THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in China Foods Limited, you should at once pass this circular together with the accompanying form of proxy to the purchaser, the transferee, the bank, the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Chinese Olympic Committee Official Partner
中国奥委会合作伙伴

CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 506)

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF EQUITY INTERESTS
NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company in respect of the Transaction

J.P.Morgan

J.P. Morgan Securities (Asia Pacific) Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction

SOMERLEY CAPITAL LIMITED

A letter from the Independent Board Committee with its recommendations to the Independent Shareholders of China Foods Limited (the "**Company**") is set out on page 18 of this circular and a letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 19 to 41 of this circular.

A notice convening a special general meeting ("**SGM**") of the Company, to be held at the Chairman's Suite, World Trade Centre Club Hong Kong, 38/F, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 4 July 2017 at 3:30 p.m. is set out on pages SGM-1 to SGM-2 of this circular.

Whether or not you are able to attend the SGM (or any adjournment thereof), please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to Tricor Progressive Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM (or any adjournments thereof). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM (or any adjournments thereof) in person should you so wish.

16 June 2017

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Agreement"	the equity transfer agreement entered into between the Vendor and the Purchaser on 25 May 2017
"Announcement"	the Company's announcement dated 25 May 2017
"associate(s)"	has the same meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors of the Company
"Bye-laws"	the bye-laws of the Company, as amended from time to time
"China Agri"	China Agri-Industries Holdings Limited（中國糧油控股有限公司）, a limited liability company incorporated in Hong Kong, whose shares are listed on the main board of the Stock Exchange and is indirectly owned 58.0% by COFCO
"COFCO"	COFCO Corporation（中糧集團有限公司）, a wholly state-owned company established in the PRC currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC（中國國務院國有資產監督管理委員會）and the ultimate controlling shareholder of the Company
"COFCO Group"	COFCO and its subsidiaries
"Company"	China Foods Limited（中國食品有限公司）, a limited liability company incorporated in Bermuda, whose Shares are listed on the main board of the Stock Exchange and is indirectly owned 74.1% by COFCO
"Completion"	has the meaning ascribed to it under the paragraph entitled "Completion" in the letter from the Board of this circular
"Consideration"	has the meaning ascribed to it under the paragraph entitled "Consideration" in the letter from the Board of this circular
"Director(s)"	the director(s) of the Company

"Escrow Account"	a bank account established in Hong Kong under the management of both the Vendor (or its designated affiliate) and the Purchaser (or its designated affiliate) for the purpose of holding cash collateral for the Transaction
"Equity Interests"	the Vendor's 100.0% equity interests in the Target Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board established for the purpose of reviewing the Agreement and the Transaction
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders with regard to the Agreement and the Transaction
"Independent Shareholder(s)"	shareholder(s) of the Company other than COFCO and its associates
"Latest Practicable Date"	13 June 2017, the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"percentage ratios"	have the same meanings ascribed thereto under Rule 14.07 of the Listing Rules
"PRC"	the People's Republic of China
"Purchaser"	COFCO Fortune Holdings Limited, a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of China Agri
"RMB"	Renminbi, the lawful currency of the PRC

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting to be held at the Chairman's Suite, World Trade Centre Club Hong Kong, 38/F, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 4 July 2017 at 3:30 p.m. by the Company to consider, and if thought fit, to approve the Agreement and the Transaction
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	the ordinary share(s) of the Company, being the share(s) of HK$0.1 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the same meaning ascribed thereto under the Listing Rules
"Target Company"	COFCO Fortune Food Sales & Distribution Co., Ltd. (中糧福臨門食品營銷有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Vendor
"Target Business"	has the meaning ascribed to it under the section entitled "Information of the Target Company and the Target Business" in the letter of the Board of this circular
"Transaction"	the sale of the Equity Interests by the Vendor to the Purchaser pursuant to the Agreement
"Vendor"	COFCO Food Sales & Distribution Co., Ltd.(中糧食品營銷有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company

Chinese Olympic Committee Official Partner
中国奥委会合作伙伴

CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

Chairman of the Board and Non-executive Director:
Ma Jianping

Executive Directors:
Jiang Guojin *(Managing Director)*
Luan Xiuju
Zhou Chenguang

