

25 November 2022

*To: The Independent Board Committee*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER FOR SHARES BY  
BAOQIAO PARTNERS CAPITAL LIMITED  
FOR AND ON BEHALF OF CHINA UWIN TECHNOLOGY CO., LIMITED  
TO ACQUIRE ALL OF THE ISSUED SHARES  
IN THE ISSUED SHARE CAPITAL OF  
GLOBAL DINING HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
CHINA UWIN TECHNOLOGY CO., LIMITED AND PARTIES ACTING IN CONCERT WITH  
IT)**

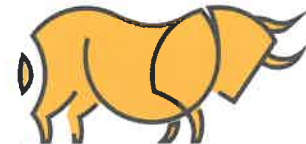
**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee with respect to the Offer, details of which are set out in Composite Document dated 25 November 2022 jointly issued by the Company and the Offeror to the Shareholders, of which this letter forms part. Unless otherwise stated, terms defined in the Composite Document have the same meanings in this letter.

On 3 November 2022 (after trading hours of the Stock Exchange), the Vendor and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendor has agreed to sell, and the Offeror has agreed to purchase, 153,000,000 Shares, representing 63.75% of the issued share capital of the Company as at the Latest Practicable Date, for an aggregate consideration of HK\$47,812,500, equivalent to HK\$0.3125 per Sale Share, which was satisfied by the Offeror in full by cash. Completion took place on 4 November 2022.

Immediately following Completion, the Offeror and parties acting in concert with it own 153,000,000 Shares, representing 63.75% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is therefore required to make a mandatory unconditional cash offer for all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

As at the Latest Practicable Date, there are 240,000,000 Shares in issue. Assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer and on the basis of the Offer Price at HK\$0.3125 per Share, the entire issued share capital of the Company is valued at HK\$75,000,000. Excluding 153,000,000 Shares held by the Offeror and parties acting in concert with it, the number of Shares subject to the Offer is 87,000,000. Based on the Offer Price of HK\$0.3125 per Offer Share, the total value of the Offer would be HK\$27,187,500, which will be the maximum amount payable by the Offeror under the Offer in the event that the Offer is accepted in full.



The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Kwok Kin Kwong Gary, Mr. Wong Wah and Mr. Kuan Hong Kin Daniel, has been established to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and as to the acceptance of the Offer.

Pursuant to Rule 2.1 of the Takeovers Code, on 25 October 2022, our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. As the Independent Financial Adviser in relation to the Offer, our role is to provide the Independent Board Committee with an independent opinion and recommendation in respect of the Offer and, in particular, as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

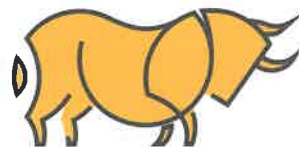
As at the Latest Practicable Date, we were independent from and not connected with the Group and the Offeror and any party acting in concert with the Offeror, and we are qualified to give independent advice to the Independent Board Committee regarding the Offer. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

## **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, opinions, beliefs and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Group, its advisers, its management team (the “**Management**”) and/or the Directors. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as at the Latest Practicable Date and the Shareholders will be notified of any material changes (if any) as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Group, its advisers, the Management and/or the Directors in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Group, its advisers, the Management and/or the Directors, which have been provided to us. Our opinion is based on the Directors’ representation and confirmation that there are no undisclosed private agreements or arrangements or implied understanding with anyone concerning the Offer.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion. We have reviewed documents and reports including but not limited to prospectus of the Company dated 29 April 2020, annual reports of the Company for the year ended 30 June 2019, 2020, 2021 and 2022, interim report of the Company for the six months ended 31 December 2021, quarterly reports of the Company for the three months ended 31 March 2022 and 30 September 2022, the news highlights from Ministry of Health of Singapore dated 24 September 2021, 8 November 2021 and 22 April 2022 posted on the official website of Ministry of Health of Singapore in relation to the latest updates on the measures for the control of the COVID-19 situation in Singapore, the Economy Survey of Singapore for the third quarter 2021, full year 2021, first quarter 2022 and second quarter 2022 issued by the Ministry of Trade and Industry of Singapore, the press release dated 26 October 2021 posted on the



official website of Singapore Food Agency in relation to the suspension of food business operation of the central kitchen of the Group, statistics extracted from the Singapore Department of Statistics in relation to the outbound departures of Singapore residents, letters from the Singapore Food Agency provided by the Company, website of Hang Seng Indexes Company Limited, etc. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than that relating to the Offeror) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than opinions expressed by the sole director of the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading. Mr. Zhang Yang, the beneficial owner and sole director of the Offeror, accepts full responsibility for the accuracy of information contained in the Composite Document (other than those relating to the Group) and confirm, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group or the Offeror or associates of any of them.

We have not considered the tax consequences on the Independent Shareholders in respect of their acceptance or non-acceptance of the Offer since they vary depending on respective individual circumstances. The Independent Shareholder who are overseas residents or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

## **THE OFFER**

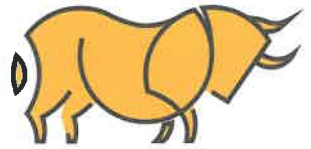
As set out in the Composite Document, immediately following Completion, the Offeror and parties acting in concert with it own 153,000,000 Shares, representing 63.75% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is therefore required to make a mandatory unconditional cash offer for all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

## **PRINCIPAL TERMS OF THE OFFER**

As mentioned in the Composite Document, BaoQiao Partners, for and on behalf of the Offeror, is making the Offer to acquire all of the Offer Shares in accordance with the Takeovers Code on the following basis:

**For each Offer Share.....HK\$0.3125 in cash**

The Offer Price of HK\$0.3125 per Offer Share is the same as the purchase price per Sale Share under the Sale and Purchase Agreement.



