



## **SOMERLEY CAPITAL LIMITED**

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17 November 2021

*To: the Independent Board Committee*

Dear Sirs,

**(1) PROPOSAL FOR THE PRIVATISATION OF  
HOP HING GROUP HOLDINGS LIMITED BY  
OCEAN EASE GLOBAL LIMITED BY WAY OF  
A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF  
THE COMPANIES ACT OF THE CAYMAN ISLANDS  
(2) OPTION OFFER  
AND  
(3) PROPOSED WITHDRAWAL OF LISTING**

### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal, the Scheme and the Option Offer, details of which are set out in the Scheme Document dated 17 November 2021, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 6 September 2021 (after trading hours), the respective directors of the Offeror and the Company jointly announced that on 1 September 2021, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of the Scheme under Section 86 of the Companies Act involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share cancelled. If the Proposal is approved and implemented, all the Scheme Shares held by the Scheme Shareholders will be cancelled on the Effective Date in exchange for the Cancellation Price of HK\$0.08 in cash for each Scheme Share cancelled. Option Holders who accept the Option Offer will be entitled to receive the Option Offer Price of HK\$0.001 in cash for each Share Option cancelled. The listing of the Shares is expected to be withdrawn from the Stock Exchange following the Scheme becoming effective on the Effective Date.



The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Seto Gin Chung, John, Mr. Sze Tsai To, Robert and Mr. Wan Sai Cheong, Joseph, has been established by the Board to make a recommendation to the Disinterested Shareholders and the Option Holders as to: (i) whether the terms of the Proposal, the Scheme and the Option Offer are, or are not, fair and reasonable; (ii) whether to vote in favour of the Scheme at the Court Meeting and the EGM; and (iii) whether to accept the Option Offer. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee on these matters.

During the past two years, we have not acted as a financial adviser (independent or otherwise) to the Company or the Offeror. We are not associated with the Company, the Offeror or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we consider ourselves eligible to give independent advice on the Proposal, the Scheme and the Option Offer pursuant to Rule 2.1 and Rule 2.6 of the Takeovers Code. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Scheme Document; (ii) the annual report of the Company for the year ended 31 December 2020; (iii) the interim report of the Company for the six months ended 30 June 2021; (iv) the unaudited management accounts of the Company for the eight months ended 31 August 2021; (v) the announcements published by the Company on the website of the Stock Exchange since 1 January 2020; and (vi) the material change statement set out in Appendix I to the Scheme Document.

We have relied on the information and facts supplied by the Company and the opinions expressed by the executive Directors and the management of the Company, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and at the Latest Practicable Date. Shareholders will be informed as soon as possible if we become aware of any material change to such representations/our opinion up to the Effective Date. We have sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them; nor have we carried out any independent verification of the information supplied.



We have not considered the tax and regulatory implications on the Scheme Shareholders and the Option Holders of acceptance or non-acceptance of the Scheme or the Option Offer, as the case may be, since these are particular to their individual circumstances. In particular, the Scheme Shareholders and the Option Holders who are oversea residents or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

## **PRINCIPAL TERMS OF THE PROPOSAL AND THE SCHEME**

The terms set out below are summarised from the “Letter from the Board” and the Explanatory Memorandum contained in the Scheme Document. The Scheme Shareholders and the Option Holders are encouraged to read the Scheme Document and its appendices in full.

### **Cancellation Price for the Scheme Shares**

Under the Scheme, the Scheme Shares will be cancelled and extinguished by way of reduction of the issued share capital of the Company and, in consideration therefor, each Scheme Shareholder will be entitled to receive the Cancellation Price of HK\$0.08 in cash for each Scheme Share cancelled. **The Cancellation Price will not be increased and the Offeror does not reserve the right to do so. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Price.**

As set out in “Letter from the Board” contained in the Scheme Document, the Cancellation Price has been determined on a commercial basis after taking into account, among others, the prices of the Shares traded on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

The Company confirms that as at the Latest Practicable Date, (a) it has not declared any dividend which has not been paid; and (b) it does not have any intention to make, declare or pay any future dividend or make other distributions until after the implementation or lapse of the Scheme.

### **SAS Trustee Held Shares**

The Share Award Scheme was adopted by the Company as a means to recognise the contribution of and to provide incentives for the eligible key management personnel including directors and senior management of the Group, consultants, experts, agents, representatives of the Group and employees of the Group. As at the Latest Practicable Date, there were 258,174,619 SAS Trustee Held Shares, representing approximately 2.56% of the issued share capital of the Company, which had been acquired by the SAS Trustee for satisfying Share Awards on vesting, and 87,415,457 Share Awards (which may vest in the form of 87,415,457 Shares, representing approximately 0.87% of the issued share capital of the Company) had been granted to the Grantees which all remain unvested. The SAS Trustee, as the trustee of the Share Award Scheme, is regarded as acting in concert with the Offeror in relation to the Company. None of the Grantees of such 87,415,457 Share Awards is a member of the Offeror Group or the Offeror Concert Parties.



If any Share Awards are vested and the corresponding Shares are transferred by the SAS Trustee to the relevant Grantee who is a Disinterested Shareholder or sold on the Stock Exchange by the SAS Trustee on behalf of the relevant Grantee to any Disinterested Shareholder (the proceeds of which will be paid to the relevant Grantee) in accordance with the terms of the Share Award Scheme and the relevant transfer documents are lodged no later than 4:30 p.m. on Friday, 14 January 2022, such Disinterested Shareholders will be entitled to receive the Cancellation Price in respect of the relevant Shares (which will be Scheme Shares).

All of the SAS Trustee Held Shares which are still held by the SAS Trustee as trustee of the Share Award Scheme on the Scheme Record Date shall form part of the Scheme Shares and be cancelled and extinguished upon the Scheme becoming effective. Conditional upon the Scheme becoming effective, the Offeror will pay to the SAS Trustee an amount equivalent to the Cancellation Price multiplied by the number of the SAS Trustee Held Shares as at the Effective Date, which will be held on trust by the SAS Trustee in accordance with the Share Award Scheme. After the receipt of such Cancellation Price for the SAS Trustee Held Shares by the SAS Trustee, the Board shall as soon as practicable direct the termination of the Share Award Scheme, upon which an amount equivalent to the Cancellation Price multiplied by the number of outstanding Share Awards held by each Grantee at such termination will be paid by the SAS Trustee to the relevant Grantee, and any remaining proceeds (net of expenses) will be remitted to the Company. Further details with respect to the SAS Trustee Held Shares are set out in the "Letter from the Board" and the Explanatory Memorandum contained in the Scheme Document.

#### **Reduction and restoration of issued share capital**

The issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the issued share capital of the Company will be increased to its former amount by the issue to the Offeror, credited as fully paid, of the same number of new Shares as the number of Scheme Shares cancelled.

#### **Conditions of the Proposal, the Scheme and the Option Offer**

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the Conditions on or before the Long Stop Date. Details of the Conditions are set out in the section headed "3. Conditions of the Proposal and the Scheme" in the Explanatory Memorandum. Main Conditions include, among others:

- (i) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting;



- (ii) the approval of the Scheme (by way of poll) by the Disinterested Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Disinterested Shareholders that are voted either in person or by proxy at the Court Meeting, provided that the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting either in person or by proxy against the resolution to approve the Scheme is not more than 10% of the votes attaching to all Scheme Shares held by all the Disinterested Shareholders;
- (iii) (a) the passing of a special resolution by a majority of not less than  $\frac{3}{4}$  of the votes cast by the Shareholders present and voting, in person or by proxy, at the EGM to approve and give effect to the reduction of the share capital of the Company by the cancellation and extinguishment of the Scheme Shares; (b) the passing of an ordinary resolution by a simple majority of the Shareholders present and voting, in person or by proxy, at the EGM to approve and give effect to the restoration of the share capital of the Company to its former amount by allotting and issuing to the Offeror the same number of new Shares as the number of Scheme Shares cancelled and extinguished and the application of the credit arising in the Company's books of accounts as a result of such issued share capital reduction in paying up in full at par the new Shares issued to the Offeror, credited as fully paid; and
- (iv) the sanction of the Scheme (with or without modifications) by the Grand Court and its confirmation of the reduction of the issued share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court and the minutes approved by the Grand Court in respect of the reduction of the issued share capital of the Company for registration.

