

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer, this Composite Document and/or the accompanying Form of Acceptance 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 securities in Honworld Group Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or to the transferee(s) 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(s) or transferee(s). This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms of the Offer.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Form of Acceptance, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form of Acceptance.



**WUXING CITY INVESTMENT HK
COMPANY LIMITED**
(Incorporated in Hong Kong with limited liability)

Honworld Group Limited
老恒和釀造有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2226)

**COMPOSITE OFFER AND RESPONSE DOCUMENT
RELATING TO THE MANDATORY CONDITIONAL CASH OFFER BY
CLSA LIMITED FOR AND ON BEHALF OF WUXING CITY INVESTMENT HK
COMPANY LIMITED TO ACQUIRE
ALL THE ISSUED SHARES OF HONWORLD GROUP LIMITED (OTHER THAN
THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

Exclusive Financial Adviser to the Offeror



Independent Financial Adviser to the Independent Board Committee



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from CLSA Limited containing, among other things, details of the terms and conditions of the Offer is set out on pages 7 to 15 of this Composite Document. A letter from the Board is set out on pages 16 to 23 of this Composite Document. A letter from the Independent Board Committee containing its recommendation in respect of the Offer to the Independent Shareholders is set out on pages 24 to 25 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offer is set out on 26 to 63 of this Composite Document.

The procedures for acceptance and settlement of the Offer are set out on I-1 to I-3 in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Offer for holders of Shares of the Company must be received by the Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:00 p.m. on Friday, 1 December 2023, or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.

Shareholders should inform themselves of and observe any applicable legal, tax or regulatory requirements set out in the "Important Notices" section of this Composite Document. Any persons including, without limitation, custodians, nominees and trustees who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form of Acceptance to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the section headed "Overseas Shareholders" in the letter from CLSA Limited contained in this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder wishing to accept the Offer to satisfy himself, herself or itself 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 and any registration or filing which may be required or the compliance with other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes due by such Overseas Shareholders in respect of such jurisdictions. Overseas Shareholders are advised to seek professional advice on deciding whether to accept the Offer.

This Composite Document will remain on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.hzlaohenghe.com> as long as the Offer remains open. **In case of any inconsistency, the English language texts of this Composite Document and the enclosed Form of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.**

* For identification purpose only

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EXPECTED TIMETABLE

The timetable set out below is indicative only and may be subject to changes. Any changes to the timetable will be jointly announced by the Offeror and the Company as and when appropriate. Unless otherwise specified, all time and date references contained in this Composite Document refer to Hong Kong time and dates.

Despatch date of this Composite Document and the accompanying Form of Acceptance and commencement date of the Offer (<i>Note 1</i>)	Friday, 10 November 2023
Offer opens for acceptance (<i>Note 1</i>)	Friday, 10 November 2023
Latest time and date for acceptance of the Offer on the First Closing Date (<i>Notes 2, 6 and 7</i>)	by 4:00 p.m. on Friday, 1 December 2023
First Closing Date (<i>Note 2</i>)	Friday, 1 December 2023
Announcement of the results of the Offer as at the First Closing Date, or as to whether the Offer has been extended or become unconditional as at the First Closing Date, on the websites of the Stock Exchange and the Company (<i>Note 2</i>)	no later than 7:00 p.m. on Friday, 1 December 2023
Latest date for posting of remittances for the amount due in respect of valid acceptances received under the Offer on or before 4:00 p.m. on the First Closing Date assuming the Offer becomes or is declared unconditional on the First Closing Date (<i>Notes 3 and 6</i>)	Tuesday, 12 December 2023
Latest time and date for acceptance of the Offer that remains open for acceptances assuming the Offer becomes or is declared unconditional on the First Closing Date (<i>Notes 4, 6 and 7</i>)	by 4:00 p.m. on Friday, 15 December 2023
Final Closing Date (<i>Note 2</i>)	Friday, 15 December 2023
Announcement of the results of the Offer as at the Final Closing Date assuming the Offer becomes or is declared unconditional on the First Closing Date, to be posted on the websites of the Stock Exchange and the Company	no later than 7:00 p.m. on Friday, 15 December 2023

EXPECTED TIMETABLE

Latest date for posting of remittances for the amount due in respect of valid acceptances received under the Offer on or before 4:00 p.m. on the Final Closing Date, being the latest time and date on which the Offer remains open for acceptances assuming the Offer becomes or is declared unconditional on the First Closing Date (*Notes 3, 4 and 6*)..... Thursday, 28 December 2023

Latest time and date by which the Offer can become or be declared unconditional as at acceptances (*Note 5*)..... Tuesday, 9 January 2024

Notes:

1. The Offer, which is conditional, is made on the date of this Composite Document, and is capable of acceptance on and from that date until 4:00 p.m. on the First Closing Date unless the Offeror extends the Offer in accordance with the Takeovers Code. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in the section headed “Right of Withdrawal” in Appendix I to this Composite Document.
2. In accordance with the Takeovers Code, the Offer must initially be opened for acceptance for at least 21 days after the date of this Composite Document. The latest time and date for acceptance of the Offer is 4:00 p.m. on Friday, 1 December 2023. The Offeror reserves the right to extend the Offer until such date as it may determine pursuant to the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). An announcement will be issued through the Stock Exchange website by 7:00 p.m. on Friday, 1 December 2023 stating whether the Offer has been extended, or has expired or has become or been declared unconditional. Assuming the Offer becomes or is declared unconditional on the First Closing Date, the Offer will remain open for acceptance for not less than 14 days thereafter in accordance with the Takeovers Code. If the Offer does not become unconditional on or before Friday, 1 December 2023, the Offer will lapse unless the Offer is extended in accordance with the Takeovers Code. In the event that the Offeror decides to extend the Offer, at least 14 days’ notice by way of an announcement will be given before the Offer is closed to those Independent Shareholders who have not accepted the Offer.
3. Subject to the Offer becoming unconditional, remittances in respect of the cash consideration (after deducting the seller’s ad valorem stamp duty) payable for the Offer Shares tendered under the Offer will be despatched to the accepting Independent Shareholders by ordinary post at their own risk as soon as possible, but in any event no later than seven Business Days after the later of the date of receipt by the Registrar of the duly completed Form of Acceptance together with all relevant documents required to render such acceptance under the Offer complete, valid and in compliance with Note 1 to Rule 30.2 of the Takeovers Code, and the date on which the Offer becomes, or is declared, unconditional in all respects.
4. In accordance with the Takeovers Code, where the Offer becomes or is declared unconditional in all respects, the Offer should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days’ notice in writing must be given before the Offer is closed to the Independent Shareholders who have not accepted the Offer. The Offeror has the right, subject to the Takeovers Code, to extend the Offer until such date as it may determine or as permitted by the Executive. The Offeror will issue an announcement in relation to any extension of the Offer, which will state the next closing date, or if the Offer has become or is unconditional at that time, then the Offer will remain open until further notice.
5. In accordance with the Takeovers Code, except with the consent of the Executive, the Offer may not become or be declared unconditional as to acceptance after 7:00 p.m. on the 60th day after the date of this Composite Document is posted. Where a period laid down by the Takeovers Code ends on a day which is not a Business Day, the period is extended until the next Business Day. Accordingly, unless the Offer has previously become or is declared unconditional as to acceptance, the Offer will lapse after 7:00 p.m. on Tuesday, 9 January 2024 which is 60 calendar days after the date of the despatch of this Composite Document, unless extended with the consent of the Executive.

EXPECTED TIMETABLE

6. The latest time and date for acceptance of the Offer and the latest date for posting of remittances for the amount due under the Offer in respect of valid acceptances will not take effect if there is a tropical cyclone warning signal number 8 or above, or a “black rainstorm warning”, in force in Hong Kong or “extreme conditions” announced by the government of Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances. Instead, the latest time for acceptance of the Offer will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time after 12:00 noon and the posting of remittances will be next following Business Day which does not have either of those warnings in force at any time after 12:00 noon.
7. Beneficial owners of the Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (as set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

IMPORTANT NOTICE

NOTICE TO THE OVERSEAS SHAREHOLDERS

The Offer is made available to all the Independent Shareholders, including the Overseas Shareholders. The availability of the Offer to any Overseas Shareholders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders should observe any applicable legal or regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant overseas jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required or the compliance with other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes due by such Overseas Shareholders in respect of such jurisdictions).

None of the Offeror and parties acting in concert with it, the Company, CLSA Limited, CITICS and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

Please refer to the paragraph headed “7. Overseas Shareholders” in Appendix I “Further Terms of the Offer and Procedures of Acceptance” to this Composite Document for further details.

NOTICE TO US INVESTORS

The Offer will not be submitted to the review or registration procedures of any regulator outside Hong Kong and have not been approved or recommended by any governmental securities regulator in the US. The Offer is being made for the securities of a Cayman Islands company and are subject to Hong Kong disclosure and procedural requirements, which are different from those of the US. The financial information included herein 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. The Offer will be made in the US pursuant to exemptions from some of the applicable US tender offer rules and otherwise in accordance with the requirements of the SFO. Accordingly, the Offer will be subject to disclosure and other procedural requirements of Hong Kong, including with respect to withdrawal rights, the timetable of the Offer, settlement procedures and the timing of payments that are different from those applicable under US domestic tender offer procedures and law.

The receipt of cash by a US Shareholder pursuant to the Offer 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 Shareholder is urged to consult his/her independent professional adviser immediately regarding the tax consequences of the Offer applicable to him/her.

IMPORTANT NOTICE

It may be difficult for the US Shareholders to enforce their rights and claims arising out of the US federal securities laws, since the Offeror and the Company are located in a country other than the US, and some or all of their officers and directors may be residents of a country other than the US. The US Shareholders 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, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

You should be aware that in accordance with the Takeovers Code, the Offeror, its affiliates and its advisers may bid for or purchase the Shares. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any information about such purchases will be reported to the SFC and, to the extent made public by the SFC, will be available on the website of the SFC at <http://www.sfc.hk/>.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The forward-looking statements included herein are made only as at the Latest Practicable Date. The Offeror and the Company assume no obligation and do not intend to correct or update the forward-looking statements or opinions contained in this Composite Document, except as required pursuant to applicable laws or regulations, including but not limited to the Listing Rules and/or the Takeovers Code.

The Company will notify the Independent Shareholders of any material change to information contained or referred to in the Composite Document as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Takeovers Code
“Board”	the board of Directors
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CITICS”	CITIC Securities (Hong Kong) Limited, the financial adviser to the Offeror in respect of the Offer and a corporation licensed to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being an indirectly wholly-owned subsidiary of CITIC Securities Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6030)
“CITICS Group”	CITICS, CLSA Limited and persons controlling, controlled by or under the same control (with the meanings ascribed to such terms in the Takeovers Code) as either CITICS or CLSA Limited
“Closing Date”	the First Closing Date or any subsequent closing date(s) of the Offer as may be extended in accordance with the Takeovers Code
“CLSA Limited”	CLSA Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 7 (providing automated trading services) regulated activities under the SFO, being the agent making the Offer on behalf of the Offeror, an indirectly wholly owned subsidiary of CITIC Securities Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6030)
“Company”	Honworld Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange

DEFINITIONS

“Composite Document”	this composite offer and response document jointly issued by the Offeror and the Company to all Shareholders in connection with the Offer in accordance with the Takeovers Code containing, among other things, the terms of the Offer, the letter of advice from the Independent Financial Adviser to the Independent Board Committee in relation to the Offer, the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Offer and the Form of Acceptance
“Director(s)”	the director(s) of the Company from time to time
“Enforcement Action”	the enforcement action taken by the Offeror in exercising its rights pursuant to the Share Mortgage to sell or otherwise dispose of all or part of the Mortgaged Shares without the prior approval of Key Shine, in accordance with and subject to the terms of the Share Mortgage, resulting in the transfer of beneficial ownership of all of the Mortgaged Shares from Key Shine to the Offeror
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Final Closing Date”	Friday, 15 December 2023, assuming that the Offer becomes or is declared unconditional in all respects on the First Closing Date and the Offer will be open for acceptances for 14 calendar days after the First Closing Date
“Finance Documents”	the Loan Agreement, the Share Mortgage and other financing documents in connection with the Loan Agreement
“First Closing Date”	Friday, 1 December 2023, being the first closing date of the Offer, which is 21 calendar days after the despatch of this Composite Document
“Form of Acceptance”	the form of acceptance and transfer in respect of the Offer accompanying this Composite Document
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Huzhou Hengpeng”	Huzhou Hengpeng Trading Co., Ltd.* (湖州恒朋貿易有限公司), a company established in the PRC and wholly owned by Key Shine
“Independent Board Committee”	an independent board committee of the Board, comprising all the non-executive Directors who have no direct or indirect interest in the Offer, namely, Mr. Shen Zhenchang, Mr. Ng Wing Fai and Mr. Sun Jiong, established to make recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable, and as to acceptance of the Offer
“Independent Financial Adviser”	Maxa Capital Limited, a licensed corporation 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 appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Offer, in particular, as to whether the Offer is fair and reasonable and as to the acceptance of the Offer
“Independent Shareholder(s)”	Shareholder(s) other than (i) the Offeror and parties acting in concert with it; and (ii) the CITICS Group (other than any member of the CITICS Group which is (1) an exempt fund manager as regards Shares held in that capacity; or (2) an exempt principal trader who holds the Shares as a simple custodian for and on behalf of non-discretionary clients, where such non-discretionary clients (A) control the voting rights attached to such Shares, and (B) give instructions as to how such Shares are to be voted)
“Joint Announcement”	the announcement dated 28 September 2023 jointly issued by the Company and the Offeror in relation to, among other things, the Enforcement Action and the Offer
“Key Shine”	Key Shine Global Holdings Limited, a company established in the British Virgin Islands and wholly owned by Mr. Chen Weizhong
“Last Trading Day”	26 September 2023, being the last trading day on which the Shares were traded on the Stock Exchange prior to the suspension of the trading of the Shares on 27 September 2023

DEFINITIONS

“Latest Practicable Date”	7 November 2023, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Loan”	the loan in the principal amount of RMB320,000,000 provided by Wuxing Financing to Huzhou Hengpeng pursuant to the Loan Agreement
“Loan Agreement”	the loan agreement dated 24 March 2019 entered into between Huzhou Hengpeng and Wuxing Financing, pursuant to which Wuxing Financing agreed to provide the Loan to Huzhou Hengpeng for a term of six months at an interest rate of 6.8% per annum and a default interest rate of 12% per annum
“Memorandum”	the written memorandum dated 4 November 2022 entered into between the Offeror and Natural Seasoning, pursuant to which, among others, (1) Natural Seasoning agrees to apply to the High Court of Hong Kong to discharge the Order on the date of resumption of trading of the Company; and (2) the Offeror, in return, agrees to pay a compensation of HK\$5,000,000 to Natural Seasoning for discharge of the Order
“Mortgaged Shares”	the 229,424,000 Shares, representing approximately 39.64% of the entire issued share capital of the Company as at the date of the Joint Announcement, mortgaged by Key Shine under the Share Mortgage with the Offeror
“Mr. Chen Weizhong”	Mr. Chen Weizhong (陳衛忠), who was the ultimate beneficial owner of Key Shine
“Natural Seasoning”	Natural Seasoning International (HK) Limited, a company established in Hong Kong with limited liability, and a substantial shareholder of the Company as at the date of the Joint Announcement
“Offer”	the mandatory conditional cash offer made by CLSA Limited for and on behalf of the Offeror to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code

DEFINITIONS

“Offer Period”	the period from 28 September 2023, being the date of the Joint Announcement until the Closing Date, or such other time and/or date to which the Offeror may decide to extend the Offer in accordance with the Takeovers Code
“Offer Price”	the price per Offer Share at which the Offer will be made in cash, being HK\$0.5034 per Offer Share
“Offer Share(s)”	issued Share(s) other than those already owned by the Offeror and parties acting in concert with it
“Offeror”	Wuxing City Investment HK Company Limited, a company established in Hong Kong with limited liability, and directly wholly owned by Wuxing City Investment
“Offeror Group”	Wuxing City Investment and its subsidiaries (including the Offeror)
“Order”	the ex-parte injunction order made by the High Court of Hong Kong dated 23 December 2019, as amended, continued and/or extended from time to time by the High Court of Hong Kong, which prohibited Key Shine from selling, trading, transferring, assigning, conveying or otherwise disposing of any of the shareholding in the Company registered in the name of Key Shine, and discharged by an order granted by the High Court of Hong Kong on 17 February 2023 to the extent of the 229,424,000 Shares charged by Key Shine to the Offeror pursuant to the Share Mortgage
“Overseas Shareholders”	Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong
“PRC”	The People’s Republic of China, which for the purpose of this Composite Document, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Registrar”	Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company, whose office is situated at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong
“Relevant Period”	the period from 28 March 2023, being the date falling six months preceding the date of the commencement of the Offer Period up to and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	share(s) of par value of US\$0.0005 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Mortgage”	the share mortgage deed dated 2 April 2019 entered into between Key Shine (as the mortgagor) and the Offeror (as the mortgagee), pursuant to which Key Shine charged the Mortgage Shares in favour of the Offeror
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“United States” or “US”	The United States of America
“US\$”	United States dollar(s), the lawful currency of the United States
“Wuxing City Investment”	Huzhou Wuxing City Investment Development Group Co., Ltd.* (湖州吳興城市投資發展集團有限公司), a company established in the PRC and directly wholly owned by Wuxing Service Centre
“Wuxing Financing”	Huzhou Wuxing Private Financing Service Centre Co., Ltd.* (湖州吳興民間融資服務中心有限公司), a company established in the PRC and indirectly wholly owned by Wuxing Service Centre
“Wuxing Service Centre”	Huzhou City Wuxing District State-owned Capital Supervision and Management Service Centre* (湖州市吳興區國有資本監督管理服務中心), a public institution* (事業單位)
“%”	per cent.

Certain amounts and percentage figures included in this Composite Document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain paragraphs and tables in this Composite Document may not be an arithmetic aggregation of the figures preceding them.



10 November 2023

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
CLSA LIMITED FOR AND ON BEHALF OF WUXING CITY INVESTMENT HK
COMPANY LIMITED TO ACQUIRE
ALL THE ISSUED SHARES OF HONWORLD GROUP LIMITED (OTHER THAN
THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement.

Pursuant to the Loan Agreement dated 24 March 2019 entered into by Wuxing Financing, as lender, and Huzhou Hengpeng, as borrower, Wuxing Financing agreed to provide the Loan in the principal amount of RMB320,000,000 to Huzhou Hengpeng for a term of six months at an interest rate of 6.8% per annum. The Loan was secured by, among others, the Share Mortgage, pursuant to which Key Shine charged the Mortgaged Shares. The Offeror, as mortgagee of the Share Mortgage, shall have rights, among other things, (i) to dispose of or deal with all or any part of the Mortgaged Shares upon the occurrence of any event of default under the Loan Agreement which has not been remedied within three months, and (ii) to use the proceeds from disposal or dealing of the Mortgaged Shares to repay the outstanding amount of the Loan with interests and settle the consideration of enforcing the Offeror's rights under the Share Mortgage and reasonable expenses relating to the Share Mortgage and fees arising from such disposal or dealing.

On 28 September 2023, the Offeror exercised its rights under the Finance Documents to enforce the Share Mortgage and effect the transfer of the Mortgaged Shares from Key Shine to the Offeror, due to the continued occurrence of events of default under the Finance Documents, including the failure by Huzhou Hengpeng to repay the loan after such amount became due and payable on 24 September 2019. As at the date of the Enforcement Action, the total outstanding amount of the Loan with interests amounted to RMB476,160,000 (equivalent to approximately HK\$518,901,954, based on the central parity rate of HK\$1 to RMB0.91763 quoted by the China Foreign Exchange Trade System and the National Interbank Funding Center of the People's Bank of China on the date of the Enforcement Action). The Enforcement Action was taken at the enforcement price of HK\$0.4200 per Share. The enforcement price should have been determined with reference to the volume weighted average price of each Share as at the date of the Enforcement Action. Since there had been no trading in the Shares on the date of Enforcement Action and the three trading days immediately preceding the date of the Enforcement Action (i.e. from 25 September 2023 to 28 September 2023), the enforcement

LETTER FROM CLSA LIMITED

price was determined as the volume weighted average price of each Share as at the last trading day of the Shares with trading volume (i.e. 22 September 2023), being HK\$0.4200 per Share. Therefore, the total consideration of the Enforcement Action was HK\$96,358,080. The consideration of the Enforcement Action, after deducting the reasonable expenses relating to the Share Mortgage and fees arising from disposal or dealing of the Mortgaged Shares, was settled by setting off a portion of the Loan whereby the interests of the Loan were set off first. Immediately after the set-off, the remaining outstanding principal amount of the Loan with interests amounted to approximately HK\$424,579,838. The Loan will continue to accrue interests at the default interest rate of 12% per annum. The Offeror intends to continue to demand for repayment of the outstanding amount of the Loan (with interests) which cannot be offset by the consideration of the Enforcement Action. Immediately following the Enforcement Action, the Offeror became the beneficial owner of the Mortgaged Shares, representing approximately 39.64% of the entire issued share capital of the Company as at the Latest Practicable Date.

Immediately prior to the Enforcement Action, the Offeror and parties acting in concert with it owned 918,000 Shares in the Company, representing approximately 0.16% of the total issued Shares as at the Latest Practicable Date. Immediately following the Enforcement Action and as at the Latest Practicable Date, the Offeror, its ultimate beneficial owner and their respective parties acting in concert own 230,342,000 Shares, representing approximately 39.80% of the total issued Shares of the Company.

Pursuant to Rule 26.1 of the Takeovers Code, immediately following the Enforcement Action, the Offeror is required to make a mandatory conditional cash offer for all issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

This letter forms part of this Composite Document and sets out, amongst other things, the details of the Offer, certain information of the Offeror, and the intention of the Offeror on the Group. Further terms of the Offer and the procedures for acceptances of the Offer are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

Independent Shareholders are strongly advised to carefully consider the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee” and the “Letter from Independent Financial Adviser” and the appendices as set out in this Composite Document and to consult their professional advisers if in doubt before reaching a decision as to whether or not to accept the Offer.

LETTER FROM CLSA LIMITED

INFORMATION OF THE OFFER

Consideration for the Offer

CLSA Limited is making the Offer for and on behalf of the Offeror, subject to the terms set out in this Composite Document and in the Form of Acceptance, on the following basis:

For each Offer Share HK\$0.5034 in cash

The Offer Price of HK\$0.5034 per Offer Share under the Offer is equal to the enforcement price of HK\$0.4200 per Share together with the value of the special benefit of HK\$0.0834 per Share received by Natural Seasoning under the Memorandum. The Offer Price represents a premium of 19.9% over the closing price of each Share of HK\$0.4200 as quoted on the Stock Exchange on the Last Trading Day, i.e. 26 September 2023.

The Offer will be extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code. The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances and together with all rights and interests attaching thereto, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of the Composite Document. As at the Latest Practicable Date, the Company does not have any dividend or distribution recommended, declared or made but unpaid and has no intention to make any distribution or declare dividends before the Closing Date.

The Offeror will not increase the Offer Price for the Offer Shares as set out above. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Offer Price and the Offeror does not reserve the right to increase the Offer Price.

The Offer Price of HK\$0.5034 per Offer Share represents:

- (a) a premium of approximately 19.9% over the closing price of HK\$0.4200 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (b) a premium of approximately 13.1% over the average closing price of approximately HK\$0.4452 per Share as quoted on the Stock Exchange for the last 30 trading days prior to and including the Last Trading Day.

Highest and Lowest Closing Price of the Shares

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$0.8000 per Share on 29 March 2023, 14 April 2023, 18 May 2023, 19 May 2023 and 23 May 2023 and HK\$0.4000 per Share on 16 August 2023, 19 September 2023 and 20 September 2023, respectively.

