

HIFOOD GROUP HOLDINGS CO., LIMITED

海福德集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 442)

Executive Directors:

Mr. Su Zhiyi
Mr. Xiong Cong
Mr. Cai Si

Non-executive Directors:

Ms. Mary Ang Mei Lee
Mr. Tom Xie

Independent non-executive Directors:

Mr. Ting Tit Cheung
Mr. Chan Chi Kuen
Mr. Lo Chun Pong
Mr. Yau Pak Yue
Mr. Chung Wai Man
Mr. Ning Rui

Registered Office:

Windward 3, Regatta Office Park
PO Box 1350
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KY1-1108
Cayman Islands

*Head office and principal place of
business in Hong Kong:*

Unit 1705-07
17/F, K11 Atelier, Victoria Dockside
18 Salisbury Road
Tsim Sha Tsui, Kowloon
Hong Kong

5 November 2021

To the Independent Shareholders

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER
BY SOMERLEY CAPITAL LIMITED
FOR AND ON BEHALF OF PERFECT GAIN GROUP LIMITED
TO ACQUIRE ALL ISSUED SHARES OF
HIFOOD GROUP HOLDINGS CO., LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY PERFECT GAIN GROUP LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

1. INTRODUCTION

On 8 October 2021, the Offeror and the Company published the Joint Announcement to announce on 26 September 2021, the Offeror (as purchaser) and the Joint Receivers (as receivers) entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Joint Receivers have (as receiver exercising their power pursuant to the Deed of Appointment of Receivers) conditionally agreed to sell, the Sale Shares, being 129,372,494 Shares (representing approximately 74.96% of the entire issued share capital of the Company as at the Latest Practicable Date).

All of the Conditions have been satisfied and Completion took place on 30 September 2021.

Immediately prior to Completion, none of the Purchaser, its ultimate beneficial owner and their respective parties acting in concert owned any Shares or any other convertible securities, options, warrants or derivatives in the Company. Immediately following Completion, the Purchaser, its ultimate beneficial owner and their respective parties acting in concert own 129,372,494 Shares (representing approximately 74.96% of the entire issued share capital of the Company as at the Latest Practicable Date).

The Purchaser (i.e. the Offeror) is therefore required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional general offer in cash for all issued Shares other than those already owned or agreed to be acquired by the Offeror and its parties acting in concert.

2. THE OFFER

Somerley is making the Offer, which is unconditional in all respect, for and on behalf of the Offeror, in compliance with the Takeovers Code on the following terms:

For every Share.....HK\$1.546 in cash

The Offer Price of HK\$1.546 per Offer Share under the Offer is equal to the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

Further details of the terms of the Offer and the procedures for acceptances are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance.

Effect of accepting the Offer

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of Shares or any other conditions. By accepting the Offer, Shareholders will sell their Shares 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 posting of the Composite Document. Acceptance of the Offer by any Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are 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. As at the Latest Practicable Date, the Company did not have any dividend or distribution announced, declared, recommended or made but unpaid and the Company does not intend to declare any dividend for the six months ended 30 September 2021.

Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

3. COMPARISON OF VALUE

The Offer Price of HK\$1.546 per Offer Share represents:

- (i) a discount of approximately 15.05% to the closing price per Share of HK\$1.820 on the Stock Exchange as at the Latest Practicable Date;
- (ii) a discount of approximately 22.70% to the closing price of HK\$2.00 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 10.12% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day of approximately HK\$1.720 per Share;
- (iv) a discount of approximately 5.04% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$1.628 per Share;
- (v) a premium of approximately 18.47% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$1.305 per Share;
- (vi) a premium of approximately 68.04% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.920 per Share;

- (vii) a premium of approximately 77.29% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Day of approximately HK\$0.872 per Share; and
- (viii) a premium of approximately 29.92% over the audited consolidated net asset value of the Group of approximately HK\$1.190 per Share as at 31 March 2021 based on 172,600,000 Shares in issue as at the Latest Practicable Date.

Highest and lowest Share prices

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$2.08 per Share on 25 September 2019 and HK\$0.57 per Share on 30 June 2021 and 2 July 2021.

Value and total consideration of the Offer

As at the Latest Practicable Date, the Company had 172,600,000 Shares in issue, and had no other outstanding warrants, derivatives, options, convertibles or other securities in issue which may confer any rights to the holder(s) thereof to subscribe, convert or exchange into Shares.