Non-executive Directors:
Qin Yelong
Xiao Jianping

Independent Non-executive Directors:
Stephen Edward Clark
Li Hung Kwan, Alfred
Yuen Tin Fan, Francis

Principal Office in Hong Kong:
33rd Floor, COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

16 June 2017

To the Shareholders of the Company

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF EQUITY INTERESTS

I. INTRODUCTION

Reference is made to the Announcement, whereby the Board announced that on 25 May 2017, the Vendor, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser, a wholly-owned subsidiary of China Agri. Pursuant to the Agreement, the Vendor will sell all of its 100.0% Equity Interests in the Target Company to the Purchaser for a consideration of RMB1,050.0 million, subject to terms and conditions as disclosed below. The Consideration will be paid by cash. Upon Completion, the Target Company will cease to be a subsidiary of the Company and become a subsidiary of the Purchaser.

The Target Company is primarily engaged in the Target Business, which covers the sale, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, monosodium glutamate (MSG), seasoning sauce and cereals). The Target Business markets its products mainly under the "Fortune" (福臨門) brand (under a license from COFCO Group), which is a well-known consumer-pack edible oil brand in China and is ranked number two nationwide in terms of market share of edible oil products. After the Completion, it is expected that the Group will no longer engage in the Target Business.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Transaction are more than 25.0% but all of such applicable percentage ratios are less than 75.0%, the Transaction constitutes a major transaction of the Company. As COFCO is the ultimate controlling shareholder of the Company as defined under the Listing Rules, thus a connected person of the Company, and the Purchaser is a wholly-owned subsidiary of China Agri, which is 58.0% indirectly owned by COFCO, the Purchaser is a connected person of the Company. The Transaction therefore constitutes a major and connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (1) further details of the Agreement and the Transaction, (2) the letter from the Independent Board Committee with its recommendations to the Independent Shareholders regarding the Agreement and the Transaction, (3) a letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Agreement and the Transaction, and (4) a notice convening the SGM and other information as set out in the appendices to this circular.

II. MAJOR AND CONNECTED TRANSACTION – DISPOSAL OF EQUITY INTERESTS

1. THE AGREEMENT

The principal terms of the Agreement are summarized as follows:

Date

25 May, 2017

Parties

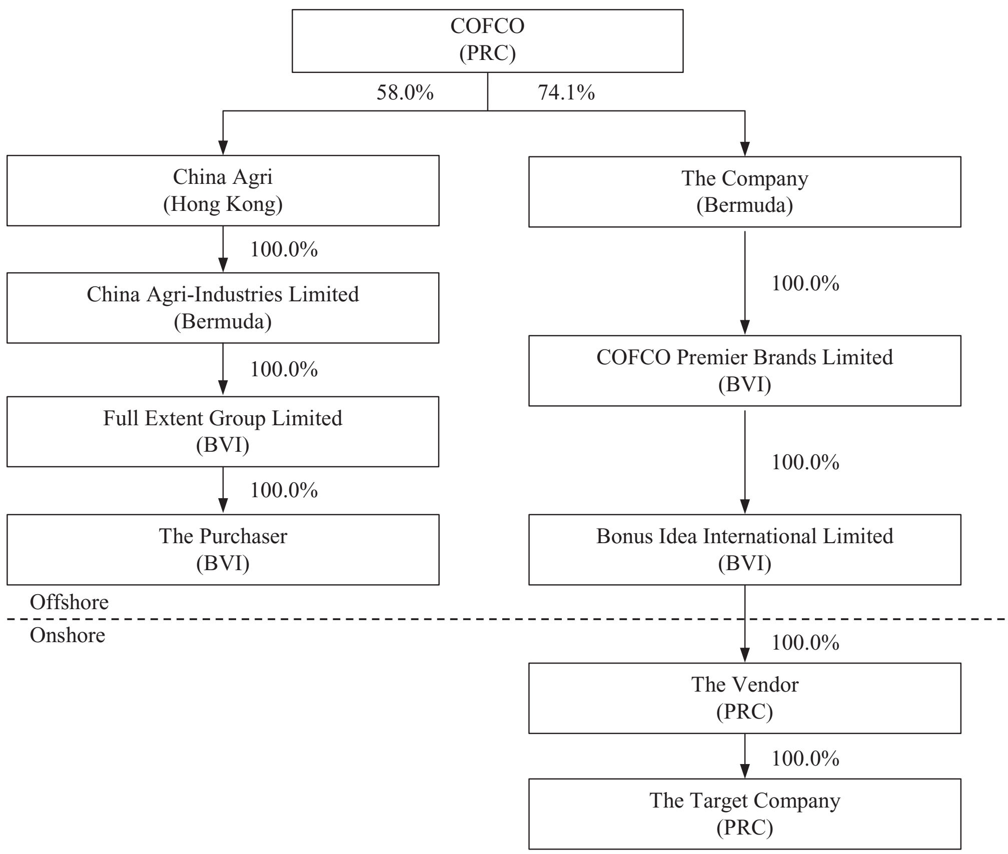
Vendor:	COFCO Food Sales & Distribution Co., Ltd.
Purchaser:	COFCO Fortune Holdings Limited