LETTER FROM CLSA LIMITED

Value of the Offer

As at the Latest Practicable Date, there are 578,750,000 Shares in issue. On the basis of the Offer Price of HK\$0.5034 per Offer Share, the entire issued share capital of the Company would be valued at HK\$291,342,750.

Excluding the Mortgaged Shares and the Shares already owned by the Offeror and parties acting in concert with it, and assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer, a total of 348,408,000 Shares will be subject to the Offer. Based on the Offer Price of HK\$0.5034 per Offer Share and on the basis of full acceptance of the Offer, the maximum payment obligations payable for the Offer by the Offeror would be HK\$175,388,587.

Confirmation of Financial Resources

The Offeror intends to finance the maximum payment obligations payable for the Offer by its own internal resources. There is no arrangement in relation to any facility to finance the Offer under which the payment of interest on, repayment of security for any liability (contingent or otherwise) will depend to any significant extent on the business of the Company. CITICS, the financial adviser to the Offeror in respect of the Offer, is satisfied that sufficient financial resources are available to the Offeror to satisfy the full acceptance of the Offer in accordance with the terms of the Offer stated in this Composite Document.

Condition to the Offer

The Offer is conditional on valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of the Shares which, together with the Shares already owned by the Offeror and parties acting in concert with it, will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company.

EFFECT OF ACCEPTING THE OFFER

Acceptance of the Offer by any Shareholders will constitute a warranty by such person that all Offer Shares to be sold by such person under the Offer are fully paid and free from all encumbrances whatsoever together with all rights and interests attaching thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date of the Composite Document. Acceptance of the Offer will be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

LETTER FROM CLSA LIMITED

HONG KONG STAMP DUTY

Seller's Hong Kong ad valorem stamp duty arising in connection with acceptance of the Offer at a rate of 0.13% of the consideration payable in respect of the relevant acceptances, or (if higher) the market value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), will be deducted from the amount payable to the Shareholders who accept the Offer. The Offeror will then arrange for payment of the stamp duty on behalf of those Shareholders who accepted the Offer. The Offeror will bear the buyer's ad valorem stamp duty in connection with the acceptance of the Offer and the transfer of the Offer Shares.

PAYMENT

Subject to the Offer having become, or have been declared, unconditional in all respects, payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event no later than seven Business Days after the later of the date of receipt of a duly completed acceptance of the Offer, or the date on which the Offer becomes or is declared unconditional in all aspects. Relevant documents evidencing title must be received by the Offeror (or its agent) to render such acceptance of the Offer complete and valid. The latest time on which the Offeror can declare the Offer unconditional as to acceptances is 7:00 p.m. on the 60th day after the date of the Composite Document (or such later date to which the Executive may consent). If the Offer is withdrawn or lapses, pursuant to Rule 20.2(a) of the Takeovers Code, the Offeror is required to, as soon as possible but in any event no later than seven Business Days after the Offer is withdrawn or lapses, post the share certificates lodged with the Form of Acceptance and transfer to, or make such share certificates available for collection by, those Shareholders who have accepted the Offer. No fractions of a cent will be payable and the amount of the consideration payable to a Shareholder who accepts the Offer will be rounded up to the nearest cent.

TAXATION ADVICE

Independent Shareholders are recommended to consult their own professional advisers as to the taxation implications of accepting or rejecting the Offer. It is emphasised that none of the Company, the Offeror or parties acting in concert with it or any of their respective directors, officers or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right which may be available to it to acquire compulsorily any Shares not tendered for acceptance under the Offer.

LETTER FROM CLSA LIMITED

OVERSEAS SHAREHOLDERS AND NOTICE TO US INVESTORS

The availability of the Offer to any Overseas Shareholders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders should observe any applicable legal or regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant overseas jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required or the compliance with other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes due by such Overseas Shareholders in respect of such jurisdictions).

Acceptance of the Offer by any Overseas Shareholder will be deemed to constitute a representation and warranty from such Overseas Shareholder to the Offeror that the local laws and requirements have been complied with. The Overseas Shareholders should consult their professional advisers if in doubt.

The receipt of cash by a US Shareholder pursuant to the Offer 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 Shareholder is urged to consult his/her independent professional adviser immediately regarding the tax consequences of the Offer applicable to him/her.

It may be difficult for the US Shareholders to enforce their rights and claims arising out of the US federal securities laws, since the Offeror and the Company are located in a country other than the US, and some or all of their officers and directors may be residents of a country other than the US. The US Shareholders 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, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

Copies of this Composite Document and the accompanying Form of Acceptance must not be mailed or otherwise forwarded, distributed or sent into any non-Hong Kong jurisdiction where to do so would contravene applicable law or regulation, and persons receiving this Composite Document and the accompanying Form of Acceptance (including custodians, nominees and trustees) should observe these restrictions.

As at the Latest Practicable Date, based on the record in the register of members of the Company, there was no Overseas Shareholder.

SPECIAL BENEFIT CONFERRED ON A SHAREHOLDER

Reference is made to the announcement of the Company dated 16 December 2019 in relation to the Order. The Order was obtained by Natural Seasoning against, amongst others, Key Shine on the ground that Key Shine and Mr. Chen Weizhong were alleged to have breached certain agreements which were allegedly entered into by Natural Seasoning and Key Shine/Mr. Chen Weizhong in 2016.

LETTER FROM CLSA LIMITED

On 4 November 2022, the Offeror and Natural Seasoning signed the Memorandum, pursuant to which, among others, (1) Natural Seasoning agrees to apply to the High Court of Hong Kong to discharge the Order on the date of resumption of trading of the Company; and (2) the Offeror, in return, agrees to pay a compensation of HK\$5,000,000 to Natural Seasoning for the discharge of the Order. By an order granted by the High Court of Hong Kong on 17 February 2023, the Order was discharged to the extent of the 229,424,000 Shares charged by Key Shine to the Offeror pursuant to the Share Mortgage.

As a result of the Memorandum, a special benefit was conferred on Natural Seasoning which is not extended to the other Shareholders. Pursuant to the Takeovers Code, all shareholders are to be treated even-handedly and shareholders of the same class are to be treated similarly. Accordingly, the special benefit provided to Natural Seasoning under the Memorandum will be extended to all Shareholders, and the value of the special benefit of approximately HK\$0.0834 per Share has been appropriately reflected in the Offer Price.

INFORMATION ON THE OFFEROR

The Offeror was incorporated in Hong Kong on 13 June 2018 as a company with limited liability under the Companies Ordinance (Chapter 622 of the laws of Hong Kong). It is a wholly owned subsidiary of Wuxing City Investment. Wuxing City Investment is wholly owned by Wuxing Service Centre, a public institution* (事業單位). The capital of Wuxing Service Centre has been injected by Wuxing Finance Bureau (湖州市吳興區財政局), a government organ of Huzhou Wuxing District Government (湖州市吳興區政府).

The Offeror Group is one of the most prominent infrastructure construction and land development platforms in Wuxing District of Huzhou City, Zhejiang Province, China. Since its establishment in January 2004, Wuxing City Investment is committed to implement the development blueprint of Wuxing District Government to upgrade infrastructure and public facilities, improve quality of urban life with better living environment as well as accelerate regional economic growth. With strong support from its shareholder and after years of business growth, the Offeror Group has established a strong regional presence and played an important role in the development of Huzhou City.

As at the Latest Practicable Date, the directors of the Offeror are Mr. Shen Qianyun (沈倩雲) and Ms. Yao Lan (姚藍).

INTENTION OF THE OFFEROR REGARDING THE GROUP

It is the intention of the Offeror to continue the existing principal business of the Group. The Offeror does not intend to introduce any major changes to the existing operations and business of the Group upon the close of the Offer. Nevertheless, following the close of the Offer, the Offeror will conduct a review on the existing principal operations and business, and the financial position of the Group for the purpose of formulating business plans and strategies for the Group's long-term business development. Subject to the results of the review, and should suitable investment or business opportunities arise, the Offeror may consider whether any assets and/or business acquisitions or disposals by the Group will be appropriate in order to enhance its growth.

LETTER FROM CLSA LIMITED

The Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for a proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code) or to dispose of, redeploy or re-allocate the Group's fixed assets which relate to the ordinary and usual course of business of the Group as a result of completion of the Offer. However, the Offeror reserves the right to make such changes that it deems necessary or appropriate to the Group's business and operations to optimise the value of the Group.

As at the Latest Practicable Date, no material investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group.

The Offeror intends to nominate new Director(s) to the Board after close of the Offer. Any changes to the Board composition will be made in compliance with the Takeovers Code and the Listing Rules. However, as at the Latest Practicable Date, the Offeror has not identified any personnel for the purpose of appointment as the new Director(s).

PUBLIC FLOAT AND LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offer. The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The directors of the Offeror and the new Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. Further announcement(s) will be made as and when appropriate and in accordance with the requirements of the Listing Rules and the Takeovers Code.

FURTHER MATTERS RELATING TO THE OFFER

Please refer to Appendix I to this Composite Document for information regarding the acceptance of the Offer and settlement of consideration.

LETTER FROM CLSA LIMITED

GENERAL

This Composite Document has been prepared for the purpose of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules. All documents and remittances sent to the holders of the Offer Shares will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the relevant Shareholders at their respective addresses as they appear in the register of members of the Company or in the case of joint holders of the Offer Shares, to the Shareholder whose name appears first in the register of members of the Company. None of the Company, the Offeror, CITICS, CLSA Limited, the Independent Financial Adviser or any of their respective directors or professional advisers or other parties involved in the Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

Shareholders are strongly encouraged and advised to read this Composite Document carefully, including the “Letter from the Board”, the “Letter from the Independent Board Committee” and the “Letter from Independent Financial Adviser”, as to whether the terms of the Offer are fair and reasonable so far as the Shareholders are concerned, and to consult their professional advisers as they see fit and necessary, before deciding whether or not to accept the Offer. Shareholders’ attention is further drawn to the additional information set out in the appendices to this Composite Document, which form part of this Composite Document.

Yours faithfully,
For and on behalf of
CLSA Limited
Edmund Chan
Managing Director, Head of M&A

LETTER FROM THE BOARD



Honworld Group Limited

老恒和釀造有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2226)

Executive Directors:

Mr. Chen Wei (*Chairman*)
Mr. Liu Jianbin

Non-executive Director:

Mr. Wu Hongping

Independent non-executive Directors:

Mr. Shen Zhenchang
Mr. Ng Wing Fai
Mr. Sun Jiong

Registered office:

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

***Principal place of business and
head office in the PRC:***

Balidian Town
Food and Industrial Park
Wuxing District
Huzhou City
Zhejiang 313000
PRC

***Principal place of business
in Hong Kong:***

Room A5, 7/F
China United Plaza
1008 Tai Nan West Street
Kowloon, Hong Kong

10 November 2023

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
CLSA LIMITED FOR AND ON BEHALF OF WUXING CITY INVESTMENT HK
COMPANY LIMITED TO ACQUIRE
ALL THE ISSUED SHARES OF HONWORLD GROUP LIMITED (OTHER THAN
THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement.

* *For identification purpose only*

LETTER FROM THE BOARD

The Board was informed that pursuant to the Loan Agreement dated 24 March 2019 entered into by Wuxing Financing, as lender, and Huzhou Hengpeng, as borrower, Wuxing Financing agreed to provide the Loan in the principal amount of RMB320,000,000 to Huzhou Hengpeng for a term of six months at an interest rate of 6.8% per annum. The Loan was secured by, among others, the Share Mortgage, pursuant to which Key Shine charged the Mortgaged Shares. The Offeror, as mortgagee of the Share Mortgage, shall have rights, among other things, (i) to dispose of or deal with all or any part of the Mortgaged Shares upon the occurrence of any event of default under the Loan Agreement which has not been remedied within three months, and (ii) to use the proceeds from disposal or dealing of the Mortgaged Shares to repay the outstanding amount of the Loan with interests and settle the consideration of enforcing the Offeror's rights under the Share Mortgage and reasonable expenses relating to the Share Mortgage and fees arising from such disposal or dealing.

The Board was further informed by the Offeror that on 28 September 2023, the Offeror exercised its rights under the Finance Documents to enforce the Share Mortgage and effect the transfer of the Mortgaged Shares from Key Shine to the Offeror, due to the continued occurrence of events of default under the Finance Documents, including the failure by Huzhou Hengpeng to repay the loan after such amount became due and payable on 24 September 2019. As at the date of the Enforcement Action, the total outstanding amount of the Loan with interests amounted to RMB476,160,000 (equivalent to approximately HK\$518,901,954, based on the central parity rate of HK\$1 to RMB0.91763 quoted by the China Foreign Exchange Trade System and the National Interbank Funding Center of the People's Bank of China on the date of the Enforcement Action). The Enforcement Action was taken at the enforcement price of HK\$0.4200 per Share. The enforcement price should have been determined with reference to the volume weighted average price of each Share as at the date of the Enforcement Action. Since there had been no trading in the Shares on the date of Enforcement Action and the three trading days immediately preceding the date of the Enforcement Action (i.e. from 25 September 2023 to 28 September 2023), the enforcement price was determined as the volume weighted average price of each Share as at the last trading date of the Shares with trading volume (i.e. 22 September 2023), being HK\$0.4200 per Share. Therefore, the total consideration of the Enforcement Action was HK\$96,358,080. The consideration of the Enforcement Action, after deducting the reasonable expenses relating to the Share Mortgage and fees arising from disposal or dealing of the Mortgaged Shares, was settled by setting off a portion of the Loan whereby the interests of the Loan were set off first. Immediately after the set-off, the remaining outstanding principal amount of the Loan with interests amounted to approximately HK\$424,579,838. The Loan will continue to accrue interests at the default interest rate of 12% per annum. The Company was informed that the Offeror intends to continue to demand for repayment of the outstanding amount of the Loan (with interests) which cannot be offset by the consideration of the Enforcement Action. Immediately following the Enforcement Action, the Offeror became the beneficial owner of the Mortgaged Shares, representing approximately 39.64% of the entire issued share capital of the Company as at the Latest Practicable Date.

LETTER FROM THE BOARD

Immediately prior to the Enforcement Action, the Offeror and parties acting in concert with it owned 918,000 Shares in the Company, representing approximately 0.16% of the total issued Shares of the Company as at the Latest Practicable Date. Immediately following the Enforcement Action and as at the Latest Practicable Date, the Offeror, its ultimate beneficial owner and their respective parties acting in concert own 230,342,000 Shares, representing approximately 39.80% of the total issued Shares of the Company.

Pursuant to Rule 26.1 of the Takeovers Code, immediately following the Enforcement Action, the Offeror is required to make a mandatory conditional cash offer for all issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it). CLSA Limited, for and on behalf of the Offeror, is making the Offer in compliance with the Takeovers Code. The Offer Price is HK\$0.5034 in cash for each Offer Share.

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Group, the Offeror and the Offer; (ii) the letter from CLSA Limited containing the principal terms of the Offer; (iii) the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the terms of the Offer and as to the acceptance thereof; and (iv) the letter from the Independent Financial Adviser containing their advice to the Independent Board Committee in respect of the terms of the Offer and as to the acceptance thereof.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising all the non-executive Directors who have no direct or indirect interest in the Offer, namely Mr. Shen Zhenchang, Mr. Ng Wing Fai and Mr. Sun Jiong, has been established to make recommendations to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. Mr. Wu Hongping, a non-executive Director, is a partner of Lunar Capital Partners IV L.P., which indirectly wholly owns Natural Seasoning. As illustrated in the paragraph headed “Special Benefit Conferred On A Shareholder” in this section, as a result of the Memorandum, a special benefit was conferred on Natural Seasoning which is not extended to other Shareholders. Therefore, Mr. Wu Hongping is not included as a member of the Independent Board Committee.

Maxa Capital Limited has been appointed as the Independent Financial Adviser by the Company with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Offer, in particular, as to whether the Offer is fair and reasonable and as to the acceptance of the Offer pursuant to Rule 2.1 of the Takeovers Code.

LETTER FROM THE BOARD

The full text of the letter from the Independent Board Committee addressed to the Independent Shareholders and the letter from the Independent Financial Adviser addressed to the Independent Board Committee and the Independent Shareholders are set out in this Composite Document. **You are advised to read both letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offer.**

THE OFFER

As mentioned in the “Letter from CLSA Limited” contained in this Composite Document, CLSA Limited is making the Offer in accordance with the Takeovers Code on the following basis:

For each Offer Share HK\$0.5034 in cash

The Offer Price of HK\$0.5034 per Offer Share under the Offer is equal to the enforcement price of HK\$0.4200 per Share together with the value of the special benefit of HK\$0.0834 per Share received by Natural Seasoning under the Memorandum. The Offer Price represents a premium of 19.9% over the closing price of each Share of HK\$0.4200 as quoted on the Stock Exchange on the Last Trading Day, i.e. 26 September 2023.

Further details of the Offer, including terms and procedures for acceptance of the Offer, are contained in the “Letter from CLSA Limited” in, and Appendix I to, this Composite Document and the accompanying Form of Acceptance.

The Offer will be extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code. The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances and together with all rights and interests attaching thereto, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document. As at the Latest Practicable Date, the Company does not have any dividend or distribution recommended, declared or made but unpaid and has no intention to make any distribution or declare dividends before the Closing Date.

The Offer is conditional on valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of the Shares which, together with the Shares already owned by the Offeror and parties acting in concert with it, will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company.

LETTER FROM THE BOARD

SPECIAL BENEFIT CONFERRED ON A SHAREHOLDER

Reference is made to the announcement of the Company dated 16 December 2019 in relation to the Order. The Order was obtained by Natural Seasoning against, amongst others, Key Shine on the ground that Key Shine and Mr. Chen Weizhong were alleged to have breached certain agreements which were allegedly entered into by Natural Seasoning and Key Shine/Mr. Chen Weizhong in 2016.

On 4 November 2022, the Offeror and Natural Seasoning signed the Memorandum, pursuant to which, among others, (1) Natural Seasoning agrees to apply to the High Court of Hong Kong to discharge the Order on the date of resumption of trading of the Company; and (2) the Offeror, in return, agrees to pay a compensation of HK\$5,000,000 to Natural Seasoning for the discharge of the Order. By an order granted by the High Court of Hong Kong on 17 February 2023, the Order was discharged to the extent of the 229,424,000 Shares charged by Key Shine to the Offeror pursuant to the Share Mortgage.

As a result of the Memorandum, a special benefit was conferred on Natural Seasoning which is not extended to the other Shareholders. Pursuant to the Takeovers Code, all shareholders are to be treated even-handedly and shareholders of the same class are to be treated similarly. Accordingly, the special benefit provided to Natural Seasoning under the Memorandum will be extended to all Shareholders, and the value of the special benefit of approximately HK\$0.0834 per Share has been appropriately reflected in the Offer Price.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (a) immediately prior to the Enforcement Action; and (b) immediately after the Enforcement Action and as at the Latest Practicable Date:

Shareholders	(a) Immediately prior to the Enforcement Action		(b) Immediately after the Enforcement Action and as at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>approx. %</i>	<i>Number of Shares</i>	<i>approx. %</i>
Offeror (<i>Note 1</i>)	918,000	0.16	230,342,000	39.80
Mr. Chen Weizhong (<i>Note 2</i>)	285,700,750	49.36	56,276,750	9.72
— Key Shine (<i>Note 2</i>)	283,018,750	48.90	53,594,750	9.26
— Mr. Chen Weizhong	2,682,000	0.46	2,682,000	0.46
Natural Seasoning	60,000,000	10.37	60,000,000	10.37
Other Shareholders	232,131,250	40.11	232,131,250	40.11
Total	<u>578,750,000</u>	<u>100.00</u>	<u>578,750,000</u>	<u>100.00</u>

LETTER FROM THE BOARD

Notes:

1. CITICS is the financial adviser to the Offeror in respect of the Offer. Accordingly, CITICS and certain other members of the CITICS Group are presumed to be acting in concert with the Offeror in accordance with class (5) presumption of “acting in concert” in the Takeovers Code (excluding Shares held by exempt principal traders or exempt fund managers, in each case recognized by the Executive as such and also excluding Shares held on behalf of non-discretionary investment clients of the CITICS Group). As at the Latest Practicable Date, CITICS and relevant members of the CITICS Group (excluding entities of the CITICS Group that are exempt principal traders or exempt fund managers) did not hold any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company on a proprietary basis.
2. The entire issued share capital of Key Shine was legally and beneficially owned by Mr. Chen Weizhong.

INFORMATION ON THE GROUP

The Company was incorporated in the Cayman Islands on 4 December 2012 as an exempted company with limited liability. The Company is an investment holding company, and its subsidiaries established in the PRC are primarily engaged in the manufacturing of cooking wine and other condiment products in China under the “Lao Heng He” (“老恒和”) brand.

Further details of the Group are set out in Appendices II and V to this Composite Document.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “Information on the Offeror” in the “Letter from CLSA Limited” contained in this Composite Document.

INTENTION OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the sections headed “Intention of the Offeror regarding the Group” in the “Letter from CLSA Limited” contained in this Composite Document.

The Board noted from the “Letter from CLSA Limited” contained in this Composite Document that it is the intention of the Offeror to continue the existing principal business of the Group. The Offeror does not intend to introduce any major changes to the existing operations and business of the Group upon the close of the Offer. Nevertheless, following the close of the Offer, the Offeror will conduct a review on the existing principal operations and business, and the financial position of the Group for the purpose of formulating business plans and strategies for the Group’s long-term business development. Subject to the results of the review, and should suitable investment or business opportunities arise, the Offeror may consider whether any assets and/or business acquisitions or disposals by the Group will be appropriate in order to enhance its growth.

LETTER FROM THE BOARD

The Board is also given to understand that the Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for a proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code) or to dispose of, redeploy or re-allocate the Group's fixed assets which relate to the ordinary and usual course of business of the Group as a result of completion of the Offer. However, the Offeror reserves the right to make such changes that it deems necessary or appropriate to the Group's business and operations to optimise the value of the Group. As at the Latest Practicable Date, no material investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group.

The Offeror intends to nominate new Director(s) to the Board after close of the Offer. Any changes to the Board composition will be made in compliance with the Takeovers Code and the Listing Rules. However, as at the Latest Practicable Date, the Offeror has not identified any personnel for the purpose of appointment as the new Director(s).

Based on the above, the Board is of the view that the intention of the Offeror in relation to the Group and its employees is reasonable as it would ensure continuity and stability of the Group's business operations going forward and is not expected to have a material adverse impact on the existing business of the Group.

PUBLIC FLOAT AND LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public at all times, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend dealings in the Shares.

The Board noted from the "Letter from CLSA Limited" contained in this Composite Document that (i) the Offeror intends the Company to remain listed on the Stock Exchange; and (ii) the directors of the Offeror and the new Director(s) to be appointed to the Board (if any) will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. Further announcement(s) will be made as and when appropriate and in accordance with the requirements of the Listing Rules and the Takeovers Code.

LETTER FROM THE BOARD

CONFLICT OF INTEREST

As at the Latest Practicable Date, the Offeror is wholly owned by Wuxing City Investment. Mr. Chen Wei, the chairman of the Board and an executive Director, is also a director of Wuxing City Investment.

Mr. Wu Hongping, a non-executive Director, is a partner of Lunar Capital Partners IV L.P., which indirectly wholly owns Natural Seasoning. As illustrated in the paragraph headed “Special Benefit Conferred On A Shareholder” in this section, as a result of the Memorandum, a special benefit was conferred on Natural Seasoning which is not extended to other Shareholders.

To avoid any conflict of interest, Mr. Chen Wei and Mr. Wu Hongping will not join the remainder of the Board in the expression of its views on the Offer.