On the basis of the Offer Price of HK\$1.546 per Share and 172,600,000 Shares in issue as at the Latest Practicable Date, the entire issued share capital of the Company is valued at HK\$266,839,600. Excluding the Sale Shares and assuming 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 43,227,506 Shares is subject to the Offer. Based on the Offer Price of HK\$1.546 per Offer Share and on the basis of full acceptance of the Offer, the maximum payment obligations payable by the Offeror under the Offer amounts to approximately HK\$66,829,724.30.

Confirmation of financial resources available for the Offer

The maximum payment obligations payable for the Offer shall be payable in cash. The Offeror intends to finance the maximum payment obligations payable for the Offer by its own internal resources. As at the Latest Practicable Date, the Consideration had been paid in full to the Joint Receivers.

Somerley has been appointed as the financial adviser to the Offeror in respect of the Offer and is satisfied that sufficient financial resources are available to the Offeror to satisfy the maximum payment obligations of approximately HK\$66,829,724.30 upon full acceptance of the Offer in respect of 43,227,506 Offer Shares.

4. INFORMATION OF THE OFFEROR AND THE GROUP

(1) Information on the Offeror

Your attention is drawn to the paragraph headed “ Letter from Somerley - Information of the Offeror” and Appendix III “General Information relating to the Offeror” to the Composite Document.

(2) Information on the Company

The Company is an investment holding company listed on the Main Board. The Group is principally engaged in the manufacture and sale of jewellery products, trading of precious metals and other raw jewellery materials and luxury watches.

The following table sets out a summary of certain financial information of the Group for the two years ended 31 March 2020 and 31 March 2021:

For the year ended 31 March	
2021	2020
<i>HK\$ '000</i>	<i>HK\$ '000</i>
(audited)	(audited)

	For the year ended 31 March	
	2021	2020
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Revenue	162,644	154,038
Gross profit	7,019	8,885
Loss attributable to the equity holders of the Company	(74,998)	(67,694)
Net assets	205,333	278,306

Further details of the Group are set out in Appendix II “Financial Information of the Group” and Appendix IV “General Information relating to the Company” to the Composite Document.

(3) Shareholding in the Company

Set out below is the shareholding structure of the Company (i) immediately prior to Completion; and (ii) immediately after Completion and as at the Latest Practicable Date:

	Immediately prior to Completion		Immediately after Completion and as at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>approximate % of issued Shares</i>	<i>Number of Shares</i>	<i>approximate % of issued Shares</i>
The Joint Receivers (<i>Note 1</i>)	129,372,494	74.96	—	—
The Offeror (<i>Note 2</i>) and parties acting in concert with it	—	—	129,372,494	74.96
Mr. Su Zhiyi	30,000	0.02	30,000	0.02
Public Shareholders	43,197,506	25.02	43,197,506	25.02
Total	172,600,000	100.00	172,600,000	100.00

Notes:

1. HKA Group Holdings Company Limited (a related company of the Vendor, as borrower) has defaulted on its repayment obligation under the Facility Agreement and the security over the Sale Shares in favour of Option Best has become enforceable. The Joint Receivers were appointed under the Deed of Appointment of Receivers for the Sale Shares. On 28 September 2021, the Deed of Release has been executed by Option Best in favour of the Vendor and the Share Charge has been released accordingly.
2. The Offeror is beneficially wholly owned by Dr. So.

5. INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP

While the Offeror intends to continue the principal business of the Group and has no intention to dispose of the businesses of the Group immediately after close of the Offer, the Offeror is considering utilising livestream e-commerce as a new channel for the sale of the Group’s jewellery products and further expanding the Group’s jewellery sales to other overseas countries. Having said that, following the close of the Offer, the Offeror will conduct a detailed review of the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the result of the review and should suitable investment or business opportunities arise, the Offeror may also consider exploring other business opportunities to diversify the business of the Group with an objective to broaden its

income source. However, as at the Latest Practicable Date, no such investment or business opportunity had been identified nor had the Offeror entered into any agreement, arrangement, understanding, intention or negotiation in relation to injection of any asset or business into the Group. As at the Latest Practicable Date, the Offeror had not entered into any agreement, arrangement, understanding, intention or negotiation in relation to redeployment of the employees, disposal and/or redeployment of the assets of the Group, or termination or scaling-down of any business of the Group.