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, otherwise the Proposal and the Scheme will lapse.

The Option Offer is conditional upon the Scheme becoming effective.

If approved, the Scheme will be binding on all of the Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the EGM.

**Shareholders and potential investors of the Company should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and therefore the Proposal may or may not be implemented. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**





## PRINCIPAL FACTORS AND REASONS CONSIDERED

### A. The Proposal and the Scheme

#### 1. *Background to and reasons for the Proposal*

As set out in the section headed “10. Reasons for and Benefits of the Proposal” in the Explanatory Memorandum, the trading liquidity of the Shares has been at a relatively low level over a prolonged period in recent years, with an average daily trading volume of approximately 4,304,031 Shares for the 24 months up to and including the Last Trading Day, representing approximately 0.04% of the total issued Shares as at the Last Trading Day. Given the continued low liquidity of the Shares, it is difficult for the Scheme Shareholders to execute on-market disposals efficiently without adversely affecting the market price of the Shares, and to dispose of a large number of Shares when any event that has an adverse impact on the price of the Shares occurs. The Proposal provides an opportunity for the Scheme Shareholders to dispose of their Shares for cash at a price at premia ranging from approximately 61.0% to 74.7% over the closing Share prices for different periods up to and including the Last Trading Day, and premia of approximately 63.9% and 57.8% over the net asset value per Share of the Group as at 31 December 2020 and 30 June 2021, respectively, without having to suffer any illiquidity discount and settlement risk.

It is further stated in the abovementioned section in the Explanatory Memorandum that the successful implementation of the Proposal will provide more flexibility to the Group as a privately-operated business in formulating and implementing its long-term business strategies, or to pursue other business opportunities that it may not be practicable to pursue as a public company, without being subject to regulatory restrictions and compliance obligations arising from being listed on the Stock Exchange, and without having to focus on the short-term market reaction. Additionally, the Proposal, which will result in the delisting of the Company if implemented successfully, will reduce the administrative costs and management resources required for maintaining the Company's listing status.

#### 2. *Information and prospects of the Group*

##### (i) *Information of the Company and the Group*

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company are the operation of quick service restaurants under the brand names Yoshinoya and Dairy Queen in northern China.



(ii) *Financial information of the Group*

(a) Financial performance

The following is a summary of the financial results of the Group for (a) the two years ended 31 December 2019 and 2020 (both 2019 and 2020 annual results having been extracted from the Company's 2020 annual report); and (b) the six months ended 30 June 2020 and 2021 (both 2020 and 2021 interim results having been extracted from the Company's 2021 interim report).

	For the six months ended 30 June		For the year ended 31 December	
	2021 (Unaudited) (RMB'000)	2020 (Unaudited) (RMB'000)	2020 (Audited) (RMB'000)	2019 (Audited) (RMB'000)
Revenue	884,478	654,723	1,590,270	2,102,814
Profit/(loss) attributable to equity holders of the Company	8,698	(66,326)	(81,901)	104,110
Earnings/(loss) per Share attributable to equity holders of the Company (in RMB'cents)				
— Basic	0.09	(0.68)	(0.84)	1.07
— Diluted	0.09	(0.68)	(0.84)	1.06



(1) Revenue

A breakdown of the Group's revenue by brands and geographical markets are as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2021 (Unaudited) (RMB'000)	2020 (Unaudited) (RMB'000)	2020 (Audited) (RMB'000)	2019 (Audited) (RMB'000)
<i>Brands</i>				
— Yoshinoya	741,217	551,382	1,350,326	1,782,062
— Dairy Queen	120,154	72,951	177,337	230,809
— Others <sup>1</sup>	23,107	30,390	62,607	89,943
	<u>884,478</u>	<u>654,723</u>	<u>1,590,270</u>	<u>2,102,814</u>
<i>Geographical markets</i>				
— Beijing-Tianjin-Hebei Province Metropolitan Region	658,203	476,948	1,167,975	1,568,417
— Other northern areas of China	226,275	177,775	422,295	534,397
	<u>884,478</u>	<u>654,723</u>	<u>1,590,270</u>	<u>2,102,814</u>

As disclosed in the Company's 2020 annual report and 2021 interim report, revenue derived from the brand "Yoshinoya" accounted for over 80% of the Group's total revenue and over 70% of the Group's total revenue was contributed from Beijing, Tianjin and Hebei province metropolitan region for the years ended 31 December 2019 and 2020 and for the six months ended 30 June 2020 and 2021. For the year ended 31 December 2020, the Group recorded a total revenue of approximately RMB1,590.3 million, representing a decline of approximately RMB512.5 million or 24.4% as compared to approximately RMB2,102.8 million for the year ended 31 December 2019. Such decrease in total revenue was primarily due to the operation suspension of certain stores as a result of the outbreak of the COVID-19. For the six months ended 30 June 2021, the Group recorded total revenue of approximately RMB884.5 million, representing an increase of approximately 35.1% as compared to approximately RMB654.7 million in the corresponding period of 2020. As disclosed in the Company's 2021 interim report, the public largely returned to normal life throughout the majority of the first quarter of 2021 as a result of widespread vaccination. The rollout of the national vaccination

<sup>1</sup> Mainly comprise of revenue generated from food delivery services.





program has proved efficient, providing a boost to consumption as consumers were encouraged to spend more time in public. The Company also took steps to encourage customers to visit the stores by increasing sales promotion activities, launching several new beef products featuring new styles of serving and opening stores based on the profitable store model.

*(2) Profit/(loss) attributable to equity holders of the Company*

Due to the significant decline in the revenue for the year ended 31 December 2020, the Company recorded a loss attributable to the equity holders of the Company of approximately RMB81.9 million in 2020, whereas a profit attributable to the equity holders of the Company of approximately RMB104.1 million was recorded for the year ended 31 December 2019. The Company recorded a profit attributable to equity holders of the Company of approximately RMB8.7 million for the six months ended 30 June 2021 compared to a loss attributable to equity holders of the Company of approximately RMB66.3 million for the six months ended 30 June 2020. Such improvement in financial results were mainly attributable to, among others, (i) the business recovery after the ease of COVID-19 restrictions; (ii) the tight cost control exercised by the Group; and (iii) the lower rental level of commercial properties.

*(3) Earnings/(loss) per Share*

Basic and diluted earnings/(loss) per Share for (i) the year ended 31 December 2019; (ii) the year ended 31 December 2020; (iii) the six months ended 30 June 2020; and (iv) the six months ended 30 June 2021 was approximately (a) RMB1.07 cents and RMB1.06 cents; (b) RMB(0.84) cent and RMB(0.84) cent; (c) RMB(0.68) cent and RMB(0.68) cent; and (d) RMB0.09 cent and RMB0.09 cent respectively. The movements in the earnings/(loss) per Share generally followed the movements of the Group's financial results.

