八方金融有限公司
OCTAL Capital Limited

16 December 2024

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

## CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions contemplated under each of the Franchise Agreements and the CCT Supply Agreements, as well as the Revised Annual Caps, particulars of which are set out in the letter from the Board (the **"Letter from the Board"**) of the circular to the shareholders of the Company dated 16 December 2024 (the **"Circular"**) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

On 14 May 2024, the Group renewed the Fortune Choice Sales Agreement and the Fortune Choice Supply Agreement with Shigemitsu Industry both for a further three-year term ending on 13 May 2027. On the same date, the Group also renewed the Festive Profits Supply Agreement with Shigemitsu Food for a further three-year term ending on 13 May 2027.

In view of the actual business need and the expansion of the Franchise Businesses of the Group, the Board anticipates that the transactions under the Franchise Agreements and the CCT Supply Agreements will exceed the previous projections and that the Existing Annuals Caps, including (i) the proposed revised annual cap(s) under the Franchise Agreements (the **"Revised Franchise Cap(s)"**); and (ii) the proposed revised annual cap(s) under the CCT Supply Agreements (collectively, the **"Revised Supply Cap(s)"**), will not be sufficient to meet the Group's requirements for the three years ending 31 December 2024, 2025 and 2026. Accordingly, the Board proposes to revise the Existing Annual Caps to address its anticipating business needs in view of expected material market changes. Save for the revision of the Existing Annual Caps, all terms and conditions of the Franchise Agreements and the CCT Supply Agreements shall remain unchanged.

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## INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the continuing connected transactions contemplated under each of the Franchise Agreements and the CCT Supply Agreements, as well as the Revised Annual Caps, are on normal commercial terms and in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and will advise the Independent Shareholders on how to vote at the EGM.

## OUR INDEPENDENCE

We, Octal Capital Limited, have been appointed by the Company as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the last two years, there has been no other engagement entered into between the Company and us. We are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Franchise Agreements and the CCT Supply Agreements, as well as the Revised Annual Caps. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or associates. We are not connected with the directors, chief executive and substantial shareholders of the Company, the Group, Shigemitsu Industry, Shigemitsu Food, Fortune Choice or any of their respective subsidiaries or associates, and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. Accordingly, we consider that we are independent to act as the Independent Financial Advisor pursuant to Rule 13.84 of the Listing Rules.

## BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussions with the management of the Company regarding the Group, the continuing connected transactions contemplated under each of the Franchise Agreements and the CCT Supply Agreements, as well as the Revised Annual Caps, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information among other things, (i) the Franchise Agreements; (ii) the CCT Supply Agreements; (iii) the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**") and the interim report of the Company for the six months ended 30 June 2024 (the "**2024 Interim Report**"); (iv) other information as set out in the Circular; and (v) the relevant market data and information available from public sources, to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions contemplated under each of the Franchise Agreements and the CCT Supply Agreements, as well as the Revised Annual Caps, we have taken into account the following principal factors and reasons:

### 1. Background of the Group

The Company is an investment holding company. The Group is a FCR chain operator selling Japanese ramen and Japanese-style dishes in Hong Kong and the PRC under the "Ajisen" brand name pursuant to the franchise granted by Shigemitsu Industry.

### 2. Background of Shigemitsu Industry

Shigemitsu Industry is a company incorporated in Japan. It is the owner of the trade name "味千拉麵" and related trademarks, and franchisor of the Company. Mr. Katsuaki Shigemitsu indirectly owns approximately 68.35% in Shigemitsu Industry through Shigemitsu Corporation Limited, a company incorporated in Japan which is wholly owned by Mr. Katsuaki Shigemitsu.

### 3. Background of Shigemitsu Food

Shigemitsu Food is a company incorporated in the PRC and is wholly owned by Eagle Sky. Mr. Katsuaki Shigemitsu and Shigemitsu Industry own 60% and 30% interest in Eagle Sky respectively. The principal business of Shigemitsu Food is producing and selling of soup base and condiments.

### 4. Background of Fortune Choice

Fortune Choice is an indirect wholly-owned subsidiary of the Company, the holding company of Shenzhen Factory and its principal business is investment holding and trading of noodles and other food products manufactured by the Shenzhen Factory.

### 5. Financial information of the Group

*Review of financial performance*

The principal activities of the Group are principally engaged in the operation of restaurants (the "**Operation of Restaurants Segment**"), and manufacturing and sales of noodles and related products (the "**Manufacturing and Sales of Noodles Segment**"). The table below sets out the audited financial information of the Group for the years ended 31 December 2022 and 31 December 2023 (the "**FY2022**" and "**FY2023**"), and unaudited financial information of the Group for the six months periods ended 30 June 2023 and 30 June 2024 (the "**1H2023**" and "**1H2024**") extracted from the 2023 Annual Report and the 2024 Interim Report.

| | **1H2023** *RMB'000* *(unaudited)* | **1H2024** *RMB'000* *(unaudited)* | **FY2022** *RMB'000* *(audited)* | **FY2023** *RMB'000* *(audited)* |
|---|---|---|---|---|
| Operation of restaurants | 842,594 | 792,194 | 1,339,611 | 1,734,200 |
| Manufacture and sales of noodles and related products | 42,253 | 34,596 | 90,181 | 81,206 |
| **Total revenue** | **884,847** | **826,790** | **1,429,792** | **1,815,406** |
| Profit/(loss) from operation | 65,251 | 11,121 | (114,084) | 126,842 |
| **Net profit/(loss) for the year/ period** | **139,596** | **(4,261)** | **(156,368)** | **192,527** |

*For 1H2024*

Revenue of the Group decreased by approximately 6.7% from RMB884.8 million for 1H2023 to RMB826.8 million for 1H2024, mainly due to lower revenue contributed by the Operation of Restaurants Segment and Manufacturing of Noodles Segment. Revenue generated from the Operation of Restaurants Segment decreased by approximately 6.0% to RMB792.2 million for 1H2024 as compared to RMB842.6 million for 1H2023. The Manufacturing of Noodles Segment decreased by approximately 18.1% to RMB34.6 million for 1H2024 as compared to RMB42.3 million for 1H2023. The above decrease in revenue of the Operation of Restaurants Segment and Manufacturing of Noodles Segment were mainly due to the unsustained economic recovery post-pandemic, along with intense competition in the restaurant industry, leading to a decrease in store traffic.