Proposed change of the composition of the Board

As at the Latest Practicable Date, the Board was made up of 11 Directors, comprising three executive Directors, namely Mr. Su Zhiyi, Mr. Xiong Cong and Mr. Cai Si; two non-executive Directors, namely Ms. Mary Ang Mei Lee and Mr. Tom Xie; and six independent non-executive Directors, namely Mr. Ting Tit Cheung, Mr. Chan Chi Kuen, Mr. Lo Chun Pong, Mr. Yau Pak Yue, Mr. Chung Wai Man and Mr. Ning Rui.

It is expected that all executive Directors, Ms. Mary Ang Mei Lee, Mr. Ting Tit Cheung, Mr. Chan Chi Kuen and Mr. Lo Chun Pong will resign from the Board with effect from a date no earlier than the date of the close of the Offer or at a date as permitted under the Takeovers Code.

On the other hand, it is intended that (i) Mr. Tom Xie shall be re-designated from the position of non-executive Director to the position of executive Director; and (ii) Mr. Chan Wai Dune shall be appointed as the non-executive Director, both with effect from a date no earlier than the date of the Composite Document or at a date as permitted under the Takeovers Code.

The biographies of Mr. Tom Xie and Mr. Chan Wai Dune are set out below:

Mr. Xie, aged 72, obtained a Master of Science degree and a Master's Graduation Certificate in Gemology, both from China University of Geosciences (Beijing). He was an independent non-executive director of U-Right International Holdings Limited (now known as Fullsun International Holdings Group Co., Limited, a company listed on the Stock Exchange with stock code 627) from August 2013 to December 2017, and a nonexecutive director of China Investment Development Limited (a company listed on the Stock Exchange with stock code 204) from September 2019 to September 2020. Mr. Xie is currently an independent non-executive director of Yuan Heng Gas Holdings Limited (a company listed on the Stock Exchange with stock code 332) since January 2010. He was appointed as a non-executive Director on 9 July 2021. Upon his re-designation as an executive Director, Mr. Xie will be responsible for making major operation decisions for the Group and supervising business administration of the Group.

Mr. Chan, aged 69, is currently the chairman and chief executive officer of Crowe (HK) CPA Limited. He has over 40 years of experience in the finance sector, particularly in the areas of auditing and taxation. Mr. Chan is a certified public accountant and is a fellow member of each of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Taxation Institute of Hong Kong. He is also an associate chartered accountant of The Institute of Chartered Accountants in England and Wales. Mr. Chan is currently serving various public positions such as the executive vice-chairman of the GMC Hong Kong Members Association Ltd. and a member and a standing committee member of CPPCC of the Guangzhou Municipal Committee. He was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region. Mr. Chan is currently an independent non-executive director of Wai Chun Group Holdings Limited (a company principally engaged in (i) general trading; (ii) network and system integration by the production of software and provision of solutions and related services; and (iii) investment holdings; and listed on the Stock Exchange with stock code 1013) and Tianjin Tianbao Energy Co., Ltd. (a power operator in Tianjin engaging in co-generation of steam, electricity, heating and cooling listed on the Stock Exchange with stock code 1671).

Mr. Chan was also a non-executive director of Pickquick Plc., a company incorporated in the United Kingdom, prior to its dissolution. As confirmed by Mr. Chan, as far as he is aware, the dissolution of Pickquick Plc. has not resulted in any liability or obligation being imposed against him. Further information of Pickquick Plc. is set out below:

Name of Company	Principal business before dissolution	Date of dissolution	Reason for dissolution
Pickquick Plc.	Sale of golf products	May 2004	Creditors' voluntary liquidation

On 2 February 2010, the HKICPA reprimanded Mr. Chan and CCIF CPA Limited (“CCIF”) and imposed a penalty of HK\$40,000 due to their breach of a professional standard issued by the HKICPA in relation to the preparation of the audited financial statements of a listed company in Hong Kong for the year ended 31 July 2004. Mr. Chan was the then managing director of CCIF.

The reprimand was related to the internal procedures of handling the audit of CCIF’s client where Mr. Chan had to assume some responsibilities as being the managing director of CCIF and responsible for signing the relevant auditors’ report.