*(4) Dividends*

Total dividend per Share for the financial years ended 31 December 2019 and 2020 was HK0.248 cent and nil respectively. No interim dividend was declared for the six months ended 30 June 2020 and 2021. The Company's implied dividend yield based on the Cancellation Price of HK\$0.08 for each Scheme Share and the total dividend of the Company of HK0.248 cent per share for the year ended 31 December 2019 is 3.1%.



(b) Financial position

Set out below is an extract of the financial position of the Group (a) as at 31 December 2019 and 2020 (both 2019 and 2020 financial position having been extracted from the Company's 2020 annual report); and (b) as at 30 June 2021 (having been extracted from the Company's 2021 interim report).

	As at 30 June 2021 (Unaudited) (RMB'000)	As at 31 December 2020 (Audited) (RMB'000)	2019 (Audited) (RMB'000)
Total assets	1,752,164	1,639,515	1,805,600
Total liabilities	1,327,531	1,226,106	1,282,439
Equity attributable to equity holders of the Company	424,633	413,409	523,161

As at 30 June 2021, the Group's total assets were approximately RMB1,752.2 million. Assets of the Group mainly include, among others, (a) right-of-use assets of approximately RMB554.5 million; (b) cash and cash equivalents of approximately RMB526.2 million; and (c) property, plant and equipment of approximately RMB160.3 million. As at 30 June 2021, the Group recorded total liabilities amounted to approximately RMB1,327.5 million, which mainly consisted of, among others, (a) lease liabilities of approximately RMB766.5 million; and (b) other payables, accrued charges and contract liabilities of approximately RMB379.0 million.

As at 30 June 2021, the Group had unsecured interest-bearing bank borrowings of approximately RMB8.3 million. Taking into account the cash and cash equivalents amounting to approximately RMB526.2 million, the Group had a net position of approximately RMB517.9 million as at 30 June 2021. The gearing ratio of the Group as at 30 June 2021, measured by total interest-bearing bank borrowings divided by equity attributable to equity holders of the Company, was approximately 2.0%, as compared to nil as at 31 December 2020. The change in the gearing ratio was mainly due to the new bank borrowings for the six months ended 30 June 2021. As set out in Appendix I to the Scheme Document, as at 31 August 2021, the Group had no bank borrowings and lease liabilities of approximately RMB762.2 million.

The Group's consolidated net asset value as at 31 December 2020 and 30 June 2021 amounted to approximately RMB413.4 million and RMB424.6 million, with a net asset value per Share of approximately RMB0.04105 (equivalent to approximately HK\$0.0488 at the exchange rate of HK\$1 to RMB0.8416, which was the middle rate published by the People's Bank of China on its website on 31 December 2020) and RMB0.04216 (equivalent to approximately HK\$0.0507, at the exchange rate of HK\$1 to RMB0.8321, which



was the middle rate published by the People's Bank of China on its website on 30 June 2021) respectively. The Cancellation Price of HK\$0.08 for each Scheme Share represents a substantial premium of approximately 63.9% and 57.8% to the consolidated net asset value per Share as at 31 December 2020 and 30 June 2021 respectively.

*(iii) Prospects of the Group*

As set out in paragraph headed "Financial information of the Group" above, the Group's total revenue for the year ended 31 December 2020 decreased by approximately 24.4% as compared to that in 2019, and recorded a loss attributable to the equity holders of the Company of approximately RMB81.9 million. Such decrease in revenue was primarily due to the operation suspension of certain stores as a result of the outbreak of the COVID-19. The Group's financial performance was improved as a result of the gradual recovery of its business after the ease of COVID-19 restrictions in the PRC in the first half of 2021. According to the statistics published by the Ministry of Commerce of the PRC\* (中華人民共和國商務部), the turnover amount of the key retail sales and catering services companies reached approximately RMB821 billion during the week of the Chinese New Year in 2021, representing an increase of approximately 4.9% and 28.7% as compared to that in 2019 and 2020 respectively. The number of orders on some food delivery platforms increased by approximately 70% on the 2021 Chinese New Year's Eve as compared to that in 2020. The economic activities in the PRC have been normalised with output levels returning to the previous long-term growth trend and the national economy experiencing growth again. As set out in the 2021 interim report of the Company, in addition, the successful implementation of the national vaccination programme across the PRC boosted the consumers' sentiment and the consumers were encouraged to spend time and money in the catering industries. This can be demonstrated by the abovementioned statistics published by the PRC government.

As further disclosed in the Company's 2021 interim report, with imported cases of COVID-19 from overseas rising and sporadic outbreaks still occurring in some regions, the consumer market continues to face uncertainty. According to the data published by World Health Organisation, the daily average new confirmed COVID-19 cases in the PRC in June 2021 amounted to approximately 245 cases. As a result of the strict control measure implemented by the PRC government, the daily new confirmed COVID-19 cases decreased in the third quarter of 2021, ranged within 25 cases to 153 cases each day. The pandemic also changed the consumption habits of consumers so the recovery of the Group's dine-in catering business has been lackluster during the first half of 2021. The Group is also facing the challenge of increase in raw food material prices. For example, based on the statistics published by the Ministry of Agriculture and Rural Affairs of the PRC\* (中華人民共和國農業農村部), prices of beef, being the key raw material for the Group's products, increased from approximately RMB70 per kilogram in November 2019 to approximately RMB77 per kilogram in October 2021, representing an increase of approximately 10%. Current global economic trends remain complex and severe, and the rise in global inflationary pressure has led to a sharp increase in bulk commodity



prices which has affected business in the PRC, although the Group's cash position should help it weather these problems. Taking into account the above factors, the management of the Company considers, and we concur, while the COVID-19 pandemic has largely been contained in the PRC, the catering industry, like the majority of other industries, still faces challenges caused by the fallout from the pandemic.

### ***3. Information on the Offeror Group and the intentions of the Offeror regarding the Group***

The Offeror is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. Each of Holdco, Topco 1 and Topco 2 are companies incorporated in the BVI with limited liability, and each of which is principally engaged in investment holding. As at the Latest Practicable Date, the Offeror is wholly-owned by Holdco, which is 50% owned by each of Topco 1 and Topco 2. The board of directors of each of the Offeror and Holdco comprises Mr. Peter Hung, Mr. Marvin Hung and Mrs. Diana Hung.

Topco 1 is wholly-owned by HHHFL, as trustee of The HHH Discretionary Trust. Mr. Peter Hung is the settlor of The HHH Discretionary Trust, the discretionary beneficiaries of which are Mrs. Diana Hung and certain children of Mr. Peter Hung and Mrs. Diana Hung.

Topco 2 is wholly-owned by NCFFL, as trustee of The NCFF Discretionary Trust. The discretionary beneficiaries of The NCFF Discretionary Trust include a company wholly-owned by Mr. Marvin Hung and certain close relatives of Mr. Marvin Hung and Mr. Peter Hung.

Further details are set out in the section headed "8. Information on the Group, the Offeror and the Consortium Members" under the "Letter from the Board" and section headed "12. Information on the Group, the Offeror and the Consortium Members" in the Explanatory Memorandum contained in the Scheme Document.

As set out in the section headed "11. Intentions of the Offeror with regard to the Group" in the Explanatory Memorandum contained in the Scheme Document, following the implementation of the Proposal, the Offeror intends to focus on the existing business of the Group upon the Scheme becoming effective, while at the same time exploring and pursuing other business strategies which are or may be impracticable to be sought and pursued as a listed company. The successful implementation of the Proposal will provide more flexibilities to the Group as a privately-operated business in formulating and implementing its long-term business strategies, without being subject to regulatory restrictions and compliance obligations arising from being listed on the Stock Exchange, and without having to focus on the short-term market reaction.