The profit from operation decreased by approximately 83.0% from RMB65.3 million for 1H2023 to RMB11.1 million for 1H2024, mainly due to (i) the abovementioned decrease in revenue; and (ii) the increase in other operating expenses of approximately RMB32.0 million, partially offset by the improvement in gross profit margin from approximately 75.1% for 1H2023 to approximately 77.0% for 1H2024.

Mainly driven by the above factors and the recognition of other losses of approximately RMB61.8 million which was mainly contributed from fair value loss on investment properties and financial assets as well as impairment loss on right-of-use assets, a net loss for 1H2024 of approximately RMB4.3 million was recorded, representing a turnaround from a net profit of RMB139.6 million for 1H2023.

*For FY2023*

Revenue of the Group increased by approximately 27.0% from RMB1,429.8 million for FY2022 to RMB1,815.4 million for FY2023, mainly due to higher revenue contributed by the Operation of Restaurants Segment. Revenue generated from the Operation of Restaurants Segment increased by approximately 29.5% to RMB1,734.2 million for FY2023 as compared to RMB1,339.6 million for

FY2022, mainly due to the Group's stores no longer needed to suspend operations for pandemic control measures, coupled with the gradual decline in the impact of the COVID-19 pandemic. The Manufacturing of Noodles Segment decreased by approximately 10.0% to RMB81.2 million for FY2023 as compared to RMB90.2 million for FY2022.

The profit from operation for FY2023 amounted to approximately RMB126.8 million, whereas the loss from operation for FY2022 amounted to approximately RMB114.1 million. The turnaround from loss to profit was mainly due to (i) the abovementioned increase in revenue; (ii) the improvement in gross profit margin from approximately 73.8% for FY2022 to approximately 75.6% for FY2023; and (iii) the decrease in depreciation on property, plant and equipment and right-of-use assets of approximately RMB50.8 million, partially offset by the increase in staff costs of approximately RMB50.4 million and the increase in other operating expenses of approximately RMB77.8 million.

Mainly driven by the above factors and the recognition of other gains of approximately RMB37.2 million which was mainly contributed from fair value gain on investment properties and financial assets, a net profit for FY2023 of approximately RMB192.5 million was recorded, representing a turnaround from a net loss of RMB156.4 million for FY2022.

**6. Reasons for and benefits of the Franchise Agreements and the CCT Supply Agreements**

The Franchise Agreements were established in 2006 pursuant to which Shigemitsu Industry agreed to provide the Group with an exclusive and perpetual franchise to operate the Franchise Businesses in the PRC, Hong Kong and Macau. These agreements remain in effect indefinitely unless terminated by specific events outlined within them. Under the Franchise Agreements, the Group can secure a perpetual franchise for the Franchise Business in the PRC, Hong Kong and Macau. Over the years, the Group has built a strong brand presence and achieved a prominent position in the ramen catering industry in the PRC and Hong Kong. The perpetual nature of these agreements benefits both the Group and Shigemitsu Industry, reflecting their joint efforts in establishing and expanding the "Ajisen" brand across the PRC and Hong Kong. This perpetual arrangement also supports the Group's sub-franchise activities, offering flexibility in sub-franchise arrangements. As at the Latest Practicable Date, the Group has sub-franchised 30 restaurants in Mainland China, generating additional royalty income for the Group.

On the other hand, the Group and Shigemitsu Industry entered into the Fortune Choice Supply Agreement in 2006 pursuant to which Shigemitsu Industry agreed to supply materials and supplies which are required by the Group for the operation of the Franchise Businesses, including soup base, condiments and other goods. Additionally, the Group and Shigemitsu Food entered into the Festive Profits Supply Agreement in 2009 pursuant to which Shigemitsu Food agreed to supply food products, goods, materials and supplies to the Group for the operation of the Franchise Businesses. The Directors are of the view that ensuring a consistent and dependable source of soup base, condiments, and food products is crucial for sustaining seamless operations and delivering high-quality products to customers. Given the long-term supply arrangements with Shigemitsu Industry and Shigemitsu Food ("**Shigemitsu Companies**"), along with the Group's operational workflow, the Group would benefit from procuring soup base, condiments, and food products to optimise its processes and guarantee the quality of ingredients.

Having considered that (i) the brand name "Ajisen" has been established over the years; (ii) the Group needs a stable supply of soup base, condiments and food products for its daily operation; and (iii) the entering into the CCT Supply Agreements can ensure the quality of materials in order to provide high quality products to customers, we are of the view that the rationale behind the Franchise Agreements and the CCT Supply Agreements are commercially justifiable.

## 7. Terms of the Franchise Agreements and the CCT Supply Agreements

The principal terms of each of the Franchise Agreements and the CCT Supply Agreements are as follows:

### *(A) FRANCHISE AGREEMENTS*

The Franchise Agreements were made on 19 February 2006. Pursuant to the Franchise Agreements, Shigemitsu Industry (as franchisor), agrees to grant a sole, exclusive and perpetual franchise to the Group to operate the Franchise Businesses in the PRC, Hong Kong and Macau. The Franchise Agreements are perpetual unless terminated by an occurrence of any terminating event as set out in the Franchise Agreements.

The terms of the Franchise Agreements (including the fees payable by the Group to Shigemitsu Industry thereunder) were negotiated on an arm's length basis. The Directors believe that the perpetual term of the Franchise Agreements best serves the commercial interests of the Group and Shigemitsu Industry in their ordinary course of business dealing and is therefore a normal commercial practice. It is also important to and in the best interests of the Group and the shareholders of the Company to sign long-term franchise agreements with Shigemitsu Industry to secure the franchise rights and avoid any potential issues in entering into new agreements in the future. The franchise fees and technical fees payable by the Group to Shigemitsu Industry under the Franchise Agreements will be settled by cash on an annual basis.