RECOMMENDATION

Your attention is drawn to the “Letter from the Independent Board Committee” and the “Letter from the Independent Financial Adviser” set out in this Composite Document, which contain, among other things, their advice in relation to the Offer and the principal factors considered by them in arriving at their recommendation. The Independent Shareholders are urged to read those letters carefully before taking any action in respect of the Offer.

ADDITIONAL INFORMATION

You are also advised to read this Composite Document together with the accompanying Form of Acceptance in respect of the acceptance and settlement procedures of the Offer. Your attention is drawn to the additional information contained in the appendices to this Composite Document.

In considering what action to take in connection with the Offer, you should also consider your own tax positions, if any, and in case of doubt, consult your professional advisers.

Yours faithfully,
By order of the Board
Honworld Group Limited
LIU Jianbin
Executive Director



Honworld Group Limited

老恒和釀造有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2226)

10 November 2023

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
CLSA LIMITED FOR AND ON BEHALF OF WUXING CITY INVESTMENT HK
COMPANY LIMITED TO ACQUIRE
ALL THE ISSUED SHARES OF HONWORLD GROUP LIMITED (OTHER THAN
THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to the Composite Document dated 10 November 2023 jointly issued by the Company and the Offeror, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter have the same meanings as defined in the Composite Document.

We have been appointed by the Board to constitute the Independent Board Committee to consider the terms of the Offer and to advise you (i.e. the Independent Shareholders) as to whether or not, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and to make recommendation in respect of the acceptance of the Offer.

Maxa Capital Limited has been appointed as the Independent Financial Adviser with our approval to make recommendation to us in respect of the Offer and, in particular, whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and to make recommendation in respect of the acceptance of the Offer. Details of its advice and recommendation, together with the principal factors and reasons which it has considered before arriving at such recommendation, are set out in the “Letter from the Independent Financial Adviser” contained in the Composite Document.

We also wish to draw your attention to the “Letter from CLSA Limited” contained in the Composite Document which sets out, among other things, information about the Offer, and the “Letter from the Board” contained in the Composite Document and the additional information set out in the Composite Document, including the appendices to the Composite Document and the accompanying Form of Acceptance in respect of the terms of the Offer and the acceptance and settlement procedures for the Offer.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Taking into account the terms of the Offer and the Independent Financial Adviser's advice and recommendations, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to accept the Offer. Independent Shareholders are recommended to read the full text of the "Letter from the Independent Financial Adviser" set out in the Composite Document.

Independent Shareholders, in particular those who intend to accept the Offer, are reminded that there is no guarantee that the Share price will or will not sustain and will or will not be higher than the Offer Price during and after the period for the acceptance of the Offer. The Independent Shareholders who intend to accept the Offer are also reminded to closely monitor the market price and the liquidity of the Shares during the period for the acceptance of the Offer and shall, having regard to their own circumstances, investment objectives and risk preference, consider selling their Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares would be higher than that receivable under the Offer.

In any case, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for advice. Furthermore, the Independent Shareholders who wish to accept the Offer are recommended to read carefully the procedures for accepting the Offer as detailed in the Composite Document and the accompanying Form of Acceptance.

Yours faithfully,
For and on behalf of the

Independent Board Committee of Honworld Group Limited

Mr. Shen Zhenchang
*Independent
non-executive Director*

Mr. Ng Wing Fai
*Independent
non-executive Director*

Mr. Sun Jiong
*Independent
non-executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Maxa Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders setting out its advice in respect of the terms of the Offer and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this Composite Document.



Unit 1908, Harbour Center
25 Harbour Road
Wan Chai
Hong Kong

10 November 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
CLSA LIMITED FOR AND ON BEHALF OF WUXING CITY INVESTMENT HK
COMPANY LIMITED TO ACQUIRE
ALL THE ISSUED SHARES OF HONWORLD GROUP LIMITED (OTHER THAN
THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the Composite Document dated 10 November 2023, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

Pursuant to the Loan Agreement dated 24 March 2019 entered into by Wuxing Financing, as lender, and Huzhou Hengpeng, as borrower, Wuxing Financing agreed to provide the Loan in the principal amount of RMB320,000,000 to Huzhou Hengpeng for a term of six months at an interest rate of 6.8% per annum. The Loan was secured by, among others, the Share Mortgage, pursuant to which Key Shine charged the Mortgaged Shares. The Offeror, as mortgagee of the Share Mortgage, shall have rights, among other things, (i) to dispose of or deal with all or any part of the Mortgaged Shares upon the occurrence of any event of default under the Loan Agreement which has not been remedied within three months, and (ii) to use the proceeds from disposal or dealing of the Mortgaged Shares to repay the outstanding amount of the Loan with interests and settle the consideration of enforcing the Offeror's rights under the Share Mortgage and reasonable expenses relating to the Share Mortgage and fees arising from such disposal or dealing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 28 September 2023, the Offeror exercised its rights under the Finance Documents to enforce the Share Mortgage and effect the transfer of the Mortgaged Shares from Key Shine to the Offeror, due to the continued occurrence of events of default under the Finance Documents, including the failure by Huzhou Hengpeng to repay the loan after such amount became due and payable on 24 September 2019. As at the date of the Enforcement Action, the total outstanding amount of the Loan with interests amounted to RMB476,160,000 (equivalent to approximately HK\$518,901,954, based on the central parity rate of HK\$1 to RMB0.91763 quoted by the China Foreign Exchange Trade System and the National Interbank Funding Center of the People's Bank of China on the date of the Enforcement Action). The Enforcement Action was taken at the enforcement price of HK\$0.4200 per Share, which was determined as the volume weighted average price of each Share as at the last trading date of the Shares with trading volume (i.e. 22 September 2023) immediately before the date of the Enforcement Action. Therefore, the total consideration of the Enforcement Action was HK\$96,358,080. The consideration of the Enforcement Action after deducting the reasonable expenses relating to the Share Mortgage and fees arising from disposal or dealing of the Mortgaged Shares was settled by setting off a portion of the Loan whereby the interests of the Loan were set off first. Immediately after the set-off, the remaining outstanding principal amount of the Loan with interests amounted to approximately HK\$424,579,838. The Loan will continue to accrue interests at the default interest rate of 12% per annum. The Offeror intends to continue to demand for repayment of the outstanding amount of the Loan (with interests) which cannot be offset by the consideration of the Enforcement Action. Immediately following the Enforcement Action, the Offeror became the beneficial owner of the Mortgaged Shares, representing approximately 39.64% of the entire issued share capital of the Company.

Immediately prior to the Enforcement Action, the Offeror and parties acting in concert with it owned 918,000 Shares in the Company, representing approximately 0.16% of the total issued Shares of the Company. Immediately following the Enforcement Action which took place on 28 September 2023 and as at the Latest Practicable Date, the Offeror, its ultimate beneficial owner and their respective parties acting in concert own 230,342,000 Shares, representing approximately 39.80% of the total issued Shares of the Company.

Pursuant to Rule 26.1 of the Takeovers Code, immediately following the Enforcement Action, the Offeror is required to make a mandatory conditional cash offer for all issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

THE INDEPENDENT BOARD COMMITTEE

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising all non-executive Directors who have no direct or indirect interest in the Offer, namely Mr. Shen Zhenchang, Mr. Ng Wing Fai and Mr. Sun Jiong, has been established to make recommendations to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. Mr. Wu Hongping, a non-executive Director, is a partner of Lunar Capital Partners IV L.P., which indirectly wholly owns Natural Seasoning. On 4 November 2022, the Offeror and Natural Seasoning signed the Memorandum, pursuant to which, among others, (1) Natural Seasoning agrees to apply to the High Court of Hong Kong to discharge the Order on the date of resumption of trading of the Company; and (2) the Offeror, in return, agrees to pay a compensation of HK\$5,000,000 to Natural Seasoning for the discharge of the Order. By an order granted by the High Court of Hong Kong on 17 February 2023, the Order was discharged to the extent of the 229,424,000 Shares charged by Key Shine to the Offeror pursuant to the Share Mortgage. As a result of the Memorandum, a special benefit was conferred on Natural Seasoning which is not extended to other Shareholders. Therefore, Mr. Wu Hongping is not included as a member of the Independent Board Committee.

We, Maxa Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer and in particular as to whether the Offer is, or is not, fair and reasonable and as to its acceptance. Pursuant to Rule 2.1 of the Takeovers Code, our appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we are not associated or connected with the Group or the Offeror, their respective substantial or controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. During the past two years immediately preceding and up to the Latest Practicable Date, save for this appointment as the Independent Financial Adviser, there were no other engagements between Maxa Capital Limited on the one hand and the Group or the Offeror or the parties acting in concert with any of them on the other hand. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Group or the Offeror, their respective substantial or controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice in respect of the Offer pursuant to Rule 13.84 of the Listing Rules and Rule 2 of the Takeovers Code.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, among other things: (i) the Finance Documents; (ii) the Composite Document; (iii) the annual reports of the Company for the year ended 31 December 2021 (the “**2021 AR**”) and the year ended 31 December 2022 (the “**2022 AR**”); (iv) the interim reports of the Company for the six months ended 30 June 2022 (the “**2022 IR**”) and for the six months ended 30 June 2023 (the “**2023 IR**”); and (v) the announcements published by the Company on the website of Stock Exchange since the suspension of trading in Shares on 30 March 2020 and up to the Latest Practicable Date. We have relied on the statements, information, opinions, beliefs and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Offeror, the Group, its advisers, its management team (the “**Management**”) and/or the Directors. We have reviewed, inter alia, the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Directors and the Management. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as at the Latest Practicable Date.

We have also assumed that all statements of belief, opinion and expectation made by the Offeror and the Directors in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Offeror, the Company, its advisers, the Management and/or the Directors.

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice. We believe 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, carried out any independent verification of the information provided by the Offeror, the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Company, Key Shine, the Offeror and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate. Our opinion is necessarily based on financial, economic, market and other conditions in effect and the information made available to us at the Latest Practicable Date and Independent Shareholders will be notified of any material changes to the information contained or referred to herein as well as changes to our opinion, if any, as soon as possible in accordance with Rule 9.1 of the Takeovers Code. This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely for their consideration of the Offer.

PRINCIPAL TERMS OF THE OFFER

Immediately prior to the Enforcement Action, the Offeror and parties acting in concert with it owned 918,000 Shares in the Company, representing approximately 0.16% of the total issued Shares of the Company. Immediately following the Enforcement Action which took place on 28 September 2023 and as at the Latest Practicable Date, the Offeror, its ultimate beneficial owner and their respective parties acting in concert own 230,342,000 Shares, representing approximately 39.80% of the total issued Shares of the Company. Pursuant to Rule 26.1 of the Takeovers Code, immediately following the Enforcement Action, the Offeror is required to make a mandatory conditional cash offer for all issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it). CLSA Limited, for and on behalf of the Offeror, will make the Offer in compliance with the Takeovers Code on the following basis:

For each Offer Share HK\$0.5034 in cash

The Offer Price of HK\$0.5034 per Offer Share under the Offer is equal to the enforcement price of HK\$0.4200 per Share together with the value of the special benefit of HK\$0.0834 per Share received by Natural Seasoning under the Memorandum. The Offer Price represents a premium of 19.9% over the closing price of each Share of HK\$0.4200 as quoted on the Stock Exchange on the Last Trading Day, i.e. 26 September 2023.

The Offer will be extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code. The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances and together with all rights and interests attaching thereto, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of the Composite Document. As at the Latest Practicable Date, the Company does not have any dividend or distribution recommended, declared or made but unpaid and has no intention to make any distribution or declare dividends before the Closing Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Offer Price of HK\$0.5034 per Offer Share represents:

- i. a premium of approximately 2.7% over the closing price of HK\$0.490 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- ii. a premium of approximately 19.9% over the closing price of HK\$0.4200 per Share as quoted on the Stock Exchange the Last Trading Day;
- iii. a premium of approximately 13.1% over the average closing price of approximately HK\$0.4452 per Share as quoted on the Stock Exchange for the last 30 trading days prior to and including the Last Trading Day;
- iv. a premium of approximately HK\$4.0009 over the audited net deficit per Share of approximately HK\$3.4975 as at 31 December 2022 (based on the audited net deficit attributable to the equity Shareholders of approximately HK\$2,024.2 million¹ as at 31 December 2022 and 578,750,000 total issued Shares as at 31 December 2022);
- v. a premium of approximately HK\$4.3538 over the unaudited net deficit per Share of approximately HK\$3.8504 as at 30 June 2023 (based on the unaudited net deficit attributable to the equity Shareholders of approximately HK\$2,228.4 million² as at 30 June 2023 and 578,750,000 total issued Shares as at 30 June 2023); and
- vi. a premium of approximately HK\$4.0445 over the adjusted unaudited net deficit per Share of approximately HK\$3.5411 as at 30 June 2023 (based on the unaudited net deficit attributable to the equity Shareholders of approximately HK\$2,228.4 million² as at 30 June 2023 as adjusted by the valuation surplus of approximately HK\$179.0 million² based on the property valuation as at 31 August 2023 (please refer to Appendix III of the Composite Document) and 578,750,000 total issued Shares as at 30 June 2023).

The Offer is conditional on valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of the Shares which, together with the Shares already owned by the Offeror and parties acting in concert with it, will result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights of the Company.

As at the Latest Practicable Date, there are 578,750,000 Shares in issue. On the basis of the Offer Price of HK\$0.5034 per Offer Share, the entire issued share capital of the Company would be valued at HK\$291,342,750. Excluding the Mortgaged Shares and the Shares already owned by the Offeror and parties acting in concert with it, and assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer, a total of 348,408,000 Shares will be subject to the Offer. Based on the Offer Price of HK\$0.5034 per Offer Share and on the basis of full acceptance of the Offer, the maximum payment obligations payable for the Offer by the Offeror would be HK\$175,388,587.

- 1 Based on the exchange rate of HK\$1:RMB0.89327, being the median exchange rate on 31 December 2022 as announced by the People's Bank of China.
- 2 Based on the exchange rate of HK\$1:RMB0.92198, being the median exchange rate on 30 June 2023 as announced by the People's Bank of China.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Offer, we have taken into consideration the following principal factors:

1. Background information of the Group

1.1 Principal business of the Group

The Company was incorporated in the Cayman Islands on 4 December 2012 as an exempted company with limited liability. The Company is an investment holding company, and its subsidiaries established in the PRC are primarily engaged in the manufacturing of cooking wine as well as other condiments, including naturally-brewed soy sauce, naturally-brewed vinegar, soybean paste, sesame oil and fermented bean curd, in China under the “Lao Heng He” (“老恒和”) brand.

1.2 Incidents leading to prolonged suspension of the trading in Shares

On 19 January 2021, the Company announced that it became aware that Mr. Chen Weizhong, being the beneficial owner of Key Shine and the then executive Director and chief executive officer of the Company (the “CEO”), had been held in criminal custody by the Public Safety Bureau of Wuxing District of Huzhou City in relation to a suspected charge of illegally taking deposits from the general public. Subsequently, on 2 February 2021, Mr. Chen Weizhong tendered his resignation as an executive Director and the CEO as well as from all of his roles and duties as director, legal representatives and/or general manager in several principal subsidiaries of the Company.

On 29 March 2021, the Company announced, among others, that it was not be able to publish an announcement in respect of its (i) preliminary annual results for the year ended 31 December 2020 (“FY2020”) as additional time is required in order to obtain further information required by the auditors of the Company in connection with, among others, prepayments for fixed assets, and tax matters; and (ii) unaudited management accounts for FY2020 on or before 31 March 2021. Therefore, the Company requested for suspension of trading in Shares with effect from 30 March 2021 pending the publication of the annual results for FY2020.

On 26 April 2021, the Company received a letter from the former auditors, Ernst & Young, to resign as the auditors of the Company with effect from 26 April 2021 as the Company could not reach an agreement with Ernst & Young on the audit timetable with respect to the audit of the consolidated financial statements of the Group for FY2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.3 Independent investigation on outstanding issues raised by the Auditors

On 24 June 2021, the Company announced that the Board received a letter from Grant Thornton Hong Kong Limited, the auditors appointed by the Company to perform the audit work for FY2020 (the “**Auditors**”), requesting the involvement of the audit committee of the Board (the “**Audit Committee**”) in resolving certain issues encountered during the audit process, including (i) discrepancy between the bank account balance as recorded in the management accounts of a subsidiary of the Company and the bank confirmation received by the Auditors; (ii) unauthorised guarantees provided to connected persons of the Company by the subsidiaries of the Company; and (iii) outstanding issues in relation to prepayments for fixed assets and tax matters (collectively, the “**Outstanding Issues**”).

On 16 August 2021, the Board resolved to form an independent investigation committee (the “**Independent Investigation Committee**”) to conduct an independent investigation (the “**Independent Investigation**”) into the matters as required by the resumption guidance set forth by the Stock Exchange and appointed (i) an independent forensic accountant (the “**Independent Forensic Accountant**”) to conduct an appropriate investigation into the Outstanding Issues; and (ii) an internal control consultant (“**IC Consultant**”) to conduct a review of the internal control systems and procedures of the Group.

The following summarised the key findings of the independent investigation report conducted by the Independent Forensic Accountant in relation to the Outstanding Issues (the “**Forensic Investigation Report**”):

(a) Discrepancies between bank account statements and accounting ledgers

The discrepancies identified between the bank account statements independently retrieved by the Independent Forensic Accountant and the general accounting ledgers of certain subsidiaries of the Group were attributable to, among others, the following categories of transactions:

- certain purported sales collections and purchase payments were recorded in the general accounting ledgers with no underlying transfers of funds occurred in the bank account statements. Such fictitious sales and purchase transactions were created, likely deliberately, in order to manipulate earnings;
- certain payments and receipts were made by the subsidiaries of the Company to purported third party entities, including Mr. Chen Weizhong and his associates, with no recorded in the general accounting ledgers. These receipts and payments were likely to be improper and/or questionable in nature, which gave rise to suspicion of possible misappropriation of funds; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- the general accounting ledgers recorded certain purported payments and receipts of funds classified as “internal funds transfers” were found to be fictitious in nature in order to conceal certain off-book receipt of funds or payment based on the bank account statements.

(b) Unauthorised guarantees provided to connected persons of the Company

The Independent Forensic Accountant identified that certain subsidiaries of the Company were named as defendants in a total of ten cases of legal proceedings in courts in relation to certain guarantee and borrowing agreements. It is found that the aforementioned guarantee and borrowing agreements were executed without proper authorisation. Based on the research performed by the Independent Forensic Accountant, it was identified that (i) all the borrowers under the suspected unauthorised guarantees were associates of Mr. Chen Weizhong; and (ii) the loan proceeds of the suspected unauthorised borrowings were remitted to associates of Mr. Chen Weizhong.

(c) Outstanding issues in relation to prepayments and tax matters

The Independent Forensic Accountant found that certain prepayments for fixed assets and material purchases were not properly authorised by management and had no documented commercial substance and business rationale. Based on the information available, it was noted that the purported prepayments were fictitious, which were likely created deliberately to manipulate financial reporting and inflate the asset balance of the subsidiary of the Company. Further, The Independent Forensic Accountant found that certain tax payable amount was carried forward from prior financial years, owing to late or non-payment of taxes by the subsidiaries of the Company due to liquidity management and were liable to pay late payment fees.

In order to ascertain whether there were any other potential material irregularities for the financial year ended 31 December 2021, the Independent Forensic Accountant conducted a target review of the Group’s financial affairs for a review period of four months up to 30 April 2021 (which covered approximately two months after the arrest of Mr. Chen Weizhong and his resignation from the Board in January 2021 and February 2021 respectively). No irregularities have been identified by the Independent Forensic Accountant in the abovementioned review period.

As noted in the Forensic Investigation Report, it appeared that the arrangement and execution of the suspected improper and/or questionable transactions in relation to the Outstanding Issues and other irregularities was engineered by Mr. Chen Weizhong. Based on the contents and findings of the Forensic Investigation Report, the Independent Investigation Committee is of the view that the Outstanding Issues and irregularities covered in the Forensic Investigation Report remain mostly stemmed from Mr. Chen Weizhong as the primary person responsible for the arrangement, approval and execution of the fictitious transactions and due to his failure to discharge his fiduciary duties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The IC Consultant has conducted internal control system assessment covering the period from 1 December 2020 to 30 November 2021. The scope of the internal control system assessment includes (i) an assessment of the internal control at entity level covering control environment, risk assessment, control activities, information and communication and monitoring; and (ii) an assessment of the internal controls of the Group at process level including financial reporting and disclosure, sales and accounts receivable management, procurement and payment management, inventory management, cash and treasury management, fixed asset management, human resources and payroll management and tax management (“**Internal Control Review**”). The IC Consultant has identified during the Internal Control Review, a number of weaknesses and deficiencies in the internal control system of the Group and has made relevant recommendations to the Management accordingly.

The Company has formulated remedial action plans to address the internal control weaknesses and deficiencies as identified. Following the implementation of the remedial action plans, the IC Consultant conducted a follow-up review of walkthrough remediated internal control measures and did not identify any further internal control weaknesses and deficiencies nor make any further recommendations on the Group’s internal control system.

The Independent Shareholders may refer to the Company’s announcements dated 30 May 2022, 27 September 2022 and 29 September 2022 for details of the Investigation Forensic Report and Internal Control Review.

1.4 Modified opinions in the auditors’ report of the Company

Upon completion of the Forensic Investigation Report and Internal control Review, the Company published its annual reports for FY2020 (the “**2020 AR**”) and for the year ended 31 December 2021 (“**FY2021**”) on 28 September 2022.

The Auditors issued disclaimer of opinion on the financial statements of the Group for FY2020. The basis for disclaimer of opinion are as follow:

- (i) the findings of the Forensic Investigation Report and reassessment of the accounting records and examination of supporting documents by the Management led to the recognition of a loss arising from the Outstanding Issues of approximately RMB600.6 million and RMB2,061.0 million for FY2020 and year ended 31 December 2019 (“**FY2019**”), respectively. The Auditors were unable to obtain sufficient audit evidence to ascertain the nature and commercial substance of the underlying transactions leading to the loss arising from the Outstanding Issues;

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- (ii) the Auditors were unable to obtain sufficient appropriate audit evidence and adopt appropriate audit procedures to assess the condition of inventories and to validate the existence, accuracy, valuation and completeness of the inventories as at 31 December 2020 and 1 January 2020 (the “**Inventory Issue**”); and
- (iii) due to the loss of certain records and documents, and the irregular nature of the Outstanding Issues, the Auditors were unable to obtain sufficient and appropriate audit evidence to assess the appropriateness of the prior years’ adjustments for FY2019.

As the Auditors were unable to satisfy themselves with the matters above, it was uncertain whether adjustments might have been found to be necessary which would have had a consequential impact on the financial position of the Group as at 31 December 2020 and its financial performance for FY2020.

Due to the disclaimer of opinion on financial statements of the Group for FY2020, the Auditors issued qualified opinion on the financial statements of the Group for FY2021 because of the possible effects of the matters in respect of the Independent Investigation and the open balances and corresponding figures of the financial statements for FY2020 on the comparability of figures for FY2021 and corresponding figures for FY2020. In addition, due to the Inventory Issue as described above, any adjustments that might be found necessary on the opening balance of the inventory as at 1 January 2021 might affect the accuracy on the cost of sales charged for FY2021 (the “**COGS Issue**”), which have a consequential effect on the Group’s results and cash flows for FY2021.

Because of the COGS Issue as discussed above which has possible effect on the comparability of figures for the year ended 31 December 2022 (“**FY2022**”) and the corresponding figures for FY2021, the Auditors’ opinion on the consolidated financial statements for FY2022 is therefore qualified.

The Independent Shareholders may refer to the 2020 AR, 2021 AR and 2022 AR for details and basis of the modified opinions in the auditors’ report.

