday, 3 December 2020, or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders under the Scheme

“Scheme Share(s)”	Share(s) in issue on the Scheme Record Date held by the Shareholders, other than those directly or indirectly held by the Offeror
“Scheme Shareholder(s)”	the registered holder(s) of Scheme Shares
“Securities and Futures Commission”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers in Hong Kong

- (B) The Company was incorporated as an exempted company on 9 September 2009 with limited liability in the Cayman Islands under the Companies Law.
- (C) As at the Latest Practicable Date, the authorised share capital of the Company was HK\$900,000,000 divided into 9,000,000,000 ordinary shares of a single class with a par value of HK\$0.1 each. As at the Latest Practicable Date, the issued share capital of the Company is HK\$57,356,000 divided into 573,560,000 Shares, with the remainder being unissued. Since 18 December 2009, the issued shares of the Company have been listed and traded on the Main Board of the Stock Exchange.
- (D) The Offeror has proposed the privatisation of the Company by way of the Scheme.
- (E) The primary purpose of this Scheme is to privatise the Company as a result of cancelling and extinguishing all of the Scheme Shares in consideration of the Cancellation Price so that the Company shall thereafter become wholly owned by the Offeror. Contemporaneously with such cancellation, the share capital of the Company will be maintained by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company’s books of account as a result of the cancellation of the Scheme Shares will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.
- (F) As at the Latest Practicable Date, the Offeror directly holds 299,037,249 Shares (representing approximately 52.14% of the issued Shares).
- (G) As at the Latest Practicable Date, Mr. Wang Mingxing, a director of the Offeror, the Chairman and the Chief Executive Officer of the Company, held 5,996,000 Shares (representing approximately 1.05% of the issued Share).

- (H) The Offeror will procure that any Shares in respect of which it is legally or beneficially interested will not be represented or voted at the Court Meeting convened at the direction of the Grand Court for the purpose of considering and, if thought fit, approving the Scheme.
- (I) The Offeror has agreed to undertake to the Grand Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:
- (a) the Scheme Shares shall be cancelled and the Scheme Shareholders shall cease to have any rights with respect to the Scheme Shares except the right to receive the Cancellation Price;
 - (b) contemporaneously with the cancellation of the Scheme Shares, the issued share capital of the Company shall be maintained by the issuance to the Offeror, credited as fully paid, an aggregate number of Shares which is equal to the number of Scheme Shares cancelled; and
 - (c) the Company shall apply the reserve created in its books of account as a result of the cancellation of the Scheme Shares referred to in paragraph (a) above in paying up in full the new Shares so issued pursuant to paragraph (b) above, which shall be allotted and issued, credited as fully paid, to the Offeror.

PART II

CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation of the Scheme Shares, the Offeror shall pay or cause to be paid the Cancellation Price to each Scheme Shareholder.

PART III GENERAL

3. (a) As soon as possible and but in any event within seven business days (as defined in the Takeovers Code) following the Effective Date, the Offeror shall post or cause to be posted cheques to the Scheme Shareholders in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme.
- (b) All such cheques shall be sent by ordinary post in postage pre-paid envelopes addressed to such Scheme Shareholders at their respective registered addresses as appearing in the register of members of the Company as at the Scheme Record Date, or in the case of joint holders, at the address appearing in the

register of members of the Company as at the Scheme Record Date of the joint holder whose name then stands first in the register of members of the Company in respect of the relevant joint holding.

- (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the moneys represented thereby.
- (d) All such cheques shall be posted at the risk of the addressees and none of the Offeror, the Company, CICC, the Independent Financial Adviser and the share registrar of the Company and their respective nominees, directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be liable for any loss or delay in despatch.
- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, the Offeror (or its nominee) shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the name of the Offeror (or its nominee) with a licensed bank in Hong Kong selected by the Offeror (or its nominee). The Offeror (or its nominee) shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Offeror (or its nominee) that they are respectively entitled thereto, provided that the cheques referred to in the foregoing sentence of which they are payees have not been cashed. Any payments made by the Offeror (or its nominee) shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme. The Offeror (or its nominee) shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror (or its nominee) to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
- (f) On the expiry of six years from the Effective Date, the Offeror (and, if applicable, its nominee) shall be released from any further obligation to make any payments under this Scheme and the Offeror (and, if applicable, its nominee) shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account referred to in paragraph 3(e) of this Scheme, including accrued interest subject to any deduction required by law and expenses incurred.
- (g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.

