

10 May 2023

*To the Independent Board Committee and the Independent Shareholders of
Uni-President China Holdings Ltd.*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS —
(1) REVISION OF THE EXISTING 2023 ANNUAL CAP FOR THE
2020 FRAMEWORK PURCHASE AGREEMENT; AND
(2) THE 2023 FRAMEWORK PURCHASE AGREEMENT**

A. INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement, and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps), details of which are set out in the “Letter from the Board” of the circular (the “**Circular**”) issued by the Company to the Shareholders dated 10 May 2023 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 8 March 2023 in relation to, among other things, the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement, the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps).

Implications under Listing Rules

In view of the fact that UPE is the ultimate controlling shareholder of the Company, UPE is a connected person of the Company under the Listing Rules. Accordingly, the Continuing Connected Transactions contemplated under each of the 2020 Framework Purchase Agreement and the 2023 Framework Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

1. Revision of the Existing 2023 Annual Cap

Since each of the applicable percentage ratios relating to the Proposed 2023 Annual Cap for the continuing connected transactions under the 2020 Framework Purchase Agreement exceeds 5%, the Proposed 2023 Annual Cap in respect of the 2020 Framework Purchase Agreement is subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

2. The 2023 Framework Purchase Agreement

In respect of the 2023 Framework Purchase Agreement, since each of the applicable percentage ratios in respect of the highest proposed Annual Cap is more than 5%, the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps) are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

An EGM will be convened to be held to consider and, if thought fit, approve (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps). The voting at the EGM will be taken by poll. Cayman President (a direct wholly-owned subsidiary of UPE), being the controlling shareholder of the Company, President (BVI), which is an indirect non-wholly owned subsidiary of UPE, and Kai Yu (BVI), which is an indirect wholly-owned subsidiary of UPE, and their respective associates (“**Interested Shareholders**”) are required to abstain from voting at the EGM to approve the relevant resolutions in respect of the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement, the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps). As at the Latest Practicable Date, the Interested Shareholders held an aggregate of 3,126,291,983 Shares, representing approximately 72.38% of the issued share capital of the Company. To the best knowledge, belief and information of the Directors, save for the Interested Shareholders, no other Shareholder is required to abstain from voting at the EGM.

Independent Board Committee

The Independent Board Committee comprising Mr. Chen Sun-Te, Mr. Chen Johnny, Dr. Fan Ren-Da, Anthony and Mr. Lo Peter, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and reasonableness of (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps). We have been appointed and approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps). In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Hong Kong Listing Rules, our role is to give you an independent opinion as to whether the Proposed 2023 Annual Cap

for the 2020 Framework Purchase Agreement, the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps) are in the ordinary and usual course of business of the Group on normal commercial terms, and in the interests of the Company and Independent Shareholders as a whole and whether the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement, the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned.

Our Independence

As at the Latest Practicable Date, we were not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We were not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independence Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps). We are eligible to give independent advice and recommendations on (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps). Apart from the normal professional fees payable to us in connection with the present appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. During the past two years, there was no engagement between the Group and us. Also, we are not aware of the existence of or change in any circumstances that could affect our independence. Accordingly, we consider that we are eligible to give independent advice on (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps).

B. BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts, the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

We also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed all currently available information and documents particularly, (i) the annual report of the Company for the year ended 31 December 2021; (ii) the interim report of the Company for the six months ended 30 June 2022; (iii) the annual report of the Company for the year ended 31 December 2022 (the “**Annual Report 2022**”); (iv) the 2023 Framework Purchase Agreement; (v) the 2020 Framework Purchase Agreement; (vi) the 2020 Announcement and the 2020 Circular; (vii) the announcement of the Company dated 8 March 2023; (viii) the historical transactions between the Group and UPE Group under the 2020 Framework Purchase Agreement; and (ix) historical transactions between the Group and the independent third parties and their samples of transaction documents. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps), as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps) and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and Independent Shareholders in respect of (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps), we have taken into account the principal factors and reasons set out below:

1. Background of the parties involved

(i) Information of the Group

The Company is an investment holding company. The Group is one of the leading manufacturers of beverages and instant noodles products in the PRC and is principally engaged in the manufacturing and sale of beverages and instant noodles in the PRC.

(ii) Information of UPE Group

UPE is a limited liability company whose shares are listed on the Taiwan Stock Exchange Corporation and is the ultimate controlling shareholder of the Company. UPE is one of the largest food and beverage conglomerate in Taiwan and UPE Group engages in a wide spectrum of business, including food manufacturing, retail business, logistics, trade and investment with a wide distribution network.