1.5 Our Observation

We note that the suspension of trading in the Shares back in March 2021 was resulted from the Company’s failure to publish its annual results for FY2020. Subsequently, the Auditors raised the Outstanding Issues which leading to the Independent Investigation. Based on the findings of the Forensic Investigation Report, we note that the Outstanding Issues were caused by fictitious and unauthorised transactions conducted during Mr. Chen Weizhong’s tenure as a Director and primarily stemmed from Mr. Chen Weizhong’s failure to discharge his fiduciary duties. As a result of the Outstanding Issues, the Group’s financial performance and financial position were materially impacted as the Group recognised

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(i) loss arising from the Outstanding Issues of approximately RMB600.6 million and RMB2,061.0 million for FY2020 and FY2019, respectively; and (ii) net deficit position of approximately RMB1,000.5 million as at 31 December 2020.

We consider that the issues identified in the Forensic Investigation Report no longer affect the business operation of the Group for the following reasons:

- (i) the Independent Forensic Accountant did not identify any irregularities in the Group's financial affairs for a review period covering approximately two months after Mr. Chen Weizhong's resignation from all his roles and positions in the Group in February 2021;
- (ii) the Board composition has been reformed after Mr. Chen Weizhong's resignation in February 2021 and the newly appointed Directors have strived to improve the Group's operation and financial performance since then. The Group had also taken appropriate actions, including provision of necessary trainings, conduct employees' evaluation, taking of disciplinary actions, against those personnel involved in the issues identified in the Forensic Investigation Report; and
- (iii) the Group has implemented remedial action plans to address the internal control weaknesses and deficiencies identified by the IC Consultant.

In terms of the financial information of the Group, there were modified opinions in the auditors' reports of the Company's financial statements for FY2020, FY2021 and FY2022. As mentioned in the sectioned headed "1.4 Modified opinions in the auditors' report of the Company" above, it appears to us that the qualified opinion on the financial statements for FY2021 does not suggest any irregularity in the financial affairs or accounting reporting of the Group, but instead related to comparability of prior year's figures (i.e. FY2020) as affected by the Outstanding Issues and lack of sufficient and appropriate evidence (i.e. physical stock-counts procedures and laboratory examination) to ensure the existence, accuracy, valuation and completeness of the opening balance of the inventories as at 1 January 2021. By the same token, we note that the qualified opinion on the financial statements for FY2022 was primarily related to comparability of prior year's figures (i.e. FY2021) as affected by the COGS Issue. Therefore, qualified opinion is only limited to the comparability of corresponding figures in cost of sales for FY2021 and the inventory valuation issue/audit qualification is not carried forward to the Group's financial statements for FY2022. As such, apart from the COGS Issue on the comparability of corresponding figures for FY2021, we consider that the financial statements of the Group for FY2022 presents a reasonable view of the affairs of the Group.

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2. Financial information of the Group

Set out below is a summarised financial information of the Group for FY2021 and FY2022 as extracted from the 2021 AR and 2022 AR and the six months ended 30 June 2022 (“1H2022”) and 2023 (“1H2023”) as extracted from the 2022 IR and 2023 IR:

	For the year ended		For the six months ended	
	31 December		30 June	
	2021	2022	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	252,671	271,600	138,455	127,791
Gross profit	68,509	74,816	51,607	44,182
<i>Gross profit margin</i>	27.1%	27.5%	37.3%	34.6%
Other income and gains	6,778	20,701	2,732	1,282
Selling and distribution expenses	(74,640)	(74,708)	(34,771)	(46,503)
Administrative expenses	(61,273)	(44,392)	(19,440)	(22,091)
Impairment losses, net	(12,553)	(23,182)	739	(462)
Other expenses	(109,714)	(235,663)	(112,036)	(128,764)
Finance costs	(135,556)	(203,911)	(103,321)	(92,570)
Loss before income tax	(318,449)	(486,339)	(214,490)	(244,926)
Loss for the year/period	(318,449)	(486,339)	(214,490)	(244,926)

FY2022 vs FY2021

As disclosed in the 2022 AR, the revenue of the Group was approximately RMB271.6 million for FY2022, representing an increase of approximately 7.5% as compared to that for FY2021. Cooking wine products remained as a major source of revenue of the Group, which accounted for approximately 64.9% of its total revenue for FY2022 (FY2021: 67.2%). The revenue from cooking wine products increased by approximately 3.7% from approximately RMB169.9 million in FY2021 to RMB176.2 million in FY2022, primarily due to the combined effects of the improvement of COVID-19 pandemic and the increase in the sales volume of big single product (i.e., products which are favoured by the market) (大單品) launched in the market. Such increases were mainly due to:

- (i) the Company invested heavily on the distribution channels within the East China region to ensure the timely delivery of products during the COVID-19 pandemic period, and therefore enhanced the brand image and reputation of “Lao Heng He” in the East China region market; and

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- (ii) the Company engaged an external marketing team to provide a full-scale upgrade package for the marketing of “Lao Heng He” in different aspects such as the brand positioning, logo image, marketing slogans and product packaging, etc., and adopted new sales strategies with focuses on big single product and national product (i.e. products which are necessity for daily living).

Thanks to the Group’s effort in product portfolio adjustment and focusing on products with good market reception, the Group’s revenue from other products, including soybean paste, sesame oil and fermented bean curd, increased by approximately 39.7% from approximately RMB38.5 million in FY2021 to approximately RMB53.8 in FY2022.

The Group’s gross profit increased by approximately 9.2% to approximately RMB74.8 million in FY2022, which is in line with the increase in revenue, and the slight improvement in gross profit margin from approximately 27.1% in FY2021 to approximately 27.5% in FY2022 is mainly attributable to the increased in sales prices of some products such as certain major cooking wine, soy sauce and fermented bean curd products during FY2022.

The Group recorded a loss for FY2022 of approximately RMB486.3 million, representing an increase of approximately RMB167.9 million or 52.7%, as compared to loss of approximately RMB318.4 million for FY2021. Such increase in loss was primarily attributable to:

- (i) increase in finance costs by approximately 50.4% from approximately RMB135.6 million in FY2021 to approximately RMB203.9 million in FY2022 primarily reflected the increase in interest expenses as the Group’s interest-bearing other borrowings increased from approximately RMB1,760.4 million as at 31 December 2021 to approximately RMB2,211.6 million as at 31 December 2022;
- (ii) increase in the Group’s other expenses by approximately 114.9% from approximately RMB109.7 million in FY2021 to RMB235.7 million in FY2022 primarily reflected the increase in overdue interest expense by approximately 269.1% from approximately RMB48.6 million in FY2021 to approximately RMB179.4 million in FY2022 as the Group’s other borrowings amounting approximately RMB1,671.0 million in principal amount were overdue as at 31 December 2022 (31 December 2021: approximately RMB983.4 million);

and partially offset by,

- (i) increase in other income and gains by approximately 204.4% from RMB6.8 million in FY2021 to RMB20.7 million in FY2022 as the Group commenced litigations against suppliers for non-performance of contracts and received a one-off compensation income of approximately RMB14.2 million; and

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- (ii) decrease in administrative expenses by approximately 27.6% from approximately RMB61.3 million in FY2021 to approximately RMB44.4 million in FY2022 primarily due to the decrease in professional service fees for the Group's resumption of trading of the Shares in FY2022 given the Company had essentially completed the majority of the work needed for the resumption of trading of the Shares by the end of FY2021.

1H2023 vs 1H2022

As disclosed in the 2023 IR, the revenue of the Group was approximately RMB127.8 million for 1H2023, representing a decrease of approximately 7.7% as compared to that for 1H2022. In 1H2023, the Group's cooking wine products remained as a major source of revenue, which accounted for approximately 65.0% of its total revenue (1H2022: 64.7%). The revenue from cooking wine products decreased by approximately 9.2% from approximately RMB89.6 million in 1H2022 to RMB81.4 million in 1H2023, primarily due to the decline in sales volume of certain products of the Group's grain brewed cooking wine (i.e., the 500 milliliter ("mL") cooking wine series) as a result of the combined effect of increasingly intensified competitions in the cooking wine sector as the categories of other condiment products were relatively saturated, and the promotions launched by leading condiment manufacturers to expand the new cooking wine market.

The Group continued to adjust its product portfolio of rice vinegar and other products by reducing the production volume of low-performing products (e.g., 1,000 mL rose rice vinegar or some customized products) during 1H2023. As a result, the revenue from rice vinegar and other products decreased by approximately 9.0% from approximately RMB36.2 million in 1H2022 to approximately RMB32.9 million in 1H2023.

The Group's gross profit decreased by approximately 14.4% from approximately RMB51.6 million in 1H2022 to approximately RMB44.2 million in 1H2023, which is attributable to the decrease in revenue as discussed above while the decrease in gross profit margin from approximately 37.3% in 1H2022 to approximately 34.6% in 1H2023, resulting from the increase in proportion of sales of mid-end and low-end products with relatively low gross profit margins as the PRC economy was still in the recovery stage after the pandemic.

The Group recorded a loss for 1H2023 of approximately RMB244.9 million, representing an increase of approximately RMB30.4 million or 14.2%, as compared to a loss of approximately RMB214.5 million for 1H2022. Such increase in loss was primarily attributable to:

- (i) increase in the Group's selling and distribution expenses by approximately 33.7% from approximately RMB34.8 million in 1H2022 to approximately RMB46.5 million in 1H2023 primarily caused by the intensifying competition and weak consumption in the condiment industry as a result of the closure of small enterprises and distributors and slowdown in the growth of the PRC economy;

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- (ii) increase in overdue interest expense by approximately 30.4% from approximately RMB83.2 million in 1H2022 to approximately RMB108.5 million in 1H2023 as the Group's other borrowings amounting approximately RMB1,903.9 million in principal amount were overdue as at 30 June 2023 (30 June 2022: approximately RMB1,469.6 million);
- (iii) decrease in gross profit by approximately 14.4% from approximately RMB51.6 million in 1H2022 to approximately RMB44.2 million in 1H2023 as a result of the combined effects of decrease in the Group's revenue and increase in proportion of sales of mid-end and low-end products with relatively low gross profit margins;

and partially offset by,

- (i) decrease in finance costs by approximately 10.4% from approximately RMB103.3 million in 1H2022 to approximately RMB92.6 million in 1H2023 primarily attributable to the decrease in interest of finance lease resulting from the expiration of certain finance lease contracts.

	As at 31 December		As at
	2021	2022	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)
Non-current assets	330,506	319,175	310,223
Current assets	863,260	803,902	803,721
Total assets	1,193,766	1,123,077	1,113,944
Non-current liabilities	171,780	58,526	7,771
Current liabilities	2,339,880	2,872,714	3,160,739
Total liabilities	2,511,660	2,931,240	3,168,510
Net current liabilities	(1,476,620)	(2,068,812)	(2,357,018)
Net liabilities	(1,317,894)	(1,808,163)	(2,054,566)

Total assets

The Group's total assets decreased by approximately 5.9% from approximately RMB1,193.8 million as at 31 December 2021 to approximately RMB1,123.1 million as at 31 December 2022, which was mainly due to:

- (i) decrease in property, plant and equipment by approximately RMB10.3 million mainly due to the depreciation of approximately RMB27.4 million incurred during the year and partially offset by the additions of fixed assets and construction in progress of approximately RMB17.6 million;
- (ii) decrease in prepayments, other receivables and other assets by approximately RMB18.2 million mainly attributable to the decrease in the value-added tax recoverable balance;

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- (iii) decrease in amounts due from related companies by approximately RMB13.5 million mainly due to the transfer of right of debts of Zhejiang Zhongwei Brewery Limited* (浙江中味釀造有限公司), being a related company of the Group, by the Group to one of its lenders for settling part of the other borrowings of approximately RMB19.0 million in FY2022; and
- (iv) decrease in cash and cash equivalents by approximately RMB21.2 million mainly due to the combined effects of (a) net cash used in operating activities of approximately RMB226.8 million as the Group incurred loss before interest and tax of approximately RMB282.4 million during FY2022; (b) purchase of property, plant and equipment of approximately RMB16.9 million; and (c) net cash generated from financing activities of approximately RMB228.5 million as the Group obtained gross proceeds of approximately RMB311.4 million from interest-bearing other borrowings to fund its operation and repay outstanding debts.

The Group's total assets decreased by approximately 0.8% from approximately RMB1,123.1 million as at 31 December 2022 to approximately RMB1,113.9 million as at 30 June 2023, which was mainly attributable to:

- (i) decrease in property, plant and equipment by approximately RMB6.6 million;
 - (ii) decrease in inventories by approximately RMB7.1 million primarily due to the decrease in work in progress;
 - (iii) decrease in amounts due from related companies of approximately RMB8.7 million;
 - (iv) decrease in cash and cash equivalents by approximately RMB7.6 million;
- and partially offset by,
- (i) increase in prepayments, other receivables and other assets by approximately RMB21.8 million mainly attributable to the increase in the value-added tax recoverable balance as the balance of input tax generated from the purchase of base wine and base soy sauce during 1H2023 has not been offset.

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As at 30 June 2023, the Group's total assets mainly comprised of (i) property, plant and equipment of approximately RMB256.6 million. The amount of property, plant and equipment of approximately mainly comprised of buildings and machinery and equipment in relation to the Group's production facilities; (ii) inventories of approximately RMB639.7 million. A substantial part of the Group's inventories are work in progress, mainly represented by semi-finished base wine, base soy sauce, base vinegar, soybean paste and fermented bean curd in the brewing period; and (iii) prepayments, other receivables and other assets of approximately RMB139.7 million. Such balance mainly comprised of value-added tax recoverable of approximately RMB105.7 million, which represented the amount of input value-added tax to be deducted when the relevant finished goods are sold.

Total liabilities

The Group's total liabilities increased by approximately 16.7% from approximately RMB2,511.7 million as at 31 December 2021 to approximately RMB2,931.2 million as at 31 December 2022, which was mainly due to increase in interest-bearing other borrowings by approximately RMB451.2 million as a result of proceeds from other borrowings in order to fund the Group's daily operation and increase in the amount of unpaid interest expenses; and partially offset by decrease in other liabilities by approximately RMB33.1 million primarily due to the partial repayment of capital investment during FY2022 pursuant to the investment agreement entered by the wholly-owned subsidiaries of the Company on 6 May 2016 with China Development Fund Co., Ltd.

The Group's total liabilities increased by approximately 8.1% from approximately RMB2,931.2 million as at 31 December 2022 to approximately RMB3,168.5 million as at 30 June 2023, which was mainly attributable to the combined effects of decrease in other payables and accruals by approximately RMB129.2 million which is primarily due to the decrease in other tax payables by approximately RMB108.9 million; and increase in interest-bearing other borrowings by approximately RMB368.8 million as a result of proceeds from other borrowings in order to fund the Group's daily operation and increase in the amount of unpaid interest expenses.

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As at 30 June 2023, the Group's total liabilities mainly comprised of (i) other payables and accruals of approximately RMB282.5 million. Such balance mainly comprised of other tax payables, provision of surcharge for overdue tax payment and equipment and construction costs payables; (ii) interest-bearing other borrowings of approximately RMB2,580.4 million. As at 30 June 2023, the other borrowings amounted to approximately RMB2,577.4 million, bearing effective interest rates ranging from 7.0% to 24.0% per annum, of which approximately RMB1,903.9 million in principal amount were overdue. In addition, approximately RMB2,281.6 million of the other borrowings were from Wuxing City Investment and its subsidiaries (the “**Loans from Wuxing City Investment**”); and (iii) other liabilities of approximately RMB105.9 million.

Overall comments

Based on our analysis on the financial information of the Group for FY2021, FY2022, 1H2022 and 1H2023 (collectively, the “**Relevant Financial Period**”), we note that the cooking wine products remained as a major source of revenue as it accounted for approximately 67.2%, 64.9%, 64.7% and 65.0% of the Group's total revenue for FY2021, FY2022, 1H2022 and 1H2023, respectively. While the Group's total revenue remained fairly stable during the Relevant Financial Period, the Group continued to incur operating losses, being losses before other expenses and finance costs, of approximately RMB73.2 million, RMB46.8 million and RMB23.6 million for FY2021, FY2022 and 1H2023, respectively. We consider that such operating losses of the Group were mainly due to the relatively high selling and distribution expenses which accounted for approximately 108.9%, 99.9% and 105.3% of the Group's gross profit for FY2021, FY2022 and 1H2023, respectively.

(a) Continued investment in marketing expenses to promote the “Lao Heng He” brand

As advised by the Management, the relatively high selling and distribution expenses are mainly attributable to:

- (i) increase in marketing expenses in order to promote the Group's products and enrich its sales channels during the pandemic;
- (ii) the quarantine measures had disrupted the logistics chain during the pandemic, resulting in relatively high logistic and distribution cost; and

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(iii) as a result of intensifying competition and weak consumption in the condiment industry after the pandemic, the Group increased its marketing expenses in order to maintain its market share in terms of cooking wine. In this regard, we have discussed with the Management and note that (i) the PRC cooking wine industry is led by a small number of major players, with the rest of the market is highly fragmented; and (ii) leading players are difficult to be replaced due to factors such as brand awareness, production formula as well as establishment of distribution networks. Therefore, despite the weak consumption in the condiment industry after the pandemic as a result of the closure of small enterprises and distributors and slowdown in the growth of the PRC economy, leading players within the industry would require to continue investing on marketing and distribution network in order to maintain their leading position.

As such, although “Lao Heng He” being a brand with a long history and is recognised for its strong heritage in China’s condiment market, we consider that the Company may lose its market share to other leading players should the Company decide to reduce its spending on the selling and distribution expenses.

(b) Persistently high finance costs and gearing ratio

Due to the unsatisfactory financial performance during the Relevant Financial Period, the Group continued to record net cash used in operating activities of approximately RMB97.8 million, RMB226.8 million and RMB166.2 million for FY2021, FY2022 and 1H2023, respectively. In order to replenish its working capital and fund the expansion of production capacity during the Relevant Financial Period, the Group relied primarily on borrowings from external parties, which caused its interest-bearing other borrowings and gearing ratio (calculated based on net debt divided by total deficit plus net debt) to increase from approximately RMB1,760.4 million and 220.9% as at 31 December 2021 to approximately RMB2,211.6 million and 273.8% as at 31 December 2022 and further to approximately RMB2,580.4 million and 297.8% as at 30 June 2023.

The persistently high gearing ratio during the Relevant Financial Period has imposed significant financial burden on the Group as the overdue interest expense and interest on bank loans and borrowings in aggregate amounted to approximately RMB181.4 million, RMB383.0 million and RMB201.0 million for FY2021, FY2022 and 1H2023, respectively, which accounted for approximately 264.8%, 511.9% and 454.9% of the Group’s gross profit for FY2021, FY2022 and 1H2023, respectively.

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(c) Material uncertainty on the Group's ability to continue as going concern

We note from the 2022 AR that, in light of the net cash used in operating activities and net loss incurred for FY2022 and the Group's net current liabilities, net capital deficiency and net debt position as at 31 December 2022, material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. As discussed in the sections headed "1.3 Independent investigation on outstanding issues raised by the Auditors" and "1.4 Modified opinions in the auditors' report of the Company" above, the Group recognised loss arising from the Outstanding Issues of approximately RMB600.0 million and RMB2,061.0 million for FY2020 and FY2019, respectively, which significantly impacted the liquidity and financial position of the Group. We note that Wuxing City investment and its subsidiaries have provided financing to the Group during the Relevant Financial Period in order to replenish its working capital and repay its financial obligations. Therefore, Wuxing City investment and its subsidiaries become the major lenders of the Group and the Loans from Wuxing City investment accounted for approximately 71.2% and 72.0% of the Group's liabilities as at 31 December 2022 and 30 June 2023, respectively, whether the Group is able to maintain sufficient working capital and fulfill its financial obligations in a timely manner will primarily depend on the continuing financial support from the Offeror Group, including the renewal of the Loans from Wuxing City investment upon expiry and grant of new financing facilities to the Group.

In light of the unsatisfactory financial performance and deteriorating liquidity position during the Relevant Financial Period, unless there is a significant improvement in the Group's operation and operating cash flow in the near future or conduct equity financing of a substantial amount to reduce its gearing ratio and strengthen its capital base, we consider that the Group would need to rely on continuing financial support from the Offeror Group or obtain external equity or debt financing in order to sustain its operations and improve its capital structure. If the Offer becomes unconditional and the Offeror Group becomes the controlling shareholder of the Company after the close of the Offer, we believe that the Group's liquidity pressure may be relieved given (i) the change of role of the Offeror Group as a controlling shareholder in addition to a major lender would further strengthen its willingness to provide continued financial support or undertake capital restructure to improve the Group's financial position; (ii) the Offeror Group, which was established in January 2004 and has now become one of the most prominent infrastructure construction and development platforms in Wuxing District of Huzhou City, could help improve the operating structure of the Group by sharing their operation experience; (iii) the potential business synergies may be create following the deepening of cooperation or relationship of the Company with the Offeror Group.

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(d) Modified opinions in the auditors' report of the Company

As discussed in the section headed “1.4 Modified opinions in the auditors’ report of the Company” above, we note that the Company’s auditors expressed qualified opinions on the Company’s consolidated financial statements for FY2021 and FY2022 due to, among others, loss arising from the Outstanding Issues, existence, accuracy, valuation and completeness of inventories and the opening balances and corresponding figures of prior financial year. In particular, we note that the financial information for FY2021 was impacted by the COGS Issue, which affected the accuracy of the cost of sales charged and its consequential effect on the gross profit, earnings and cash flows for FY2021. Hence, given that the qualified opinion on the financial statements for FY2022 is only limited to the comparability of corresponding figures as affected by the COGS Issue, we consider that the financial statements of the Group for FY2022 presents a reasonable view of the affairs of the Group. Independent Shareholders may refer to the 2021 AR and 2022 AR for details.

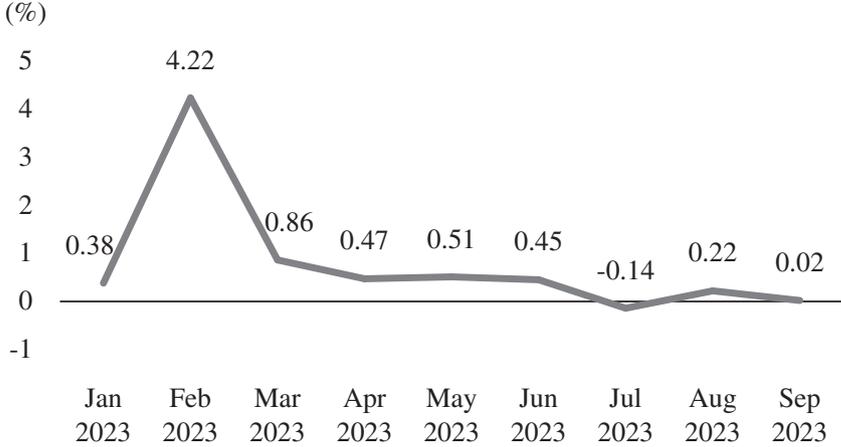
3. Industry overview of the condiment manufacturing industry in the PRC and outlook of the Group

To evaluate the industry overview of the condiment manufacturing industry in the PRC, we have firstly reviewed the latest economic data released by the National Bureau of Statistics of China, as we consider the outlook of the PRC economy would affect the consumption sentiment and disposable income per capita, which would have a consequential effect on the outlook of the condiment manufacturing industry. We note that the gross domestic product (“GDP”) in the PRC for the first quarter of 2023 achieved a growth of approximately 2.3%, on a quarter-to-quarter (“QoQ”) basis, which we believe such growth was primarily attributable to the full relaxation of the epidemic control measures in early 2023. However, we note that there was sign of slowdown in the PRC economy as the QoQ growth rate of the GDP for the second quarter of 2023 dropped to approximately 0.5%. The economy activity has shown sign of stabilisation and gradual recovery from the pandemic as the QoQ growth rate of the GDP for the third quarter bounced back to approximately 1.3%, but still slower than the growth rate in the first quarter of 2023. On the other hand, we have reviewed the statistics data in relation to the total retail sales of consumer goods in the PRC, which we consider to be relevant as it reflects the general demand of the retail market, for the nine months ended September 2023 (“9M2023”). We note that (i) the total retail sales of consumer goods for 9M2023 amounted to approximately RMB34.2 trillion, representing an increase of approximately 6.8% as compared to the same period of previous year; and (ii) the total retail sales of grain, oil and food for 9M2023 amounted to approximately RMB1.4 trillion, representing

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an increase of approximately 5.3% as compared to the same period of previous year. We consider such growth generally reflects the recovery of economy from the pandemic as they were compared against with 2022, when the epidemic control measures were not fully loosened. To further understand the recovery progress of the consumption in 2023, we have reviewed the breakdown of the total retail sales of consumer goods and total retail sales of grain, oil and food in the PRC.

