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8 March 2022

To: The independent board committee and the independent shareholders of Pacific Millennium Packaging Group Corporation

Dear Sirs,

CONTINUING CONNECTED TRANSACTION IN RELATION TO A NEW FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreement (including the New Proposed Annual Caps), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 8 March 2022 issued by the Company to the Shareholders (the "**Circular**"), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed "Definitions" in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 29 December 2020 and the supplemental announcement dated 27 January 2021. Pursuant to the Framework Agreement, Chongqing Stone Tan shall provide machinery and equipment lease services to the Group for the purchase of various machinery and equipment by the Group for a term of three years commenced on 1 January 2021 with the Existing Annual Caps of RMB67.0 million for each of the three years ending 31 December 2023. For better management of the Lease Transactions and in view of that the Group is required to purchase more machinery and equipment to cope with its growing business through finance and/or operating lease, the Company and Chongqing Stone Tan agreed to terminate the Framework Agreement and, on 24 January 2022, entered into the New Framework Agreement, pursuant to which Chongqing Stone Tan agreed to continue providing the said machinery and equipment lease services to the Group for a term commencing on the date of the New Framework Agreement and ending on 31 December 2024.

According to the Letter from the Board, the Continuing Connected Transactions constitute non-exempt continuing connected transactions for the Company, and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Wang Jisheng, Mr. Kiang Tien Sik David and Dr. Su Morley Chung Wu (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the New Framework Agreement (including the New Proposed Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the New Framework Agreement at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion with regard to the New Framework Agreement, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Circular. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, Chongqing Stone Tan, PMGHC, PMHC, Golden Ford, Mr. Tan or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the New Framework Agreement. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to consider events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Shareholders should note that as the New Proposed Annual Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of revenues or costs to be recorded from the New Framework Agreement. Consequently, we express no opinion as to how closely the actual revenues and costs to be recorded under the New Framework Agreement will correspond with the New Proposed Annual Caps.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources but we did not conduct any independent investigation into the accuracy and completeness of such information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of the New Framework Agreement

Business overview of the Group

The Group is principally engaged in manufacture and sale of corrugated packaging materials with over 25 years of experience.

As referred to in the Company's annual report for the year ended 31 December 2020, the Group recorded considerable annual revenue of around RMB2,000 million during the past three consecutive years. We noted from the listing prospectus of the Company dated 10 December 2018 that the Group had a total of eleven production plants located in northern, north-eastern, eastern and southern regions of the PRC as at 30 November 2018. Out of the total net proceeds of approximately HK$262.5 million from the global offering, the Company intended to utilise approximately HK$138.2 million for expanding production plants network and approximately HK$44.4 million for upgrading production facilities and purchasing new machinery and equipment. Following such development plan, from 2019 to 2021, the Group had been focusing on expanding its production plants network by setting up new production plants in the eastern and southern regions of the PRC. In 2020, the Group set up a new production plant in Shandong province. Thereafter, construction of a new production plant in Foshan city was completed in September 2021 and production has commenced since the fourth quarter of 2021. In addition to the Shandong plant and the Foshan plant, the Group is in the process of setting up another new production plant in Chuzhou, Anhui Province (the "**Chuzhou Plant**"), the construction of which is expected to be completed in the third quarter of 2022.

As advised by the Directors, looking forward, the Group will continue to focus on reviewing its production plants network with a view to further strengthening its market position in the corrugated packaging industry in the PRC and improving revenue and profitability through broadening geographical coverage and market penetration. At the same time, the Group will endeavor to enhance its production efficiency, reduce production lead time and increase the level of automation in production process by upgrading its production facilities and purchasing new machinery and equipment for its existing production plants.

Information on Chongqing Stone Tan

As extracted from the Letter from the Board, Chongqing Stone Tan is a company incorporated in the PRC with limited liability, whose principal business is the provision of finance lease services.

Reasons for and possible benefits of the Continuing Connected Transactions

According to the Directors, it is beneficial for the Group to continue engaging in the Lease Transactions having regard the nature of services provided by Chongqing Stone Tan and the established working relationship with Chongqing Stone Tan, and the fact that the Lease Transactions have facilitated and are expected to continue facilitating the operation and growth of the Group's business through broadening its financing channels and providing stable and reliable sources of funding.

Upon our enquiry with the Directors, we understand that Chongqing Stone Tan has been providing finance lease services to the Group since 2015, and thus Chongqing Stone Tan has a thorough understanding on the operation and development need of the Group which enables it to provide efficient finance lease services to the Group.