2. Reasons for and benefits of the Proposed 2023 Annual Cap and entering into the 2023 Framework Purchase Agreement

As disclosed in the Letter from the Board, taking into account the increase in the price of raw materials and expected business growth of the Group, it is considered that the expected aggregate value of continuing connected transactions under the 2020 Framework Purchase Agreement would exceed the Existing 2023 Annual Cap for the Year 2023.

We also note that the Group has been having business co-operation with UPE Group since the Company became listed on the Stock Exchange in 2007. During the past years, UPE Group has demonstrated itself as a reliable and trustworthy business partner of the Group. Through the close and long-term cooperation relationship, UPE Group has established a thorough understanding of the standards and requirements of the Group which enable it to provide more reliable goods or products and/or quality services to the Group. The continuation of such continuing connected transactions is essential for the continued operation and growth of the Group's business.

In view of the 2020 Framework Purchase Agreement will expire on 31 December 2023, the Company has entered the 2023 Framework Purchase Agreement in order to renew the above mentioned framework agreement for a term of three years with effect from 1 January 2024 to 31 December 2026 (both days inclusive).

As disclosed in the Letter from the Board, the Directors believe that the securing of a long-term partnership with UPE Group, which leverages on its profound experience in the food and beverages industry, extensive sales and service network and well-established information system and facilities, is beneficial to the Group. The maintaining of the strategic and continual business relationship with UPE Group would also allow the realisation of synergies in terms of efficiency and operational support and the attainment of economies of scale, and be expected to bring sustainable and stable contribution to the Group's revenue and profitability in the long run. Having a long term and steady relationship with the suppliers is important to the Group as it enables stability in the supply to the Group which in turn avoids any unnecessary disruption to the Group's business and guarantees a smooth operation of the Group. As such, we are of the view that the Group can maintain long term business relationship with UPE Group by entering into the 2023 Framework Purchase Agreement.

Having considered the above, and particularly, (a) the revision of the Existing 2023 Annual Cap is necessary to meet the business needs of the Group and to make purchases from UPE Group on an on-going basis pursuant to the 2020 Framework Purchase Agreement; (b) the entering into the 2023 Framework Purchase Agreement will (i) maintain the Group's long term business relationship with UPE Group and enable the stability in the supply to the Group which in turn ensures a smooth operation of the Group's distribution business and (ii) bring sustainable and stable contribution to the Group's revenue and profitability in the long run, we are of the view that the entering into the 2023 Framework Purchase Agreement, together with the adoption of the Proposed 2023 Annual Cap, is conducted in the ordinary and usual course of the Group's business and is in the interests of both the Company and the Shareholders as a whole.

3. 2020 Framework Purchase Agreement and 2023 Framework Purchase Agreement

Principal terms of the 2020 Framework Purchase Agreement

Reference is made to the 2020 Announcement and the 2020 Circular in relation to the 2020 Framework Purchase Agreement entered into between the Company and UPE. As confirmed by the management of the Group, the transactions contemplated under the 2020 Framework Purchase Agreement will be conducted in line with the pricing method and procedures adopted by the Group in conducting the transactions under the current practice as agreed in the 2020 Framework Purchase Agreement. Except for the annual cap, all other terms of the 2020 Framework Purchase Agreement remain unchanged. The principal terms of the 2020 Framework Purchase Agreement have been set out in the paragraph headed "REVISION OF THE EXISTING 2023 ANNUAL CAP IN RESPECT OF THE 2020 FRAMEWORK PURCHASE AGREEMENT" in the "Letter from the Board" of the Circular.

We have reviewed the 2020 Framework Purchase Agreement and found the terms remain unchanged. As the terms have been reviewed by the independent financial adviser in the 2020 Circular in relation to the 2020 Framework Purchase Agreement, we are of the view that the terms for continuing connected transactions

contemplated under the 2020 Framework Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

To access the fairness and reasonableness of the 2023 Framework Purchase Agreement, we have considered the following:

Principal terms of the 2023 Framework Purchase Agreement

- Date: 8 March 2023
- Parties: (1) the Company (members of the Group as purchasers); and
(2) UPE (members of UPE Group as sellers).
- Term: Subject to the approval by the Independent Shareholders at the EGM, the 2023 Framework Purchase Agreement is for a fixed term of three years from 1 January 2024 to 31 December 2026 (both days inclusive).
- Subject matter: Pursuant to the 2023 Framework Purchase Agreement, the Company agreed to purchase and procure members of the Group to agree to purchase, on a non-exclusive basis, from UPE Group, certain raw materials, packaging materials, finished goods and such other goods as may be agreed by the Group and UPE Group and/or their respective members in writing from time to time.
- Operational Agreement(s): Pursuant to the 2023 Framework Purchase Agreement, member(s) of the Group may, as purchaser(s), from time to time during the term of the 2023 Framework Purchase Agreement, enter into separate Operational Agreement(s) (which may be in the form of purchase order(s) and/or purchase agreement(s)) with member(s) of the UPE Group, as supplier(s), in respect of each batch of purchase, setting out the actual transaction arrangement(s) and terms, provided that such Operational Agreement(s) shall always be subject to the terms of the 2023 Framework Purchase Agreement.
- Payment terms: Pursuant to the 2023 Framework Purchase Agreement, the mode of payment and credit terms for the purchase transactions contemplated thereunder shall be on normal commercial terms and in any event no less favourable to the Group than those can be obtained by the Group from independent third parties offering the same or substantially similar product(s) of the same period.

- Pricing basis: The prices and terms of the Operational Agreement(s) to be entered into for each batch of purchase transactions contemplated under the 2023 Framework Purchase Agreement shall be determined in the ordinary course of business on normal commercial terms, negotiated on arm's length basis between the parties thereto and on the following principles:
- (i) by reference to the prevailing market price of the same or substantially similar products purchase from independent third parties by the Group of the same period, taking into account the price of the same or substantially similar products with comparable order quantities and quality offered by independent third party suppliers; and
 - (ii) in any event no less favourable to the Group than those offered by independent third party suppliers to the Group in comparable transactions of the same period,
- and in accordance with the internal control procedures of the Group, details of which are disclosed in the section headed “(III) 2023 FRAMEWORK PURCHASE AGREEMENT — Internal control measures — 2023 Framework Purchase Agreement” in the Circular.
- Such pricing basis is applicable to all types of products (including OEM products) to be purchased by the Group from UPE Group under the Operational Agreements covered by the 2023 Framework Purchase Agreement.
- Other terms: Pursuant to the 2023 Framework Purchase Agreement, all other terms and conditions for the purchase transactions contemplated thereunder (including but not limited to terms relating to payment, credit period, quality assurance and inspection) shall be on normal commercial terms and in any event no less favourable to the Group than those can be obtained by the Group from independent third parties offering the same or substantially similar product(s) of the same period.
- Termination: The 2023 Framework Purchase Agreement may be terminated before expiration of its full term upon mutual agreement in writing by the parties thereto or by either party in certain circumstances (including material default by the other party) as set out in the 2023 Framework Purchase Agreement.

Regarding the pricing policy on purchase of products from UPE Group, we have reviewed other continuing connected transactions in relation to purchases made by other listed companies from their connected persons and noted that their pricing policies were similar to the above under the 2023 Framework Purchase Agreement, it is not uncommon that listed companies on the Stock Exchange will obtain quotations from at least two independent suppliers to assess whether the purchase of similar products from the connected person is on normal commercial terms. Also, the Group has adopted the above pricing policy in the past and we have also reviewed the lists of transactions conducted pursuant to the 2020 Framework Purchase Agreement covering the period from 1 January 2021 to 28 February 2023 and selected samples of contracts for the purchase of the products. We have randomly selected three transactions of each type of products including certain raw materials, packaging materials and finished goods from companies which its purchased amount from UPE Group for each of the two years ended 31 December 2022 and two months ended 28 February 2023, respectively and the selection is considered to be sufficient for sampling use of understanding whether the terms of the purchase transactions conducted by the Company with UPE Group are fair and reasonable. As confirmed with the management of the Group that the Company would determine the prices and terms of the purchase transactions as contemplated under the 2023 Framework Purchase Agreement in the ordinary course of business on normal commercial terms and negotiated on an arm's length basis by reference to the prevailing market price of the same or substantially similar products available from independent third parties to the Group of the same period, taking into account of the price of the same or substantially similar products with comparable order quantities and quality offered by independent third party suppliers, conduct a search on the market price of similar products sold by other independent third parties and consider these references in relation to the unit price for similar products in the market. We noted that such prices and terms shall in any event be no less favourable to the Group than those offered by independent third party suppliers to the Group in comparable transactions of the same period. We have also reviewed the agreements with terms offered by two independent suppliers that the price of the products offered by UPE Group was no less favourable than those offered by other independent suppliers. As such, we are of the view that such arrangement is fair and reasonable, is on normal commercial terms and is in the interests of the Company and Shareholders as a whole.

