



SOMERLEY CAPITAL LIMITED

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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)**

INTRODUCTION

Reference is made to the Joint Announcement in relation to, among others, the Sale and Purchase Agreement and the Offer.

As disclosed in the Joint Announcement, pursuant to the Sale and Purchase Agreement entered into by the Joint Receivers and the Purchaser on 26 September 2021, 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) at a cash consideration of HK\$200,000,000, equivalent to approximately HK\$1.546 per Sale Share. The Completion took place on 30 September 2021.

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.

This letter forms part of the Composite Document and sets out, among others, details of the Offer, information on the Offeror and the Offeror's intentions in relation to the Group. Further details on the terms and the procedures for acceptance of the Offer are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance. The Independent Shareholders are strongly advised to carefully consider the information contained



in the sections headed “Letter from the Board”, “Letter from the Independent Board Committee”, “Letter from the Independent Financial Adviser” in, and the appendices to, the Composite Document and the accompanying Form of Acceptance, and to consult their own professional advisers before reaching a decision as to whether or not to accept the Offer.

THE OFFER

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

The Offer

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.

The Offer is unconditional in all respects.

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.

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 of HK\$1.820 per Share 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

During the Relevant Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange 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 on 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.

Condition to 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.



Effect of accepting the Offer

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 disclosed in the section headed “Letter from the Board” in the Composite Document, 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 did 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.

Overseas Independent Shareholders

To the extent practicable and permissible under applicable laws and regulations, the Offeror intends to make available the Offer to all Independent Shareholders, including those who are residents outside Hong Kong. The making of the Offer to persons who are not residents in Hong Kong may be affected by the laws and regulations of the relevant jurisdiction in which they are residents. Overseas Independent Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements and, where necessary, seek legal advice.

It is the sole responsibility of the overseas Independent 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 the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such overseas Independent Shareholders in respect of such jurisdictions).

Any acceptance by any Independent Shareholder who is not resident in Hong Kong will be deemed to constitute a representation and warranty from such Independent Shareholder to the Offeror that the local laws and requirements have been complied with. All such Independent Shareholders should consult their professional advisers if in doubt. As at the Latest Practicable Date, there was no Independent Shareholder whose registered address as shown in the register of members of the Company was outside Hong Kong.



Procedures for acceptance

To accept the Offer, you should complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which form part of the terms and conditions of the Offer.

The duly completed and signed Form of Acceptance should be delivered, 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) in respect of the number of Offer Shares tendered for acceptance, by post or by hand, to the Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, in an envelope marked "Hifood Group Holdings Co., Limited — Cash Offer" on the envelope so as to reach the Registrar as soon as possible but in any event by no later than 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 accordance with the Takeovers Code.

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) in respect of the Offer Shares will be given.

Your attention is drawn to the further details regarding the procedures for acceptance of the Offer, settlement of the Offer and acceptance period and revisions as set out in Appendix I "Further Terms of the Offer" to the Composite Document and the accompanying Form of Acceptance.

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.

Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event within seven (7) Business Days of the date on which the duly completed acceptances of the Offer and the relevant documents of title of the Offer Shares in respect of such acceptances are received by the Offeror to render each such acceptance complete and valid.

No fractions of a cent will be payable and the amount of cash consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.



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.

INFORMATION OF THE OFFEROR

Perfect Gain is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, save for entering into the Sale and Purchase Agreement, Perfect Gain had not engaged in any business activities and was beneficially wholly owned by Dr. So who is also the sole director of the company.

Dr. So Shu Fai, aged 70, is currently the vice-chairman, an executive director and CEO of SJM Holdings Limited (a company principally engaged in casino gaming operations and gaming-related activities and provision of hotel, catering retail and related services in Macau; and listed on the Stock Exchange with stock code 880) and the executive director of China Merchants Land Limited (a company principally engaged in development, sale, lease, investment of properties; assets management; and investment holding; and listed on the Stock Exchange with stock code 978). He is also the chairman of the board of directors of MACAUPORT — Sociedade de Administração de Portos, S.A.

Dr. So graduated with a Bachelor of Science degree from The University of Hong Kong in 1973, and received a doctoral degree in Management Studies from The International Management Centre as validated by Southern Cross University, Australia in 2001. He is currently a Chartered Secretary and a Chartered Governance Professional and a fellow member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute in the United Kingdom. Dr. So is also a fellow member of The Hong Kong Institute of Directors.

Other than being the sole shareholder and the sole director of the Offeror, Dr. So had no present or past relationship (whether formal or informal, business or otherwise) with the Company and/or its connected persons as at the Latest Practicable Date.

INFORMATION OF THE GROUP

As disclosed in the section headed “Letter from the Board” in the Composite Document, 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.

Details of the information of the Company are set out in the section headed “Letter from the Board” in the Composite Document. The financial and general information of the Company is set out in Appendices II and IV to the Composite Document, respectively.



Shareholding structure of the Company

As disclosed in the section headed “Letter from the Board” in the Composite Document, the shareholding structure of the Company as at the Latest Practicable Date is as follows:

	Number of Shares	Approximate % of issued Shares
The Offeror (<i>Note</i>) and parties acting in concert with it	129,372,494	74.96
Mr. Su Zhiyi	30,000	0.02
Public Shareholders	<u>43,197,506</u>	<u>25.02</u>
Total	<u>172,600,000</u>	<u>100.00</u>

Note: The Offeror is beneficially wholly owned by Dr. So.

INTENTION 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 the 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 non-executive 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 (whose biography is set out in the paragraph headed "Information of the Offeror" in this letter contained in the Composite Document) to be a Director after the close of the Offer 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.

Public float and maintenance of the listing status of the Company

The Offeror intends to maintain the listing of the Shares on the Stock Exchange after the close of the Offer. The Offeror and the new Directors to be appointed will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that not less than 25% of the Shares will be held by the public.



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.

The Stock Exchange has stated that, if, at the close of the Offer, less than the minimum prescribed percentage applicable to the listed issuer, 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,

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

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.

COMPULSORY ACQUISITION

The Offeror does not intend to avail itself of any powers to compulsorily acquire any outstanding Offer Shares not acquired pursuant to the Offer after the close of the Offer.

GENERAL

To ensure the equality of treatment of all Shareholders, registered Shareholders who hold the Share(s) as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Share(s) whose investments are registered in the names of nominees to accept the Offer, it is essential that they provide instructions of their intentions to the Offer to their respective nominees.

All documents and remittances in respect of cash consideration payable for the Offer Shares tendered under the Offer will be sent to the accepting Independent Shareholders by ordinary post at such Shareholder's own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members of the Company, or in the case of joint Independent Shareholders, to the Shareholder whose name appears first in the said register of members, unless otherwise specified in the accompanying Form of Acceptance completed, returned and received by the Registrar. None of the Offeror and the parties acting in concert with it, the Company, Somerley, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents, advisers or associates or any



other person involved in the Offer will be responsible for any loss in postage or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information regarding the Offer set out in the appendices to the Composite Document and the accompanying Form of Acceptance, which form part of the Composite Document. In addition, your attention is also drawn to the sections headed "Letter from the Board" and "Letter from the Independent Board Committee" and the letter of advice and recommendation by the Independent Financial Adviser to the Independent Board Committee as set out in the section headed "Letter from the Independent Financial Adviser" in the Composite Document.

Yours faithfully,
For and on behalf of
Somerley Capital Limited

M.N. Sabine
Chairman