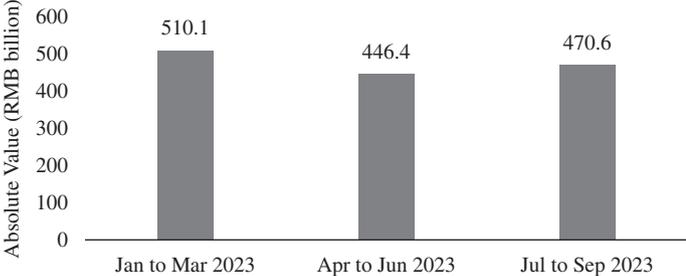
**Monthly retail sales of consumer goods in China
(Month-over-Month (“MoM”) changes)**



Source: National Bureau of Statistics of China

As illustrated in the table above, we note that the monthly retail sales of consumer goods in China grew significantly in the first quarter of 2023 which we consider to be primarily due to the removal of COVID-19 restrictions in the beginning of 2023. However, it is further noted that such growth trend did not sustain and show sign of slowdown in the remaining quarters of 2023.

Total retail sales of grain, oil and food in China by quarter



Source: National Bureau of Statistics of China

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Note:

1. Since the absolute values of the total retail sales of grain, oil and food in China for January 2023 and February 2023 were aggregated by the National Bureau of Statistics of China, we consider to represent the rest of values on a quarterly basis given the absence of monthly data for such absolute values.

As illustrated in the table above, we note that the absolute value of total retail sales of grain, oil and food in China reached approximately RMB510.1 billion in the first quarter of 2023, but it was then decreased to approximately RMB446.4 billion in the second quarter and gradually recovered to approximately RMB470.6 billion in third quarter of 2023. In overall, the total retail sales of grain, oil and food had bottom out in the second quarter of 2023 and gradually recovered in the third quarter of 2023.

As disclosed in the 2023 IR, from January 2023 to March 2023, the overall consumer market and all channels maintained a positive momentum as a result of the full relaxation of the epidemic control measures in the PRC. However, from April 2023 to June 2023, the PRC economy has not yet recovered, as illustrated by the slowdown in MoM growth rate of retail sales from approximately 0.86% for March 2023 to approximately 0.45% for June 2023. Against this background, the Group also encountered promotional campaigns and price competition from its competitors to capture the market share of cooking wine market and dampened the sales of the Group's products, resulting in longer inventory turnover and less frequent purchases by distributors. As discussed with the Management, the condiment manufacturing industry is primarily affected by various factors such as intensifying competition and uncertain economic outlook.

According to an article released by the China Condiment Industrial Association³ ("CCIA") in January 2023, the market development prospect of condiment manufacturing industry is expected to be optimistic. However, it is also noted from such article that, on the one hand, the competition within the industry begin to intensify given the positive prospect of the condiment market has attracted many new entrants, such as several enterprises from other industries, has entered the condiment industry in 2022 by ways of merger and acquisition or direct investment. On the other hand, new production lines are established by the competitors to maintain or expand their current market share, which led to the increase of overall condiment production output. According to a non-exhaustive survey conducted by the China Condiment Industrial Association, it is stated that the scheduled investment scale by 12 condiment manufacturing companies for the first half of 2023 is over RMB10 billion, which in turn may convert into new condiment production output of not less than 2 million tons once the construction of production lines is completed. We consider the increase of supply resulting from the intensifying competition may create difficulties for the Company to maintain its current market position in the condiment industry.

³ CCIA is an organisation established in 1995 which composed of enterprises, institutions and social groups related to the production, circulation and operation of condiments. Such organisation is guided by State-owned Assets Supervision and Administration Commission of the State Council of the PRC and registered under the Social Organisations Administration of Ministry of Civil Affairs of the PRC. It is a non-profit social organisation and recognised as a national level industry association.

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In conclusion, we are of the view that while the condiment manufacturing industry in the PRC is expected to grow in the future, several factors, including (i) the competition within the condiment manufacturing industry is expected to intensify given the entrance of new competitors and the increase of overall condiment production output as mentioned above; and (ii) the uncertain economic outlook of the PRC which may affect the consumer demand, will contribute to the uncertainties for the Group's operation in the near future.

4. Information of the Offeror

The Offeror was incorporated in Hong Kong on 13 June 2018 as a company with limited liability under the Companies Ordinance (Chapter 622 of the laws of Hong Kong). It is a wholly owned subsidiary of Wuxing City Investment. Wuxing City Investment is wholly owned by Wuxing Service Centre, a public institution* (事業單位). The capital of Wuxing Service Centre has been injected by Wuxing Finance Bureau (湖州市吳興區財政局), a government organ of Huzhou Wuxing District Government (湖州市吳興區政府).

The Offeror Group is one of the most prominent infrastructure construction and land development platforms in Wuxing District of Huzhou City, Zhejiang Province, China. Since its establishment in January 2004, Wuxing City Investment is committed to implement the development blueprint of Wuxing District Government to upgrade infrastructure and public facilities, improve quality of urban life with better living environment as well as accelerate regional economic growth. With strong support from its shareholder and after years of business growth, the Offeror Group has established a strong regional presence and played an important role in the development of Huzhou City.

5. Intentions of the Offeror regarding the Group

The following information of the intentions of the Offeror in relation to the Group has been extracted from the "Letter from CLSA Limited":

5.1 Business of the Group

It is the intention of the Offeror to continue the existing principal business of the Group. The Offeror does not intend to introduce any major changes to the existing operations and business of the Group upon the close of the Offer. Nevertheless, following the close of the Offer, the Offeror will conduct a review on the existing principal operations and business as well as the financial position of the Group for the purpose of formulating business plans and strategies for the Group's long-term business development. Subject to the results of the review, and should suitable investment or business opportunities arise, the Offeror may consider whether any assets and/or business acquisitions or disposals by the Group will be appropriate in order to enhance its growth.

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The Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for a proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code) or to dispose of, redeploy or re-allocate the Group's fixed assets which relate to the ordinary and usual course of business of the Group as a result of completion of the Offer. However, the Offeror reserves the right to make such changes that it deems necessary or appropriate to the Group's business and operations to optimise the value of the Group.

As at the Latest Practicable Date, no material investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group.

The Offeror intends to nominate new Director(s) to the Board after close of the Offer. Any changes to the Board composition will be made in compliance with the Takeovers Code and the Listing Rules. However, as at the Latest Practicable Date, the Offeror has not identified any personnel for the purpose of appointment as the new Director(s).

5.2 Public float and listing status of the Company

The Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offer. The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the total issued Shares, are held by the public, or if the Stock Exchange believes that:

- (i) false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares.

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The Offeror intends the Company to remain listed on the Stock Exchange. The directors of the Offeror and the new Director(s) to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. Further announcement(s) will be made as and when appropriate and in accordance with the requirements of the Listing Rules and the Takeovers Code.

We understand from the Management that it is the intention of the Offeror to continue with the Group's existing principal business following the close of the Offer. The Offeror does not intend to introduce any major changes to the existing business and operation of the Group following the close of the Offer. As at the Latest Practicable Date, no such investment or business opportunities has been identified nor has the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group. The Offeror will continue to ensure good corporate governance, monitor and review the Group's business and operations from time to time, and may take steps that it deems necessary or appropriate to optimise the value of the Group. Although the Offer is triggered by the Enforcement Action as Mr. Chen Weizhong is unable fulfil its repayment obligation under the Finance Documents, we consider that the overtake of shareholdings by the Offeror is justifiable given the Company is now relied heavily on the continuing financial support from the Offeror Group, and by obtaining the controlling shareholdings of the Company, the Offeror Group would be able to closely monitor the operation of the Company and make changes to the business plan and strategies of the Company if necessary. Furthermore, synergies may be created after the changes of the shareholdings as the Group is able to leverage the strong regional presence of the Offeror Group in Huzhou to develop its own business, and the Group's financial performance may also improve given (i) the liquidity position of the Group may improve since the role of the Offeror Group changing to a controlling shareholder of the Company in addition to a major lender would further strengthen its willingness to provide continuing financial support to or undertake capital restructure to improve the Group's financial position; (ii) the Offeror Group would assist the Group in formulating business plans and strategies for the Group's long-term business development after the review of the Group; and (iii) the Offeror Group would make necessary changes to the Group's business and operations to optimise the value of the Group if needed.

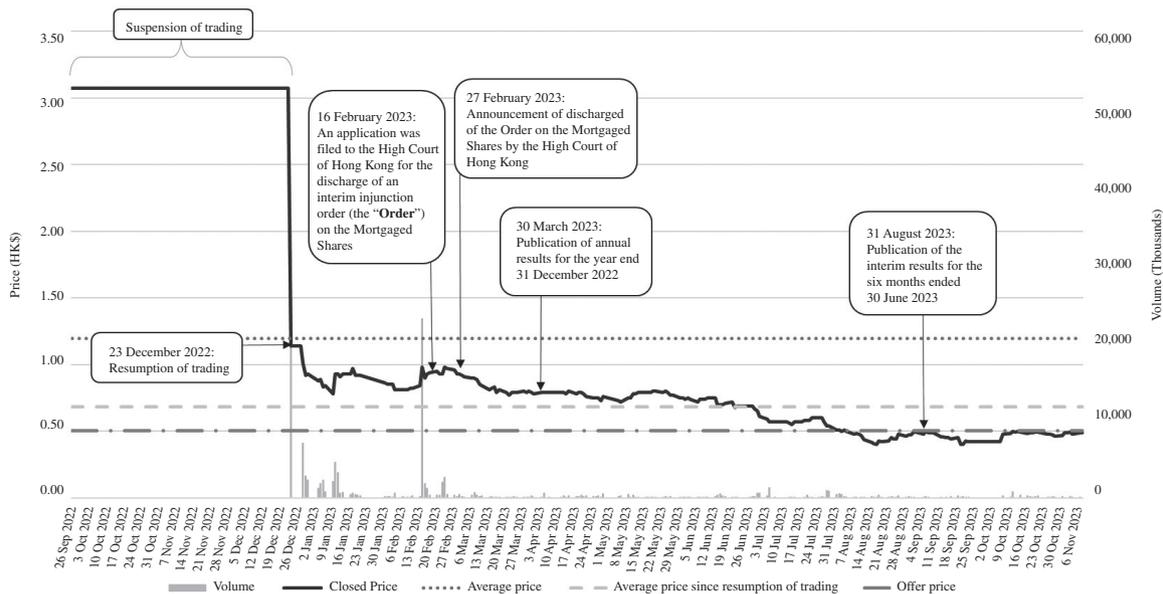
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6. Analysis on the Offer Price

6.1 Historical price performance of the Shares

We have reviewed and analysed the closing prices of the Shares over the twelve months period immediately prior to the Last Trading Day, being 26 September 2022 (the “**Review Period**”) and up to the Latest Practicable Date. We consider that the Review Period of approximately 13 months to be sufficient and appropriate for our analysis as (i) the Review Period has illustrated the recent price movement of the Shares for conducting a reasonable comparison among the historical closing price prior to the Last Trading Day and such comparison is relevant for the assessment of the fairness and reasonableness of the Offer Price, as the Share price before the Last Trading Day represents a fair market value of the Company which the Shareholders expected; and (ii) an extension of Review Period may not be meaningful since the trading of the Shares was suspended for approximately 9 months with effect from 30 March 2021, and the price performance of the Shares prior to such suspension may not be appropriate for analysis purpose given the absence of the Group’s financial results for FY2020 and other Company’s information as stated below. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

Share price performance during the Review Period



Source: The Wind Financial Terminal (“Wind”)

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We note that the trading in Shares was suspended with effect from 30 March 2021 due to, among others, delay in publication of the Group's annual results for FY2020. On 22 December 2022, the Company announced the fulfilment of the resumption guidance issued by the Stock Exchange and the trading in Shares was resumed with effect from 23 December 2022. As illustrated from the chart above, after prolonged suspension of the trading in Shares, the Share price plummeted by approximately 62.9% and closed at HK\$1.14 per Share on 23 December 2022. In this regard, we have enquired with the Management for the reason as to such price drop and understand from the Management that, saved for the announcements published by the Company during the suspension period which mostly covered, among others, (i) the resumption progress of the Company; (ii) details and findings on certain previously undisclosed or unauthorised historical transactions which negatively impacted the financial performance and position of the Group; and (iii) financial results for FY2020, FY2021, six months ended 30 June 2021 and 1H2022; and (iv) the proposed enforcement in relation to the Mortgaged Shares, they are not aware of any material change in the financial or business outlook of the Group which may lead to the significantly drop in the Share price. After the significant decline in the Share price on 23 December 2022, we note that the closing Share price fluctuated in the region of HK\$0.400 to HK\$1.010 from 28 December 2022 up to the Latest Practicable Date (the "**Post-Suspension Period**"). In light of the prolonged suspension of trading in Shares, we consider that it is more meaningful to review and analyse the Share prices movement during the Post-Suspension Period.

As illustrated in the chart above, during the Post-Suspension Period, the closing Share price traded at an average of approximately HK\$0.674, with the highest and lowest closing prices of the Shares, being HK\$1.010 recorded on 28 December 2022 and HK\$0.400 recorded on 16 August 2023, 19 September 2023 and 20 September 2023, respectively. We note that the Share price demonstrated a general declining trend since the beginning of the Post-Suspension Period as the Share price decreased from HK\$1.010 on 28 December 2022 to HK\$0.780 on 9 January 2023. Then, the Share price started to rebound and reached HK\$0.980 with trading volume increased to approximately 23.0 million Shares on 14 February 2023. We note that on 16 February 2023, the Company announced that the Offeror, Natural Seasoning and Key Shine had filed an application to the High Court of Hong Kong to discharge an interim injunction order made by the High Court of Hong Kong against Key Shine, prohibiting Key Shine from the selling, trading, transferring, assigning, conveying or otherwise disposing of any of the shareholding in the Company (the "**Order**"). On 27 February 2023, the Company announced that the Order was discharged by the High Court of Hong Kong to the extent of the 229,424,000 Shares mortgaged by Key Shine under the Share Mortgage with the Offeror. Subsequent to the abovementioned announcements, the Share continued to demonstrate a declining trend and reached HK\$0.420 on 26 September 2023, being the Last Trading Day.

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The Offer Price represents (i) discount of approximately 25.35% to the average closing price; (ii) discount of approximately 50.16% to the highest closing price; and (iii) premium of approximately 25.85% to the lowest closing prices of the Shares during the Post-Suspension Period. Immediately after publication of the Joint Announcement and up to the Latest Practicable Date (the “**Post Joint Announcement Period**”), the closing prices of the Shares has been traded in the region of HK\$0.420 to HK\$0.500, which were lower than the Offer Price. The Offer Price of HK\$0.5034 per Offer Share represents a premium of approximately 2.73% over the closing price of HK\$0.490 per Share as at the Latest Practicable date.

Given the closing price of the Shares has remained to be fluctuated at a level close to the Offer Price during the Post Joint Announcement Period, Independent Shareholders who wish to realise their investment in the Group are reminded that they should carefully and closely monitor the market price of the Company during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Offer. Independent Shareholders should note that the information set out above is not an indicator of the future performance of the Shares, and that the price of the Shares may increase or decrease from its closing price as at the Latest Practicable Date.

Performance of the Share price and Hang Seng Index (“HSI”) during the Review Period



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As illustrated in the chart above, during the Post-Suspension Period, the Hang Seng Index (the “HSI”) reached its highest and lowest points of 22,689 and 16,991 in February and October 2023, respectively, representing an increase and decrease of approximately 14.02% and 14.61% as compared to the HSI at the beginning of the Post-Suspension Period. The declining trend of the HSI began from February 2023.

While we note that both the Share price and the HSI demonstrated a general declining trend during the Post-Suspension Period, the Share price was relatively weak and underperformed against the HSI. As at the Latest Practicable Date, the Share price decreased by approximately 51.49% whereas the HSI decreased by approximately 11.20% as compared to the beginning of the Post-Suspension Period. We consider that the weak performance of the Share price was mainly due to, among others, the unsatisfactory financial performance of the Group for FY2022 and 1H2023 announced by the Company during the Post-Suspension Period.

6.2 Liquidity of the Shares

The following table sets out the total trading volume per month/period, the average daily trading volume, the percentage of such average daily trading volume to the total issue Shares and the total issued Shares held by the Independent Shareholder during the Review Period:

Months	Total trading volume of Shares for the month/ period	Number of trading days	Average daily trading volume (Note 1)	Percentage of average daily trading volume to the total issued Shares (Note 2)	Percentage of average daily trading volume to total issued Shares held by the Independent Shareholders (Note 3)
2022					
September	Nil	Nil	Nil	Nil	Nil
October	Nil	Nil	Nil	Nil	Nil
November	Nil	Nil	Nil	Nil	Nil
December (Note 4)	43,582,000	4	10,895,500	1.883%	3.127%

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Months	Total trading volume of Shares for the month/period	Number of trading days	Average daily trading volume (Note 1)	Percentage of average daily trading volume to the total issued Shares (Note 2)	Percentage of average daily trading volume to total issued Shares held by the Independent Shareholders (Note 3)
2023					
January	20,169,000	18	1,120,500	0.194%	0.322%
February	34,364,000	20	1,718,200	0.297%	0.493%
March	3,869,000	23	168,217	0.029%	0.048%
April	3,505,500	17	206,206	0.036%	0.059%
May	2,325,500	21	110,738	0.019%	0.032%
June	3,453,200	21	164,438	0.028%	0.047%
July	4,580,000	20	229,000	0.040%	0.066%
August	2,591,000	23	112,652	0.020%	0.032%
September	4,131,000	17	243,000	0.042%	0.070%
October	3,365,500	20	168,275	0.029%	0.048%
1 November 2023 to the Latest Practicable Date	244,000	5	48,800	0.008%	0.014%
Maximum				1.883%	3.127%
Minimum				0.008%	0.014%
Average				0.219%	0.363%

Source: The Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.
2. It is calculated by dividing the average daily trading volume for the month/period by the total number of Shares in issue at the end of each month/period.
3. It is calculated by dividing the average daily trading volume for the month/period by the total number of Shares in issue held by the Independent Shareholders as at the Latest Practicable Date, i.e. 348,408,000.
4. Trading in the Shares has been suspended since 30 March 2021. The trading in the Shares on the Stock Exchange was resumed with effect from 23 December 2022, details of which are set out in the announcement of the Company dated 22 December 2022.

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We note from the above table that the trading volume of the Shares is generally thin during the Review Period, where the percentages of average daily trading volume of the Shares to the total issued Shares and the total issued Shares held by the Independent Shareholders during the period from the beginning of Post-Suspension Period and up to the Last Trading Day are 0.255% and 0.424%, respectively. Subsequent to the release of the Joint Announcement, we note that the trading volume of the Shares increased to approximately 3.3 million Shares on 29 September 2023, being the first trading day after the Joint Announcement, representing approximately 0.575% and 0.956% of the total issued Shares and the total issued Shares held by the Independent Shareholders. We consider such surge in trading volume were mainly caused by the potential effects of the Offer, and hence it is uncertain whether the trading volume of the Shares will maintain at such level in the future. Since the beginning of October 2023 and up to the Latest Practicable Date, the percentages of average daily trading volume of the Shares to the total issued Shares and the total issued Shares held by the Independent Shareholders are 0.025% and 0.041%, respectively.

Given the historical trading volume of the Shares was generally thin, the Group continued to incur loss for 1H2023 and its deteriorating liquidity position as at 30 June 2023 due to its high gearing ratio resulting from the continued increase of overdue interest expense and interest on bank loans and borrowings (for details, please refer to the section headed “2. Financial information of the Group — Overall comments” above), it is uncertain that the overall liquidity of the Shares could be enhanced in the foreseeable future from the investment perspective. In view of the deteriorating liquidity position which casted uncertainty on the Group’s ability to continue as going concern, the willingness of potential investors to invest in the Shares should be decreased, whereby affecting the liquidity of the Shares prior to the Enforcement Action. Owing to the lack of sufficient liquidity in trading of the Shares, the Independent Shareholders may exert a downward pressure on the Share price should they decide to dispose a significant number of their Shares in the open market. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by disposal of their Shares in the open market. We, therefore, consider that the Offer provides the Independent Shareholders with an opportunity to realise their investments in the Shares at the Offer Price, in particular, for those who hold a large volume of the Shares.

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6.3 Comparison with comparable companies

In assessing the fairness and reasonableness of the Offer Price, we attempt to compare the Offer Price against the market valuation of other comparable companies using the price-to-earnings ratio (“**P/E**”) and the price-to-book ratio (“**P/B**”) given that P/E and P/B are the commonly used valuation benchmarks since the data for calculating these ratios can be obtained directly from publicly available information and reflect the value of the company determined by the open market. Given that the Company was loss-making during FY2022 and 1H2023, and had a net deficit position as at 30 June 2023, both P/E and P/B ratios are not applicable for comparable analysis. Alternatively, we decide to proceed with our analysis on the price-to-sales ratio (“**P/S**”), which we consider to be one of the common valuation multiples used to assess the reasonableness of a business entity’s value. Although it is mentioned above that the Auditors issued qualified opinion on the financial statements of the Group for FY2022, we consider the adoption of comparable analysis will not be affected by such issue given the reasons as stated under the section headed “1.5 Our Observation” above.

Having considered all of the Group’s revenue was derived from the food segment that manufactures and sells condiment products, we have conducted a search of companies listed on the Stock Exchange and included all companies which are principally engaged in the food segment with over 50% of their revenue contributed from the manufacturing and sales of condiment products in the PRC during the most recent financial year. However, we are only able to identify one comparable company which meets to above selection criteria. In order to obtain sufficient sampling size for comparison purpose, we have extended our selection criteria to also include companies that are listed on the stock exchanges in the PRC. Independent Shareholders are reminded that, in light of the differences in risk appetite, liquidity of the capital market, investors’ perception of growth in terms of company’s financial performance, market conditions, etc., the valuation of the companies listed on the PRC stock market may behave differently comparing to the companies listed on Hong Kong stock markets. Based on such selection criteria, we

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have identified, an exhaustive list of five comparable companies (the “Comparable Companies”).