4. The Proposed 2023 Annual Cap and the Annual Caps

4.1 Existing annual caps and historical variances

The following table summarises (i) the historical amounts of purchases from UPE Group pursuant to the 2020 Framework Purchase Agreement; and (ii) the corresponding annual caps approved, for each of the two years ended 31 December 2022 respectively.

	For the year ended 31 December	
	2021	2022
Existing annual caps for purchase transactions (RMB'000)	5,100,000	5,210,000
Total actual values for purchase transactions (approximately RMB'000)	4,404,113	5,084,688
Utilisation rate of the annual caps (approximately)	86.36%	97.59%

As shown in the above table, the utilisation rates of historical annual caps were almost fully-utilised at approximately 86.36% and 97.59% for the two years ended 31 December 2022 respectively. The existing annual caps for the purchase transactions in respect of the 2020 Framework Purchase Agreement were not exceeded. For our further analysis in relation to the proposed revision of the Existing 2023 Annual Cap and the Annual Caps, please refer to the paragraph headed "4.2 The Proposed 2023 Annual Cap and the Annual Caps" below.

4.2 The Proposed 2023 Annual Cap and the Annual Caps

The following table sets out the Proposed 2023 Annual Cap and the Annual Caps.

	For the year ended 31 December			
	2023	2024	2025	2026
	RMB'000	RMB'000	RMB'000	RMB'000
Existing annual caps for purchase transactions	5,350,000	—	—	—
Proposed 2023 Annual Cap	7,200,000	—	—	—
Annual Caps	—	8,200,000	9,400,000	10,700,000

In determining the Proposed 2023 Annual Cap, the management of the Company has taken into consideration: (i) the historical figures of the purchases by the Group from UPE Group; (ii) the estimated future demand of the Group having regard to the estimated market demand and the business development of the Group; and (iii) the expected continuing increase in the purchase prices associated with the increase in costs of raw materials, packaging materials and production costs (as the case may be) of UPE Group (including but not limited to rising in labour costs).

In determining the Annual Caps, the management of the Company has taken into consideration: (i) the historical figures of the purchases made by the Group from UPE Group; (ii) the estimated future demand of the Group having regard to the estimated market demand and the business development of the Group, including the introduction of new products in the coming years which will result in a higher demand for raw materials, packaging materials and finished goods by the Group as required for its business operation; and (iii) the expected continuing increase in the purchase prices associated with the increase in costs of raw materials and/or packaging materials and/or production costs of UPE Group (as the case may be) (due to factors such as inflation in prices of raw materials and labour costs as well as the rise in exchange rates). On the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group and/or UPE Group.

Taking into account the above factors, the Group expects there will be a stable increase in the demand of purchases from UPE Group and therefore an increase in the estimated maximum aggregate annual transaction values for purchase transactions contemplated under the 2023 Framework Purchase Agreement.

In assessing the fairness and reasonableness of the Proposed 2023 Annual Cap and the Annual Caps, we have discussed with the management of the Group regarding the above factors for determining the Proposed 2023 Annual Cap and the Annual Caps:

- (i) the utilisation rate was approximately 86.36% in 2021 and 97.59% in 2022;
- (ii) the estimated purchase transactions in 2023 are expected to be increased by approximately 27% after taking into account (a) the average increase in actual values for purchase transactions of 12.1% from 2020 to 2022. We note that the increase in actual values for purchase transactions of approximately 20.9% in 2021 and 15.5% in 2022 while the transactions in 2020 was similar to that in 2019. Based on this estimation, the estimated transactions will exceed existing annual cap for purchase transactions in 2023; (b) increase in cost of raw materials as stated in point (vi) below; (c) expected future demand as state in point (v) below; and (d) inflation rate in 2022;
- (iii) according to the Annual Report 2021, the total revenue increased from approximately RMB22.8 billion in 2020 to RMB25.2 billion in 2021, representing an increase of approximately 10.8%. According to the Annual Report 2022, the total revenue was approximately RMB28.3 billion in 2022, representing an increase of approximately 12.0% as compared to 2021;