*(B)* ***RENEWED FORTUNE CHOICE SUPPLY AGREEMENT***

| | |
|---|---|
| Date of agreement: | 14 May 2024 |
| Parties: | (1) Fortune Choice as buyer; and<br>(2) Shigemitsu Industry as seller |
| Term: | From 14 May 2024 to 13 May 2027 |
| Scope of the agreement: | Shigemitsu Industry to supply materials and supplies which are required by the Group for the operation of the Franchise Businesses, including soup base, condiments, flour and other goods. |
| Pricing policy: | The consideration of the goods (other than the specialty products which are only available through Shigemitsu Industry) would be determined by reference to:<br><br>i) prevailing market prices of similar products offered by independent third-party suppliers; or<br><br>ii) prices Shigemitsu Industry offers to independent third-party customers.<br>In order to ensure that the price and terms offered by Shigemitsu Industry would be on normal commercial terms or on terms no less favorable to the Group than that offered by independent third-party suppliers, the Group has adopted the following pricing procedures:<br><br>i) prices and terms will be reviewd by the procurement department for every purchase order;<br><br>ii) for every purchase order, the procurement department will compare the prices and terms with at least two quotations from independent third-party suppliers or at least two invoices or quotations that Shigemitsu Industry offered to two different independent third-party customers, to ensure the offer to the Group are at arm's length and reflect normal commercial terms;<br><br>iii) every purchase order will be approved by a procurement manager and an Executive Director; and |

iv) for every purchase order, the internal audit department will compare the prices and terms that offered by Shigemitsu Industry with the unit selling price and terms offered by independent third-party suppliers of the Group (for products including condiments, flour and other goods) to make sure that the prices and terms offered by Shigemitsu Industry would be no less favourable than the offer from the independent third-party suppliers.

In relation to those specialty products, which are only available through Shigemitsu Industry, such as soup base, the Group has adopted the following pricing procedures:

i) prices and terms will be reviewed by the procurement department for every purchase order;

ii) for every purchase order, the procurement department will compare the prices and terms with at least two sale invoices or quotations for the same products that Shigemitsu Industry offered to independent third-party customers to ensure the price and terms offered to the Group would be no less favorable than those offered to other independent third-party customers;

iii) every purchase order will be approved by a procurement manager and an executive Director; and

iv) for every purchase order, the internal audit department will compare the prices and terms offered by Shigemitsu Industry with the unit selling price and terms offered by Shigemitsu Industry to their independent third-party customers to make sure that the prices and terms offered by Shigemitsu Industry would be no less favorable than the offer for the independent third-party customers.

Pursuant to a supplemental agreement dated 16 September 2006 and made between Fortune Choice and Shigemitsu Industry, the parties agree that where the goods are manufactured or supplied by Shigemitsu Industry from the PRC, Shigemitsu Industry will duly and reasonably adjust the prices of the goods in favour of the Group. Shigemitsu Industry will adjust the price to the extent that the unit price that the Group paid, including the costs of goods, costs of logistics and taxes, if any, would be less than those offered to other independent third-party customers.

Payment terms: The consideration of the goods shall be settled in full in 30-45 days after the goods have been delivered.

*(C) RENEWED FESTIVE PROFITS SUPPLY AGREEMENT*

Date of agreement: 14 May 2024

Parties:

(1) Shigemitsu Food as seller; and

(2) Festive Profits as buyer

Term: From 14 May 2024 to 13 May 2027

Scope of the agreement: Shigemitsu Food to sell soup base which is required by the Group for the operation of the Franchise Businesses.

Pricing policy: The soup base, which is only available through Shigemitsu Food, the Group has adopted the following pricing procedures:

i) prices and terms will be reviewed by the procurement department for every purchase order;

ii) for every purchase order, the procurement department will compare the prices and terms with at least two sale invoices or quotations for the same products that Shigemitsu Food offered to independent third-party customers to ensure the price and terms offered to the Group would be no less favorable than those offered to other independent third-party customers;

iii) every purchase order will be approved by a procurement manager and an executive Director; and

iv) for every purchase order, the internal audit department will compare the prices and terms offered by Shigemitsu Food with the unit selling price and terms offered by Shigemitsu Food to their independent third-party customers, to make sure that the price and terms offered by Shigemitsu Food would be no less favorable than the offer for the independent third-party customers.

Payment terms: The consideration of the goods shall be settled in full in 30-45 days after the goods have been delivered.

## 8. Review on the terms of (i) the Franchise Agreements and (ii) the CCT Supply Agreements

### *8.1 The Franchise Agreements*

Under the Franchise Agreements, Shigemitsu Industry commits to granting the Group an exclusive and perpetual franchise to operate the Franchise Businesses in the PRC, Hong Kong and Macau. Additionally, Shigemitsu Industry provides the Group with the exclusive rights to sub-franchise, sell, or market any existing or newly developed products or services within these regions. These agreements remain perpetual unless terminated due to specified events outlined within them, and they undergo review every 38 years by both the Group and Shigemitsu Industry. The terms, including the fees payable by the Group to Shigemitsu Industry, were negotiated independently and are subject to potential amendments post-review with mutual consent. Pursuant to the Franchise Agreements, the monthly franchise fees per store in the PRC and Hong Kong are RMB3,500 and HK$7,000 respectively. Additionally, a technical fee is payable to Shigemitsu Industry when the Group uses the franchisor's trademark for producing packaging condiments or noodles, currently the Group manufactures the packaging products in the PRC only and has no plan to manufacture the packaging products in Hong Kong for the year ending 31 December 2024, 2025 and 2026. The technical fee is calculated as follows:

| Annual turnover of packaging condiments and noodles with franchisor's trademark | Technical fee |
|---|---|
| The portion of turnover RMB 0 – 100,000,000 | 1% |
| The portion of turnover RMB 100,000,001 – 300,000,000 | 0.75% |
| The portion of turnover RMB 300,000,000 or above | 0.5% |

According to the Franchise Agreements, amendment of terms requires mutual arrangement between the Group and Shigemitsu Industry. Following discussion with the management of the Group, we note that the Group has no intention to amend any terms specified in the Franchise Agreements.

In respect of the franchise and technical fees charged to the Group under the Franchise Agreements, we note that the historical franchise and technical fees accounted for approximately 1.4%, 1.7% and 1.3% of the Group's revenue for the three years ended 31 December 2021, 2022 and 2023 respectively. Furthermore, the technical fees charged to the Group under the PRC Franchise Agreement amounted to approximately RMB0.5 million, RMB0.6 million and RMB0.4 million for the years ended 31 December 2021, 2022 and 2023 respectively. Following discussions with the Group's management, we note that the Group's primary focus lies in the Operation of Restaurants Segment rather than the Manufacturing and Sales of Noodles Segment, whereas the technical services offered by Shigemitsu Industry as a supplementary service under the Franchise Agreements. For our assessment on the franchise and technical fees under the Franchise Agreements, we intend to aggregate them for a more thorough analysis.