As set out in the “Letter from BaoQiao Partners” to the Composite Document, the Offer Price of HK\$0.3125 per Offer Share represents:

- (i) a discount of approximately 23.8% over the closing price of HK\$0.4100 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 2.5% over the closing price of HK\$0.3050 per Share as quoted on the Stock Exchange on 3 November 2022, being the Last Trading Day;
- (iii) a premium of approximately 0.2% over the average closing price of approximately HK\$0.3120 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a discount of approximately 5.2% to the average closing price of approximately HK\$0.3295 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a discount of approximately 14.2% to the average closing price of approximately HK\$0.3642 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the Last Trading Day; and
- (vi) a premium of approximately 2,011.5% over the net asset value per Share of approximately S\$0.0027 (equivalent to approximately HK\$0.0148), calculated based on the Group’s audited consolidated net asset value attributable to the Shareholders as at 30 June 2022 of S\$639,784 (equivalent to approximately HK\$3,554,356), divided by the number of issued Shares as at the date of this Composite Document.

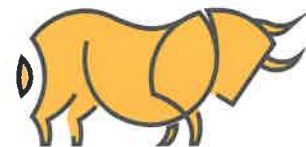
Further details of the Offer, including terms and procedures for acceptance of the Offer, are contained in the “Letter from BaoQiao Partners” as set out on pages 6 to 13 of, and Appendix I to, the Composite Document and the accompanying Form of Acceptance.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

### **1. Information of the Group**

The Company was incorporated in the Cayman Islands with limited liability and its Shares are listed on the GEM of the Stock Exchange. The Group is principally engaged in the manufacturing and retailing of bakery products and operation of restaurants. As at 30 June 2022, the Group has (i) 13 bakery outlets; (ii) 5 Japanese fast casual dining restaurants; (iii) 3 Chinese



fast casual dining restaurants; and (iv) one Western fast casual dining restaurant all of which are in Singapore. In addition to this, the Group has one Western fast casual dining restaurant and one Chinese fast casual dining restaurant in Shanghai, the PRC.

### 1.1 Recent financial performance

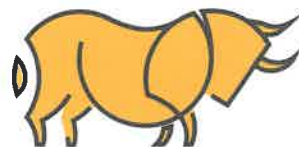
The table below sets out the audited consolidated key financial information of the Group for the two years ended 30 June 2022 as extracted from the annual report of the Company for the year ended 30 June 2022 (the “**Annual Report 2022**”) and the unaudited financial information of the Group as extracted from the first quarterly report of the Company for the three months ended 30 September 2022 (the “**Q1 Report**”):

	For the year ended 30 June			
		2022		2021
	S\$	(Equivalent to approximately HK\$)	S\$	(Equivalent to approximately HK\$)
Revenue	11,961,710	66,453,944	14,136,821	78,537,894
Other income	1,055,528	5,864,044	783,525	4,352,917
Other gains/(losses), net	824,454	4,580,300	(671,347)	(3,729,706)
Raw materials and consumables used	(3,145,066)	(17,472,589)	(3,724,682)	(20,692,678)
Employee benefit costs	(4,525,112)	(25,139,511)	(4,539,063)	(25,217,017)
Cost of leasing for the Group's operations	(3,970,278)	(22,057,100)	(5,607,431)	(31,152,394)
Loss before income tax	(1,581,965)	(8,788,694)	(4,815,227)	(26,751,261)
Loss for the year	(1,750,691)	(9,726,061)	(4,883,965)	(27,133,139)

	For the three months ended 30 September			
		2022		2021
	S\$	(Equivalent to approximately HK\$)	S\$	(Equivalent to approximately HK\$)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	2,719,272	15,107,067	3,492,545	19,403,028
Other income	110,726	615,144	42,747	237,483

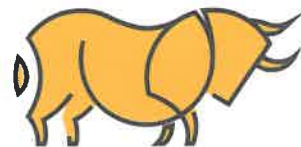




Raw materials and consumables used	(826,017)	(4,588,983)	(896,474)	(4,980,411)
Employee benefit costs	(1,029,915)	(5,721,750)	(1,043,684)	(5,798,244)
Cost of leasing for the Group's operations	(834,477)	(4,635,983)	(808,249)	(4,490,272)
(Loss)/profit before income tax	(571,552)	(3,175,289)	135,970	755,389
(Loss)/profit for the period	(571,552)	(3,175,289)	135,970	755,389

As set out in the table above, we note that the revenue of the Group decreased from approximately S\$14.1 million (equivalent to approximately HK\$78.5 million) for the year ended 30 June 2021 to approximately S\$12.0 million (equivalent to approximately HK\$66.5 million) for the year ended 30 June 2022. According to the Annual Report 2022, the decrease in revenue during the year was primarily attributable to (i) the decrease in customer traffic, as a result of the Singapore Government tightening the COVID-19 curbs from September 2021 to April 2022 that included but not limited to making working from home a default, limiting social interaction and dining out requirements; (ii) the suspension of food business operation of the Group's central kitchen due to failure to comply with relevant regulatory standards and food safety requirements (which we will further discuss in section 2 below in this letter); and (iii) decrease in the number of bakery outlets of the Group. Despite the decrease in revenue during the year ended 30 June 2022, we note that the Group recorded a decline in loss from approximately S\$4.9 million (equivalent to approximately HK\$27.1 million) for the year ended 30 June 2021 to approximately S\$1.8 million (equivalent to approximately HK\$9.7 million) for the year ended 30 June 2022. Such decline in loss was primarily attributable to (i) the change in other gains/losses in which other losses of approximately S\$671,000 (equivalent to approximately HK\$3.7 million) for the year ended 30 June 2021 turned into other gains of approximately S\$824,000 (equivalent to approximately HK\$4.6 million) for the year ended 30 June 2022, where such change was mainly due to transactions of one-off nature such as decline in loss on disposal of plant and equipment and the over-provision of listing expenses; and (ii) the decrease in the depreciation of right-of-use assets by approximately S\$1.7 million (equivalent to approximately HK\$9.3 million) and the decrease in the impairment loss on right-of-use assets by approximately S\$1.5 million (equivalent to approximately HK\$8.2 million) for the year ended 30 June 2022.