Stock code	Company name	Principal business(es)	Revenue	Market	Net profit/	Net asset/	P/E	P/B	P/S
			contributed from manufacturing and sales of condiment products <i>(Note 1)</i> <i>(%)</i>		capitalisation <i>(Note 2 & 6)</i> <i>RMB million</i>	(loss) attributable to shareholders <i>(Note 8)</i> <i>RMB million</i>			
1579.HK	Yihai International Holding Ltd. (“Yihai International”)	Production and sales of hot pot condiment, Chinese-style compound condiment, and convenient ready-to-eat food products	68.9	13,352.7	742.0	4,558.8	16.08	2.85	1.94
002650.SZ	Jiajia Food Group Co., Ltd (“Jiajia Food”)	Research and development, production and sale in soy sauce	100.0	4,642.6	(79.6)	2,283.3	N/A <i>(Note 7)</i>	2.03	2.79
600305.SH	Jiangsu Hengshun Vinegar-Industry Co., Ltd	Production and sale of vinegar, soy sauce, pickles, compound seasonings, seasonings and other series of seasonings	95.0	11,463.4	138.0	3,363.1	83.07	3.44	5.42
603027.SH	Qianhe Condiment and Food Co., Ltd.	Research, development, production and sales of high-quality soy sauce, vinegar, cooking wine and other seasonings	98.4	17,061.8	344.0	3,330.0	49.61	5.12	7.06
603288.SH	Foshan Haitian Flavouring and Food Company Ltd.	Research and development, production and marketing of seasonings, with products covering soy sauce, oyster sauce, sauce, vinegar, cooking wine, seasoning, chicken essence, chicken powder, fermented bean curd, hot pot base, etc	92.9	211,136.0	6,197.7	26,744.3	34.07	8.04	8.31
					Minimum		34.07	2.03	1.94
					Maximum		83.07	8.04	8.31
					Average		55.58	4.30	5.10
The Company (2226.HK)			100.0%	291.3 <i>(Note 9)</i>			N/A	N/A	1.07 <i>(Note 10)</i>

Source: The website of the Stock Exchange, Shenzhen Stock Exchange, Shanghai Stock Exchange and Wind

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Notes:

- (1) The percentage of revenue contributed from manufacturing and sales of condiment products of the Comparable Companies are based on the information extracted from the most recent annual reports published by the Comparable Companies.
- (2) The market capitalisations of the Comparable Companies as at the Last Trading Day (i.e. 26 September 2023) are based on the information extracted from Wind.
- (3) P/E of the Comparable Companies is extracted from Wind based on their market capitalisation as at the Last Trading Day and their profit attributable to shareholders for its most recent financial year.
- (4) P/B of the Comparable Companies is extracted from Wind based on their market capitalisation as at the Last Trading Day and consolidated net assets from the latest published financial reports.
- (5) P/S of the Comparable Companies is extracted from Wind based on their market capitalisation as at the Last Trading Day and their revenue for its most recent financial year.
- (6) The exchange rate is based on the central parity rate announced by the People's Bank of China on the date of the Joint Announcement (HK\$1=RMB0.91763/US\$1=RMB7.1798).
- (7) Since Jiajia Food did not record any profit attributable to shareholders for its most recent financial year, hence its P/E is considered as not applicable.
- (8) The financial information of the Comparable Companies is extracted from Wind.
- (9) The theoretical market capitalisation of the Company is computed based on the Offer Price of HK0.5034 per Share and total number of issued Shares of 578,750,000 as at the Latest Practicable Date.
- (10) The implied P/S Ratio of the Company is calculated based on the theoretical market capitalisation of the Company represented by the Offer Price, and the audited revenue of the Group for FY2022 as extracted from the 2022 AR.

As shown in the above table, the historical P/S of the Comparable Companies ranged from approximately 1.94 times to 8.31 times, with an average of approximately 5.10 times. The implied P/S under the Offer of approximately 1.07 times which is out of the range and lower than the average of the Comparable Companies. We note that the majority of Comparable Companies with high P/S are companies that were profit making during their respective latest financial year, and the remaining Comparable Companies, such as Yihai International and Jiajia Food, had a net asset position according to their respective latest financial report, whereas the Group was loss making and had a net deficit position as mentioned in the section headed "1. Background information of the Group" above. Therefore, investor might be factoring in aspects such as profitability and financial health, which could influence the perception of risk and future growth potential, and hence, the valuation. We believe the perception of risk arising from the Group's unsatisfactory financial performance and deteriorating liquidity position could result in relatively low valuation of the Group than the Comparable Companies. As such, the above analysis on the Comparable Companies only serves as an additional reference for the Independent Shareholders when considering the Offer and is intended for illustrative purpose only.

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RECOMMENDATION

Having taken into account the factors and reasons set out in this letter, in particular,

- (i) the unsatisfactory financial performance of the Group for FY2021, FY2022 and 1H2023 and its deteriorating liquidity position as the Group had net current liabilities of approximately RMB2,357.0 million and net deficit of approximately RMB2,054.6 million as at 30 June 2023. Unless there is a significant improvement in the Group's operation and generate positive cash flow from operation in the near future or conduct equity financing of a substantial amount to reduce its gearing ratio and strengthen its capital base, we consider that the Group would still need to rely on continuing financial support from the Offeror Group in near term in order to sustain its operation. If the Offer becomes unconditional and the Offeror Group becomes the controlling shareholder of the Company, we believe that the Group might still need to take a considerable amount of time to improve its financial position as we are not aware of any plan by the Offeror Group to strengthen the capital structure of the Group shortly after the close of the Offer;
- (ii) although the overall consumer market in the PRC maintained a positive momentum after the full relaxation of the epidemic measures at the beginning of 2023, the outlook of the condiment manufacturing industry in the PRC remains uncertain due to (i) the increase in competition as a result of the entrance of new competitors and the increase of overall condiment production output; and (ii) the slowdown in growth of the PRC economy as illustrated by the slowdown in QoQ growth rate of GDP and MoM growth rate of retail sales for both second and third quarters as compared with first quarter;
- (iii) although the Offer Price is at a discount of approximately 25.35% to the average closing price during the Post-Suspension Period, the Offer Price is higher than the closing prices of the Shares, which traded in the region of HK\$0.420 to HK\$0.500 during the Post Joint Announcement Period and represent a premium over the Group's net deficit position as at 30 June 2023; and
- (iv) the Group's financial performance for 1H2023 had deteriorated, which reduce the willingness of potential investors to invest in the Shares, and hence affecting the liquidity of the Shares and the trading volume of the Shares has been thin historically as evidenced by the average daily trading volume of the Shares prior to the Joint Announcement. As such, the Offer allows the Independent Shareholders to dispose a significant number of Shares without exerting a downward pressure on the Share price in the open market as analysed under paragraph headed "5.2 Liquidity of the Shares" above,

we consider the terms of the Offer to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

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Independent Shareholders, in particular those who intend to accept the Offer, are reminded that there is no guarantee that the Share price will or will not sustain and will or will not be higher than the Offer Price during and after the period for the acceptance of the Offer. The Independent Shareholders who intend to accept the Offer are also reminded to closely monitor the market price and the liquidity of the Shares during the period for the acceptance of the Offer and shall, having regard to their own circumstances, investment objectives and risk preference, consider selling their Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares would be higher than that receivable under the Offer.

The Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in the Composite Document, the appendices to the Composite Document and the Form of Acceptance, if they wish to accept the Offer.

Yours faithfully,
For and on behalf of
Maxa Capital Limited

Michael Fok
Managing Director

Sammy Leung
Managing Director

Mr. Michael Fok is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 23 years of experience in the corporate finance industry.

Mr. Sammy Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 11 years of experience in the corporate finance industry.

1. PROCEDURES FOR ACCEPTANCE OF THE OFFER

- (i) To accept the Offer, you should complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer.
- (ii) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer in respect of your Shares, you must send the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), marked “Honworld Group Limited — Offer” on the envelope to the Registrar, in any event no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.
- (iii) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shares, you must either:
 - (1) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or
 - (2) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or
 - (3) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC to accept the Offer on your behalf on or before the deadline set out by HKSCC. In order to meet the deadline set by HKSCC, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

- (4) if your Shares have been lodged with your investor participant account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System no later than the deadline set out by HKSCC.
- (iv) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an authority to the Offeror and/or CLSA Limited or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance.
- (v) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Form of Acceptance and deliver it to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (vi) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with Note 1 to Rule 30.2 of the Takeovers Code), and the Registrar has recorded that the acceptance and any relevant documents required, under paragraph (g) below have been so received.
- (vii) Acceptance of the Offer may not be counted as valid unless the Form of Acceptance is duly completed and signed and is:
- (1) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or

- (2) from a registered Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another subparagraph under this paragraph (g)); or
- (3) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (such as grant of probate or certified copy of power of attorney) to the satisfaction of the Registrar must be produced.

(viii) No acknowledgement of receipt of any Form of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

2. SETTLEMENT OF THE OFFER

- (i) If you accept the Offer, settlement of the consideration, less seller's ad valorem stamp duty, will be made by cheque as soon as possible, but in any event no later than seven Business Days after the later of the date on which (1) the Offer becomes, or is declared unconditional in all respects; or (2) the date on which the duly completed acceptance of the Offer and the relevant documents of title of the Offer Shares in respect of such acceptance are received by the Offeror to render each such acceptance complete and valid pursuant to Rule 20.1 and Note 1 to Rule 30.2 of the Takeovers Code. Each cheque will be despatched by ordinary post to the address specified on the relevant Independent Shareholder's Form of Acceptance at his/her/ its own risk.
- (ii) No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder who accepts the Offer will be rounded up to the nearest cent.
- (iii) Settlement of the consideration to which any accepting Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer (save with respect to the payment of seller's ad valorem stamp duty), 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 such accepting Independent Shareholder.

3. ACCEPTANCE PERIOD

- (i) The Offer is made on 10 November 2023, namely the date of despatch of this Composite Document, and is capable of acceptance on and from this date.

- (ii) Unless the Offer has previously been extended with the consent of the Executive, all Form of Acceptance must be received by the Registrar in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date or such later time(s) and/or date(s) as the Offeror may determine and announce in compliance with the Takeovers Code.
- (iii) The Offer is conditional upon the Offeror having received valid acceptances in respect of the Offer Shares which, together with the Shares already owned by the Offeror and persons acting in concert with it before or during the Offer, will result in the Offeror and persons acting in concert with it holding more than 50% of the voting rights in the Company. Pursuant to the Takeovers Code, where the Offer becomes or is declared unconditional, the Offer will remain open for acceptance for not less than 14 days thereafter. The Offeror will make an announcement as and when the Offer becomes or is declared unconditional.
- (iv) In the event that the Offeror decides to extend the Offer, at least 14 days' notice by way of announcement will be given, before the latest time and date for acceptance of the Offer, to those Independent Shareholders who have not accepted the Offer.
- (v) If the Closing Date is extended, any reference in this Composite Document and in the Form of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date so extended.

4. ANNOUNCEMENTS

- (i) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the extension or expiry of the Offer. The Offeror must publish an announcement on the Stock Exchange's website no later than 7:00 p.m. on the Closing Date stating whether the Offer has been extended or closed.

The announcement will state the total number of Shares:

- (1) for which acceptances of the Offer have been received;
- (2) held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period; and
- (3) acquired or agreed to be acquired during the Offer Period by the Offeror and parties acting in concert with it.

The announcement will also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror and parties acting in concert with it have borrowed or lent, save for any borrowed

securities which have been either on-lent or sold. The announcement will also specify the percentages of the issued share capital of the Company and the percentages of voting rights represented by these numbers.

- (ii) In computing the total number of Shares represented by acceptances, only valid acceptances that are complete and in good order and satisfy the acceptance conditions set out in paragraph 1 of this Appendix and which have been received by the Registrar or the Company (as the case may be) no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offer, shall be included.
- (iii) As required under the Takeovers Code, all announcements in relation to the Offer will be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

5. NOMINEE REGISTRATION

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer.

6. RIGHT OF WITHDRAWAL

- (i) Acceptance of the Offer tendered by the Independent Shareholders or by their respective agent(s) on their behalf shall be irrevocable and cannot be withdrawn, except in the circumstances set out below.
- (ii) If the Offeror is unable to comply with the requirements set out in the paragraph headed “Announcements” in this Appendix above, the Executive may require, pursuant to Rule 19.2 of the Takeovers Code, that the Independent Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements of Rule 19 of the Takeovers Code can be met.
- (iii) In compliance with Rule 17 of the Takeovers Code, which provides that the Independent Shareholders who have tendered acceptances to the Offer shall be entitled to withdraw his/her/its acceptance of the Offer after 21 days from the First Closing Date if the Offer has not by then become unconditional as to acceptances.

In such case, when the Independent Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event no later than seven Business Days after receipt of the notice of withdrawal, despatch the share certificates lodged with the Form of Acceptance to, or make such share certificates available for collection by, those Independent Shareholders who have exercised their right to withdraw.

Save as aforesaid, acceptances of the Offer shall be irrevocable and not capable of being withdrawn. By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror free from all encumbrances and together with all rights accruing or attaching to them, including, without limitation, the right to receive all dividends and distributions which may be recommended, declared, made or paid, if any, at any time on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

7. OVERSEAS SHAREHOLDERS

The Offer is made available to all the Independent Shareholders, including the Overseas Shareholders. The availability of the Offer to any Overseas Shareholders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders should observe any applicable legal and regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required or the compliance with other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes due by such Overseas Shareholders in respect of such jurisdictions).

Acceptance of the Offer by any Overseas Shareholder will be deemed to constitute a warranty by such person that such person is permitted under applicable laws and regulations to receive and accept the Offer, and such acceptance shall be valid and binding in accordance with all applicable laws and regulations. Any such person is recommended to seek professional advice on deciding whether or not to accept the Offer.

8. STAMP DUTY

The seller's Hong Kong ad valorem stamp duty on acceptances of the Offer (or part thereof) at a rate of 0.13% of the consideration payable in respect of the relevant acceptances by the Shareholders, or if higher, the market value of the Shares subject to such acceptance, will be deducted from the amount payable to those relevant Shareholders who accept the Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant Shareholders who accept the Offer and pay the buyer's Hong Kong ad valorem stamp duty in connection with the acceptances of the Offer and the transfers of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

9. TAXATION ADVICE

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the members of the Offeror and parties acting in concert with it, the Company, CITICS, CLSA Limited and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

10. GENERAL

- (i) All communications, notices, Form of Acceptance, share certificates, title document(s), transfer receipt(s) and/or any other document(s) of title and remittances to settle the consideration payable under the Offer to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Offeror, the Company, CITICS, CLSA Limited and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer, accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (ii) The provisions set out in the accompanying Form of Acceptance form part of the terms of the Offer.
- (iii) The accidental omission to despatch this Composite Document and/or Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (iv) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (v) Due execution of the Form of Acceptance will constitute an authority to the Offeror, CLSA Limited or such person or persons as the Offeror may direct to complete and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares in respect of which such person or persons has accepted the Offer.
- (vi) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror, CLSA Limited and the Company:
 - (1) that such Offer Shares acquired under the Offer are sold by the Shareholders free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights accruing or attaching thereto on the Closing Date or subsequently becoming attached to them, including, without limitation, in the case of the Shares, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the Closing Date; and
 - (2) that if such Shareholder accepting the Offer is an Overseas Shareholder, he/she has observed the laws of all relevant territories, obtained all requisite governmental, exchange control or other consents, complied with all requisite formalities or legal requirements and paid any issue, transfer or other taxes or other required payments due from him/her in connection with such acceptance in any territory, that he/she has not taken or omitted to take any action which will or may result in the Offeror, the Company, CLSA Limited or any of their

respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer acting in breach of the legal or regulatory requirements of any territory in connection with the Offer or his/her acceptance thereof, and is permitted under all applicable laws to accept the Offer, and that such acceptance is valid and binding in accordance with all applicable laws.

- (vii) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares it has indicated in the Form of Acceptance is the aggregate number of Shares for which such nominee has received authorisations from the beneficial owners to accept the Offer on their behalf.
- (viii) In making their decision, the Independent Shareholders must rely on their own examination of the Offeror, the Group and the terms of the Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein, together with the Form of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror or parties acting in concert with it, the Company or their respective ultimate beneficial owners, directors, officers, agents, professional advisers or any other persons involved in the Offer. The Independent Shareholders should consult their own professional advisers for professional advices.
- (ix) Reference to the Offer in this Composite Document and in the Form of Acceptance shall include any extension thereof.
- (x) The English texts of this Composite Document and the Form of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation in case of inconsistency.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the financial information of the Group for each of the three financial years ended 31 December 2020, 2021 and 2022 and the unaudited consolidated financial results of the Group for the six months ended 30 June 2022 and 2023, which is extracted from the audited consolidated financial statements of the Group as set forth in the annual report of the Company for the financial year ended 31 December 2021 (“**2021 Annual Report**”) and the annual report of the Company for the financial year ended 31 December 2022 (“**2022 Annual Report**”) and the unaudited consolidated financial statements of the Group as set forth in the interim report of the Company for the six months ended 30 June 2023 (“**2023 Interim Report**”).

	For the year ended 31 December			For the six months ended	
	2020	2021	2022	30 June 2022	2023
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	226,331	252,671	271,600	138,455	127,791
Cost of sales	(180,731)	(184,162)	(196,784)	(86,848)	(83,609)
Gross profit	45,600	68,509	74,816	51,607	44,182
Other income and gains	14,639	6,778	20,701	2,732	1,282
Selling and distribution expenses	(55,701)	(74,640)	(74,708)	(34,771)	(46,503)
Administrative expenses	(72,122)	(61,273)	(44,392)	(19,440)	(22,091)
Loss arising from the incident (Impairment losses)/Reversal of impairment losses on financial assets	(600,575)	—	—	—	—
Other expenses	(9,945)	(12,553)	(23,182)	739	(462)
Finance costs	(68,857)	(109,714)	(235,663)	(112,036)	(128,764)
	(96,241)	(135,556)	(203,911)	(103,321)	(92,570)
Loss before income tax	(843,202)	(318,449)	(486,339)	(214,490)	(244,926)
Income tax expense	(2,091)	—	—	—	—
Loss attributable to owners of the Company	(845,293)	(318,449)	(486,339)	(214,490)	(244,926)
Loss attributable to non-controlling interests	—	—	—	—	—
Loss for the year/period	(845,293)	(318,449)	(486,339)	(214,490)	(244,926)
Items that will be reclassified subsequently to profit or loss					
Exchange gain/(loss) on translation of financial statements of foreign operations	5,103	1,049	(3,930)	(2,426)	(1,477)
Total comprehensive loss attributable to non-controlling interests	—	—	—	—	—
Total comprehensive loss for the year/period	(840,190)	(317,400)	(490,269)	(216,916)	(246,403)
Loss per share attributable to ordinary equity holders of the Company					
Basic and diluted (RMB)	(1.46)	(0.55)	(0.84)	(0.37)	(0.42)
Dividends	—	—	—	—	—
Dividends per share (RMB)	—	—	—	—	—

Save as disclosed above, there were no items of income or expense which are material in respect of the financial statements of the Group for each of the three financial years ended 31 December 2020, 2021 and 2022 and the unaudited consolidated financial results of the Group for the six months ended 30 June 2022 and 2023.

2. CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out or refer to in this Composite Document the consolidated statements of profit or loss, the consolidated statements of financial position, the consolidated statements of cash flows, and any other primary statements as shown in the (i) audited consolidated financial statements of the Group for the year ended 31 December 2020, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2020 Financial Statements**”); (ii) audited consolidated financial statements of the Group for the year ended 31 December 2021, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2021 Financial Statements**”); (iii) audited consolidated financial statements of the Group for the year ended 31 December 2022, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2022 Financial Statements**”); and (iv) unaudited consolidated financial statements of the Group for the six months ended 30 June 2023, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the “**2023 Interim Financial Statements**”).

The 2020 Financial Statements are set out from pages 80 to 216 in the annual report of the Company for the financial year ended 31 December 2020 (the “**2020 Annual Report**”), which was published on 28 September 2022. The 2020 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.hzlaohenghe.com>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0928/2022092801805.pdf>

The 2021 Financial Statements are set out from pages 77 to 192 in the 2021 Annual Report which was published on 28 September 2022. The 2021 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.hzlaohenghe.com>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0928/2022092801921.pdf>

The 2022 Financial Statements are set out from pages 78 to 196 in the 2022 Annual Report which was published on 24 April 2023. The 2022 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.hzlaohenghe.com>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0424/2023042400771.pdf>

The 2023 Interim Financial Statements are set out from pages 30 to 68 in the 2023 Interim Report which was published on 25 September 2023. The 2023 Interim Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.hzlaohenghe.com>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0925/2023092500434.pdf>

The 2020 Financial Statements, the 2021 Financial Statements, the 2022 Financial Statements and the 2023 Interim Financial Statements (but not any other part of the 2020 Annual Report, the 2021 Annual Report, the 2022 Annual Report and the 2023 Interim Report in which they respectively appear) are incorporated by reference into this Composite Document and form part of this Composite Document.

3. MODIFIED OPINIONS AND MATERIAL UNCERTAINTY RELATED TO GOING CONCERN IN THE AUDITORS' REPORT OF THE COMPANY

The consolidated financial statements of the Group for the three financial years ended 31 December 2020, 2021 and 2022 were audited by Grant Thornton Hong Kong Limited (“**Grant Thornton**”), the auditor of the Company. The opinions of Grant Thornton as extracted are set out below. For details, please refer to the 2020 Annual Report, 2021 Annual Report and 2022 Annual Report.

(i) For the financial year ended 31 December 2020

Grant Thornton had issued modified opinion and material uncertainty related to going concern on the 2020 Financial Statements which is extracted from the 2020 Annual Report as follows:

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Honworld Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 80 to 216, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the possible effects of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements and whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

*Basis for Disclaimer of Opinion**1. Issues arising from the Investigation and scope limitation*

As described in note 2.1(a) to the consolidated financial statements, the Company was informed in 2021 of certain issues in relation to the discrepancy of a bank account balance, unauthorised guarantees and outstanding issues of prepayments for fixed assets and tax matters of the Group (the “**Incident**”). In response to this, the Company has established an Independent Investigation Committee of the board of directors and the Independent Investigation Committee has engaged FTI Consulting (China) Limited (“**FTI Consulting**”), as an independent forensic accountant, to undertake an independent investigation (the “**Investigation**”) on the Incident. The impact of the Incident, together with the findings of the Investigation and follow up actions taken by the Company, are summarised in note 2.1(a) to the consolidated financial statements.

The findings of the Investigation, together with other matters identified by the management during their process of quantifying the impact in the appropriate accounting periods by reconstructing the accounting records and examination of supporting documents as detailed in note 2.1(a) (“**Management Reassessment**”), led to the recognition of a loss arising from the Incident as detailed in note 2.1 to the consolidated financial statements, of approximately RMB600,575,000 and RMB2,061,934,000 (the “**Loss arising from the Incident**”) which were recognised in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2020 and 2019, respectively as the directors of the Company were of the opinion that these were the practicable periods to recognise the loss having taken into account the findings of the Investigation and Management Reassessment.

As described in the findings of the Investigation, Mr. Chen Weizhong and a number of former employees were likely involved in the Incident and have resigned, resulting in mishandling and loss of certain of the source documents of the Group of past years. Due to the above concern and irregular nature of the Incident; and there was no other satisfactory audit procedure that we could adopt, we were unable to obtain sufficient audit evidence to ascertain the nature and commercial substance of the underlying transactions leading to the Loss arising from the Incident; and as to whether the nature of these underlying transactions involved in the Incident was properly disclosed and recognised in the appropriate accounting periods in the consolidated financial statements for the years ended 31 December 2020 and 2019.

Any adjustments that might have been found necessary in respect of the Incident would affect the disclosure and recognition of the Loss arising from the Incident in the Group’s consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2020 and 2019 and the accounting items in the consolidated statements of financial position as at 1 January 2020 and the categorisation of the related cash flows in the consolidated statements of cash flows for the years ended 31 December 2020 and 2019.