In terms of the existing business strategies of the Group, apart from maintaining good relationship with its existing franchisors, the Group has been exploring with Yoshinoya various possibilities of increasing the width and depth of their cooperation in China beyond the existing franchise regions in the northern part of China, such as



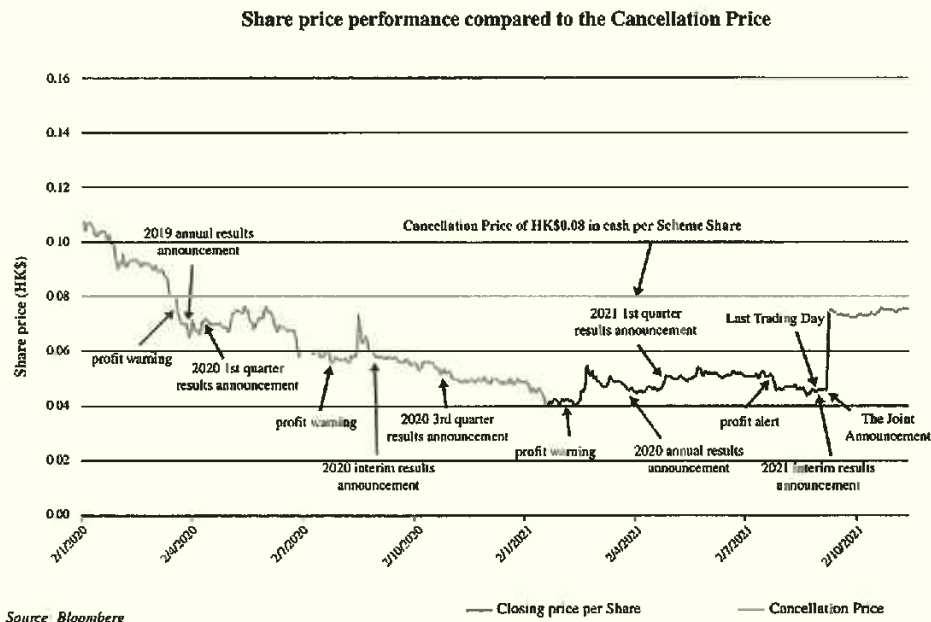
Shandong province. The Group will also actively seek new opportunities, particularly those that may facilitate its technological transformation into an internet-proficient catering enterprise, further strengthening its ties with franchisors and current business partners. The Group will further explore potential mergers and acquisitions opportunities with the aim of developing into a leading multi-brand QSR (quick service restaurant) chain in China. If the Scheme becomes effective, the Offeror intends to continue to adopt such business strategies of the Group.

The Offeror does not intend to introduce any major changes to the business or deployment of any fixed assets of the Group. The Offeror does not intend to make any significant changes to the continued employment of the employees of the Group. The Offeror will continue to carefully monitor the general business conditions, especially with regard to uncertainties created by the COVID-19 crisis.

#### 4. Analysis of price performance and trading liquidity of the Shares

##### (i) Historical price performance of the Shares

The chart below illustrates the daily closing price per Share from 1 January 2020 up to and including the Latest Practicable Date (the “Review Period”), and the comparison of the Share price performance with the Cancellation Price of HK\$0.08 per Scheme Share.





As illustrated in the chart above, after 18 March 2020, all trading days during the Review Period saw a closing Share price below the Cancellation Price of HK\$0.08 per Scheme Share. From 19 March to 14 August 2020, the Shares closed between HK\$0.056 to HK\$0.077 per Share. Since then, the Shares were traded in a downward direction and hit a low of HK\$0.040 per Share in the Review Period on 18 January, 19 January, 28 January and 9 February 2021. We are advised by the management of the Company that they are not aware of any reasons for the downward movement since 14 August 2020. After that low, the Share price started to pick up slightly and closed in a range of HK\$0.041 to HK\$0.055 per Share from 10 February to 31 August 2021.

The Shares closed at HK\$0.046 on 1 September 2021 (i.e. the Last Trading Day) and trading in Shares was suspended from 9:00 a.m. on 2 September 2021. The Joint Announcement was published after trading hours on 6 September 2021 and trading in the Shares resumed at 9:00 a.m. on 7 September 2021. The Shares closed at HK\$0.075 on 7 September 2021, representing an increase of approximately 63% compared to the closing Share price of HK\$0.046 on the Last Trading Day.

Since then and up to the Latest Practicable Date, the Shares closed between HK\$0.072 to HK\$0.076, suggesting that the Share price is being principally determined by the Cancellation Price. The Shares closed at HK\$0.075 as at the Latest Practicable Date. The Cancellation Price of HK\$0.08 represents a premium of approximately 6.7% over the closing Share price on the Latest Practicable Date.





(ii) *Trading liquidity*

Set out in the table below are the monthly total trading volumes of the Shares and the percentages of such monthly total trading volumes to the total issued share capital and the public float of the Company during the Review Period:

	<b>Monthly total trading volume of the Shares</b> <i>(Note 1)</i>	<b>Percentage of the monthly total trading volume of the Shares to the total issued share capital of the Company</b> <i>(Note 2)</i>	<b>Percentage of the monthly total trading volume of the Shares to the public float of the Company</b> <i>(Note 2 &amp; 3)</i>
<b>2020</b>			
January	17,852,000	0.18%	0.66%
February	13,488,000	0.13%	0.50%
March	8,752,000	0.09%	0.32%
April	8,072,000	0.08%	0.30%
May	14,814,538	0.15%	0.55%
June	20,752,000	0.21%	0.77%
July	28,040,000	0.28%	1.04%
August	342,097,097	3.40%	12.66%
September	40,912,000	0.41%	1.51%
October	17,432,000	0.17%	0.65%
November	106,780,000	1.06%	3.95%
December	31,984,000	0.32%	1.18%
<b>2021</b>			
January	160,734,000	1.60%	5.95%
February	728,300,001	7.23%	26.95%
March	102,562,000	1.02%	3.80%
April	86,325,445	0.86%	3.19%
May	167,626,730	1.66%	6.20%
June	68,890,530	0.68%	2.55%
July	68,065,824	0.68%	2.52%
August	50,222,000	0.50%	1.86%
September	601,782,806	5.98%	22.27%
October	109,904,001	1.09%	4.07%
From 1 November 2021 to the Latest Practicable Date	25,788,000	0.26%	0.95%



*Notes:*

1. Source: Bloomberg
2. The calculation is based on the monthly total trading volume of the Shares divided by the total issued share capital of the Company or the total number of the Shares in public float at the end of each month (or as at the Latest Practicable Date for November 2021).
3. The total number of Shares in public float is calculated based on the total number of Shares held by the public (within the meaning of the Listing Rules) at the end of each month (or as at the Latest Practicable Date for November 2021).

From January 2020 to October 2021, except for August 2020, February 2021 and September 2021, the percentages of the monthly total trading volume of the Shares to the total issued share capital of the Company were within the range of approximately 0.08% to 1.66%, and the percentages of the monthly total trading volume of the Shares to the public float of the Company were within the range of approximately 0.30% to 6.20%, which we regard as generally low. We are advised by the management of the Company that they are not aware of any reasons for the higher trading volume in August 2020 and February 2021. After the publication of the Joint Announcement on 6 September 2021 (after trading hours), trading volume was heightened, with total trading volume of Shares increasing to approximately 601.8 million in September 2021. From 1 November 2021 up to the Latest Practicable Date, the total trading volume represents approximately 0.26% of the total issued share capital and 0.95% of the public float of the Company.