In order to assess whether the franchise and technical fees charged to the Group under the Franchise Agreements are on normal commercial terms and fair and reasonable, we have, to our best endeavor, (i) performed desktop research (including research on announcements, circulars and prospectuses published on the website of the Stock Exchange); and (ii) identified relevant franchising arrangements of companies listed on the Stock Exchange which are principally engaged in food and beverage business with their disclosure of relevant franchising arrangements containing sufficient information for our analysis over the past five years from 1 January 2019 to the Latest Practicable Date. We consider the period of selecting the comparable transactions to be a reasonable period as those transactions have been entered into in the past five years which can provide an overview of general market practice in relation to the franchising arrangements and provide sufficient sample size for our assessment.

To the best of our knowledge and as far as we are aware of, based on the above selection criteria, five comparable transactions (the "**Comparable Transactions**") are identified which represent an exhaustive list of transactions satisfying above selection criteria and the details of which are listed below:

| Date of announcement/ prospectus | Company name (stock code) | Brand(s) | One-off fee | Franchise, royalty, license and/or technical fees to revenue | Duration of franchise agreement |
|---|---|---|---|---|---|
| 2019/12/30 | Jiumaojiu International Holdings Limited (9922) | Double Eggs | Franchise fee: RMB30,000 or RMB50,000 per restaurant; Design service fee: RMB5,000 or RMB6,000 per restaurant | 5% | 10 years, the franchisee can apply for renewal upon franchisor's approval |

| Date of announcement/ prospectus | Company name (stock code) | Brand(s) | One-off fee | Franchise, royalty, license and/or technical fees to revenue | Duration of franchise agreement |
|---|---|---|---|---|---|
| 2020/9/1 | Yum China Holdings, Inc. (9987) | KFC, Pizza Hut and Taco Bell | Nil | 3% | 50 years with automatic renewals for additional consecutive renewal terms of 50 years |
| 2022/12/23 | DPC Dash Ltd (1405) | Domino's Pizza | Master franchise fee; Store franchise fee: US$10,000 per store | 3% | 10 years, the franchisee has an option to renew for an additional two 10-year periods |
| 2023/11/13 | Tam Jai International Co. Limited (2217) | Toridoll Japan | Commitment fee: US$100,000; Unit development fee: US$20,000 | 3% | 3 years, renewal subject to the parties' mutual agreement in writing |
| 2023/12/22 | Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (520) | Tea Mi Tea | Nil | 5% | 3 years |

The companies listed above have entered into franchise agreements with their franchisor(s)/ franchisee(s) regarding the operation of food and beverage businesses under the franchisors' brand name(s). From the table above, we note that out of the five Comparable Transactions, three Comparable Transactions require a one-off fee from the franchisors for restaurant opening. For the ongoing fee, the percentage of relevant franchise, royalty, license and/or technical fees to revenue of the above Comparable Transactions range from approximately 3% to 5%, with an average percentage of approximately 3.8%. Upon comparison, (i) there is no one-off fee requirement under the Franchise Agreements, in contrast to three of the Comparable Transactions; (ii) on a basis that the franchise and technical fees for the years ending on 31 December 2024, 2025 and 2026 are expected to remain within a range representing approximately 1.3% to 1.7% of the Group's revenue during those respective years, the average percentage of ongoing franchise fees of the above Comparable Transactions is higher than that of the Group; and (iii) the Group will pay the franchise fee annually under the Franchise Agreements, which is no less favourable than the Comparable Transactions that charged on a monthly basis.

Moreover, we understand that the Group has sub-franchised the right to develop and operate Ajisen restaurants to independent third parties. Based on our review on the terms of the sub-franchise agreement entered into between the Group and independent third parties, we note that the sub-franchise fee rates charged by the Group to the independent third parties are higher than the franchise and technical fees charged to the Group under the Franchise Agreements.

Regarding the duration of the franchise agreements, it is notable that three out of five Comparable Transactions have a duration of 10 years or longer, whereas one of the Comparable Transactions has a term of 50 years. These three Comparable Transactions were based on their pre-existing agreements which had been entered into before the initial public offering of their subject company listed on the Stock Exchange. In contrast, the other two Comparable Transactions have a duration of three years, one of which incorporated a renewal clause. These two Comparable Transactions were entered into after the new listing of their subject company. Although the duration of the Franchise Agreements is perpetual, modifications to the terms are subject to mutual agreement between the Group and Shigemitsu Industry. Furthermore, the Group retains the option to review the potential renewal of the Franchise Agreements before their expiry. Having considered that (i) the Franchise Agreements similar to those Comparable Transactions with 10 years term or above were pre-existing agreements entered into before the initial public offering of the Company; and (ii) the long duration of the Franchise Agreements could secure the Group's operation of the Franchise Businesses under the brand name "Ajisen", considering that revenue from these businesses contributed more than 85% of the Group's total annual revenue over the last three fiscal years. Therefore, we consider that the duration of the Franchise Agreements is justifiable.

Based on the above, we consider that the franchise fee and payment term under the Franchise Agreements are on normal commercial terms and fair and reasonable.

### 8.2 *The CCT Supply Agreements*

In order to ensure that the price and terms offered by Shigemitsu Companies would be on normal commercial terms or on terms no less favorable to the Group than that offered by independent third-party suppliers, the Group has adopted the following pricing procedures:

(i) prices and terms will be reviewd by the procurement department for every purchase order;

(ii) for every purchase order, the procurement department will compare the prices and terms with at least two quotations from independent third-party suppliers or at least two invoices or quotations that Shigemitsu Companies offered to two different independent third-party customers, to ensure the offer to the Group are at arm's length and reflect normal commercial terms. For those specialty products, which are only available through Shigemitsu Companies, such as soup base, the procurement department will compare the prices and terms with at least two sale invoices or quotations for the same products that Shigemitsu Companies offered to independent third-party customers to ensure the price and terms offered to the Group would be no less favorable than those offered to other independent third-party customers;

(iii) every purchase order will be approved by a procurement manager and an executive Director; and

(iv) for every purchase order, the internal audit department will compare the prices and terms offered by Shigemitsu Companies with the unit selling price and terms offered by independent third-party suppliers of the Group (for products including condiments, flour and other goods) or with the unit selling price and terms offered by Shigemitsu Companies to their independent third-party customers (for specialty products, including soup base) to make sure that the prices and terms offered by Shigemitsu Companies would be no less favorable than the offer from the independent third-party suppliers of the Group or the offer from Shigemitsu Companies to their independent third-party customers.