We further note from the Annual Report 2022 that the Group had net current liabilities of approximately S\$3.4 million (equivalent to approximately HK\$19.1 million) as at 30 June 2022, which represented a deterioration from the net current liabilities of approximately S\$2.4 million (equivalent to approximately HK\$13.3 million) recorded as at 30 June 2021. Such deterioration was mainly due to the decrease in cash and cash equivalents by approximately S\$2.3 million



(equivalent to approximately HK\$12.7 million), which in turn was primarily due to the following:

(i) *Loss-making operation of the Group*

According to the Group's consolidated statement of cash flows contained in the Annual Report 2022, the Group recorded net cash generated from operating activities of approximately S\$3.2 million (equivalent to approximately HK\$17.8 million) for the year ended 30 June 2022. Despite so, we note that the Group's cash outflows for leasing various premises necessary for its operations (such as bakery outlets, restaurants, head office and central kitchen) were presented under "cash flows from financing activities" in accordance with the relevant accounting standards. If cash outflows for leasing had been included under the Group's "cash flow from operating activities", the Group would have incurred net cash outflow from its operating activities of approximately S\$1.2 million (equivalent to approximately HK\$6.8 million) for the year ended 30 June 2022.

(ii) *Capital expenditures for maintaining normal operations*

According to the Annual Report 2022, the Group incurred cash outflow on additions of plant and equipment of approximately S\$0.8 million (equivalent to approximately HK\$4.2 million) for the year ended 30 June 2022, which mainly included cash outflows for leasehold improvements and the purchase of machineries. As advised by the Directors, such additions of plant and equipment represented expenditures necessary for maintaining the normal operations of the Group.

(iii) *Repayment of borrowings in the absence of new borrowings*

As disclosed in the Annual Report 2022, during the year ended 30 June 2022, the Group incurred cash outflows of approximately S\$0.4 million (approximately HK\$2.2 million) for the repayment of and interest paid on borrowings (which predominantly resulted in a reduction of the Group's non-current portion of borrowings). We note from the Company's annual report for the year ended 30 June 2020, 2021 and 2022 that the Group has not obtained any proceeds from borrowings since the year ended 30 June 2021. As advised by the Directors, the Group was unable to obtain new banking facilities since the year ended 30 June 2021 as banks were aware of the Group's net losses recorded for the year ended 30 June 2020 and both net losses and net current liabilities recorded for the years ended 30 June 2021 and 2022.

We further note that the Group's revenue decreased from approximately S\$3.5 million (equivalent to approximately HK\$19.4 million) for the three months ended 30 September 2021 to approximately S\$2.7 million (equivalent to approximately HK\$15.1 million) for the three months ended 30 September 2022. According to the Management and the Q1 Report, such



decrease was due to (i) the decrease in customer traffic of bakery outlets, as a result of increase in outbound travelling by Singaporeans as stimulated by the reopening of travel borders and Singapore government's lifting of most COVID-19 restrictions since April 2022, while the Group's bakery outlets operation relied heavily on local consumption; and (ii) the implementation of the COVID-19 pandemic prevention and control quarantine measures in Shanghai, which adversely affected the operation of the Group's restaurants in PRC. The net profit for the period of the Group turned from net profit of approximately S\$136,000 (equivalent to approximately HK\$755,000) for the three months ended 30 September 2021 to net loss of approximately S\$572,000 (equivalent to approximately HK\$3.2 million) for the three months ended 30 September 2022 and the decrease was primarily attributable to the decrease in revenue according to the Q1 Report.

### ***1.2 Going concern uncertainty***

As set out in the annual reports of the Company for the years ended 30 June 2022 and 2021 as well as Appendix II to the Composite Document, HLB Hodgson Impey Cheng Limited, the independent auditor of the Company, reported that there was material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern (the **"Going Concern Material Uncertainty"**), primarily on the basis that (i) the Group incurred losses during the relevant years; and (ii) the Group recorded net current liabilities as at 30 June 2022 and 2021.

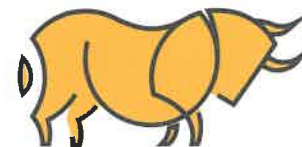
As set out in the annual reports of the Company for the years ended 30 June 2022 and 2021, notwithstanding the Group's loss-making results and net current liabilities positions, the Directors had prepared the consolidated financial statements on a going concern basis and the Directors were of the opinion that there would be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern, primarily due to (i) financial support that a substantial shareholder of the Company had agreed to continuously provide to the Group for its continuing operations so as to enable it to meet its liabilities when they fall due and carry on its business without a significant curtailment of operations in the twelve months from the date of approval of consolidated financial statement; (ii) alternate source of funding that the Group was actively considering by carrying out fund raising activities including but not limited to rights issue, open offer and placing of new shares; and (iii) Management's endeavour to improve the Group's operating results and cash flows through various cost control measures and focus on the existing business.

**In deciding whether or not to accept the Offer, we recommend that the Independent Shareholders should attach high importance to the Going Concern Material Uncertainty and the potential risks associated therewith because:**

(i) ***Loss-making results***

The Group recorded loss-making results for three consecutive years, being the years ended 30 June 2020, 2021 and 2022. As discussed in section 1.1 above in this letter, while the Group's loss for the year ended 30 June 2022 declined as





compared to the loss for the year ended 30 June 2021, such decline in loss was mainly due to one-off transactions as well as decrease in impairment loss rather than any material improvement in the underlying business performance of the Group (as evidenced by the decrease in the Group's revenue for the year ended 30 June 2022 as compared to that for 2021). For the latest three months ended 30 September 2022, no improvement in business performance was noted as the Group's revenue decreased compared to the same period in 2021, while the Group turned from a net profit for the period in 2021 to a net loss of approximately S\$572,000 (equivalent to approximately HK\$3.2 million) for the three months ended 30 September 2022.