Given the generally low trading volume except for certain periods set out above, if Scheme Shareholders (especially those with relatively sizeable shareholdings) wish to sell a significant number of Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the Shares. The higher level of trading volume following the publication of the Joint Announcement may not, in our view, be sustained if the Proposal lapses. Therefore, the Proposal provides an opportunity for the Scheme Shareholders to realise their investments in the Company for cash at substantial premia if they so wish.

*(iii) Cancellation Price comparisons*

The Cancellation Price of HK\$0.08 per Scheme Share represents:

- a premium of approximately 6.7% over the closing price of HK\$0.075 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 73.9% over the closing price of HK\$0.0460 per Share as quoted on the Stock Exchange on the Last Trading Day;



- a premium of approximately 74.7% over the average closing price of approximately HK\$0.0458 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- a premium of approximately 70.9% over the average closing price of approximately HK\$0.0468 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 62.9% over the average closing price of approximately HK\$0.0491 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 61.0% over the average closing price of approximately HK\$0.0497 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 62.9% over the average closing price of approximately HK\$0.0491 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 66.3% over the average closing price of approximately HK\$0.0481 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 63.9% over the audited net asset value per Share of approximately HK\$0.0488 as at 31 December 2020, based on the audited net assets of the Group as stated in the audited consolidated statement of financial position of the Company included in its annual report for the year ended 31 December 2020 and 10,070,431,786 Shares in issue as at the Latest Practicable Date; and
- a premium of approximately 57.8% over the unaudited net asset value per Share of approximately HK\$0.0507 as at 30 June 2021, based on the unaudited net assets of the Group as stated in the condensed consolidated statement of financial position of the Company included in its interim report for the six months ended 30 June 2021 and 10,070,431,786 Shares in issue as at the Latest Practicable Date.

In summary, the Cancellation Price of HK\$0.08 for each Scheme Share represents (a) premium in a range of approximately 61.0% to 74.7% over the closing Share prices for different periods up to and including the Last Trading Day; and (b) a premium of approximately 63.9% and 57.8% over the consolidated net asset value



per Share as at 31 December 2020 and 30 June 2021 respectively. The price of the Shares closed at HK\$0.075 on the Latest Practicable Date, the Cancellation Price represents a premium of approximately 6.7% over it.

#### 5. *Comparable companies*

As mentioned in the sub-section headed “Information and prospects of the Group” of this letter, the principal activities of the subsidiaries of the Company are the operation of quick service restaurants under the brand names “Yoshinoya” and “Dairy Queen” in northern China. Based on the Cancellation Price of HK\$0.08 per Scheme Share and the number of issued Shares of 10,070,431,786 on the Latest Practicable Date, the implied market capitalisation of the Company under the Proposal (the “**Implied Market Value**”) was approximately HK\$805.6 million. Based on the Company’s Implied Market Value, we consider the range of market capitalisation of the Comparable Companies (as defined below) between HK\$500 million and HK\$2,500 million to be reasonable for this analysis.

Taking into consideration of the Group’s business nature and the Implied Market Value of the Company, we have, on best effort basis, identified a list of companies which are (i) listed on Main Board of the Stock Exchange; (ii) with market capitalisation between HK\$500 million and HK\$2,500 million as at the Latest Practicable Date; (iii) principally engaged in the operation of quick service restaurants or fast food restaurant business with over 50% of the latest reported annual revenue generated from such business; and (iv) over 50% of the latest reported annual revenue was generated in the PRC and/or Hong Kong. Based on the above selection criteria, we could only identify two comparable companies, namely Fairwood Holdings Limited (stock code: 52) (“**Fairwood**”) and Ajisen (China) Holdings Limited (stock code: 538) (“**Ajisen**”).

In order to provide Shareholders a more comprehensive analysis with respect to the restaurant sector in general, we have extended the selection criteria (iii) above (in relation to business operation) to further include those companies which are principally engaged in operation of chain restaurants while the other selection criteria remain unchanged. As such, we have identified eight comparable companies (the “**Comparable Companies**”) from Bloomberg (including Fairwood and Ajisen). We are of the view that the selection of the Comparable Companies in the table below based on the abovementioned selection criteria is fair and representative while allowing a sufficient number of Comparable Companies to be obtained for the purpose of this analysis.



The Comparable Companies set out in the table (and notes) below represent an exhaustive list of companies comparable to the Company based on the above selection criteria.

Comparable Companies	Stock code	Closing market capitalisation as at the Latest Practicable Date (Approximate HK\$' million)	EV/EBITDA for the latest financial year (Approximate times) (Note 1)	Trailing 12 months EV/EBITDA (Approximate times) (Note 2)
Fairwood	52	2,161	3.9	3.9
Tai Hing Group Holdings Limited	6811	1,525	3.6	3.3
Ajisen	538	1,397	0.8	0.5
Best Food Holding Company Limited ("Best Food")	1488	1,405	30.8 (Note 3 & 4)	10.1
Palace Banquet Holdings Limited ("Palace Banquet")	1703	1,012	21.9	21.9 (Note 3 & 5)
Tao Heung Holdings Limited	573	884	3.5	3.0
LH Group Limited	1978	840	2.9	2.9
Tang Palace (China) Holdings Limited	1181	775	2.5	1.5
		<b>Maximum</b>	21.9	10.1
		<b>Minimum</b>	0.8	0.5
		<b>Mean</b>	5.6	3.6
		<b>Median</b>	3.5	3.0
<b>The Company</b>	47	806 (Note 6)	5.0 (Note 7)	3.1 (Note 8)

*Notes:*

1. Enterprise Value ("EV") is generally derived based on the market capitalisation of a company, plus net debt (total debt minus cash and short-term investment), minority interest and preferred shares. EV/EBITDA multiples of the Comparable Companies are calculated by dividing their



respective EV as at the Latest Practicable Date by their respective earnings before interest, tax, depreciation and amortisation (“EBITDA”) for the latest financial year as extracted from Bloomberg.

2. Trailing 12 months EV/EBITDA multiples of the Comparable Companies are calculated by dividing their respective EV as at the Latest Practicable Date by their respective EBITDA for the trailing 12 months as extracted from Bloomberg.
3. EV/EBITDA multiple of Best Food and trailing 12 months EV/EBITDA multiple of Palace Banquet are considered outliers and have been excluded from the analysis of EV/EBITDA multiple and trailing 12 months EV/EBITDA multiple respectively.
4. According to the data extracted from Bloomberg, the EBITDA of Best Food decreased from approximately HK\$202.3 million in 2019 to approximately HK\$75.4 million in 2020, representing a decrease of approximately 62.7% while the EV of Best Food only dropped by approximately 11.4% during the period from 31 December 2019 to the Latest Practicable Date. The EV/EBITDA multiple of Best Food rose from approximately 12.9 times as at 31 December 2019 to approximately 30.8 times as at the Latest Practicable Date.
5. According to the data extracted from Bloomberg, the EBITDA of Palace Banquet decreased from approximately HK\$66.1 million for the year ended 31 March 2020 to approximately HK\$57.9 million for the year ended 31 March 2021, representing a decrease of approximately 12.4%, while the EV of Palace Banquet increased by approximately 72.7% during the period from 31 March 2020 to the Latest Practicable Date. The EV/EBITDA multiple of Palace Banquet rose from approximately 11.1 times as at 31 March 2020 to approximately 21.9 times as at Latest Practicable Date.
6. The Implied Market Value of the Company of approximately HK\$805.6 million is calculated by multiplying the Cancellation Price of HK\$0.08 per Scheme Share and the number of issued Shares of 10,070,431,786 Shares as at the Latest Practicable Date.
7. EV/EBITDA multiple of the Company under the Proposal (the “**Implied EV/EBITDA**”) of approximately 5.0 times is calculated by dividing the EV of the Company of approximately HK\$1,077.6 million (derived by adding the Implied Market Value of approximately HK\$805.6 million as at the Latest Practicable Date with the EV component extracted from Bloomberg of approximately HK\$272.0 million) by the EBITDA of approximately RMB177.5 million (equivalent to approximately HK\$216.5 million at the exchange rate of HK\$1.22 to RMB1, which was the middle rate published by the People’s Bank of China on its website as at 4:00 p.m. on the Latest Practicable Date).
8. Trailing 12 months EV/EBITDA multiple of the Company under the Proposal (the “**Implied Trailing EV/EBITDA**”) of approximately 3.1 times is calculated by dividing the EV of the Company of approximately HK\$1,077.6 million (derived by adding the Implied Market Value of approximately HK\$805.6 million as at the Latest Practicable Date with the EV component extracted from Bloomberg of approximately HK\$272.0 million) by the EBITDA for the trailing 12 months of approximately RMB280.8 million (equivalent to approximately HK\$342.6 million at the exchange rate of HK\$1.22 to RMB1, which was the middle rate published by the People’s Bank of China on its website as at 4:00 p.m. on the Latest Practicable Date).