4. As from and including the Effective Date:
 - (a) all certificates for the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;
 - (b) all instruments of transfer validly subsisting as at the Scheme Record Date in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and
 - (c) all mandates or other instructions to the Company in force as at the Scheme Record Date in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.
5. Subject to the Conditions having been fulfilled or waived, as applicable, this Scheme shall become effective as soon as a copy of the order of the Grand Court sanctioning this Scheme under section 86 of the Companies Law has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law.
6. Unless this Scheme shall have become effective on or before the Long Stop Date, this Scheme shall lapse.
7. The Company and the Offeror may jointly consent for and on behalf of all parties concerned to any modification of or addition to this Scheme or to any condition which the Grand Court may see fit to approve or impose.
8. All costs, charges and expenses incurred by the Company and/or its advisers and counsels, including the Independent Financial Adviser, will be borne by the Company, whereas all costs, charges and expenses incurred by the Offeror and/or their advisers and counsels will be borne by the Offeror, and other costs, charges and expenses of the Scheme and the Proposal will be shared between the Offeror and the Company equally.

27 October 2020

IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

Cause No. FSD 229 of 2020

IN THE MATTER OF SECTION 86 OF THE COMPANIES LAW (2020 REVISION)
(AS REVISED)
AND IN THE MATTER OF ORDER 102 OF THE GRAND COURT RULES 1995
(AS REVISED)
AND IN THE MATTER OF CHANGSHOUHUA FOOD COMPANY LIMITED

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated the 19th day of October 2020 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Meeting**”) to be convened of the registered holders of the ordinary shares of HK\$0.1 each (“**Shares**”) in the capital of Changshouhua Food Company Limited (the “**Company**”) (other than those directly or indirectly held by SanXing Trade Co., Ltd. (the “**Offeror**”)) (the “**Scheme Shares**”) for the purpose of considering and, if thought fit, approving, with or without modification, a scheme of arrangement (the “**Scheme**”) proposed to be made between the Company and the holders of the Scheme Shares as at Scheme Record Date (as defined in the Scheme), and that such Meeting will be held at 10:00 a.m. on Thursday, 19 November 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at which place and time all holders of Scheme Shares are requested to attend.

A copy of the Scheme and a copy of the explanatory memorandum (the “**Explanatory Memorandum**”) explaining the effect of the Scheme are incorporated in the composite scheme document of which this Notice forms part (the “**Scheme Document**”), which has been despatched by post to holders of the Scheme Shares. A copy of the Scheme Document can also be obtained by any person entitled to attend the Meeting during usual business hours on any day prior to the day appointed for the said meeting (other than a Saturday, a Sunday or a public holiday in Hong Kong) from the Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

The above-mentioned holders of the Scheme Shares may vote in person at the Meeting or they may appoint one or more persons, whether a member of the Company or not, as their proxy to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the Scheme Document.

In the case of joint holders of a Scheme Share, the vote of the most senior holder 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 shall be determined by the order in which the names stand in the register of members of the Company in respect of the Scheme Share.

It is requested that forms appointing proxies, together with the letter or power of attorney or other authority (if any) under which they are signed or a notarially certified copy thereof (in the case of a corporation either under its common seal or under the hand of an attorney or a duly authorised officer on its behalf and to the satisfaction of the directors of the

Company), be lodged at the Share Registrar as stated above no later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Alternatively pink forms of proxy may be handed to the chairman of the Meeting at the Meeting.

Completion and return of the form of proxy will not preclude a holder of the Scheme Shares from attending and voting in person at the Meeting or any adjournment thereof. In the event that an eligible Scheme Shareholder attends and votes at the Meeting or any adjournment thereof after having lodged his form of proxy, his form of proxy shall be revoked by operation of law.

For the purpose of determining the entitlements of holders of Scheme Shares to attend and vote at the Meeting, the register of members of the Company will be closed from Monday, 16 November 2020 to Thursday, 19 November 2020, both days inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar as stated above before 4:30 p.m. (Hong Kong time) on Friday, 13 November 2020.

By the same order, the Court has appointed Mr. REN Zaishun, or failing him, Mr. CHENG Wenming, or failing whom, any other director of the Company at the time of the Court Meeting to act as chairman of the Meeting and has directed the chairman of the Meeting to report the result thereof to the Grand Court.

The Scheme will be subject to the subsequent sanction of the Court as set out in the Explanatory Memorandum contained in the Scheme Document.

By Order of the Court
Changshouhua Food Company Limited
長壽花食品股份有限公司

Dated the 27th day of October 2020.