Pursuant to a supplemental agreement dated 16 September 2006 and made between Fortune Choice and Shigemitsu Industry, the parties agree that where the goods are manufactured or supplied by Shigemitsu Industry from the PRC, Shigemitsu Industry will duly and reasonably adjust the prices of the goods in favour of the Group. Shigemitsu Industry will adjust the price to the extent that the unit price that the Group paid, including the costs of goods, costs of logistics and taxes, if any, would be less than those offered to other independent third-party customers.

We have discussed with the management of the Company regarding the cost structure of the Group and understand that soup base constitutes a significant portion of the raw materials purchased from Shigemitsu Companies. According to the financial data provided by the Group, the purchases of soup base from Shigemitsu Companies represented approximately 94.3%, 94.7% and 95.9% of the total amount of raw materials purchased from Shigemitsu Companies for the years ended 31 December 2022 and 2023 and for the nine months ended 30 September 2024 respectively. Such essential ingredients are purchased from Shigemitsu Food under the Festive Profits Supply Agreement for Ajisen restaurants in the PRC and from Shigemitsu Industry under the Fortune Choice Supply Agreement for Ajisen restaurants in Hong Kong. For maintaining stringent food quality standards, the Group maintains exclusivity in sourcing its soup base solely from Shigemitsu Companies. This strategic sourcing approach ensures consistently high-quality dining experience for the Group's customers.

In order to assess the fairness and reasonableness of the price determination mechanism of the soup base, we have discussed with the management of the Company and understand that the price of the soup base shall be mainly determined on arm's length basis with reference to historical prices and prevailing market prices of similar products and would be no less favourable than those offered by Shigemitsu Industry to other independent purchasers of the supplied goods. As the soup base is uniquely produced by Shigemitsu Industry according to its proprietary recipes and unavailable from other suppliers of the Group, we consider that it is justifiable to compare the price of soup base offered to the Group with the price offered to Shigemitsu Industry's other independent customers.

We have obtained a list of purchase orders from the Group. It was observed that the soup base was the major product purchased from Shigemitsu Companies by the Group for the two years ended 31 December 2023 and the nine months ended 30 September 2024 (the "**Review Period**"). Therefore, we have selected on a random basis, obtained and reviewed (i) three supply contracts in relation to purchase of soup base entered into between the Group and

Shigemitsu Food for each of the year/period during the Review Period; (ii) three supply contracts in relation to purchase of soup base entered into between the Group and Shigemitsu Industry for each of the year/period during the Review Period; (iii) two supply contracts in relation to purchase of soup base entered into between Shigemitsu Companies (i.e. Shigemitsu Industry and Shigemitsu Food) and their other customers for each of the year/period during the Review Period respectively (i.e. twelve supply contracts in total) (the "**Shigemitsu Customers' Contracts**").

Upon our review of the aforementioned supply contracts, we observed that the unit purchase price of the soup base under the Festive Profits Supply Agreement for PRC Ajisen restaurants were similar to those under the under the Fortune Choice Supply Agreement for Hong Kong Ajisen restaurants, considering all relevant costs such as tax and logistics expenses. Furthermore, the unit price of the soup base under the CCT Supply Agreements was lower than the unit price in the Shigemitsu Customers' Contracts.

Furthermore, in the Shigemitsu Customers' Contracts, purchasers are required to make upfront payments for every order, unlike the payment terms in the Festive Profits Supply Agreement and Fortune Choice Supply Agreement, which specify payment within 30-45 days after the goods have been delivered. The payment terms of the Festive Profits Supply Agreement and Fortune Choice Supply Agreement, allowing for payment within 30-45 days post-delivery, represent a more favourable arrangement for the purchaser compared to the terms in the Shigemitsu Customers' Contracts.

In relation to pricing policies and internal control procedures, after discussions with the Group's management, they confirmed that the Group has consistently adhered to its pricing policies and internal control procedures to its historical transactions and has also affirmed its commitment to maintaining this strict adherence for future transactions. To review the Group's compliance with the policies and procedures, we requested documentation from the Company concerning the Group's review of unit purchase prices. We have obtained and reviewed the review documents indicating the Group's assessment of unit purchase prices negotiated with Shigemitsu Companies during the Review Period. The review documents were prepared by the procurement department, endorsed at the management level of the procurement department, and approved by an Executive Director. Additionally, we noted that the review documents have been reviewed and confirmed by the internal audit department, which assessed the unit purchase prices of products purchased from the Group's connected person, including Shigemitsu Companies, ensuring that the unit purchase price offered to the Group would be no less favorable to the Group than that offered by independent third-party suppliers (for products including condiments, flour and other goods) or that offered by Shigemitsu Companies to their other independent purchasers (for specialty products, including soup base).

Overall, based on our above assessments, we consider that (i) the terms of the Renewed Festive Profits Supply Agreement and Renewed Fortune Choice Supply Agreement are on normal commercial terms and fair and reasonable; and (ii) the Group has consistently adhered to its pricing policies and internal control procedures in the past, and with effective controls in place, we are of the view that the Group will continue to follow these standards in the future.