(ii) *Depleting cash balance*

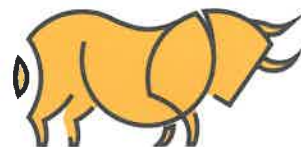
According to the Company's annual reports for the years ended 30 June 2020, 2021 and 2022, the Group's cash and cash equivalents decreased from approximately S\$7.1 million (equivalent to approximately HK\$39.4 million) as at 30 June 2020 to approximately S\$4.6 million (equivalent to approximately HK\$25.3 million) as at 30 June 2021, and further decreased to approximately S\$2.3 million (equivalent to approximately HK\$12.6 million) as at 30 June 2022, primarily due to the loss-making results of the Group. If such pace of cash depletion continues and absent any new debt or equity fundraisings, the Group may run out of cash within one to two years.

(iii) *Risk of insolvency*

As discussed in section 1.1 above in this letter, the Directors advised that the Group was unable to obtain new banking facilities since the year ended 30 June 2021 as banks were aware of the Group's net losses and net current liabilities position. Taking into account banks' reluctance to grant banking facilities to the Group as well as the Group's continued loss-making results for the three consecutive years ended 30 June 2022 and the three months ended 30 September 2022 and its depleting cash level, we consider that the Group's ability to obtain funding from equity or debt financing in the near future is highly doubtful. If the Group runs out of cash and is unable to obtain additional funding, the Group may become unable to continue as a going concern and the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Creditors (e.g. those in respect of the Group's outstanding bank borrowings and other liabilities) may take actions against the Group, such as legal actions to seek court orders to wind up the Company and/or its subsidiaries. In the worst-case scenario, the Group may become insolvent and be wound up compulsorily, and the value of the Shares may become zero.

(iv) *The Offer being an assured exit opportunity*

Based on the foregoing, we consider that the risks of the aforesaid scenarios materialising, including the risk of insolvency, compulsory winding-up, and the



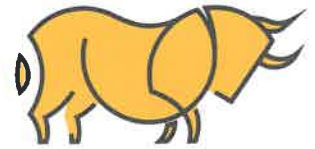
value of the Shares becoming zero when the Company ceases to exist, are not remote. We consider that the Offer provides Independent Shareholders with an assured exit if they wish to avoid the aforesaid risks associated with the Going Concern Material Uncertainty.

## **2. Industry overview**

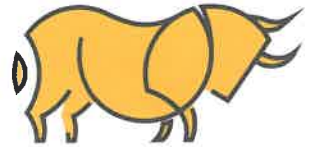
The Group is principally engaged in the manufacturing and retailing of bakery products and operation of restaurants. According to the Group's Annual Report 2022, the Group has 13 bakery outlets and 9 fast casual dining restaurants in Singapore, and two fast casual dining restaurants in Shanghai, the PRC as at 30 June 2022, where the two restaurants in Shanghai were opened during the year ended 30 June 2022. According to the Annual Report 2022, for the year ended 30 June 2022, the revenue generated from bakery outlets operations accounted for approximately 63.2% of the total revenue; revenue generated from fast and casual dining restaurants operations accounted for approximately 36.7% of total revenue; while revenue generated from a beverage shop in Singapore (which was closed during the year ended 30 June 2022) accounted for the remaining 0.1% of total revenue. In terms of geographical location, approximately 95.5% and 4.5% of the Group's total revenue for the year ended 30 June 2022 were generated from Singapore and the PRC, respectively. In this regard, we have considered (i) the impact of COVID-19 policies to the food and beverage industry in Singapore and the Group's performance in capturing the market opportunities; and (ii) the Group's performance of the two newly opened restaurants in Shanghai.

On 24 September 2021, given the rise in the number of COVID-19 cases from the end of August 2021, the Ministry of Health of Singapore announced that only groups of up to two persons would be allowed to dine-in at regular food and beverage establishment if all the diners were fully vaccinated. The food and beverage sector of Singapore shrank by approximately 4.2% on a year-on-year basis in the third quarter of 2021, according to the Economy Survey of Singapore issued by the Ministry of Trade and Industry of Singapore. On 8 November 2021, the Ministry of Health of Singapore announced that up to 5 fully vaccinated persons from the same household would be allowed to dine in together at food and beverage establishments. After the easing of dine-in restrictions, the food and beverage sector of Singapore recorded a decline of approximately 1.5% and a growth of approximately 2.1% on a year-on-year basis in the fourth quarter of 2021 and the first quarter of 2022, respectively, according to the Economy Survey of Singapore. On 22 April 2022, the Ministry of Health of Singapore further relaxed the restrictive measure by removing group size limits and safe distancing requirements. As a result, the food and beverage sector grew by approximately 28.0% on a year-on-year basis in the second quarter of 2022, according to the Economic Survey of Singapore.

Despite the aforesaid, it is doubtful whether the Group's overall operating and financial performance will be able to benefit to a meaningful extent from such relaxation of restrictive measures and the associated growth in the food and beverage sector, mainly due to the following:



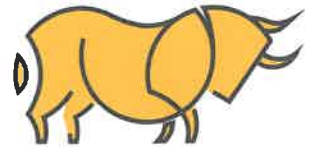
- (i) We note from the Group's Annual Report 2022 and the third quarterly report for the nine months ended 31 March 2022 that the revenue of the Group declined from approximately S\$3.5 million (equivalent to approximately HK\$19.6 million) in the second quarter of 2021 to approximately S\$2.8 million (equivalent to approximately HK\$15.5 million) in the second quarter of 2022, denoting a decline of approximately 20.5% on a year-on-year basis despite the aforesaid relaxation of restrictive measures and growth in the food and beverage sector. Such decrease was primarily attributable to the decline in revenue from the bakery outlets, which accounted for more than 60% of the Group's total revenue for the year ended 30 June 2022 and more than 70% for the year ended 30 June 2021. As mentioned in Q1 Report, the sales of bakery outlets rely heavily on local consumption. With the re-opening of travel borders in Singapore, we note from the statistics published by the Singapore Department of Statistics that the outbound departures of Singapore residents increased from approximately 150,000 in the second quarter of 2021 to approximately 1.1 million in the second quarter of 2022, and further increased to approximately 1.4 million in the third quarter of 2022. According to the Directors and as discussed in the Q1 Report, the increase in outbound travelling by Singapore residents led to a decrease in customer traffic in the Group's bakery outlets, resulting in the decrease in revenue from bakery outlets operation.
- (ii) Further, according to the Company's announcement dated 28 October 2021, the hygiene conditions, food safety practices and maintenance of the Group's central kitchen, where dough and certain bakery products are prepared for delivery to the Group's bakery outlets and restaurants, and food delivery trucks operated by the Group did not comply with the regulatory standards and food safety requirements of the Singapore Food Agency. We note from the press release from the Singapore Food Agency dated 26 October 2021 that the Singapore Food Agency instigated regulatory actions against the Group, which included (i) the suspension of the food business operation of the central kitchen with effect from 26 October 2021 until further notice (such suspension being subsequently revoked by the Singapore Food Agency in January 2022, which will be further discussed below); (ii) requesting the Group to recall various food products distributed from the central kitchen to 16 bakery outlets of the Group; and (iii) requesting the Group to take necessary measures to improve its food safety practices and the cleanliness of its premises. According to the Company's announcement dated 28 October 2021, the aforesaid regulatory actions were expected to result in temporary disruption to the Group's business operation, and, as a contingency measure, the Group maintained the supply of bakery products by carrying out the food preparation process on-site at its bakery outlets during the suspension of central kitchen. In response to the regulatory actions from the Singapore Food Agency, the Group had improved its food safety practices and cleanliness of its premises including cleaning and disinfection of the central kitchen and its food delivery trucks to comply with the



regulatory standards and food safety requirements of the Singapore Food Agency and also arranged further trainings to the Group's employees on proper food safety management. We have reviewed the letter from the Singapore Food Agency to the Group dated on 2 November 2021 and noted that the Singapore Food Agency revoked the direction to recall products on 2 November 2021. We further note from the letter from Singapore Food Agency dated 25 January 2022 that the Singapore Food Agency inspected the central kitchen on 22 January 2022 and was of the view that the Group had duly carried out corrective actions to rectify the identified lapses detected in the food preparation and processing areas and in the food delivery truck, and the Singapore Food Agency revoked its previous directions dated 26 October 2021. The central kitchen has resumed normal operation since then. The aforesaid letters from the Singapore Food Agency and the fact that the central kitchen has resumed normal operation suggest that the rectification actions taken by the Group were effective from the perspective of compliance with the relevant food safety regulations. However, we note that such incident had been reported by major news outlets in Singapore such as The Straits Times (which described the incident as "*a massive infestation of cockroaches and rodents*"), and as such, we consider that it remains doubtful whether customers' confidence and loyalty had been and will be adversely affected by such incident for a prolonged period, particularly after taking into account the Group's latest financial results as reported in the Annual Report 2022 and the Q1 Report as discussed above in section 1 of this letter.

- (iii) In addition, we note that the number of bakery outlets of the Group increased from 18 as at 30 June 2021 to 24 as at 30 September 2021, and then sharply reduced to 13 as at 31 March 2022, according to the first quarterly report for the three months ended 30 September 2021 and the third quarterly report for the nine months ended 31 March 2022. The number of bakery outlets remained at 13 as at 30 June 2022 and as at 30 September 2022. We note that the Group expanded its bakery business in the third quarter of 2021, which was right before the implementation of the tightening measures of the COVID-19 by the Ministry of Health of Singapore and the aforesaid suspension of its central kitchen operation. We understand from the management that having considered (i) the decreased customer traffic due to factors including restrictive measures implemented such as making working from home as default as mentioned in the third quarterly report for the nine months ended 31 March 2022, and (ii) the lease of some of the bakery outlets was going to end soon at that time, the Group had assessed internally on the costs and benefits of each of the bakery outlets and decided to close down bakery outlets that were not performing up to expectation in the first quarter of 2022.
- (iv) On the other hand, Shanghai experienced a large-scale outbreak of COVID-19 in the first half of 2022. To contain the spread of COVID-19, the PRC Government imposed stringent quarantine measures such as travel restrictions, public traffic control and a temporary lockdown in Shanghai from mid-March to May 2022. As





the PRC Government places emphasis on the zero-Covid policy, the Group also stated in its Annual Report 2022 that there are many uncertainties ahead for its operation in the PRC. The non-current assets of the two restaurants in Shanghai accounted for approximately 24.0% of the total non-current asset of the Group as at 30 June 2022, but the revenue contributed from the two restaurants in Shanghai were merely approximately 4.5% of the Group's total revenue for the year ended 30 June 2022. Out of the losses of approximately S\$1.8 million (equivalent to approximately HK\$9.7 million) for the year ended 30 June 2022, we understand from the management that the losses from the two restaurants in Shanghai accounted for approximately S\$1.1 million (equivalent to approximately HK\$6.3 million). We are of the view that the performance of the two newly opened restaurant posed uncertainty to the overall performance of the Group and is highly vulnerable to the outbreak of COVID-19 and the corresponding measures and policies imposed by the PRC Government.

Having considered the above, we are of the view that challenging times may be ahead regarding the prospects and outlook of the Group.

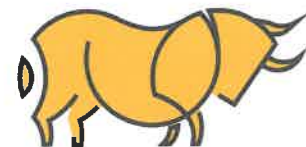
### 3. Information of the Offeror

As set out in the "Letter from BaoQiao Partners", the Offeror is an investment holding company incorporated in Hong Kong with limited liability on 4 November 2021, all shares of which are owned by Mr. Zhang Yang (張陽) ("**Mr. Zhang**"). As at the Latest Practicable Date, save for holding the Sale Shares, the Offeror did not engage in any other business activities or hold any other asset.