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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

Notes:

- (i) Unless otherwise defined in this notice or the context otherwise requires, terms defined in the Scheme Document shall have the same meanings when used in this notice.
- (ii) At the Meeting, the Scheme will be voted on by way of poll as required under the Listing Rules and the Takeovers Code.

- (iii) A pink form of proxy for use at the Meeting is enclosed with the Scheme Document.
- (iv) A holder of the Scheme Shares entitled to attend and vote at the Meeting is entitled to appoint one or more persons, whether a member of the Company or not, as his proxy to attend, speak and vote instead of him/her. If more than one proxy is appointed, the number of Scheme Shares in respect of which each such proxy is so appointed must be specified in the relevant form of proxy.
- (v) The pink form of proxy, together with the letter or power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof (in the case of a corporation, either under its common seal or under the hand of an attorney or a duly authorised officer on its behalf and to the satisfaction of the directors of the Company), should be lodged at the Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof although it may be handed to the chairman of the Meeting at the Meeting. Completion and return of the pink form of proxy will not preclude a holder of the Scheme Shares from attending and voting in person at the Meeting or any adjournment thereof. In the event that a holder of the Scheme Shares attends and votes at the Meeting after having lodged his form of proxy, his form of proxy shall be revoked by operation of law.
- (vi) In the case of joint holders of a Scheme Share, the vote of the most senior holder 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 shall be determined by the order in which the names stand in the register of members of the Company in respect of the Scheme Share.
- (vii) For the purpose of determining the entitlements of holders of the Scheme Shares to attend and vote at the Meeting, the register of members of the Company will be closed from Monday, 16 November 2020 to Thursday, 19 November 2020, both days inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 13 November 2020.
- (viii) If a tropical cyclone warning signal No.8 or above is or is expected to be hoisted or a black rainstorm warning signal or "extreme conditions" caused by super typhoons is or is expected to be in force at any time after 7:00 a.m. on the date of the Meeting, the Meeting may be adjourned. The Company may post an announcement on the respective websites of the Hong Kong Exchanges and Clearing Limited and the Company to notify Scheme Shareholders of the date, time and venue of the reconvened meeting.
- (ix) Taking into account the recent development of the epidemic caused by coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the Meeting to protect holders of the Scheme Shares from the risk of infection:
 - a. compulsory body temperature checks will be conducted for every attending holder of the Scheme Shares or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but such holder of the Scheme Shares or proxy will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;
 - b. every attending holder of the Scheme Shares or proxy is required to wear a surgical mask throughout the Meeting; and
 - c. no refreshments will be served at the Meeting. Furthermore, the Company wishes to advise all of the holders of the Scheme Shares, particularly any holders of the Scheme Shares who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the Meeting as a proxy to attend and vote on any of the resolutions, instead of attending the Meeting in person. The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the HKSAR government, and if necessary will make further announcement(s) in case of any update regarding the precautionary measures to be implemented at the Meeting.

CHANGSHOUHUA FOOD COMPANY LIMITED**長壽花食品股份有限公司**

(incorporated in Cayman Islands with limited liability)

(Stock Code: 1006)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Extraordinary General Meeting**”) of Changshouhua Food Company Limited (the “**Company**”) will be held at 10:30 a.m. (or, if later, immediately after the conclusion or adjournment of the meeting of the holders (“**Shareholders**”) of the shares of Changshouhua Food Company Limited (“**Shares**”) (other than those directly or indirectly held by SanXing Trade Co., Ltd. (the “**Offeror**”)) (the “**Scheme Shares**”) convened at the direction of the Grand Court of the Cayman Islands (the “**Grand Court**”) for the same day and place) on Thursday, 19 November 2020 at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing, the following as a special resolution:

SPECIAL RESOLUTION

“THAT:

- (A) subject to the approval of the scheme of arrangement dated 27 October 2020 (the “**Scheme**”) between the Company and the holders of the Scheme Shares in the form of the print contained in the scheme document dated 27 October 2020 which has been produced to this Extraordinary General Meeting and for the purpose of identification signed by the chairman of this Extraordinary General Meeting, with any modification of or addition to it, or any condition, as may be approved or imposed by the Grand Court, for the purpose of giving effect to the Scheme, on the date on which the Scheme becomes effective in accordance with the Companies Law (as defined in the Scheme Document)(the “**Effective Date**”):
- (i) any reduction of the share capital of the Company as a result of the cancellation of the Scheme Shares pursuant to the Scheme be and is hereby approved;
 - (ii) subject to and contemporaneously with the cancellation of the Scheme Shares, the issued share capital of the Company be maintained by the issue of the same number of new shares of HK\$0.1 each in the share capital of the Company (the “**New Shares**”) as the number of Scheme Shares cancelled; and
 - (iii) the Company shall apply the reserve created in its books of account as a result of the cancellation of the Scheme Shares in paying up in full the New Shares, which New Shares shall be allotted and issued, credited as fully paid, to the Offeror and the directors of the Company be and are hereby unconditionally authorised to allot and issue the New Shares accordingly;
- (B) any one of the directors of the Company be and is hereby unconditionally authorised to do all acts and things considered by him to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation)