## 9. Assessment of the Revised Annual Caps

*Review of historical figures*

Set out below are the historical annual caps and actual transaction amounts of the transactions under the Franchise Agreements and the CCT Supply Agreements for the years/period indicated:

| | For the year ended 31 December | | | For the nine months ended 30 September |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 |
| | *(Audited)* | *(Audited)* | *(Audited)* | *(Unaudited)* |
| | *RMB* | *RMB* | *RMB* | *RMB* |
| **Franchise Agreements** | | | | |
| Existing annual caps | 27,900,000 | 27,900,000 | 27,900,000 | 23,550,000 |
| Actual transaction amounts | 27,085,000 | 24,623,000 | 22,779,000 | 16,557,000 |
| Utilisation rate | 97.1% | 88.3% | 81.6% | 70.3% |
| **CCT Supply Agreements:** | | | | |
| **Fortune Choice Supply Agreement** | | | | |
| Existing annual caps | 2,100,000 | 2,100,000 | 2,100,000 | 1,909,000 |
| Actual transaction amounts | 2,019,378 | 1,425,413 | 1,846,865 | 1,151,089 |
| Utilisation rate | 96.2% | 67.9% | 87.9% | 60.3% |
| **Festive Profits Supply Agreement** | | | | |
| Existing annual caps | 29,900,000 | 29,900,000 | 29,900,000 | 26,591,000 |
| Actual transaction amounts | 29,703,622 | 18,725,587 | 27,461,135 | 23,132,869 |
| Utilisation rate | 99.3% | 62.6% | 91.8% | 87.0% |

As shown in the table above:

(1) the actual transaction amounts of the transactions under the Franchise Agreements were approximately RMB27.1 million, RMB24.6 million, RMB22.8 million and RMB16.6 million for the years ended 31 December 2021, 2022 and 2023 and the nine months ended 30 September 2024 respectively. These figures correspond to approximately 97.1%, 88.3%, 81.6%, and 70.3% of the respective annual caps set for the years ended 31 December 2021, 2022 and 2023 and the nine months ended 30 September 2024 respectively. It is noticeable that the annual cap in 2021 was nearly fully utilised and the actual transaction amounts for the nine months ended 30 September 2024 nearly reached the pro-rata existing annual cap of 2024;

(2) the actual transaction amounts of the transactions under the Fortune Choice Supply Agreement were approximately RMB2.0 million, RMB1.4 million, RMB1.8 million and RMB1.2 million for the years ended 31 December 2021, 2022 and 2023 and the nine months ended 30 September 2024 respectively. These figures correspond to approximately 96.2%, 67.9%, 87.9% and 60.3% of the respective annual caps set for the years ended 31 December 2021, 2022 and

2023 and the nine months ended 30 September 2024 respectively. It is noticeable that the annual cap in 2021 was almost fully utilised and the utilisation rate of the annual cap for the nine months ended 30 September 2024 would exceed 80% based on a pro rata basis; and

(3) the actual transaction amounts of the transactions under the Festive Profits Supply Agreement were approximately RMB29.7 million, RMB18.7 million, RMB27.5 million and RMB23.1 million for the years ended 31 December 2021, 2022 and 2023 and the nine months ended 30 September 2024 respectively. These figures correspond to approximately 99.3%, 62.6%, 91.8% and 87.0% of the respective annual caps set for the years ended 31 December 2021, 2022 and 2023 and the nine months ended 30 September 2024 respectively. It is noticeable that the annual cap in 2021 and 2023 were almost fully utilised and the actual transaction amounts for the nine months ended 30 September 2024 exceeded the pro-rata existing annual cap of 2024.

***Assessment of the Revised Annual Caps***

The following table sets out the Existing Annual Caps and the Revised Annual Caps under the Franchise Agreements and the CCT Supply Agreements:

| | Annual caps for the financial year ending 31 December *(RMB)* | | | | | |
|---|---|---|---|---|---|---|
| | 2024 | | 2025 | | 2026 | |
| | Existing | Revised | Existing | Revised | Existing | Revised |
| 1. Franchise Agreements | | | | | | |
| (a) HK Franchise Agreement | | | | | | |
| - franchise fee | 500,000 | 500,000 | 500,000 | 770,000 | 500,000 | 995,000 |
| (b) Mainland China Franchise Agreement | | | | | | |
| - franchise fee | 22,550,000 | 24,060,000 | 22,350,000 | 26,800,000 | 22,350,000 | 30,160,000 |
| - technical fee | 500,000 | 500,000 | 700,000 | 700,000 | 700,000 | 700,000 |
| Subtotal | 23,550,000 | 25,060,000 | 23,550,000 | 28,270,000 | 23,550,000 | 31,855,000 |
| 2. CCT Supply Agreements | | | | | | |
| (a) Renewed Fortune Choice Supply Agreement | 1,909,000 | 1,909,000 | 1,909,000 | 2,405,000 | 1,909,000 | 2,947,000 |
| (b) Renewed Festive Profits Supply Agreement | 26,591,000 | 33,754,000 | 26,591,000 | 37,828,000 | 26,591,000 | 42,483,000 |
| Subtotal | 28,500,000 | 35,663,000 | 28,500,000 | 40,233,000 | 28,500,000 | 45,430,000 |

***9.1 Franchise Agreements***

The Directors have proposed the Revised Franchise Caps to be approximately RMB25.1 million, RMB28.3 million and RMB31.9 million for the years ending 31 December 2024, 2025 and 2026 respectively. In assessing the reasonableness of the Revised Franchise Caps, we have discussed with the management of the Company the basis and assumptions underlying the projections. In determining the Revised Franchise Caps for the years ending 31 December 2024, 2025 and 2026, the Directors have taken into account, among other things, (i) the franchise fees per store and technical fees as per the Franchise Agreements; (ii) the expected growth in the number of stores in the PRC and Hong Kong for the years ending 31 December 2024, 2025 and 2026; and (iii) the steady production of packaging condiments or noodles in the PRC for the years ending 31 December 2024, 2025 and 2026.

To evaluate the fairness and reasonableness of the Revised Franchise Caps, we have examined the following factors:

*(i) Franchise fees per store and technical fees*

Pursuant to the Franchise Agreements, the Group would secure a perpetual franchise for the Franchise Business which is subject to a review of the business arrangements in every 38 years and the monthly franchise fees per store in the PRC and Hong Kong are fixed at RMB3,500 and HK$7,000 respectively. Besides, technical fees of 0.5% to 1% of related turnover are payable to Shigemitsu Industry when the Group uses the franchisor's trademark to produce condiments or noodles. Assuming no modifications to the terms of the Franchise Agreements during the three years ending 31 December 2024, 2025 and 2026, the monthly franchise fees per store in the PRC and Hong Kong and the basis of technical fees will continue to remain the same.