Moreover, we understand from the Directors that the growing number of internet shoppers has led to an increasing demand for the products of the Group, and the Group has to acquire more machinery and equipment to cope with its growing business through finance and/or operating lease. As such, the Company is required to revise the Existing Annual Caps and entered into the New Framework Agreement with the New Proposed Annual Caps.

Based on our independent research with regard to the financial leasing industry, we noted that finance lease arrangement usually consists of direct lease and sales and lease back. Both ways allow the lessees to enjoy the benefits of saving the initial cash outlay for other business needs and expansion plan while still being able to use the machinery and equipment for operation. Normally, the lease plan is tailor-made for each lessee and is separated from the bank credit line, thereby creating a new source of funding. As a result of the said advantages offered by the finance lease arrangement, the financial leasing industry has been booming in the PRC with rising number of entrants. As referred to in a research report named "Global and China Financial Leasing Industry Report, 2020 to 2026" published by Reportlinker (https://www.reportlinker.com/p05779380/Global-and-China-Financial-Leasing-Industry-Report.html?utm_source=PRN), by the end of 2019, there were a total of 12,130 financial leasing companies, representing a year-on-year increase of 353 or a compound annual growth of approximately 51.6% as compared with 80 in 2006. The total finance lease balance amounted to approximately RMB6,654 billion by the end of 2019, and it is expected that China's total finance lease transactions will reach RMB13 trillion in 2026.

Moreover, to regulate the financial leasing industry and promote its ongoing healthy advancement, the PRC government has promulgated a series of control measures and policies since 2000 to consolidate and impose stringent supervision and guidance. A summary of the relevant policies and measures is as follows:

Policy	Date of issuance	Issuer	Main components and effect
"The Provisional Rules on Leasing Companies for Financing Purpose"	June 2020	The China Banking and Insurance Regulatory Commission	To further strengthen the supervision and management of leasing companies for financing purpose, standardise their business conduct, prevent and mitigate risks, and promote the orderly development of the industry.
"The Adjustments to the Duties of Administration of Financial Leasing Companies, Commercial Factoring Companies and Pawnshops"	May 2018	The Ministry of Commerce	Duties of the Ministry of Commerce in developing business operation and supervision rules for financial leasing companies, commercial factoring companies and pawnshops were transferred to the China Banking and Insurance Regulatory Commission, which marked the official unification of the financial leasing industry.
"Resolutely Curbing the Illegal Financing of the Local Governments in the Name of Government Procurement of Services"	June 2017	The Ministry of Finance	Clearly stated that the financing activities of non-financial institutions are prohibited from integration into the scope of government procurement of services.

Policy	Date of issuance	Issuer	Main components and effect
"Guiding Opinions of Accelerating the Development of the Financial Leasing Industry"	September 2015	The State Council	Clearly stated the term of "financial leasing", and fully deployed the system reform, key development areas, innovation development approach, and ongoing and ex-post regulation of the financial leasing industry.
"The Measures for the Supervision and Administration of Financial Leasing Enterprises"	September 2013	The Ministry of Commerce	To further improve the regulations imposed on the financial leasing companies and the related industry in order to normalise the business of the financial leasing companies.

In light of (i) the aforesaid reasons for and possible benefits of the New Framework Agreement to meet the Group's business needs as represented by the Directors together with (ii) the background and positive prospects of the financial leasing industry of the PRC as revealed by our independent research, we concur with the Directors that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the New Framework Agreement

A summary of the principal terms of the New Framework Agreement dated 24 January 2022 as extracted from the Letter from the Board is set out below:

Parties:

(1) The Company; and
(2) Chongqing Stone Tan

Term: Commencing on the date of the New Framework Agreement and ending on 31 December 2024

Subject matter: Pursuant to the New Framework Agreement, Chongqing Stone Tan shall provide machinery and equipment lease services to the Group for the purchase of various machinery and equipment for its business. The Group and Chongqing Stone Tan shall enter into specific agreement in respect of each transaction contemplated under the New Framework Agreement in accordance with the principal terms under the New Framework Agreement.

Pricing policy: While the total lease amount shall be the sum equivalent to the purchase price of the machinery and equipment purchased by the Group from independent third parties, the interest rate payable by the Group to Chongqing Stone Tan for the Lease Transactions contemplated under the New Framework Agreement shall be determined with reference to:

(i) the benchmark lending rates published by the People's Bank of China from time to time for the same period;

(ii) the prevailing market interest rate for comparable lease transactions in the PRC; and

(iii) various other factors including but not limited to loan to value ratio, amount of down payment and value of collateral etc., and in any event the interest rate offered by Chongqing Stone Tan to the Group shall be no less favourable than that offered to (a) the Group by other independent comparable leasing companies; and (b) other independent third parties by Chongqing Stone Tan for comparable lease services.