Subject Matter

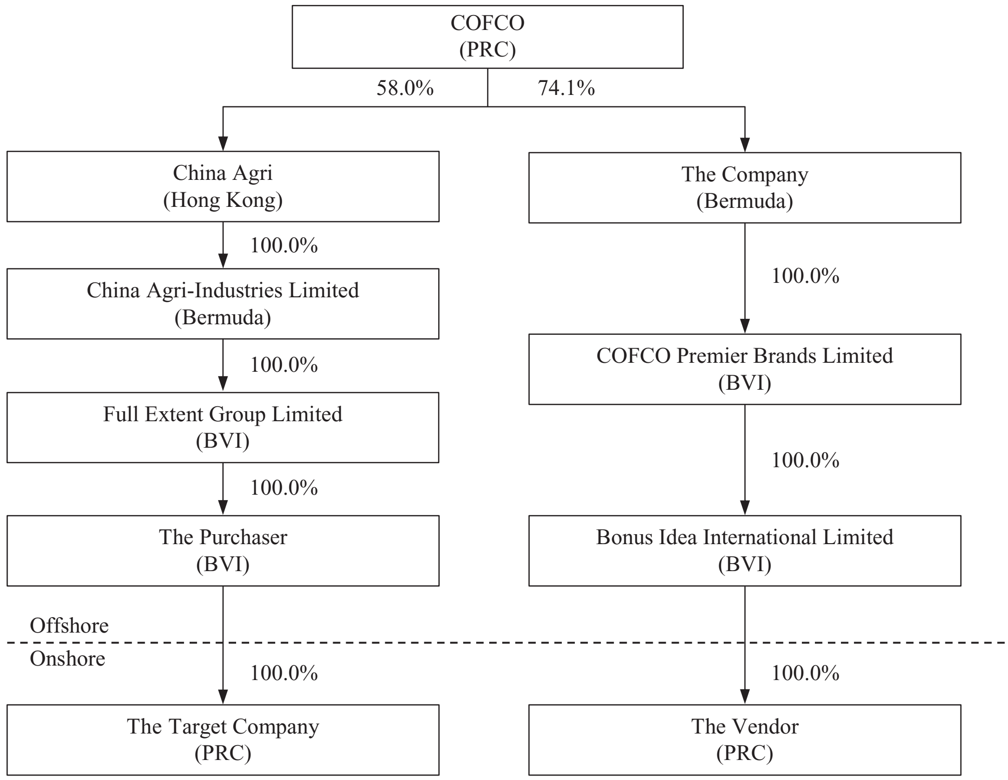
The Vendor intends to sell all of its 100.0% Equity Interests in the Target Company to the Purchaser. Upon Completion, the Target Company will cease to be a subsidiary of the Company and the Purchaser will hold 100.0% Equity Interests of the Target Company.

Set out below are shareholding structure charts of the companies involved in the Transaction:

Before the Completion



After the Completion



Consideration

Pursuant to the Agreement, the Consideration for the sale of all of the Vendor's 100.0% Equity Interests in the Target Company to the Purchaser is RMB1,050.0 million.