*(ii) Estimated growth of Ajisen restaurants in the PRC and Hong Kong*

The table below illustrates the actual number of Ajisen restaurants operated by the Group under the Franchise Agreements in 2023 and the projected number of Ajisen restaurants operated by the Group under the Franchise Agreements from 2024 to 2026.

| | **For the year ended 31 December** | **For the year ending 31 December** | | |
|---|---|---|---|---|
| | **2023** | **2024** | **2025** | **2026** |
| The PRC | 531 | 580 | 650 | 730 |
| Hong Kong | 4 | 7 | 10 | 13 |
| **Total** | **535** | **587** | **660** | **743** |

For the year ended 31 December 2023, the Group was operating a total of 535 Ajisen restaurants, representing a decrease of 35 restaurants from 570 Ajisen restaurants in 2022. This reduction was mainly a strategic move by the Group to close underperforming stores and enhance overall profitability. According to the management of the Company, when comparing to the existing annual caps under the Franchise Agreements set in May 2024, there are more restaurant closures in the PRC currently. The management perceives this as a signal of potentially enhanced opportunities despite the apparent downturn in the market. In the past, prime locations had high rental costs. However, with various restaurants closing down, the Group can now secure better locations at more affordable prices. Based on the Group's expansion plan, the Group plans to increase the number of Ajisen restaurants in the PRC to 580, 650, and 730 and in Hong Kong to 7, 10, and 13 for the years ending 31

December 2024, 2025 and 2026 respectively. The forecast has been prepared after taking into account factors mainly including the rebound in the PRC and Hong Kong economy and the available financial resources allocated for business expansion.

Recently, the Central Bank of the PRC implemented a comprehensive stimulus policy package to boost the economy and achieve its growth objectives. This initiative encompasses interest rate reductions, reserve requirement cuts, and increased support for the real estate sector. The package focuses on enhancing liquidity, reducing borrowing expenses, and easing mortgage repayment burdens, with a primary emphasis on revitalising the real estate market, expanding domestic demand, and fostering confidence to facilitate sustained economic resurgence. The anticipated resurgence of the PRC economy is poised to have a positive impact on both the stock market and real estate sector. Given Hong Kong's economy closely ties with the PRC's economy, it is expected to derive benefits from this recovery. Furthermore, with the prospect of interest rate decreases, the anticipated depreciation of Hong Kong's currency is likely to attract foreign visitors. In light of these circumstances, the Group has taken proactive steps by initiating its expansion in Hong Kong, opening three new Ajisen restaurants in the second quarter of 2024.

Additionally, as indicated in the Company's 2024 interim report, the Group's cash inflow from operations in the first half of 2024 was approximately RMB191.8 million, with a cash and cash equivalents balance of approximately RMB1.7 billion as at 30 June 2024. Considering the factors assessed by the Group's management for store estimates, the impact of the stimulus policy package and the liquidity measure to enhance domestic demand and the Group's financial strength in generating positive operating cash flows and maintaining a healthy cash position, we concur with the Directors the forecasted restaurant expansion over the periods ending 31 December 2026 is justifiable.

*(iii) Steady production of packaging condiments or noodles in the PRC*

In respect of the technical fees, the technical fees payable to Shigemitsu Industry ranged from approximately RMB0.4 million to RMB0.6 million for the three years ended 31 December 2023. The annual caps for technical fees are maintained at RMB0.5 million, RMB0.7 million and RMB0.7 million for the years ending 31 December 2024, 2025 and 2026 respectively, allowing for a cushion against potential unexpected market fluctuation. Having considered the range of historical transaction amounts, we consider that the buffer is justifiable. Moreover, as discussed with the management of the Group, the Group anticipates that the production level of the Group's packaging condiments or noodles in the PRC will be steady for the years ending 31 December 2024, 2025 and 2026. Therefore, the annual caps for the technical fees for the years ending on 31 December 2024, 2025 and 2026 remained unchanged.

Based on the above, we consider the basis and factors that the Directors have taken into account in determining the Revised Franchise Caps are justifiable.

### 9.2 *CCT Supply Agreements*

The Revised Supply Caps (i.e. revised anticipated maximum annual value of the transactions contemplated the Renewed Fortune Choice Supply Agreement (the "**Revised Fortune Choice Caps**") and the Renewed Festive Profits Supply Agreement (the "**Revised Festive Profits Caps**") for the three years ending 31 December 2024, 2025 and 2026) amount to approximately RMB35.7 million, RMB40.2 million and RMB45.4 million for the years ending 31 December 2024, 2025 and 2026 respectively, which were determined by the Directors, considering various factors including: (i) the historical average material purchase from Shigemitsu Food per Ajisen restaurants in the PRC under the Renewed Festive Profits Supply Agreement; (ii) the historical average material purchase from Shigemitsu Industry per Ajisen restaurants in Hong Kong under the Renewed Fortune Choice Supply Agreement; and (iii) the estimated growth of Ajisen restaurants in the PRC and Hong Kong.

To evaluate the fairness and reasonableness of the Revised Supply Caps, we obtained from the Company the breakdown of the Revised Supply Caps. We understand that the Revised Supply Caps for the years ending 31 December 2024, 2025 and 2026 were calculated by multiplying the expected average material purchase per Ajisen restaurant by the expected number of Ajisen restaurants during the years ending 31 December 2024, 2025 and 2026 respectively.

*(i) the historical average material purchase from Shigemitsu Food per Ajisen restaurants in the PRC under the Renewed Festive Profits Supply Agreement*

Regarding the average material purchases from Shigemitsu Food per Ajisen restaurant in the PRC, we observed that: (i) the estimated material purchases from these suppliers per Ajisen restaurant in the PRC for the year ending 31 December 2024 were primarily derived from the actual transaction amounts for the nine months ended 30 September 2024; and (ii) the estimated material purchases from Shigemitsu Food per Ajisen restaurant in the PRC for the two years ending 31 December 2026 remained consistent with those of 2024.