The material terms of the Framework Agreement and the New Framework Agreement are basically identical to each other.

We understand that under the pricing policy and internal control measures established by the Group, a nominated personnel shall obtain quotation from at least one other independent comparable leasing companies on a half-year basis to ensure that the interest rate offered by Chongqing Stone Tan to the Group is not less favourable than that offered by other independent comparable leasing companies. We have requested and obtained the aforesaid quotation and comparison record of the Group. From those record, we noted that Chongqing Stone Tan was chosen given that the principal terms of the finance leases it offered to the Group were more favourable than those of the independent comparable leasing companies at the relevant time.

Besides, to further assess whether the principal terms of the Lease Transactions are on normal commercial terms, we have (i) requested the Company to provide us with ten specific lease agreements which were entered into by the Group and Chongqing Stone Tan during the period from 2019 to 2021 (the "**Historical Connected Lease Agreements**"); and (ii) researched over the website of the Stock Exchange at www.hkex.com.hk regarding the finance lease arrangement entered into by listed companies in Hong Kong (as either lessor or lessee) and independent third parties or connected persons from 24 November 2021 up to 23 January 2022 (being an approximate two-month period prior to the date of the New Framework Agreement) and found an exhaustive list of around 38 such announcements (the "**Comparables**"). The Historical Connected Lease Agreements were selected by us on a random basis and we consider them to be fair and representative. On the other hand, we are also of the view that the said two-month research period for the Comparables could provide Shareholders with sufficient samples as reference for the general terms and conditions of finance lease arrangement in the market.

We notice that the Historical Connected Lease Agreements and the Comparables contain the following key terms in common:

(i) The "title", being the legal ownership and all rights of the leased assets, shall vest in the lessor throughout the lease term.

(ii) The lessee is normally required to pay an upfront deposit to the lessor as security for use of the relevant leased assets.

(iii) Subject to the lessee having performed all its obligations during the lease term and upon expiry of the lease term, the lessee is granted the "purchase option" to purchase the relevant leased assets from the lessor.

Judging from that (i) based on the quotation and comparison record of the Group, Chongqing Stone Tan was chosen given that the terms of the finance leases it offered to the Group were more favourable than those of the independent comparable leasing companies at the relevant time; and (ii) our market comparison as presented above shows that the key terms of the Historical Connected Lease Agreements were comparable to the those of the Comparables, we are of the view that the terms of the New Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The New Proposed Annual Caps

The table below illustrates the New Proposed Annual Caps for the Continuing Connected Transactions for each of the three years ending 31 December 2022, 2023 and 2024:

Year	**The New Proposed Annual Caps** *RMB million*
2022	140.0
2023	82.0
2024	94.0

With reference to the Letter from the Board, the New Proposed Annual Caps were determined primarily based on the total value of right-of-use assets relating to the Continuing Connected Transactions for the corresponding year by reference to the estimated demand of the Group for the lease services to be provided by Chongqing Stone Tan to (i) replace the

Group's obsolete machinery and equipment and purchase additional machinery and equipment for its existing production plants; and (ii) purchase new machinery and equipment for the Group's new production plants.

To assess the fairness and reasonableness of the New Proposed Annual Caps, upon our request, the Company provided the breakdown of estimated contract values of the individual finance lease agreements between the Group and Chongqing Stone Tan for 2022, 2023 and 2024, which will be converted into right-of-use assets. Detailed information, including the machinery and equipment type and production plant location, interest to be paid by the Group to Chongqing Stone Tan, were also provided. From the information we obtained, we noted that the total contract value for 2022 was primarily based on the finance lease agreements which will be entered into shortly for machinery and equipment purchased before 2022 or new machinery and equipment that are expected to be purchased in 2022. On the other hand, the outstanding balance and interest as at 31 December 2021 (the "**Outstanding Sum**") from the finance lease agreements which have already been entered into were also included in the calculation of New Proposed Annual Cap for 2022. As confirmed by the Directors, around 49% of the New Proposed Annual Cap for 2022 is contributed by those finance lease agreements which have already been entered into while the remaining 51% is contributed by those finance lease agreements to be entered into shortly. The machinery and equipment purchased and expected to be purchased under the aforesaid agreements are mainly for use in the existing production plants of the Group, its production plant in Dalian city that is in the process of relocation and the Chuzhou Plant.