2. *Existence, accuracy, valuation and completeness of inventories*

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the existence, accuracy, valuation and completeness of the inventories of approximately RMB684,926,000 because we were appointed as auditors subsequent to 31 December 2020 and hence not able to observe the physical stock-counts at 31 December 2020 and the existence of inventories needs involvement of laboratory examination to validate its chemical contents from an independent third-party examination agency at 31 December 2020 because the majority of the inventories were base wine and base soy sauce which could not be easily substantiated via physical observation. Accordingly, we have been unable to determine the valuation, accuracy and completeness of inventories at 31 December 2020. There was no other satisfactory audit procedure that we could adopt to assess the condition of inventories and to validate the existence, accuracy, valuation and completeness of inventories were properly disclosed and recognised in the consolidated financial statements as at 31 December 2020 and 1 January 2020.

3. *Opening balances and corresponding figures*

Based on the findings of the Investigation and the Management Reassessment as described in note 2.1(a) to the consolidated financial statements, the Group corrected the accounting errors in the current year's consolidated financial statements by adjusting the opening balances as at 1 January 2020 and restating the comparative amounts as at 31 December 2019 as described in note 2.1(b) (the “**prior years' adjustments**”). However, due to the loss of certain records and documents as described in matter mentioned in item 1 above, the Group was unable to accurately and completely determine the portion of the prior years' adjustments that should have been recorded in accounting periods prior to 31 December 2019. Hence, a third consolidated statement of financial position as at 1 January 2019 was not presented in the current year's consolidated financial statements.

This is not in accordance with International Accounting Standards 1 *Presentation of Financial Statements*, which requires an entity to present a third statement of financial position as at the beginning of the preceding period if a retrospective application of an accounting policy, retrospective restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period. Accordingly, a third consolidated statement of financial position as at 1 January 2019 should have been presented in the current year's financial statements.

Due to the irregular nature of the Incident, we were unable to obtain sufficient and appropriate audit evidence to assess the appropriateness of the prior years' adjustments for the year ended 31 December 2019 and whether certain portion of the prior years' adjustments should have been recorded in accounting periods prior to 31 December 2019. Accordingly, the prior years' adjustments for the year ended 31 December 2019 may not be accurately recognised or disclosed and the restated corresponding amounts for the year ended 31 December 2019 may not be comparable to current year.

Had we been able to satisfy ourselves in respect of the matters mentioned in the items 1 to 3 above, adjustments might have been found to be necessary which would have had a consequential impact on the financial position of the Group as at 31 December 2020 and its financial performance for the year ended 31 December 2020 and/or the comparative information, and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of these transactions.

Material Uncertainty Related To Going Concern

We draw attention to note 2.2 in the consolidated financial statements, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

(ii) For the financial year ended 31 December 2021

Grant Thornton had issued qualified opinion and material uncertainty related to going concern on the consolidated financial statements of the Group for the financial year ended 31 December 2021 which is extracted from the 2021 Annual Report as follows:

Qualified Opinion

We have audited the consolidated financial statements of Honworld Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 77 to 192, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis For Qualified Opinion

Our auditors’ report on the consolidated financial statements of the Group for the financial year ended 31 December 2020 as contained in the annual report of the Company for that financial year (the “**Prior Year’s Consolidated Financial Statements**”) contained disclaimer of opinion, which form the basis for the corresponding figures presented in the current year’s consolidated financial statements, as we were unable to obtain sufficient and appropriate audit evidence in respect of the issues arising from the independent investigation, existence, accuracy, valuation and completeness of inventories and the opening balances and corresponding figures of the Prior Year’s Consolidated Financial Statements. Details of these matters that led to our disclaimer of opinion on the Prior Year’s Consolidated Financial Statements are set out in our auditors’ report dated 28 September 2022 contained in the annual report of the Company for the year ended 31 December 2020.

Accordingly, the matters in respect of the independent investigation and the opening balances and corresponding figures of the Prior Year’s Consolidated Financial Statements would affect the financial performance of the Group for the year ended 31 December 2020. Our opinion on the current year’s consolidated financial statements for the year ended 31 December 2021 is also modified because of the possible effects of these matters on the comparability of the current year’s figures and the corresponding figures.

In addition, due to the absence of involvement of laboratory examination to validate its chemical contents from an independent third-party examination agency at 31 December 2020 as we were appointed as auditors subsequent to 31 December 2020 and not able to observe the physical stock-counts at that date, we were unable to obtain sufficient and appropriate evidence to satisfy ourselves as to the existence, accuracy, valuation and completeness of the inventories as at 31 December 2020 and 1 January 2021. Any adjustments that might be found necessary as a result of this matter described above might affect the accuracy on the cost of sales charged for the year ended 31 December 2021, which have a consequential effect on the Group’s results and cash flows for the year ended 31 December 2021 and the related disclosures thereof in the consolidated financial statements. Accordingly, our audit opinion on the current year’s financial performance and consolidated cash flows for the year ended 31 December 2021 is also modified.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related To Going Concern

We draw attention to note 2.2 in the consolidated financial statements, which describes the principal conditions that raise doubt about the Group’s ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

(iii) For the financial year ended 31 December 2022

Grant Thornton had issued qualified opinion and material uncertainty related to going concern on the consolidated financial statements of the Group for the financial year ended 31 December 2022 which is extracted from the 2022 Annual Report as follows:

Qualified Opinion

We have audited the consolidated financial statements of Honworld Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 78 to 196, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis For Qualified Opinion

Our auditors' report on the consolidated financial statements of the Group for the financial year ended 31 December 2021 (the "**Prior Year's Consolidated Financial Statements**"), which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was modified as we were unable to obtain sufficient and appropriate audit evidence to satisfy ourselves as to the accuracy on the cost of sales charged for the year ended 31 December 2021, which have a consequential effect on the Group's results and cash flows for the year ended 31 December 2021. Details of this matter that led to our qualified opinion on the Prior Year's Consolidated Financial Statements are set out in our auditor's report dated 28 September 2022 contained in the annual report of the Company for the year ended 31 December 2021. Because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures, our opinion on the current year's consolidated financial statements for the year ended 31 December 2022 is therefore qualified.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related To Going Concern

We draw attention to note 2.2 in the consolidated financial statements, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

4. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31 August 2023, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this Composite Document, the Group had aggregate outstanding interest-bearing other borrowings of approximately RMB2,653.7 million. Secured and unsecured interest-bearing other borrowings amounted to approximately RMB2,347.5 million and RMB306.2 million, respectively.

All other borrowings were denominated in Renminbi and bore a fixed interest rate from 7.0% to 24.0% per annum.

As at 31 August 2023, the Group's other borrowings were secured by (i) mortgages over the buildings and machinery and equipment, which had a net carrying amount of approximately RMB196.0 million; (ii) mortgages over the Group's leasehold land, which had a net carrying amount of approximately RMB47.4 million, and (iii) mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB744.9 million.

Lease liabilities

As at 31 August 2023, the Group had current and non-current lease liabilities of approximately RMB0.9 million and RMB2.1 million, respectively, of which approximately RMB3.0 million were secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

Provision for loss on unauthorised guarantees

As at 31 August 2023, the Group had provision for loss on unauthorised guarantees of approximately RMB17.5 million.

General

Save as aforesaid, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptance (other than normal trade bills) or similar indebtedness, debentures, loans, guarantees or other material contingent liabilities at the close of business on 31 August 2023.

5. MATERIAL CHANGE

The Directors confirm that, save and except as discussed below, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2022, (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date:

- (i) the Group recorded revenue of approximately RMB127.8 million for the six months ended 30 June 2023 (“1H2023”), representing a decrease of approximately RMB10.7 million or 7.7%, as compared to revenue for the six months ended 30 June 2022 (“1H2022”). The Group’s loss for the period increased by approximately RMB30.4 million or 14.2% from approximately RMB214.5 million for 1H2022 to approximately RMB244.9 million for 1H2023. The increase in the Group’s loss for 1H2023 was mainly due to (a) decrease in both the Group’s revenue and gross profit for 1H2023 as compared to 1H2022; (b) increase in the Group’s selling and distribution expenses by approximately RMB11.7 million or 33.7% to approximately RMB46.5 million for 1H2023 as compared to 1H2022 due to increase in the Group’s various selling and distribution expenses as a result of intensifying competition and weak consumption in the condiment industry; (c) increase in overdue interest expenses by approximately RMB25.3 million or 30.4% to approximately RMB108.5 million for 1H2023 as compared to 1H2022 due to increase of the Group’s other borrowings with principal amount of approximately RMB1,903.9 million, which were overdue as at 30 June 2023 (approximately RMB1,469.6 million as at 30 June 2022); and (d) decrease in finance costs by approximately RMB10.8 million or 10.4% to approximately RMB92.6 million primarily attributable to the decrease in interest expense of finance lease resulting from the expiration of certain finance lease contract;
- (ii) the Group’s net cash used in operating activities increased by approximately RMB127.7 million or 331.7% to approximately RMB166.2 million for 1H2023 as compared to 1H2022 mainly due to (a) increase in loss before tax, after adjustment for non-cash items, by approximately RMB12.1 million to approximately RMB27.1 million for 1H2023; and (b) decrease in other payables and accruals by approximately RMB129.2 million during 1H2023;
- (iii) the Group’s net current liabilities increased by approximately RMB288.2 million or 13.9% from approximately RMB2,068.8 million as at 31 December 2022 to approximately RMB2,357.0 million as at 30 June 2023 and the Group’s gearing ratio increased from approximately 273.8% as at 31 December 2022 to approximately 297.8% as at 30 June 2023. The increase in both the net current liabilities and gearing ratio was mainly due to the increase in total interest-bearing other borrowings from approximately RMB2,211.6 million as at 31 December 2022 to approximately RMB2,580.4 million as at 30 June 2023 resulting from (a) proceeds raised from interest-bearing borrowings of approximately RMB170.0 million; and (b) unpaid interest expenses of approximately RMB108.5 million accrued during 1H2023;

- (iv) on 15 and 20 September 2023, the Group obtained bank borrowings in aggregate of approximately RMB49.0 million; and
- (v) on 20 September 2023, the Group repaid other liabilities of approximately RMB50.0 million to China Development Fund Co., Ltd.

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this Composite Document received from Savills Valuation and Professional Services (China) Limited, an independent valuer, in connection with their opinion of values of the properties held and occupied by the Group in the PRC as at 31 August 2023.



The Directors
Honworld Group Limited
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Food and Industrial Park
Wuxing District
Huzhou City
Zhejiang 313000
PRC

Savills Valuation and
Professional Services (China) Limited
Room 1208, 12/F
1111 King's Road
Taikoo Shing, Hong Kong

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savills.com

10 November 2023

Dear Sirs,

INSTRUCTIONS

In accordance with the instructions from Honworld Group Limited (the “**Company**”) for us to value the properties situated in the People’s Republic of China (the “**PRC**”) in which the Company and its subsidiaries (hereinafter together referred to as the “**Group**”) have interests, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value of the properties as at 31 August 2023 (the “**valuation date**”) for incorporation in the Company’s Composite Document.

BASIS OF VALUATION

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Moreover, market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Our valuation has been undertaken in accordance with the latest edition of the RICS Valuation — Global Standards issued by the Royal Institution of Chartered Surveyors (“**RICS**”), which incorporates the International Valuation Standards (“**IVS**”), and, where applicable, the relevant RICIS or jurisdictional supplement. We have also complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Rule 11 of the Code on Takeovers and Mergers published by the Securities and Futures Commission in Hong Kong (the “**Takeovers Code**”).

IDENTIFICATION AND STATUS OF THE VALUER

The subject valuation exercise is handled by Ms. Jennie C.W. Chang, who is an Associate Director of Savills Valuation and Professional Services (China) Limited (“**SVPSCL**”) and a member of RICS with over 16 years’ experience in valuation of properties in the PRC and has sufficient knowledge of the relevant market, the skills and understanding to handle the subject valuation exercise competently.

Prior to your instructions for us to provide valuation services in respect of the properties, SVPSCL had not been involved in valuation of the properties in the last 12 months.

We are independent of the Group. We are not aware of any instances which would give rise to potential conflict of interest from SVPSCL or Ms. Chang in the subject exercise. We confirm SVPSCL and Ms. Chang are in the position to provide objective and unbiased valuation for the properties.

VALUATION METHODOLOGY

The properties are held and occupied by the Group in the PRC. In valuing the properties, due to the specific purpose for which the properties have been constructed, there are no readily available market comparables and thus the properties cannot be valued on the basis of direct comparison. The properties have been valued by the Depreciated Replacement Cost (“**DRC**”) method. The DRC method is based on an estimate of the market value for the existing use of the land plus the current replacement costs of the buildings and structures, from which deductions are then made to allow for physical deterioration and all relevant forms of obsolescence and optimisation. The DRC method is subject to adequate business potential of the entity from the use of assets as a whole. Our valuation applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

TITLE INVESTIGATION

We have been provided with copies of title documents relating to the properties. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies provided to us. In the course of our valuation, we have been provided with and have relied on a copy of the legal opinion issued by the Company's PRC legal adviser, Commerce & Finance Law Offices, regarding the titles to the properties in the PRC.

SOURCES OF INFORMATION

In the course of our valuation, we have relied to a considerable extent on information given by the Group and also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation report are based on the information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to our valuation. We are also advised by the Group that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view.

VALUATION ASSUMPTIONS

In valuing the properties in the PRC, unless otherwise stated, we have relied on the legal opinion issued by the Group's PRC legal adviser and preparing our valuation on the basis that transferable land use rights of the properties for its specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. Unless otherwise stated, we have also prepared our valuation on the basis that the owners of the properties have good legal titles to the properties and have free and uninterrupted rights to occupy, use, transfer or lease the properties for the whole of the unexpired term as granted.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

SITE INSPECTION

We have inspected the exterior of the properties and, where possible, the interior of the properties. Site inspection of the properties was undertaken by Mr. Paul Zhao (CIREA), Mr. Jason Xu (CIREA) and Ms. Anne Sheng (CIREA) between 15 August 2023 and 17 August 2023. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report that the properties are free from rot, infestation or any other structural defect. No test has been carried out to any of the services. We have also not carried out investigations on site to determine the suitability of the ground conditions and the services for any future development.

POTENTIAL TAX LIABILITIES

For the purpose of compliance with the Rule 11.3 of the Takeovers Code and as advised by the Group, in respect of the properties in the PRC, the potential tax liabilities which would arise from the sale of the properties in the PRC comprise value-added tax at 5% or 9% and the surcharge taxes at 10% to 12% of the value-added tax paid on the transaction amount and stamp duty at 0.05% on the transaction amount; land appreciation tax at progressive rates from 30% to 60% on the appreciation in property value; and corporate income tax at 25%.

In respect of the properties held by the Group, the likelihood of the relevant potential tax liabilities being crystallised is remote as the Group has no plans for sale of such properties.

CURRENCY

Unless otherwise stated, all money amounts stated are in Renminbi (“**RMB**”).

We enclose herewith our summary of values and valuation report.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services (China) Limited
Jennie C.W. Chang
MRICS MHKIS RPS (GP)
Associate Director

Note: Ms. Jennie C.W. Chang is a professional surveyor who has over 16 years’ experience in valuation of properties in the PRC.

SUMMARY OF VALUES

Properties held and occupied by the Group in the PRC

No.	Property	Market value in existing state as at 31 August 2023 (RMB)	Interest attributable to the Group	Market value in existing state attributable to the Group as at 31 August 2023 (RMB)
1.	An industrial complex situated at No. 299 Zhumuyang Road, Balidian Town, Wuxing District, Huzhou, Zhejiang Province, PRC (中國浙江省湖州市 吳興區八里店鎮 諸基漾路299號 一個工業綜合體)	132,300,000	96.54%	127,722,420
2.	An industrial complex situated in Dayunsi Village, Lincheng Town, Changxing County, Huzhou, Zhejiang Province, PRC (中國浙江省湖州市 林城鎮大雲寺村 一個工業綜合體)	67,000,000	100%	67,000,000
3.	An industrial complex situated at No. 2699 Zhongxing Avenue, Wuxing District, Huzhou, Zhejiang Province, PRC (中國浙江省湖州市 吳興區中興大道2699號 一個工業綜合體)	247,000,000	96.54%	238,453,800
4.	An industrial complex situated in Hejia Village, Lincheng Town, Changxing County Huzhou, Zhejiang Province, PRC (中國浙江省湖州市 長興縣林城鎮賀家村 一個工業綜合體)	7,200,000	96.54%	6,950,880
Total:		453,500,000		440,127,100

VALUATION REPORT

Properties held and occupied by the Group in the PRC.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2023
1.	<p>An industrial complex situated at No. 299 Zhumuyang Road, Balidian Town, Wuxing District, Huzhou, Zhejiang Province, PRC</p> <p>(中國浙江省湖州市吳興區八里店鎮諸墓漾路299號一個工業綜合體)</p>	<p>The property comprises four parcels of land with a total site area of approximately 80,533.00 sq.m. on which an industrial complex is erected.</p> <p>The property is situated on the northern side of Wuxing District. Developments in the vicinity are dominated by various industrial buildings. It takes about a 15-minute drive from the property to the city center of Huzhou.</p> <p>The property comprises eighteen buildings accommodating mainly workshops, offices, warehouses and other ancillary buildings with a total gross floor area of approximately 63,071.79 sq.m.</p> <p>The ancillary structures mainly comprise wells, internal roads, bounding walls, gates, underground water pipes, electric doors, etc.</p> <p>The aforesaid buildings and structures of the property were completed in between 2006 and 2022.</p> <p>The land use rights of the property have been granted for two concurrent terms expiring on 30 November 2055 and 30 July 2060 respectively for industrial use.</p>	<p>As at the valuation date, the property was occupied by the Group for industrial use.</p>	<p>RMB132,300,000 (Renminbi One Hundred Thirty Two Million and Three Hundred Thousand)</p> <p>(96.54% interests attributable to the Group: RMB127,722,420 (Renminbi One Hundred Twenty Seven Million Seven Hundred Twenty Two Thousand Four Hundred and Twenty)</p>

Notes:

1. Pursuant to four State-owned Land Use Certificates — Hu Tu Guo Yong (2012) Nos. 025794 and 025795, Wu Tu Guo Yong (2013) No. 000327, and Wu Tu Guo Yong (2016) No. 000300, the land use rights of the property with a total site area of approximately 80,533.00 sq.m. have been granted to Huzhou Laohenghe Brewery Co., Limited (湖州老恒和釀造有限公司) (“**LHH Brewery**”), a 96.54% owned subsidiary of the Company, for a term of expiring on 30 November 2055 and 30 July 2060 for industrial use.
2. Pursuant to eighteen Building Ownership Certificates — Hu Fang Quan Zheng Hu Zhou Shi Zi Di Nos. 110169746, 110169749, 110169752, 110169755, 110169813, 110169814, 110169815, 110169816, 110169817, 110169818, 110173748, 110173749, 110173750, 110173751, 110173752, 110173753, 130076149 and 130076150, the building ownership rights of the property with a gross floor area of 63,071.79 sq.m. are vested in LHH Brewery for industrial use.
3. We have been provided with a legal opinion on the title to the property issued by the Company’s PRC legal adviser, which contains, inter alia, the following information:
 - i. LHH Brewery has legally obtained the land use rights and building ownership rights of the property as stated in the above-mentioned title documents and have the rights to occupy and use the property;
 - ii. the property is subject to mortgages in favour of Huzhou Wuxing Private Financing Service Centre Co., Ltd. (湖州吳興民間融資服務中心有限公司) (“**Wuxing Financing**”). According to the legal opinion, prior written consent should be obtained from Wuxing Financing for any transfer, lease, re-mortgage, or any other legal means of disposing the property; and
 - iii. the property is free from material property rights disputes.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2023
2.	<p>An industrial complex situated in Dayunsi Village, Lincheng Town, Changxing County, Huzhou, Zhejiang Province, PRC</p> <p>(中國浙江省湖州市長興縣林城鎮大雲寺村一個工業綜合體)</p>	<p>The property comprises a parcel of land with a site area of approximately 61,353.00 sq.m. on which an industrial complex is erected.</p> <p>The property is situated on the southern side of Changxing County. Developments in the vicinity are dominated by various industrial buildings. It takes about a 35- minute drive from the property to the city center of Huzhou.</p> <p>The property comprises two buildings accommodating mainly workshops, offices and other ancillary buildings with a total gross floor area of approximately 32,163.60 sq.m.</p> <p>The ancillary structures mainly comprise wells, internal roads, bounding walls, gates, underground water pipes, greenery facilities, etc.</p> <p>The aforesaid buildings and structures of the property were completed in between 2011 and 2022.</p> <p>The land use rights of the property have been granted for a term expiring on 6 August 2060 for industrial use.</p>	<p>As at the valuation date, the property was occupied by the Group for industrial use.</p>	<p>RMB67,000,000 (Renminbi Sixty Seven Million)</p> <p>(100% interests attributable to The Group: RMB67,000,000) (Renminbi Sixty Seven Million)</p> <p>(See Note 3)</p>

Notes:

1. Pursuant to a State-owned Land Use Certificate — Chang Tu Guo Yong (2012) No. 01004163, the land use rights of the property with a site area of approximately 61,353.00 sq.m. have been granted to Huzhou Laohenghe Wine Co., Limited (湖州老恒和酒業有限公司) (“**LHH Wine**”), a wholly-owned subsidiary of the Company, for a term expiring on 6 August 2060 for industrial use.
2. Pursuant to two Building Ownership Certificates — Chang Fang Quan Zheng Lin Cheng Zi Di Nos. 001755899 and 00175900, the building ownership rights of the property with a total gross floor area of 32,163.60 sq.m. are vested in LHH Wine for industrial use.
3. In the course of our valuation, we have assigned no commercial value to portion of the buildings of the property with a gross floor area of approximately 1,204.75 sq.m. which has not obtained any title documents. For the Group’s management reference purpose, the depreciated replacement cost of the said building was in the sum of RMB920,000 as at the valuation date.
4. We have been provided with a legal opinion on the title to the property issued by the Company’s PRC legal adviser, which contains, inter alia, the following information:
 - i. LHH Wine has legally obtained the land use rights and building ownership rights of the property as stated in the above-mentioned title documents and have the rights to occupy and use the property;
 - ii. the property is subject to mortgages in favour of Huzhou Wuxing Private Financing Service Centre Co., Ltd. (湖州吳興民間融資服務中心有限公司) (“**Wuxing Financing**”). According to the legal opinion, prior written consent should be obtained from Wuxing Financing for any transfer, lease, re-mortgage, or any other legal means of disposing the property; and
 - iii. the property is free from material property rights disputes.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2023
3.	<p>An industrial complex situated at No. 2699 Zhongxing Avenue, Wuxing District, Huzhou, Zhejiang Province, PRC</p> <p>(中國浙江省湖州市吳興區中興大道2699號一個工業綜合體)</p>	<p>The property comprises two parcels of land with a site area of approximately 116,451.00 sq.m. on which an industrial complex is erected.</p> <p>The property is situated on the northern side of Wuxing District. Developments in the vicinity are dominated by various industrial buildings. It takes about a 25-minute drive from the property to the city center of Huzhou.</p> <p>The property comprises a 5-storey building accommodating mainly workshop, office, and other ancillary buildings with a total gross floor area of approximately 89,764.73 sq.m.</p> <p>The ancillary structures mainly comprise wells, internal roads, bounding walls, gates, underground water pipes, waste management facilities and greenery facilities, etc.</p> <p>The aforesaid buildings and structures of the property were completed in between 2018 and 2022.</p> <p>The land use rights of the property have been granted for two concurrent terms expiring on 12 October 2059 and 11 January 2066 respectively for industrial use.</p>	<p>As at the valuation date, the property was occupied by the Group for industrial use.</p>	<p>RMB247,000,000 (Renminbi Two Hundred and Forty Seven Million)</p> <p>(96.54% interests attributable to the Group: RMB238,453,800) (Renminbi Two Hundred Thirty Eight Million Four Hundred Fifty Three Thousand and Eight Hundred)</p>

Notes:

1. Pursuant to the Real Estate Title Certificate — Zhe (2016) Hu Zhou Shi Wu Xing Bu Dong Chan Quan No. 0027437, the land use rights of the property with a site area of approximately 64,807.00 sq.m. have been granted to Huzhou Laohenghe Brewery Co., Limited (湖州老恒和釀造有限公司) (“**LHH Brewery**”), a 96.54% owned subsidiary of the Company, for a term expiring on 12 October 2059 for industrial use.
2. Pursuant to the Real Estate Ownership Certificate — Zhe (2019) Hu Zhou Shi Wu Xing Bu Dong Chan Quan No. 0042352, the building ownership rights of the property with a total gross floor area of 89,764.73 sq.m. together with the corresponding land use rights with a site area of 51,644.00 sq.m. are vested in LHH Brewery for a term expiring on 11 January 2066 for industrial use.
3. We have been provided with a legal opinion on the title to the property issued by the Company’s PRC legal adviser, which contains, inter alia, the following information:
 - i. LHH Brewery has legally obtained the land use rights and building ownership rights of the property as stated in the above-mentioned title documents and have the rights to occupy and use the property;
 - ii. the property is subject to mortgages in favour of Huzhou Wuxing Private Financing Service Centre Co., Ltd. (湖州吳興民間融資服務中心有限公司) (“**Wuxing Financing**”). According to the legal opinion, prior written consent should be obtained from Wuxing Financing for any transfer, lease, re-mortgage, or any other legal means of disposing the property; and
 - iii. the property is free from material property rights disputes.