Mr. Zhang, aged 40, holds a master's degree in management science and engineering and a bachelor's degree in computer science and technology from Beijing University of Posts and Telecommunications. Mr. Zhang has more than 15 years of experience in managerial roles in new consumption (an integrated retail section with blending of online and offline commerce through digitization of the entire retail value chain), smart retail and communication technology in the PRC. Since 2015, Mr. Zhang has been engaged in smart beverage vending machine retail business. Mr. Zhang is the founder, chairman and general manager of Beijing Shuoyibuer Technology Company Limited, which is a smart retail beverage machines operator in the PRC. From 2007 to 2014, he worked as the head of terminal sales in China Mobile Communication Group Company Limited, and managed with more than 10,000 terminal stores and more than 30 million users. Since November 2021, Mr. Zhang has been serving as an executive director of Kirin Group Holdings Limited, a company listed on GEM (stock code: 8109).

We note that Mr. Zhang background includes certain experience in the retail and beverage businesses. However, given that such experience mainly concerns smart retail and beverage vending machine only, we consider that they are not directly relevant to the Group's business





of bakery outlets and restaurants operations in Singapore and Shanghai. We consider that Mr. Zhang's lack of direct experience in operating bakery outlets and restaurants in Singapore and Shanghai casts doubt on his ability to improve the Group's operating results and financial condition in a sufficiently timely manner so as to avoid the potential risks associated with the Going Concern Material Uncertainty.

#### **4. Intentions of the Offeror regarding the Group and proposed change of Board composition**

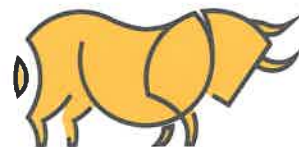
As stated in the Letter from BaoQiao Partners in the Composite Document, the intention of the Offeror is that the Company's existing principal activities will be maintained and continued after completion of the Offer. The Offeror confirms that there is no intention to further expand and/or divest the existing businesses of the Company during the Offer Period unless appropriate opportunities arise. The Offeror will conduct a review of the existing principal businesses, operations, financial position, investments, proposed investments of the Group for the purpose of formulating long-term business plans and strategies for the future business development of the Group. With Mr. Zhang's personal background and management experience in various industries including food and beverage, new consumption, smart retail and communication technology, the Offeror intends to leverage the synergies between the Offeror and the Group to explore related business opportunities in the future.

As stated in the Letter from BaoQiao Partners in the Composite Document, subject to the results of the review, the Offeror may explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalization, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group. As at the date of this Composite Document, no investment or business opportunity has been identified nor have the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group. Should such corporate actions materialise, further announcement(s) will be made in accordance with the GEM Listing Rules.

As stated in the Letter from BaoQiao Partners in the Composite Document, save for the Offeror's intention regarding the Group as set out above, the Offeror has no intention to redeploy any fixed assets of the Group (other than in the ordinary and usual course of business of the Group) or to discontinue the employment of the employees of the Group (except as set forth in the section headed "Proposed change of Board composition" below) as at the date of this Composite Document.

##### ***4.1 Proposed change of Board composition***

As stated in the Letter from BaoQiao Partners in the Composite Document, the Board is comprised of one executive Director and three independent non-executive Directors. Mr. Kwok Kin Kwong Gary has tendered his resignation from his position as the independent non-executive Director and the resignation will take effect from the earliest time permissible under Rule 7 of the Takeovers Code.



As stated in the Letter from BaoQiao Partners in the Composite Document, the Offeror intends to nominate new executive and independent non-executive Directors for appointment to the Board with effect from a date not earlier than the earliest time as permitted under the applicable laws, rules and regulations, the GEM Listing Rules and the Takeovers Code. Any changes to the members of the Board including the aforesaid appointments and resignation will be made subject to necessary procedures and approvals of the Board as and when appropriate in accordance with the Takeovers Code and the GEM Listing Rules. Further announcement(s) will be made upon any changes to the composition to the Board in compliance with the Takeovers Code and GEM Listing Rules as and when appropriate.

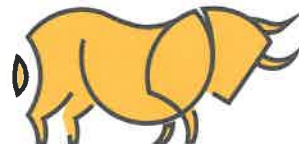
#### ***4.2 Maintaining the listing status of the Company***

As stated in the Letter from BaoQiao Partners in the Composite Document, the Offeror does not intend to avail itself of any powers of compulsory acquisition of any Shares outstanding after the close of the Offer. The Offeror will, together with the Company, use reasonable endeavours to maintain the listing status of the Shares on the Stock Exchange and procure that not less than 25% of the entire issued share capital in the Company be held by the public in compliance with the GEM Listing Rules. The sole director of the Offeror and the new Director(s) proposed by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that such number of Shares as may be required by the Stock Exchange are held by the public within the prescribed time frame.

According to the GEM Listing Rules, if, upon the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange may exercise its discretion to suspend trading in the Shares.

Having considered that:

- (i) although the Offeror will seek for new opportunities to enhance the business of the Group, as at the Latest Practicable Date, the Offeror has not identified any new opportunities for the Group;
- (ii) the beneficial owner of the Offeror does not have direct experience in the manufacture and retail of bakery products and operation of restaurants in Singapore;
- (iii) the revenue of the Group for the year ended 30 June 2022 declined as compared to that in 2021 despite the recovery of food and beverage sector of Singapore in the second quarter of 2022, while the decrease in loss for the year ended 30 June 2022



compared to that for 2021 was mainly due to one-off transactions as well as decrease in impairment loss rather than any material improvement in the underlying business performance of the Group; and

- (iv) despite the relaxation of the dine-in restrictive measures and the re-opening of travel borders in Singapore, it is doubtful whether the Group's overall operating and financial performance will be able to benefit to a meaningful extent from such relaxation due to factors discussed in section 2 above in this letter,

we are of the view that there are uncertainties regarding the future prospect of the Group.