The Company recorded a loss for the year ended 31 December 2020 and for the trailing twelve months period ended 30 June 2021, therefore analysis on price-to-earnings multiples is not applicable. Alternatively, the EV/EBITDA multiple, being a commonly used multiple, is adopted. EV is generally derived based on the market capitalisation of a company, plus net debt (total debt minus cash and short-term investment), minority interest and preferred shares. EBITDA removes any tax effect on earnings as well as non-cash items in earnings and is considered to be a proxy in analysing the operating cash flow of a company. EV/EBITDA multiple is useful for comparison of the company’s





value by removing the discrepancy among the taxation policies and the debt structures of the comparable companies. As such, we considered EV/EBITDA multiple is appropriate for this analysis.

As set out in the table above, the Implied EV/EBITDA of approximately 5.0 times is above the EV/EBITDA multiple of approximately 3.9 times and 0.8 times of Fairwood and Ajisen respectively. The Company's Implied Trailing EV/EBITDA of approximately 3.1 times is above the trailing 12 months EV/EBITDA multiple of Ajisen of approximately 0.5 times, but below that of Fairwood of approximately 3.9 times.

The EV/EBITDA multiples of the Comparable Companies (with outlier excluded) illustrated above ranged from approximately 0.8 times to 21.9 times, the Implied EV/EBITDA of approximately 5.0 times is above the median of approximately 3.5 times of the EV/EBITDA multiples of the Comparable Companies, despite lower than the mean of approximately 5.6 times. The trailing 12 months EV/EBITDA multiples of the Comparable Companies (with outlier excluded) ranged from approximately 0.5 times to 10.1 times, the Implied Trailing EV/EBITDA of approximately 3.1 times is slightly above the median of the trailing 12 months EV/EBITDA multiples of the Comparable Companies of approximately 3.0 times (despite lower than the mean of approximately 3.6 times). We consider, on balance, the above to be a favourable factor to the Disinterested Shareholders.

#### **6. *Privatisation precedents***

We have compared the Proposal to privatisation proposals of companies listed on the Main Board of the Stock Exchange announced since 1 July 2020 and up to the Latest Practicable Date, which have been approved by disinterested shareholders or the required acceptance level was achieved, and involve a cash consideration (excluding combined consideration of cash and shares) (the "**Privatisation Precedents**"). We consider that the analysis of the Privatisation Precedents announced since the second half of 2020 up to the Latest Practicable Date, covering more than one year, to be appropriate and sufficient to demonstrate the pricing of recent successful privatisations of Main Board listed companies in Hong Kong under recent market sentiment. The Privatisation Precedents represent an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange's website satisfying the above selection criteria. The table below illustrates the premia/discounts represented by the cancellation/offer price over/to the



respective last trading day and respective last 5 trading days, last 30 trading days, last 60 trading days, last 90 trading days, last 120 trading days and last 180 trading days average share prices in respect of such Privatisation Precedents:

Date of the first Rule 3.5/3.7 announcement	Company (stock code)	Market capitalisation as at the date of announcement (Approximately HK\$ million)	Premium/(discount) of cancellation/offer price over/to closing share price/average share price on/over						
			Last trading day (Notes 1 and 2)	5 trading days (Notes 1 and 2)	30 trading days (Notes 1 and 2)	60 trading days (Notes 1 and 2)	90 trading days (Notes 1 and 2)	120 trading days (Notes 1 and 2)	180 trading days (Notes 1 and 2)
27-Jul-21	Nature Home Holding Company Limited (2083)	1,998	39.3%	38.2%	31.6%	30.9%	38.4%	45.2%	53.1%
9-Jul-21	Beijing Capital Land Ltd. (2868)	7,504	62.8%	62.2%	127.4%	149.9%	142.5%	132.3%	122.6%
25-Jun-21	Bestway Global Holding Inc. (3358)	3,651	27.0%	29.5%	47.1%	62.8%	72.1%	84.3%	101.7%
18-May-21	Chong Hing Bank Limited (1111)	13,387	51.2%	88.4%	104.7%	108.3%	112.5%	114.1%	118.8%
20-Apr-21	Inner Mongolia Energy Engineering Co. Ltd. (1649)	3,388	51.3%	55.4%	41.0%	30.1%	25.5%	28.6%	34.2%
28-Feb-21	Xiezhong International Holdings Limited (3663)	544	17.6%	17.6%	25.9%	38.7%	41.8%	36.0%	15.6%
25-Feb-21	Sichuan Languang Justbon Services Group Co., Ltd. (2606)	6,937	39.4%	45.4%	46.8%	59.6%	57.4%	45.0%	26.5%
5-Feb-21	Zhejiang Cangnan Instrument Group Company Limited (1743)	1,333	15.2%	13.6%	18.0%	25.2%	4.4%	(15.4)%	(35.9)%
22-Jan-21	Zhuhai Holdings Investment Group Limited (908)	3,170	37.8%	36.7%	52.4%	56.1%	57.4%	63.6%	82.7%
21-Jan-21	Polytec Asset Holdings Limited (208)	4,128	61.3%	58.6%	72.5%	94.2%	104.1%	105.8%	99.1%
20-Jan-21	Zhejiang New Century Hotel Management Co., Ltd. (1158)	4,077	24.7%	23.9%	20.8%	19.7%	20.3%	22.8%	27.7%
17-Jan-21	HKC (Holdings) Limited (190)	1,855	120.4%	122.3%	119.5%	109.3%	100.3%	93.7%	79.1%
13-Jan-21	China Machinery Engineering Corporation (1829)	10,521	45.1%	73.4%	118.5%	126.9%	126.3%	118.0%	105.1%
22-Dec-20	Huifu Payment Limited (1806)	3,395	26.8%	39.1%	47.0%	55.4%	44.9%	36.6%	45.7%
18-Dec-20	SHK Hong Kong Industries Limited (666)	576	50.0%	54.4%	57.1%	66.2%	69.4%	69.7%	71.5%
17-Dec-20	Rivera (Holdings) Limited (281)	1,252	62.5%	65.0%	63.6%	71.1%	73.3%	71.8%	63.9%
14-Dec-20	Creative Enterprise Holdings Limited (3992)	750	(23.4)%	(6.9)%	14.5%	17.0%	27.3%	33.3%	42.2%
6-Dec-20	i.T Limited (999)	2,320	54.6%	84.7%	135.5%	162.4%	173.0%	170.4%	156.7%
13-Nov-20	CAR Inc. (699)	7,192	18.0%	22.3%	52.2%	55.8%	57.1%	64.1%	45.7%
30-Oct-20	Tonly Electronic Holdings Limited (1249)	2,756	19.0%	19.7%	28.0%	25.5%	35.8%	45.5%	59.4%
15-Oct-20	Shanghai Prime Machinery Company Limited (2345)	1,640	68.4%	101.0%	110.9%	112.6%	129.8%	139.7%	138.4%
4-Oct-20	CIMC-TianDa Holdings Company Limited (445)	3,584	20.4%	21.9%	18.5%	26.8%	36.8%	46.2%	40.3%
27-Sep-20	China Zhongdi Dairy Holdings Company Limited (1492)	2,659	11.0%	16.9%	22.8%	44.9%	77.6%	100.1%	124.7%
24-Sep-20	AMVIG Holdings Limited (2300)	1,338	51.4%	51.6%	56.5%	57.7%	56.1%	54.7%	40.5%
7-Sep-20	Changshouhua Food Company Limited (1006)	2,065	16.4%	22.2%	43.2%	64.1%	65.8%	66.1%	59.1%
27-Aug-20	Leyou Technologies Holdings Limited (1089)	9,810	4.5%	5.9%	8.3%	17.1%	24.6%	28.7%	29.1%
29-Jul-20	Xinghua Port Holdings Ltd. (1990)	1,710	23.7%	31.3%	55.2%	92.3%	124.8%	137.3%	142.9%
8-Jul-20	O-Net Technologies (Group) Limited (877)	4,387	23.6%	24.7%	24.6%	28.0%	34.3%	38.2%	43.2%
2-Jul-20	Vantage International (Holdings) Limited (15)	842	80.0%	90.7%	119.5%	115.0%	104.1%	94.0%	78.6%
	Maximum		120.4%	122.3%	135.5%	162.4%	173.0%	170.4%	156.7%
	Minimum		(23.4)%	(6.9)%	8.3%	17.0%	4.4%	(15.4)%	(35.9)%
	Mean		37.9%	45.2%	58.1%	66.3%	70.3%	71.4%	69.4%
	Median		37.8%	38.2%	47.1%	57.7%	57.4%	64.1%	59.4%
	The Company (47)		73.9%	74.7%	70.9%	62.9%	61.0%	62.9%	66.3%