In addition to the above, in order to cope with the Group's expanding business attributable largely to the growing number of internet shoppers, the Company expected to further enlarge the production capacity of the Group in the near future. As advised by the Directors, the Group has formulated a preliminary plan to set up a new production plant in each of 2023 and 2024 near the eastern and southern regions of the PRC in provinces such as Zhejiang province (the "**Expansion Plan**"). It is expected that the machinery and equipment to be purchased through finance lease for such production plants will include corrugators, inline flexographic folder gluer, flexographic printers and automated logistic system. Based on the expected operation scale, the Company estimated that the expected total contract value of the new finance lease agreements to be entered into for purchase of new machinery and equipment would amount to approximately RMB40 million for each new production plant. An approximate total contract value of RMB20 million to RMB30 million would also be required for replacement of obsolete machinery and equipment.

We performed an independent research regarding the e-commerce market of the PRC. As revealed by the "2020 China E-Commerce Report" issued by the Ministry of Commerce (https://dzswgf.mofcom.gov.cn/news/5/2021/9/1631698018580.html), the scale of e-commerce transactions in the PRC continued to expand and maintained a high-speed advancement. In 2020, the national online retail sales amounted to approximately RMB11.8 trillion, representing a year-on-year surge of approximately 10.9%. Furthermore, according to the "The 47th China Statistical Report on Internet Development" issued by the China Internet Network Information Centre (http://www.gov.cn/xinwen/2021-02/03/5584518/files/bd16adb558714132a829f43915bc1c9e.pdf), the national online shopping users mounted to approximately 782 million in 2020, accounting for approximately 79.1% of the total number of Internet users in the PRC. As further suggested in the "Report on the Development of Consumer Market in China 2020" issued by the Chinese Academy of International Trade and Economic Cooperation (https://www.caitec.org.cn/upfiles/file/2020/11/20201208171414567.pdf), the outbreak of the COVID-19 pandemic in 2020 has motivated the "Stay-at-home Economy" and stimulated the shift of consumers' preference to online shopping.

Taking into account that the boom of online shopping will accelerate the demand for logistics services, which require corrugated products to package the goods for delivery, we concur with the Directors that the corrugated packaging industry would likely to be benefited from the boom of on-line shopping. Amid such advancement trend, the Group's business may further expand, and hence more machinery and equipment and production plants for production would be required in the near future. With also the fact that the Group had been focusing on expanding its production plants network by setting up new production plants successively from 2019 to 2021, we consider the Expansion Plan to be practical.

Having considered the above, we are of the view that the estimated contract values for 2022, 2023 and 2024 are justifiable. As advised by the Directors, in compliance with the International Financial Reporting Standard No. 16 "Leases" becoming effective on 1 January 2019 and pursuant to the requirements of the Stock Exchange, the total estimated contract values of the individual finance lease agreements between the Group and Chongqing Stone Tan for 2022, 2023 and 2024 were further converted into right-of-use assets to arrive at the New Proposed Annual Caps for the corresponding year. As further explained in the Letter from the Board, given that the Existing Annual Caps were determined based on the maximum outstanding balance and annual interest payment plus handling fee (including VAT), the Outstanding Sum had been taken into account when determining the New Proposed Annual Cap for 2022, and that accounts for the higher cap amount for 2022 as compared to 2023 and 2024. We therefore consider that the New Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. Compliance with the Listing Rules

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the amounts of the Continuing Connected Transactions must be restricted by the New Proposed Annual Caps for the three years ending 31 December 2024; (ii) the terms of the New Framework Agreement (together with the New Proposed Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the New Framework Agreement (together with the New Proposed Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the Continuing

Connected Transactions are carried out in accordance with the pricing policies of the Company, and the New Proposed Annual Caps are not being exceeded. In the event that the total amounts of the Continuing Connected Transactions exceed the New Proposed Annual Caps, or that there is any material amendment to the terms of the New Framework Agreement (together with the New Proposed Annual Caps), the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

For our due diligence purpose, we have obtained from the Company the aforesaid review confirmation of the independent non-executive Directors and the Company's auditors from 2019 to 2020.

With the stipulated requirements for continuing connected transaction of the Listing Rules in place, the Continuing Connected Transactions will be monitored and hence the interest of the Independent Shareholders may be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the New Framework Agreement (including the New Proposed Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the New Framework Agreement and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited

Doris Sing
Managing Director