## 5. Analysis on Offer Price

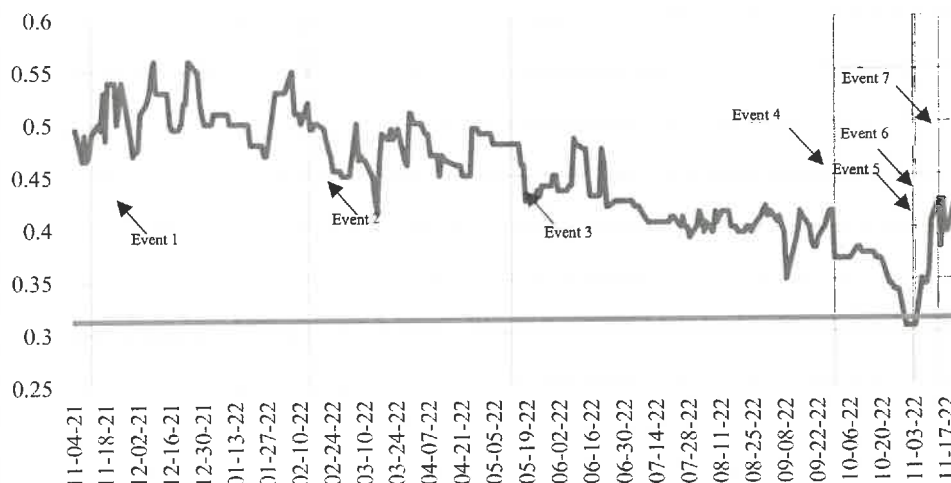
### *5.1 Historical price performance of the Shares*

We have reviewed the closing prices of the Shares over the 12-month period immediately prior to the Last Trading Day as well as the period from the Last Trading Day up to the Latest Practicable Date dated 22 November 2022 (“**Review Period**”). We consider that a period of 12 months is sufficient for the purpose of our analysis having considered the significant and rapid changes in the financial markets in general over the past year, including but not limited to the significant decline in the general stock market in Hong Kong and the rapid and substantial rise in interest rates. We consider that given such significant and rapid changes in the financial markets, historical prices prior to the Review Period may not be able to provide meaningful reference to the Independent Shareholders when judging the value of the Shares at present.

The Review Period commenced on 4 November 2021 and ended on the Latest Practicable Date. We note that the Share Price has recorded an overall decline throughout this period. The closing price of the Shares declined from HK\$0.560 as at 9 December 2021 to HK\$0.305 as at 3 November 2022, then slightly rebounded to HK\$0.38 as at the Latest Practicable Date. The diagram below depicts the historical Share price over the Review Period:



### Review period of the historical Share price



*Event 1:* First quarterly results announcement for the three months ended 30 September 2021 published on 12 November 2021

*Event 2:* Interim results announcement for the six months ended 31 December 2021 published on 14 February 2022

*Event 3:* Third quarterly results announcement for the nine months ended 31 March 2022 published on 3 May 2022

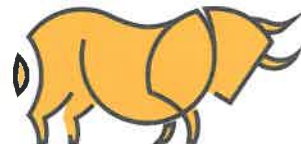
*Event 4:* Annual results announcement for the year ended 30 June 2022 published on 30 September 2022

*Event 5:* 3 November 2022 being the Last Trading Day

*Event 6:* Joint Announcement published on 4 November 2022

*Event 7:* First quarterly results announcement for the three months ended 30 September 2022 published on 14 November 2022

We note that the Hang Seng Index, the benchmark of the Hong Kong stock market, was facing an overall acute decline over the Review Period as demonstrated in the below graph. As at the Latest Practicable Date, the Hang Seng Index closed at 17,424 points and recorded a loss of 7,801 points or representing a decrease of approximately 30.9% when compared to the closing recorded as at 4 November 2021.



Hang Seng Index (Review Period)



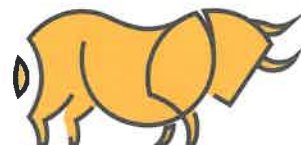
Source: Information from the Hang Seng Indexes Company Limited

We note that the Offer Price is 44.2% lower than the Share's highest closing prices of HK\$0.56 as at 9 December 2021 and 24 December 2021, and 30.1% lower than the Share's average closing price of HK\$0.44 during the Review Period. However, we also note that the closing prices had demonstrated an apparent general declining trend over the Review Period because the investors might have noted the central kitchen incident as discussed above in section 2 of this letter which may cast doubt on customers' confidence and loyalty and will be adversely affected by such incident for a prolonged period, particularly after taking into account the Group's latest financial results as reported in the Annual Report 2022 and the Q1 Report as discussed above in section 1 of this letter, although a rebound was noted after the Joint Announcement was published. In light of (i) after the Joint Announcement was published and up to the Latest Practicable Date, there has been no positive public news of the Group that could be associated with the recent rebound of the price of the Share; (ii) the Directors are not aware of any reasons that caused the recent fluctuation in price of the Share; and (iii) the intention of the Offeror as contained in the Joint Announcement and the Composite Document does not include any specific or concrete steps to improve the Group's business performance or financial position, we are not aware of any factor that could support a sustainable rebound of the price of the Share. We also note the overall acute decline of the Hang Seng Index during the Review Period, which indicated the Hong Kong stock market was lacklustre in general, especially in recent months.