Source: Bloomberg and the Stock Exchange website



*Notes:*

- (1) Subject to rounding differences.
- (2) Up to and including the last trading full day of the shares prior to the publication of the Rule 3.5 announcement or Rule 3.7 announcement (where applicable).

The terms of the Privatisation Precedents set out above, in our view, demonstrate the premium over market prices needed in Hong Kong to secure a successful privatisation, i.e. how much the shareholders are being offered and the level of premium that is acceptable to shareholders in terms of historical share price ranges. Analysis of privatisation precedents is widely used in assessing the pricing of privatisation proposals in Hong Kong. Although the way of privatisation, the business nature and scale of each company vary and some aspects of pricing are likely to be industry-specific, this analysis, in our view, demonstrates the pricing of recent successful privatisations of Main Board listed companies in Hong Kong (with cash cancellation consideration offered both in the Proposal and the Privatisation Precedents which were approved) under recent market sentiment. Accordingly, we regard the Privatisation Precedents as a relevant benchmark for acceptable privatisation premium range in the market and one of the factors we consider meaningful in assessing the fairness and reasonableness of the Cancellation Price. A summary setting out the principal factors we considered is set out in the section headed "Discussion" of this letter below.

Based on the table above, the premia represented by the Cancellation Price of HK\$0.08 per Scheme Share over the closing Share prices for the Last Trading Day, last 5 trading days and last 30 trading days are above the corresponding mean and median of premia of the Privatisation Precedents. The premia represented by the Cancellation Price per Scheme Share over the closing Share prices for a longer period (i.e. last 60, 90, 120 and 180 trading days) were within the range of premia of the Privatisation Precedents and above the median of premia (although lower than the mean) of the Privatisation Precedents (except for last 120 trading days, the premium is below the median). Overall, we consider the premia represented by the Cancellation Price are, on balance, favourable to the Disinterested Shareholders, in particular, with respect to the recent closing Share prices for the Last Trading Day, last 5 trading days and last 30 trading days.

## **B. The Option Offer**

The Offeror is making an appropriate offer to all the Option Holders for the cancellation of every vested and unvested Share Option in accordance with Rule 13 of the Takeovers Code. The Option Offer is conditional upon the Scheme becoming effective. As at the Latest Practicable Date, there are 600,099,000 outstanding Share Options granted under the Share Option Schemes (among which 67,580,000 Share Options have been vested and 532,519,000 Share Options have not been vested), each giving the Option Holder the right to subscribe for one new Share. The relevant exercise price applicable to each such Share Option ranges from HK\$0.127 to HK\$0.189. The exercise of all such Share Options in full would result in the issue of 600,099,000 new Shares, representing approximately 5.96% of the issued share capital of the Company as at the Latest Practicable Date and approximately 5.62% of the issued share capital of the Company as enlarged by the issue of such new Shares.



Under the Option Offer, the Offeror will offer the Option Holders the Option Offer Price, which is a nominal value of HK\$0.001 for every Share Option they hold, for the cancellation of each Share Option, as the exercise price of each of the Share Options exceeds the Cancellation Price and the “see-through” price is negative. The “see-through” principle is normally adopted in Hong Kong for pricing option offers which form part of general offers and privatisation proposals. On this basis, we consider the Option Offer Price of HK\$0.001 to be fair and reasonable so far as the Option Holders are concerned.

As set out in the Explanatory Memorandum, pursuant to the rules of the Share Option Schemes, when a scheme of arrangement between the Company and the Shareholders is proposed, the Company shall notify each Option Holder as it gives notice to the Shareholders for the convening of the Court Meeting and thereupon each Option Holder may exercise his or her Share Options in whole or in part. If any of the outstanding Share Options is exercised in accordance with the terms of the relevant Share Option Schemes by no later than 4:30 p.m. on Friday, 14 January 2022, any Shares so issued will be subject to and eligible to participate in the Scheme. Pursuant to the terms of the Share Option Schemes, all Share Options will lapse automatically and not be exercisable (to the extent not already lapsed or exercised) on the earlier of (i) the date on which the Scheme is sanctioned by the Grand Court; or (ii) the date of expiry of the two months’ period from the date of the Option Offer Letter (which is given at the same time as the despatch of the Scheme Document). Further details in relation to the Option Offer are set out in the Explanatory Memorandum and the “Form of the Option Offer Letter” in Appendix VI to the Scheme Document.

## **DISCUSSION**

### **In respect of the Proposal and the Scheme**

#### *(i) Financial performance and challenges faced by the Group*

The principal activities of the subsidiaries of the Company are the operation of quick service restaurants under the brand names “Yoshinoya” and “Dairy Queen” in northern China. During 2020, the Group’s total revenue decreased by approximately 24.4% as compared to that in 2019 and it recorded a loss of approximately RMB81.9 million, primarily due to the operation suspension of certain stores as a result of the outbreak of the COVID-19. In the first half of 2021, the Group’s financial performance improved as a result of the gradual recovery of its business after the ease of COVID-19 restrictions in the PRC but attributable profits, at approximately RMB8.7 million, were still at a depressed level. With imported cases of COVID-19 from overseas rising and sporadic outbreaks still occurring in some regions, the consumer market continues to face uncertainty. The pandemic also changed the consumption habits of consumers so the recovery of the Group’s dine-in catering business was lackluster during the first half of 2021. The management of the Company considers, while the COVID-19 pandemic has largely been contained in the PRC, the catering industry, like the majority of other industries, still faces challenges caused by the fallout from the pandemic. The Proposal provides, in our view, an opportunity to the Disinterested Shareholders to realise their investment in the Company through receiving a fixed cash consideration at a significant premium over historical Share prices and net asset value per Share (as discussed in subparagraph (iv) below).