(i) the making of an application to The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the withdrawal of the listing of Shares on the Stock Exchange, subject to the Scheme taking effect; (ii) the cancellation of the Scheme Shares; (iii) the allotment and issue of the New Shares referred to above; and (iv) the giving, on behalf of the Company, of consent to any modification of, or addition to, the Scheme, which the Grand Court may see fit to impose and to do all other acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme.”

By order of the board
Changshouhua Food Company Limited
WANG Mingxing
Chairman

Hong Kong, 27 October 2020

As at the date of this notice, the board of directors of the Company comprises: Mr. Wang Mingxing, Mr. Wang Mingliang, Mr. Wang Mingfeng, Mr. Cheng Wenming, Mr. Ren Zaishun as executive Directors; and Mr. Wang Aiguo, Mr. Wang Ruiyuan and Mr. Liu Shusong as independent non-executive Directors.

Notes:

- (i) Unless otherwise defined in this notice or the context otherwise requires, terms defined in the Scheme Document shall have the same meanings when used in this notice.
- (ii) At the Extraordinary General Meeting, the chairman of the Extraordinary General Meeting will put forward the above resolution to be voted on by way of poll as required under the Listing Rules and the Takeovers Code.
- (iii) A white form of proxy for use at the Extraordinary General Meeting is enclosed with the Scheme Document.
- (iv) A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more persons, whether a member of the Company or not, as his proxy to attend, speak and vote instead of him/her. If more than one proxy is appointed, the number of Shares in respect of which each such proxy is so appointed must be specified in the relevant form of proxy.
- (v) In order to be accepted, the white form of proxy, together with the letter or power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof (in the case of a corporation, either under its common seal or under the hand of an attorney or a duly authorised officer on its behalf and to the satisfaction of the directors of the Company), must be lodged at the Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong no later than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and return of the white form of proxy will not preclude a member from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof. In the event that a member attends and votes at the Extraordinary General Meeting after having lodged his form of proxy, his form of proxy shall be revoked by operation of law.
- (vi) In the case of joint holders of a Share, the vote of the most senior holder 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 shall be determined by the order in which the names stand in the register of members of the Company in respect of the Share.

APPENDIX V NOTICE OF EXTRAORDINARY GENERAL MEETING

- (vii) For the purpose of determining the entitlements of Shareholders to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Monday, 16 November 2020 to Thursday, 19 November 2020, both days inclusive, and during such period, no transfer of Shares will be effected. In order to qualify to attend and vote at the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Friday, 13 November 2020.
- (viii) If a tropical cyclone warning signal No.8 or above is or is expected to be hoisted or a black rainstorm warning signal or "extreme conditions" caused by super typhoons is or is expected to be in force at any time after 7:00 a.m. on the date of the Extraordinary General Meeting, the Extraordinary General Meeting may be adjourned. The Company may post an announcement on the respective websites of the Hong Kong Exchanges and Clearing Limited and the Company to notify members of the date, time and venue of the reconvened meeting.
- (ix) Taking into account the recent development of the epidemic caused by coronavirus disease (COVID-19), the Company will implement the following prevention and control measures at the Extraordinary General Meeting to protect Shareholders from the risk of infection:
- a. compulsory body temperature checks will be conducted for every attending Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;
 - b. every attending Shareholder or proxy is required to wear a surgical mask throughout the Extraordinary General Meeting; and
 - c. no refreshments will be served at the Extraordinary General Meeting. Furthermore, the Company wishes to advise all of the Shareholders, particularly any Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the Extraordinary General Meeting as a proxy to attend and vote on any of the resolutions, instead of attending the Extraordinary General Meeting in person. The Company will closely monitor and ascertain the regulations and measures introduced or to be introduced by the HKSAR government, and if necessary will make further announcement(s) in case of any update regarding the precautionary measures to be implemented at the Extraordinary General Meeting.

In case of any inconsistency, the English version of this notice shall prevail.