Based on the above information and his past performance, the Board is of the view that with his professional knowledge and experience, Mr. Chan is fit and proper to act as a non-executive Director and to the best knowledge and belief of Mr. Chan, no approval or consent from any regulatory body is required in respect of his proposed appointment as the non-executive Director.

Save as disclosed above, there is no other matter that need to be brought to the attention of the Shareholders in connection with the above proposed appointments, and there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules.

In addition to the above nominees, the Offeror is currently considering nominating Dr. So to be a Director after the close of the Offer (whose biography is set out in the paragraph headed “Letter from Somerley – Information of the Offeror” in the Composite Document) and is also in the course of identifying suitable candidates to be nominated to the Board at such time as it considers appropriate to further enhance the management resources and expertise of the Board, upon further review by the Board and its nomination committee, while no concrete list of candidates had been reached as at the Latest Practicable Date. In any event, any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and a further announcement will be made as and when appropriate.

6. PUBLIC FLOAT AND MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

The Offeror intends the Company to remain listed on the Stock Exchange after the close of the Offer. The sole director of the Offeror and the new Directors to be appointed to the Board of the Company will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float will exist in the Shares, i.e. not less than 25% of the entire issued share capital of the Company will be held by the public at all times following the close of the Offer.

For the avoidance of doubt, the Offer Shares to be tendered by the Independent Shareholders upon valid acceptance of the Offer will be retained by the Offeror. In case there is less than 25% of the Shares held by the public following the close of the Offer, the Offeror will place down the Shares held by it in order that there will be 25% of the issued Shares held by the public.

7. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Board has established the Independent Board Committee comprising the nonexecutive Director, namely Ms. Mary Ang Mei Lee, and all independent non-executive Directors, namely Mr. Ting Tit Cheung, Mr. Chan Chi Kuen, Mr. Lo Chun Pong, Mr. Yau Pak Yue, Mr. Chung Wai Man and Mr. Ning Rui to make recommendations to the Independent Shareholders 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. Meanwhile, Mr. Tom Xie is not included as a member of the Independent Board Committee in view of his proposed re-designation from the position of non-executive Director to the position of executive Director with effect from a date no earlier than the date of the Composite Document or a date as permitted under the Takeovers Code.

The Independent Board Committee has appointed Red Sun as its Independent Financial Adviser to provide advice to 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. For the opinions and advice of the Independent Financial Adviser, please refer to section headed “Letter from the Independent Financial Adviser” in the Composite Document.

8. TAXATION

Hong Kong stamp duty

Seller’s ad valorem stamp duty arising in connection with acceptance of the Offer amounting to 0.13% of the amount payable in respect of relevant acceptances by the Independent Shareholders, or 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), whichever is higher, will be deducted from the cash amount payable to the Independent Shareholders who accept the Offer. The Offeror will arrange for payment of the seller’s ad valorem stamp duty on behalf of accepting Independent Shareholders and will pay the buyer’s ad valorem stamp duty in connection with the acceptances of the Offer.

Taxation advice

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 Offeror, its parties acting in concert, the Company, Somerley and their respective directors, officers, 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.

9. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 29 to page 30 of the Composite Document which contains its recommendation to the Independent Shareholders as to whether the Offer is, or is not, fair and reasonable and as to their acceptance of the Offer; and (ii) the letter from the Independent Financial Adviser set out on page 31 to page 53 of the Composite Document which contains its advice to the Independent Board Committee in connection with the Offer and the principal factors considered by it in arriving at its advice.

Based on the circumstances of the Company as at the Latest Practicable Date and having considered the terms of the Offer and the advice from the Independent Financial Adviser, the Board considers that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned after taking into account the principal factors and reasons as set out in the section headed “Letter from the Independent Financial Adviser” in the Composite Document.

Accordingly, the Board recommends that the Independent Shareholders to accept the Offer.

10. ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to the Composite Document. Further details on the terms and the procedures for acceptance of the Offer are set out in Appendix I “Further Terms of the Offer” to the Composite Document and the accompanying Form of Acceptance. You are also recommended to read carefully the Form(s) of Acceptance for further details in respect of the procedures for acceptance of the Offer.

Yours faithfully,
On behalf of the Board
Hifood Group Holdings Co., Limited

A handwritten signature in black ink, appearing to be 'Su Zhiyi', written in a cursive style.

海福德集團控股有限公司
Su Zhiyi
Chairman and Executive Director