*(ii) Cancellation Price represents substantial premia over historical Share prices*

Under the Scheme, each Scheme Shareholder will be entitled to receive the Cancellation Price of HK\$0.08 in cash for each Scheme Share cancelled. **The Cancellation Price will not be increased and the Offeror does not reserve the right to do so.** After 18 March 2020, all trading days during the Review Period saw a closing Share price below the Cancellation Price of HK\$0.08 per Scheme Share. The Cancellation Price represents premia in a range of approximately 61.0% to 74.7% over the closing Share prices for different periods up to and including the Last Trading Day. The Shares closed at HK\$0.075 per Share on the Latest Practicable Date, which we consider reflects that the market price is being principally determined by the Cancellation Price and may not remain at the current level if the Scheme fails.

*(iii) Trading volume thin*

The trading volume of the Shares has been low in general. The ratio of the monthly trading volume of the Shares to the total issued share capital was below 2% in 20 months out of 23 months from January 2020 to November 2021 (up to the Latest Practicable Date). In the absence of the Scheme, a downward pressure on the market price of the Shares may be exerted if Scheme Shareholders (especially those with relatively sizeable shareholdings) wish to sell a significant number of Shares within a short period in the market. The higher level of trading volume following the publication of the Joint Announcement may not, in our view, be sustained if the Proposal lapses. Therefore, the Proposal provides an opportunity for the Scheme Shareholders to realise their investments in the Company for cash at premia if they so wish.

*(iv) Cancellation Price represents substantial premia over net assets*

The Cancellation Price represents premia of approximately 63.9% and 57.8% over the net asset value per Share as at 31 December 2020 and 30 June 2021 respectively, which we consider a favourable factor to the Disinterested Shareholders.

*(v) Peer company analysis*

The Implied EV/EBITDA of the Company is above the EV/EBITDA multiples of Fairwood and Ajisen (who operates fast food/quick service restaurants). The Implied Trailing EV/EBITDA is above the trailing 12 months EV/EBITDA multiple of Ajisen, but below the trailing 12 months EV/EBITDA multiple of Fairwood. The Implied EV/EBITDA is above the median, despite lower than the mean of the EV/EBITDA multiples of the Comparable Companies. The Implied Trailing EV/EBITDA is also slightly above the median of the trailing 12 months EV/EBITDA multiples of the Comparable Companies (although lower than the mean). We consider, on balance, the above to be a favourable factor to the Disinterested Shareholders.





*(vi) Privatisation precedents*

As set out in the paragraph above headed “Privatisation precedents” of this letter, the premia represented by the Cancellation Price of HK\$0.08 per Scheme Share over the closing Share prices for the Last Trading Day, last 5 trading days and last 30 trading days are above the corresponding mean and median of premia of the Privatisation Precedents. The premia represented by the Cancellation Price per Share over the closing Share prices for a longer period (i.e. last 60, 90, 120 and 180 trading days) were within the range of premia of the Privatisation Precedents and above the median of premia (although lower than the mean) of the Privatisation Precedents (except for last 120 trading days, where the premium is below the median). Overall, we consider the premia represented by the Cancellation Price are, on balance, favourable to the Disinterested Shareholders, in particular, with respect to the recent closing Share prices for the Last Trading Day, last 5 trading days and last 30 trading days.

In view of the factors summarised in this section above, taking into account that (i) challenges remain with respect to the Group’s operating environment as discussed in this letter above; (ii) the Cancellation Price represents substantial premia in a range of approximately 61.0% to 74.7% over the closing Share prices for different periods up to and including the Last Trading Day; (iii) the trading volume of the Shares has been low in general and the Proposal provides an opportunity for the Scheme Shareholders to realise their investments in the Company for cash at premia if they so wish; (iv) the Cancellation Price represents premia of approximately 63.9% to 57.8% over the net asset value per Share as at 31 December 2020 and 30 June 2021 respectively; (v) based on the results of the peer company analysis as set out in this letter above, we consider on balance, the valuation of the Company (based on EV/EBITDA multiple represented by the Cancellation Price) to be a favourable factor to the Disinterested Shareholders; and (vi) as set out in the privatisation precedents analysis above, we consider the premia represented by the Cancellation Price are, on balance, favourable to the Disinterested Shareholders, in particular, with respect to the recent closing Share prices for the Last Trading Day, last 5 trading days and last 30 trading days, we are of the view that the Cancellation Price are fair and reasonable.

**In respect of the Option Offer**

Under the Option Offer, the Offeror will offer the Option Holders the Option Offer Price, which is a nominal value of HK\$0.001 for every Share Option they hold, for the cancellation of each Share Option, as the exercise price of each of the Share Options exceeds the Cancellation Price and the “see-through” price is negative. The “see-through” principle is normally adopted in Hong Kong in such circumstances. We consider the Option Offer Price of HK\$0.001 to be fair and reasonable so far as the Option Holders are concerned. If any of the outstanding Share Options is exercised in accordance with the terms of the relevant Share Option Schemes by no later than 4:30 p.m. on Friday, 14 January 2022, any Shares so issued will be subject to and eligible to participate in the Scheme. Option Holders should note that, pursuant to the terms of the Share Option Schemes, all Share Options will lapse automatically and not be exercisable (to the extent not already lapsed or exercised) on the earlier of (i) the date on which the Scheme is sanctioned by the Grand Court; or (ii) the date of expiry of the





two months' period from the date of the Option Offer Letter (which is given at the same time as the despatch of the Scheme Document). This in effect means the Share Options will become worthless if Option Holders do nothing and the Scheme is approved.

#### **OPINION AND RECOMMENDATIONS**

Based on the above principal factors and reasons summarised in the section headed "Discussion" above, we consider the terms of the Proposal, the Scheme and the Option Offer are fair and reasonable so far as the Disinterested Shareholders and Option Holders are concerned. Accordingly, we recommend the Independent Board Committee to advise:

- (1) the Disinterested Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting;
- (2) the Shareholders to vote in favour of the resolutions in connection with the Scheme at the EGM; and
- (3) the Option Holders to accept the Option Offer.

The Shares have traded below the Cancellation Price since the Last Trading Day and up to the Latest Practicable Date. Although we consider it unlikely, there remains the possibility that the Share price may exceed the Cancellation Price by 4:10 p.m. on 16 December 2021, being the expected latest time for trading in the Shares on the Stock Exchange. Accordingly, the Scheme Shareholders and the Option Holders are advised to monitor the trading price and liquidity of the Shares during this period. Having regard to their own circumstances, Scheme Shareholders may consider selling their Shares in the open market and Option Holders exercising their vested Share Options and selling their Shares to be issued upon such exercise if the net proceeds obtained from such disposals (after deducting all transaction costs) would be higher than the net proceeds to be received under the Scheme and from accepting the Option Offer respectively.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**

**Stephanie Chow**  
*Director*

*Ms. Stephanie Chow is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over thirteen years' experience in the corporate finance industry.*

*\* The English translation of the Chinese Names is included for information purpose only and should not be regarded as their official English translation.*