**Shareholders should note that the information set out above is not an indicator of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing price as at the Latest Practicable Date.**

## **5.2 Historical liquidity of the Shares**





Apart from the daily closing price of the Shares, we have also performed a review on the average daily trading volume per month, as well as the percentage of average daily trading volume of the Shares as compared to (i) the total number of the issued Share at the relevant time; and (ii) total number of Shares held by the public for the Review Period and up to the Last Trading Day:

Month	Total monthly trading volume of the Shares <i>Number of Shares</i>	No. of trading days	Average daily trading volume of the Shares <i>Number of Shares</i>	Percentage of average daily trading volume to the total number of issued Shares <i>(Note 1)</i> %	Percentage of average daily trading volume to the total number of Shares held by the public <i>(Note 2)</i> %
2021					
November (from 4 November 2021)	5,102,500	19	268,553	0.11	0.31
December	8,430,000	22	383,182	0.16	0.44
2022					
January	3,370,000	21	160,476	0.07	0.18
February	1,747,500	17	102,794	0.04	0.12
March	6,027,500	23	262,065	0.11	0.30
April	7,107,500	18	394,861	0.16	0.45
May	1,007,500	20	50,375	0.02	0.06
June	1,205,000	21	57,381	0.02	0.07
July	1,837,500	20	91,875	0.04	0.11
August	5,010,000	23	217,826	0.09	0.25
September	4,732,500	21	225,357	0.09	0.26
October	2,447,500	20	122,375	0.05	0.14
November (up to the Latest Practicable Date)	6,240,000	15	416,000	0.17	0.48

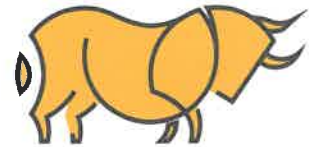
Source: Information from the website of the Stock Exchange

Note:

- (1) The total number of issued Shares is 240,000,000, as extracted from the latest monthly return of equity issuer on movements in securities of the Company.
- (2) The total number of Shares held by the public is 87,000,000, as disclosed in the Joint Announcement.

As illustrated in the table above, the average daily trading volume of the Shares during the Review Period ranged from approximately 50,375 Shares to approximately 416,000 Shares, representing 0.02% to approximately 0.17% of the total number of the Shares in issue, or approximately 0.06% to approximately 0.48% of the total number of Shares held by the public.

The historical trading volume of the Shares is generally thin, as evidenced by the fact that the percentage of average daily trading volume to the total number of issued Shares has generally



been below 0.2% during the Review Period. Given the Shares are illiquid, the disposal of a significant number of Shares held by the Shareholders in the open market would likely to trigger price slump of the Shares.

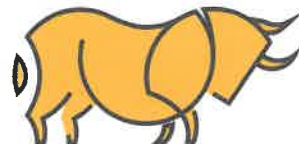
Given the thin historical average daily trading volume of the Shares, it is uncertain whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market without exerting a downward pressure on the Share price. We, therefore, consider that the Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares.

## RECOMMENDATIONS

Having considered the aforementioned principal factors and reasons, including in particular:

- (i) the Group has been loss-making for three consecutive years from the year ended 30 June 2020 to the year ended 30 June 2022 as well as for the three months ended 30 September 2022, and the Group was in a net current liabilities position as at 30 June 2022 and such net current liabilities position represented a deterioration as compared to that as at 30 June 2021;
- (ii) in our opinion, the Going Concern Material Uncertainty is a factor of high importance and the potential risks associated therewith including the risk of insolvency are not remote due to reasons set out in section 1.2 above in this letter;
- (iii) although the Offer Price is 44.2% lower than the Share's highest closing prices of HK\$0.56 as at 9 December 2021 and 24 December 2021, and 30.1% lower than the Share's average closing price of HK\$0.44 during the Review Period, the Offer Price represents a premium of 2.5% over the closing price of HK\$0.3050 per Share as quoted on the Stock Exchange on 3 November 2022, being the Last Trading Day. It is also noted that the closing prices had demonstrated an apparent general declining trend over the Review Period, and although a rebound was noted after the Joint Announcement was published, we are not aware of any factor that could support a sustainable rebound of the price of the Share. Also, the overall acute decline of the Hang Seng Index during the Review Period indicated the Hong Kong stock market was lacklustre in general, especially in recent months;
- (iv) the Offer Price represents a premium of approximately 2,011.5% over the net asset value per Share of approximately of approximately S\$0.0027 (equivalent to approximately HK\$0.0148), calculated based on the Group's audited consolidated net asset value attributable to the Shareholders as at 30 June 2022 of S\$639,784 (equivalent to approximately HK\$3,554,356), divided by the number of issued Shares as at the date of the Composite Document; and
- (v) the historical trading volume of the Shares during the Review Period is thin, while the Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares,

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





In view of the volatility of market conditions, those Independent Shareholders who intend to accept the Offer are reminded that they should closely monitor the market price and the liquidity of the Shares during the Offer Period and should consider selling their Shares in the open market, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds receivable under the Offer.

In addition, the Independent Shareholders who wish to realise their investments in the Company in the open market should also consider and monitor the trading volume of the Shares during the Offer Period as, having taken into account the thin historical trading volume of the Shares on the Stock Exchange as discussed in the sub-section “Historical Liquidity of the Shares” of this letter, they may experience difficulty in disposing of the Shares in the open market without creating downward pressure on the price of the Shares.

As each individual Independent Shareholder would have different investment objectives and/or circumstances, we would recommend the Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser. Furthermore, they should carefully read the procedures for accepting the Offer as set out in the Composite Document, its appendices and the accompanying Forms of Acceptance.

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

  
**Matthew Leung**  
*Managing Director*

  
**Sumwing Shum**  
*Managing Director*

Mr. Matthew Leung is licensed under the Securities and Futures Ordinance to carry on Type 6 (advising on corporate finance) regulated activity and is currently a responsible officer and sponsor principal of Grande Capital Limited. Mr. Leung has over 12 years of experience in the corporate finance industry.

Mr. Sumwing Shum is licensed under the Securities and Futures Ordinance to carry on Type 6 (advising on corporate finance) regulated activity and is currently a responsible officer of Grande Capital Limited. Mr. Shum has over 8 years of experience in the corporate finance industry.