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2023
4.	<p>An industrial complex situated in Hejia Village, Lincheng Town, Changxing County, Huzhou, Zhejiang Province, PRC</p> <p>(中國浙江省湖州市長興縣林城鎮賀家村一個工業綜合體)</p>	<p>The property comprises a parcel of land with a site area of approximately 10,070.63 sq.m. on which an industrial complex is erected.</p> <p>The property is situated on the southern side of Changxing County. Developments in the vicinity are dominated by various industrial buildings. It takes about a 40- minute drive from the property to the city center of Huzhou.</p> <p>The property comprises eight buildings accommodating mainly warehouses and dormitories with a total gross floor area of approximately 3,503.48 sq.m.</p> <p>The aforesaid buildings of the property were completed in 2011.</p> <p>The land use rights of the property have been granted for a term expiring on 27 April 2053 for industrial use.</p>	<p>As at the valuation date, the property was occupied by the Group for industrial use.</p>	<p>RMB7,200,000 (Renminbi Seven Million and Two Hundred Thousand)</p> <p>(96.54% interests attributable to the Group: RMB6,950,880 (Renminbi Six Million Nine Hundred Fifty Thousand Eight Hundred and Eighty))</p>

Notes:

1. Pursuant to a State-owned Land Use Certificate — Chang Tu Guo Yong (2011) No.01001890, the land use rights of the property with a site area of approximately 10,070.63 sq.m. have been granted to Huzhou Laohenghe Brewery Co., Limited (湖州老恒和釀造有限公司) (“**LHH Brewery**”), a 96.54% owned subsidiary of the Company, for a term expiring on 27 April 2053 for industrial use.
2. Pursuant to two Building Ownership Certificates — Chang Fang Quan Zheng Lin Cheng Zi Di Nos. 00148653 and 00148654, the building ownership rights of portion of the property with a gross floor area of 3,503.48 sq.m. are vested in LHH Brewery for industrial use.
3. We have been provided with a legal opinion on the title to the property issued by the Company’s PRC legal adviser, which contains, inter alia, the following information:
 - i. LHH Brewery has legally obtained the land use rights and building ownership rights of the property as stated in the above-mentioned title documents and have the rights to occupy and use the property;
 - ii. the property is subject to mortgages in favour of Huzhou Wuxing Private Financing Service Centre Co., Ltd. (湖州吳興民間融資服務中心有限公司) (“**Wuxing Financing**”). According to the legal opinion, prior written consent should be obtained from Wuxing Financing for any transfer, lease, re-mortgage, or any other legal means of disposing the property; and
 - iii. the property is free from material property rights disputes.

1. RESPONSIBILITY STATEMENT

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

2. MARKET PRICES

The table below shows the closing prices per Share on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share (HK\$)
31 March 2023	0.7800
28 April 2023	0.7600
31 May 2023	0.7400
30 June 2023	0.6100
31 July 2023	0.5100
31 August 2023	0.4950
26 September 2023 (being the Last Trading Day)	0.4200
29 September 2023	0.4850
31 October 2023	0.4900
7 November 2023 (being the Latest Practicable Date)	0.4900

During the Relevant Period:

- (i) the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.8000 per Share on 29 March 2023, 14 April 2023, 18 May 2023, 19 May 2023 and 23 May 2023; and
- (ii) the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.4000 per Share on 16 August 2023, 19 September 2023 and 20 September 2023, respectively.

3. DEALING AND INTERESTS IN THE SECURITIES OF THE COMPANY

The Offeror confirms that as at the Latest Practicable Date:

- (i) save for the 230,342,000 Shares held by the Offeror, none of the Offeror, its directors or any person acting in concert with any of them owned or had control or direction over any voting rights or rights over the Shares, convertible securities, warrants or options of the Company or any derivatives in respect of such securities;
- (ii) there is no arrangement of any kind referred to in Note 8 to Rule 22 of the Takeovers Code which exists between the Offeror, any person acting in concert with the Offeror or any other associate of the Offeror, and any other person in relation to the shares of the Offeror or the Shares;
- (iii) neither the Offeror nor any person acting in concert with it has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- (iv) there is no outstanding derivative in respect of the securities in the Company entered into by the Offeror or any person acting in concert with it; and
- (v) save for the Enforcement Action, none of the Offeror or any parties acting in concert with it has dealt in any Shares or relevant securities of the Company during the Relevant Period.

4. OTHER ARRANGEMENTS IN RELATION TO THE OFFER

The Offeror confirms that as at the Latest Practicable Date:

- (i) no benefit (other than statutory compensation) was or would be given to any Director as compensation for his loss of office or otherwise in connection with the Offer;
- (ii) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or dependence upon the Offer;
- (iii) there was no agreement or arrangement to which the Offeror or any person acting in concert with it is a party which relates to circumstances in which the Offeror may or may not invoke or seek to invoke a pre-condition or a condition to the Offer;
- (iv) there was no agreement, arrangement or understanding that any securities of the Company, acquired in pursuant of the Offer would be transferred, charged or pledged to any of the persons;
- (v) neither the Offeror nor any person acting in concert with it has received any irrevocable commitment(s) to accept or reject the Offer;

- (vi) save for the consideration of the Enforcement Action, there is no other consideration or compensation paid or to be paid by the Offeror or any parties acting in concert with it to Key Shine, Mr. Chen Weizhong and parties acting in concert with any of them in connection with the Enforcement Action; and
- (vii) save for the Memorandum, there was no understanding, arrangement, agreement or special deal between (i)(a) Key Shine, Mr. Chen Weizhong or any party acting in concert with any of them or (i)(b) any Shareholders on the one hand, and (ii) the Offeror and any party acting in concert with it on the other hand.

5. QUALIFICATIONS AND CONSENT

The following are the names and qualifications of the professional advisers who have given opinions or advice which are contained or referred in this Composite Document:

Name	Qualification
CLSA Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 7 (providing automated trading services) regulated activities under the SFO
CITICS	a corporation licensed to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of CLSA Limited and CITICS has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of its letter and references to its name, in the form and context in which they respectively appear.

6. GENERAL

- (a) The registered office of the Offeror is situated at Room 1502, 15/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong. The registered address of Wuxing City Investment is situated at 22–23/F, Freeport Building A, Headquarters, No. 1188 Qufu Road, Wuxing District, Huzhou City, Zhejiang Province, China. The registered address of Wuxing Financing is situated at No. 88 Gongye Road, Nantaihu High-tech Industrial Park, Huzhou City, Zhejiang Province, China.
- (b) The directors of the Offeror are Mr. Shen Qianyun (沈倩雲) and Ms. Yao Lan (姚藍), and the directors of Wuxing City Investment are Mr. Chen Wei (陳偉), Mr. Tao Feng (陶峰), Mr. Cao Jianqiang (曹建強) and Mr. Zhu Bing (朱冰). Their correspondence address is 22/F, Freeport Building A, Headquarters, No. 1188 Qufu Road, Wuxing District, Huzhou City, Zhejiang Province, China. The directors of Wuxing Financing are Mr. Lou Shuai (樓帥), Mr. Gu Renkai (顧人愷) and Ms. Mo Weiyang (莫瑋瑩). Their correspondence address is No. 88 Gongye Road, Nantaihu High-tech Industrial Park, Huzhou City, Zhejiang Province, China.

APPENDIX IV GENERAL INFORMATION RELATING TO THE OFFEROR

- (c) The Offeror is wholly owned by Wuxing City Investment, which is in turn wholly owned by Wuxing Service Centre. The capital of Wuxing Service Centre has been injected by Wuxing Finance Bureau (湖州市吳興區財政局), a government organ of Huzhou Wuxing District Government (湖州市吳興區政府).
- (d) The registered office of each of CITICS and CLSA Limited is at 18/F, One Pacific Place, 88 Queensway, Hong Kong.
- (e) The English text of this Composite Document and the Form of Acceptance shall prevail over their respective Chinese texts in the case of inconsistency.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company was as follows:

Authorised Share Capital:	USD
1,000,000,000 Shares	500,000
Issued and Fully Paid Share Capital:	
578,750,000 Shares	289,375

The total number of issued Shares as at 31 December 2022 (being the date to which the latest audited financial statements of the Company were made up) was 578,750,000 Shares. Since 31 December 2022, no Shares had been issued by the Company.

All of the existing issued Shares currently in issue rank *pari passu* in all respects with each other, including all rights in respect of dividends, voting and interest in capital.

As at the Latest Practicable Date, the Company had no outstanding warrants, derivatives, share options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares and the Company has not entered into any agreement for the issue of any Shares or any warrants, derivatives, share options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

3. INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

(a) Interests and short positions of the Directors and chief executives in the Shares, underlying Shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors, the chief executive of the Company or any of their associates had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) recorded in the register maintained by the Company pursuant to Section 352 of the SFO; (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers set out in Appendix 10 to the Listing Rules as adopted by the Company; or (iv) disclosed in this Composite Document pursuant to the requirements of the Takeovers Code.

(b) Disclosure of interests of substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities (other than any Directors or chief executives of the Company) who had or were deemed to have an interest or a short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares held	Approximate percentage of the Company's issued share capital ⁽¹⁾
The Offeror ⁽²⁾	Beneficial owner	230,342,000 (L)	39.80%
Wuxing City Investment ⁽²⁾	Interest in controlled corporation	230,342,000 (L)	39.80%
Wuxing Service Centre ⁽²⁾	Interest in controlled corporation	230,342,000 (L)	39.80%
Hwabao Trust Company Limited (as Hwabao Overseas Markets Investment No. 2 QDII Single Unit Trust Plan 32-8) ⁽³⁾	Beneficial owner	72,625,000 (L)	12.55%
Chongqing Zhongxin Rongbang Investment Center (Limited Partnership) ⁽³⁾	Interest in controlled corporation	72,625,000 (L)	12.55%

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares held	Approximate percentage of the Company's issued share capital ⁽¹⁾
Tibet Zhongxin Ruiyin Investment Management Co., Ltd. ⁽³⁾	Interest in controlled corporation	72,625,000 (L)	12.55%
China Innovative Capital Management Limited ⁽³⁾	Interest in controlled corporation	72,625,000 (L)	12.55%
Beijing Zhonghai Jiacheng Capital Management Limited ⁽³⁾	Interest in controlled corporation	72,625,000 (L)	12.55%
Zhonghai Shengfeng (Beijing) Capital Management Co., Ltd. ⁽³⁾	Interest in controlled corporation	72,625,000 (L)	12.55%
Natural Seasoning ⁽⁴⁾	Beneficial owner	60,000,000 (L)	10.37%
Natural Seasoning International Limited (formerly known as China Seasoning International Limited) ⁽⁴⁾	Interest in controlled corporation	60,000,000 (L)	10.37%
Lunar Capital Partners IV LP ⁽⁴⁾	Interest in controlled corporation	60,000,000 (L)	10.37%
Lunar Capital Partners IV GP, LP ⁽⁴⁾	Interest in controlled corporation	60,000,000 (L)	10.37%
LCM-IV General Partner Ltd. ⁽⁴⁾	Interest in controlled corporation	60,000,000 (L)	10.37%
Mr. Chen Weizhong ⁽⁵⁾	Interest in controlled corporation	53,594,750 (L)	9.26%
Key Shine ⁽⁵⁾	Beneficial owner	2,682,000 (L)	0.46%
Ms. Xing Liyu ⁽⁶⁾	Beneficial owner	53,594,750 (L)	9.26%
Mr. Mao Huixin ⁽⁷⁾	Interest of owner	56,276,750 (L)	9.72%
	Person having a security interest in shares	52,000,000 (L)	8.98%
MERIDIAN HARVEST LIMITED ⁽⁷⁾	Person having a security interest in shares	52,000,000 (L)	8.98%
SUPER SUN & MOON CO., LIMITED ⁽⁸⁾	Interest in controlled corporation	52,000,000 (L)	8.98%
Osiris International Trustees Limited ⁽⁸⁾	Interest in controlled corporation	52,000,000 (L)	8.98%

The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.

Notes:

- (1) The percentage of shareholding is calculated on the basis of 578,750,000 issued Shares as at the Latest Practicable Date.
- (2) The Offeror is wholly owned by Wuxing City Investment, which is in turn wholly owned by Wuxing Service Centre. By virtue of the SFO, each of Wuxing City Investment and Wuxing Service Centre is deemed to be interested in the Shares in which the Offeror is interested.
- (3) These Shares are held by Hwabao Trust Company Limited (as Hwabao Overseas Markets Investment No. 2 QDII Single Unit Trust Plan 32–8) (“**Hwabao Trust**”), which is entrusted by Chongqing Zhongxin Rongbang Investment Center (Limited Partnership) (“**Chongqing Zhongxin (LLP)**”), which is managed by Tibet Zhongxin Ruiyin Investment Management Co., Ltd. (“**Tibet Zhongxin**”).

Tibet Zhongxin is controlled by China Innovative Capital Management Limited (“**China Innovative Capital**”), as to 100%. China Innovative Capital is controlled by Beijing Zhonghai Jiacheng Capital Management Limited (“**Beijing Zhonghai Jiacheng**”), as to 40.8%. Beijing Zhonghai Jiacheng is controlled by Zhonghai Shengfeng (Beijing) Capital Management Co., Ltd. (“**Zhonghai Shengfeng**”), as to 90.00%. By virtue of the SFO, each of Zhonghai Shengfeng, Beijing Zhonghai Jiacheng, China Innovative Capital, Tibet Zhongxin, Chongqing Zhongxin (LLP) is deemed to be interested in the Shares held by Hwabao Trust.

- (4) Based on the disclosure of interests forms filed on 5 December 2019, Natural Seasoning is a direct wholly-owned subsidiary of Natural Seasoning International Limited, which is wholly-owned by Lunar Capital Partners IV LP. Lunar Capital Partners IV LP is a partnership managed by Lunar Capital Partners IV GP, LP (as sole general partner), which is managed by LCM-IV General Partner Ltd. (as sole general partner). By virtue of the SFO, each of LCM-IV General Partner Ltd., Lunar Capital Partners IV GP, LP, Lunar Capital Partners IV LP and Natural Seasoning International Limited is deemed to be interested in the Shares held by Natural Seasoning.
- (5) The entire issued share capital of Key Shine is legally and beneficially owned by Mr. Chen Weizhong. Mr. Chen Weizhong is deemed to be interested in the Shares held by Key Shine under the SFO.
- (6) Ms. Xing Liyu is the spouse of Mr. Chen Weizhong. Under the SFO, Ms. Xing Liyu is deemed to be interested in the same number of Shares in which Mr. Chen Weizhong is interested.
- (7) Key Shine charged 52,000,000 Shares in favour of MERIDIAN HARVEST LIMITED and Mr. Mao Huixin.
- (8) These Shares are held by MERIDIAN HARVEST LIMITED (“**Meridian Harvest**”). Meridian Harvest is controlled by SUPER SUN & MOON CO., LIMITED (“**Super Sun**”) as to 100%. Super Sun is controlled by Osiris International Trustees Limited (“**Osiris**”) as to 100%. By virtue of the SFO, each of Super Sun and Osiris is deemed to be interested in the Shares held by Meridian Harvest.

Save as disclosed herein, so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which had entered in the register required to be kept by the Company pursuant to section 336 of the SFO.

4. OTHER DISCLOSURES

- (a) As at the Latest Practicable Date, there were no persons who owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares who had, prior to the Latest Practicable Date, irrevocably committed themselves to accept or reject the Offer.
- (b) As at the Latest Practicable Date, no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (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) or (4) of the definition of “associate” under the Takeovers Code, owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (c) As at the Latest Practicable Date, no Shares or any convertible securities, warrants, options or derivatives in respect of any Shares were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company.
- (d) As at the Latest Practicable Date, neither the Company nor any of the Directors has borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.
- (e) As at the Latest Practicable Date, neither the Company nor any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) or (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) or (4) of the definition of “associate” under the Takeovers Code had any arrangement with any other person of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, and none of the Directors or their financial advisers are aware of any such arrangements between any other associate of the Company and any other person.
- (f) As at the Latest Practicable Date, neither the Company nor any of the Directors had any interest in the shares of the Offeror or convertible securities, warrants, options or derivatives in respect of the shares of the Offeror.
- (g) As at the Latest Practicable Date, there were no material contracts entered into by the Offeror in which any of the Directors has a material personal interest.
- (h) As at the Latest Practicable Date, there was no understanding, arrangement, agreement or special deal (as defined under Rule 25 of the Takeovers Code) between any Shareholders on the one hand, and the Company, its subsidiaries and associated companies on the other hand.

5. DEALINGS AND INTERESTS IN THE SHARES

(a) During the Relevant Period:

- (i) none of the Directors had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (ii) neither the Company nor any of the Directors had dealt for value in the shares of the Offeror or any convertible securities, warrants, options or derivatives in respect of any shares of the Offeror;
- (iii) no person who had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror and parties acting in concert with it had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
- (iv) none of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Offer.

(b) During the Relevant Period:

- (i) none of the subsidiaries of the Company, pension funds of the Company or any adviser to the Company or person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code but excluding exempt principal traders and exempt fund managers (as defined under the Takeovers Code) had owned or controlled or dealt for value in any of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (ii) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with 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 and no person who had such an arrangement had any dealings in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares; and
- (iii) no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had dealt for value in the Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

6. DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service contract or letter of appointment with each of the following Directors for a fixed term with more than 12 months to run irrespective of notice period (in which case, the appointment shall be subject to the provision for retirement by rotation in the articles of association of the Company):

- (a) Mr. Chen Wei has entered into a service contract with the Company for a term of three years from 11 September 2023 and subject to termination by not less than 90 days' notice in writing served by either party on the other. Under the service contract, Mr. Chen Wei will not receive any remuneration;
- (b) Mr. Wu Hongping has entered into a letter of appointment with the Company for a term of three years from 10 January 2023 and subject to termination by not less than three months' notice in writing served by either party on the other. Under the letter of appointment, Mr. Wu Hongping will not receive any remuneration;
- (c) Mr. Shen Zhengchang has entered into a letter of appointment with the Company for a term of three years from 1 October 2023 and subject to termination by not less than three months' notice in writing served by either party on the other. The remuneration of Mr. Shen Zhengchang under such letter of appointment is RMB60,000 per annum;
- (d) Mr. Ng Wing Fai has entered into a letter of appointment with the Company for a term of two years from 1 January 2023 and subject to termination by not less than three months' notice in writing served by either party on the other. The remuneration of Mr. Ng Wing Fai under such letter of appointment is HK\$480,000 per annum; and
- (e) Mr. Sun Jiong has entered into a letter of appointment with the Company for a term of three years from 1 October 2023 and subject to termination by not less than three months' notice in writing served by either party on the other. The remuneration of Mr. Sun Jiong under such letter of appointment is HK\$200,000 per annum.

None of the Directors is entitled to any variable remuneration under their respective service contract or letter of appointment. Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into a service contract with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the Offer Period, (ii) is a continuous contract with a notice period of 12 months or more, or (iii) is a fixed term contract with more than 12 months to run irrespective of the notice period.

7. MATERIAL CONTRACTS

There have been no material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) entered into by any member of the Group within two years immediately preceding the date on which the Offer Period commenced and up to the Latest Practicable Date.

8. QUALIFICATIONS AND CONSENT

The following are the qualifications of the experts who were engaged by the Company and have been named in this Composite Document and has given opinion and letter contained in this Composite Document:

Name	Qualifications
Maxa Capital Limited	a corporation licensed under the SFO to engage in type 1 and type 6 regulated activity (as defined under the SFO)
Savills Valuation and Professional Services (China) Limited	an independent property valuer

Each of Maxa Capital Limited and Savills Valuation and Professional Services (China) Limited has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of its letter and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, each of Maxa Capital Limited and Savills Valuation and Professional Services (China) Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Maxa Capital Limited and Savills Valuation and Professional Services (China) Limited did not have, directly or indirectly, any interest in any assets which had since 31 December 2022 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Group.

10. MISCELLANEOUS

- (a) None of the Directors will be or has been given any benefit (save for any statutory compensation required under appropriate laws) as compensation for loss of office or otherwise in connection with the Offer.
- (b) As at the Latest Practicable Date, there is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

11. GENERAL

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The headquarters and principal place of business of the Company in the PRC is located at Balidian Town, Food and Industrial Park, Wuxing District, Huzhou City, Zhejiang 313000, PRC.
- (c) The principal place of business of the Company in Hong Kong is located at Room A5, 7/F, China United Plaza, 1008 Tai Nan West Street, Kowloon, Hong Kong.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, whose address is Shops 1712–1716, 17th Floor Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong.
- (e) The registered office of Maxa Capital Limited, the Independent Financial Adviser, is located at Unit 1908, Harbour Center, 25 Harbour Road, Wanchai, Hong Kong.
- (f) The English text of this Composite Document shall prevail over the Chinese text in case of inconsistency.

DOCUMENTS ON DISPLAY

Copies of the following documents are available on display on the website of the SFC (<http://www.sfc.hk>) and the website of the Company (<http://www.hzlaohenghe.com/>) from the date of this Composite Document up to and including the Closing Date:

- (a) the amended and restated memorandum and articles of association of the Company;
- (b) the articles of association of the Offeror;
- (c) the annual reports of the Company for the three years ended 31 December 2022;
- (d) the interim report of the Company for the six months ended 30 June 2023;
- (e) the letter from CLSA Limited, the text of which is set out on pages 7 to 15 of this Composite Document;
- (f) the letter from the Board, the text of which is set out on pages 16 to 23 of this Composite Document;
- (g) the letter from the Independent Board Committee, the text of which is set out on pages 24 to 25 of this Composite Document;
- (h) the letter from the Independent Financial Adviser, the text of which is set out on pages 26 to 63 of this Composite Document;
- (i) the property valuation report of the Group (including the valuation certificate) prepared by Savills Valuation and Professional Services (China) Limited, the full text of which is set out in Appendix III to this Composite Document;
- (j) the written consents referred to in the paragraph headed “Qualifications and Consent” in each of Appendix IV and Appendix V;
- (k) the Directors’ service contracts and letters of appointment referred to in the paragraph headed “Directors’ Service Contracts” in Appendix V; and
- (l) this Composite Document and the accompanying Form of Acceptance.