- (iv) as confirmed by management of the Group, there are new products to be introduced every year which will result in a higher demand for raw materials, packaging materials and finished goods from UPE Group;
- (v) according to a research in relation to the beverage industry in China in 2022–2023 published by iiMedia Research (2022–2023年全球及中國飲料市場發展趨勢及消費行為資料監測報) (<https://www.163.com/dy/article/HJKTS88J0511A1Q1.html>), the market scale in beverage industry has increased from approximately RMB1,000.0 billion in 2021 to RMB1,247.8 billion in 2022. Although there was a slightly drop in total retail sales in beverage industry from approximately RMB40.8 trillion in 2019 to approximately RMB39.2 trillion in 2020, which was mainly due to the COVID-19 pandemic, it has been increasing from RMB20.6 trillion in 2014 to approximately RMB40.8 trillion in 2019 and further increase to RMB44.1 trillion in 2021, representing a CAGR of approximately 7.38%. It is expected to the demand for beverage will increase in foreseeable future in 2023 to 2026;
- (vi) the cost of raw materials has been increasing since 2021. The average increase in cost of raw materials was approximately 11.7% in 2021 and 11.5% in 2022;
- (vii) according to the consolidated yearly data for 2013 to 2021 on Trading Economics (<https://tradingeconomics.com/china/wages-in-manufacturing>) which was sourced from each of China Statistical Yearbook (中國統計年鑒) (<http://www.stats.gov.cn/sj/ndsjs/>) as published in 2014 to 2022, the average yearly wages in manufacturing in China has an increasing trend since 2014. It increased approximately RMB51,369 in 2014 to RMB92,459 in 2021, representing a CAGR of approximately 8.0%. It is expected that the labour cost in China will continue to rise in 2023 to 2026;
- (viii) the inflation rate was approximately 2.50% in 2020, 3.13% in 2021 and 3.00% in 2022; and
- (ix) the estimated purchase transactions for 2024 to 2026 are expected to be increased by approximately 14% after taking into account (a) the average increase in actual values for purchase transactions of 12.1% from 2020 to 2022 as state in point (i), (b) growth in the market, and (c) inflation rate in 2022.

Based on the factors and reasons discussed above, we are of the view that the Proposed 2023 Annual Cap and Annual Caps were set by the Company after due and careful consideration and are fair and reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as whole.

5. Internal control measures

In determining whether the price and/or payment terms offered by UPE Group are reasonable or no less favourable to the Group than those offered by the independent third parties under the 2023 Framework Purchase Agreements, the Group will

- (i) as an active market participant, through market research, obtain sufficient market intelligence to enable it to ascertain the prevailing market rate, payment terms and practices as well as the latest market and independent third party information at any point in time;
- (ii) in respect of procurement of products under the 2023 Framework Purchase Agreement, where sufficient comparable transactions are available, invite quotations from at least two independent suppliers to obtain a reference on the prevailing prices for the relevant products to be procured to the extent that those products are of comparable nature, quality, quantity and condition. Such quotations will be reviewed and evaluated from the quality, cost control, pricing and commercial perspectives by a designated team, which is comprised of representatives from the food safety department, research and development department, sales department, finance department and internal audit department of the Group, and compared against the quotation from UPE Group. The designated team will approve the proposed transactions to ensure that the products to be procured from UPE Group are of comparable prices for such products being offered by independent third parties; and
- (iii) for products in respect of which there is no sufficient comparable transaction available, the prices will be determined after arm's length negotiation according to the historical price of the products purchased in the past and by reference to the cost analysis to be conducted.

To ensure the actual prices and terms for the Continuing Connected Transactions will be on normal commercial terms and on terms no less favourable to the Group than those available from independent third parties, the Group, by means of internal review by the internal audit department of the Group, will assess semi-annually, whether the products have been purchased in accordance with the terms of the 2023 Framework Purchase Agreement. Furthermore, in the event that there is any new product being introduced by the Group during the relevant year, internal review on the procurement of raw materials, packaging materials and/or finished goods in connection to such new product will be conducted in addition to the aforesaid semi-annual review, so as to ensure the relevant procurement is conducted pursuant to the terms of the 2023 Framework Purchase Agreement. In addition, the Company has engaged external auditors to conduct an annual review of the Continuing Connected Transactions. Given the Continuing Connected Transactions have to adhere strictly to their respective pricing policies as disclosed in this circular, we are of the view that the procedures adopted by the Group to govern the Continuing Connected Transactions are sufficient and adequate to ensure that such

transactions be conducted under normal commercial terms and are not prejudicial to the interest of the Company and its minority Shareholders and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

D. RECOMMENDATION

Having considered the above reasons, we are of the view that (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps) are entered in the ordinary and usual course of business of the Group and on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise and recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM approving (i) the Proposed 2023 Annual Cap for the 2020 Framework Purchase Agreement; and (ii) the 2023 Framework Purchase Agreement and the Continuing Connected Transactions contemplated thereunder (and the Annual Caps).

Yours faithfully,
For and on behalf of
Vinco Financial Limited

A handwritten signature in black ink, appearing to read 'Alister Chung', is written over the name and title below. The signature is stylized and somewhat abstract, with a long horizontal stroke extending to the left and a vertical stroke extending upwards.

Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vinco Financial Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.