Based on our discussion with the management of the Company, we understand that the demand for products from Shigemitsu Food surpassed their original projections. The Company had set the existing annual caps in May 2024. With reference to the Company's announcement dated 14 May 2024, the annual caps for the Fortune Choice Supply Agreement and the Festive Profits Supply Agreement for the period from 2024 to 2026 were RMB28.5 million, indicating a reduction of RMB3.5 million compared to the annual caps of 2023. As detailed in the section headed "9. Assessment of the Revised Annual Caps – (i) Review of historical data" in this letter, the actual transaction amount under the Festive Profits Supply Agreement for the nine months ended 30 September 2024 had already exceeded its pro-rata existing annual cap for 2024. Therefore, we concur with the Directors that deriving the estimated material purchase from Shigemitsu Food per Ajisen restaurant in the PRC for the year ending 31 December 2024, based on the actual transaction amount for the nine months ended 30 September 2024 is justifiable. Regarding the estimated material purchases from Shigemitsu Food per Ajisen restaurant in the PRC for the years ending 31 December

2025 and 2026, we concur with the management of the Company that maintaining the projection for material purchases from Shigemitsu Food per Ajisen restaurant in the PRC consistent with the revised annual cap of 2024 is justifiable, having considered that the products sourced from Shigemitsu Food are produced in the PRC which is currently experiencing slow inflation growth, as per a Bloomberg article[1] dated 9 November 2024, the pricing index growth of the PRC remains at zero due to ongoing deflation.

*(ii) the historical average material purchase from Shigemitsu Industry per Ajisen restaurants in Hong Kong under the Renewed Fortune Choice Supply Agreement*

Regarding the average material purchases from Shigemitsu Industry per Ajisen restaurant in Hong Kong, we observed that: (i) the estimated material purchases from these suppliers per Ajisen restaurant in Hong Kong for the year ending 31 December 2024 were primarily derived from the actual transaction amounts for the nine months ended 30 September 2024; and (ii) the estimated material purchases from Shigemitsu Industry per Ajisen restaurant in Hong Kong for the two years ending 31 December 2026 were projected with an annual growth of 5% based on the revised annual cap of 2024.

As detailed in the section headed "9. Assessment of the Revised Annual Caps - (i) Review of historical data" in this letter, the utilisation rate of the annual cap under the Fortune Choice Supply Agreement for the nine months ended 30 September 2024 would exceed 80% based on a pro rata basis. Therefore, we concur with the Directors that deriving the estimated material purchase from Shigemitsu Industry per Ajisen restaurant in Hong Kong for the year ending 31 December 2024 based on the actual transaction amount for the nine months ended 30 September 2024 is justifiable. Regarding the estimated material purchases from Shigemitsu Industry per Ajisen restaurant in Hong Kong, the Directors are of the view that the products sourced from Shigemitsu Industry are produced in Japan where the historical food inflation rate is approximately 5%, which is consistent with our research, the historical average monthly food price index of Japan from 2023 October to 2024 September was approximately 4.98% according to Trading Economics [2].

*(iii) the estimated growth of Ajisen restaurants in the PRC and Hong Kong*

As detailed in the paragraph headed "9.1 Franchise Agreements – (ii) Estimated growth of Ajisen restaurants in the PRC and Hong Kong" of this letter, the total projected number of Ajisen restaurants in the PRC for the three years ending 31 December 2026 are 580, 650 and 730 respectively, whereas the total projected number of Ajisen restaurants in Hong Kong for the three years ending 31 December 2026 are 7, 10 and 13 respectively.

1 *https://www.bloomberg.com/news/articles/2024-11-09/china-price-growth-stays-near-zero-as-deflation-pressure-lingers?embedded-checkout=true& leadSource=uverify%20wall*

2 *https://tradingeconomics.com/japan/food-inflation*

In light of the above analysis, notably the calculation of average material purchases per Ajisen restaurant based on actual transaction amounts and historical inflation rates, alongside the projected number of Ajisen restaurants in the PRC and Hong Kong as per the Company's three-year growth strategy, we find the factors considered by the Directors in determining these Revised Supply Caps (including the Revised Fortune Choice Caps and the Revised Festive Profits Caps) to be justifiable.

**10. Internal Control Measures**

Taking into account the measures taken/to be taken by the Group in relation to the continuing connected transactions contemplated under each of the Franchise Agreements and the CCT Supply Agreements, in particular (i) for every purchase order under the CCT Supply Agreements, the procurement department of the Group is responsible for ascertaining the prices and terms offered by third parties, generally by way of obtaining invoices or quotations from other independent third parties to determine the market price of similar goods and services under the CCT Supply Agreements. In relation to those specialty products which are only available through Shigemitsu Industry and Shigemitsu Food, the procurement department will regularly obtain quotations or invoices that Shigemitsu Industry and Shigemitsu Food offered to independent parties, to make sure that the offer obtained by the Group is no less favourable; (ii) the audit committee of the Company will review the transactions under the Franchise Agreements and the CCT Supply Agreements annually; (iii) the Group will review the transaction amount of each continuing connected transaction monthly, to access the potential of exceeding the annual caps; and (iv) the auditor of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions under the Franchise Agreements and the CCT Supply Agreements.

Having considered (i) the above pricing comparison mechanism could ensure that the price of those materials offered by Shigemitsu Companies to the Group would be no less favourable than those quotations obtained from independent third parties as well as those offered by Shigemitsu Companies to their other customers; (ii) the regular reviews on the continuing connected transactions of the Group under the Franchise Agreements and the CCT Supply Agreements by the audit committee and auditor of the Company; and (iii) the review mechanism of the Group to regularly monitor the utilisation of the annual caps to prevent any breaches, we consider that the Company has taken appropriate and adequate measures to govern the Group in carrying out the continuing connected transactions contemplated under each of the Franchise Agreements and the CCT Supply Agreements.

## RECOMMENDATION

Having considered the above principal factors and reasons, we concur with the Directors' view that (i) the Franchise Agreements and the CCT Supply Agreements are carried out in the ordinary and usual course of business of the Group; (ii) the terms of CCT Supply Agreements and the Franchise Agreements are on normal commercial terms, and are fair and reasonable; (iii) the Franchise Agreements and the CCT Supply Agreements are in the interests of the Company and the Shareholders as a whole; and (iv) the basis of determining the Revised Annual Caps is fair and reasonable.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the terms of the continuing connected transactions contemplated under each of the Franchise Agreements and the CCT Supply Agreements, as well as the Revised Annual Caps.

Yours faithfully,
For and on behalf of
**Octal Capital Limited**

| | |
|---|---|
| **Alan Fung** | **Wong Wai Leung** |
| *Managing Director* | *Executive Director* |

*Note:*

*Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 30 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer of Type 9 (asset management) regulated activities. Mr. Wong has accumulated experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.*



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