The Consideration was determined after arm's length negotiation between the Vendor and the Purchaser taking into account, among others, (i) historical financial performance of the Target Business for the years ended 31 December 2015 and 2016; (ii) challenges facing the Target Business such as limited growth potential and margin expansion due to the separation of Target Business and upstream operations; and (iii) the valuation of comparable companies listed globally either with similar business model as that of the Target Business who primarily focus on downstream distribution or with comparable product portfolio as that of the Target Business such as edible oil or kitchen food products because the Company is of the view that there is no comparable company that is almost the same as the Target Business who covers the sale, distribution and marketing of consumer-pack edible oil and other kitchen food products. In light of the above quantitative and qualitative factors, although there has been no independent valuation performed to determine the Consideration, the Directors are of the view that the Consideration is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Additionally, the following reasons and factors allow the Directors to conclude that the Consideration is fair and reasonable and in the interests of the Company and its shareholders as a whole:

- The Target Business is a well-established business that had commenced operation since 1995 and has been part of the Group since 2001.
- The Transaction is a straightforward sale of a 100.0% equity interest in Target Company and does not involve any complex transaction structure.
- The Directors have also considered the potential risks and benefits to the Transaction before entering into the Agreement.
- The Directors which approve the Acquisition are independent and do not have any actual or potential conflict of interest.

Payments

1. The Purchaser shall deposit an amount equal to 30.0% of the Consideration (equivalent to RMB315.0 million) into the Escrow Account as security deposit ("**Security Deposit**") for the Transaction within 5 business days after signing the Agreement. As of the Latest Practicable Date, the Purchaser has made the Security Deposit into the Escrow Account.

2. The Security Deposit made to the Escrow Account shall be released and transferred, and the Purchaser shall pay 30.0% of the Consideration (equivalent to RMB315.0 million), to an account designated by the Vendor, within 10 business days after the fulfillment of the following conditions:

   (i) the Purchaser has completed all financial, legal and other due diligence in relation to the Transaction to the satisfaction of the Purchaser;

   (ii) the Agreement has been approved by the shareholder of the Target Company and the relevant shareholder's resolution has been provided to the Purchaser;

   (iii) the Agreement has been approved by the internal decision-making bodies (including but not limited to the boards of directors) of the Vendor and the Purchaser, respectively, and the relevant disclosure obligations have been fulfilled;

   (iv) the Transaction has been approved by the boards of directors and shareholders at general meetings of both the Company and China Agri, respectively;

   (v) the Transaction has been approved by the internal decision-making body of COFCO; and

(vi) the Transaction and the articles of association of the Target Company amended pursuant to the Transaction have been approved by the relevant approval authorities. Copies of relevant approvals have been provided to the Purchaser by the Target Company.

As of the Latest Practicable Date, conditions (i) and (v) for this payment installment have been fulfilled.

3. The Purchaser shall pay the remaining amount of the Consideration into an account designated by the Vendor within 5 business days after the fulfillment of the following conditions:

(i) the Target Company has completed the state-owned assets ownership alteration registration pursuant to the Transaction;

(ii) the Target Company has obtained a new business license pursuant to the Transaction and has provided a copy of the new business license to the Purchaser;

(iii) the Target Company has altered the chops and seals records reserved for all its bank accounts as requested by the Purchaser, and has provided the Purchaser with a list of the altered reserve seals records; and

(iv) the Target Company has handed over all existing cheques and bank electronic payment vouchers to the Purchaser.

As of the Latest Practicable Date, none of conditions for this payment installment have been fulfilled.

Completion

The Completion shall take place at the date when the business registration alteration formalities with the relevant Administration for Industry & Commerce in connection with the Transaction have been completed and the Target Company has obtained a new business license. At Completion, the Target Company will be engaged only in the Target Business and will discontinue any other business prior to Completion.

After the Completion, the Target Company will become a connected person to the Group, and any transactions between the Target Company and the Group will become connected transactions under the Listing Rules. The Company does not expect there will be any existing continuing transactions between the Target Company and the Group that will become connected transactions upon the Completion.

Default Penalty

For any delay in the payment of any part or all of the Consideration, the Purchaser shall pay a daily default penalty fee of 0.03% of the unpaid portion of the respective payments. If any payment is delayed for more than 30 days, then the Vendor will have the right to terminate the Agreement and to seek damages arising thereof.

Condition to the Validity of the Agreement

The Agreement shall be formed upon execution, and shall become valid and legally binding upon obtaining approvals from (i) the decision making bodies of the parties and COFCO, and (ii) the regulatory authorities.

In case the Transaction fails to obtain any requisite regulatory approval and that such failure is not caused by any parties to the Agreement, the Agreement shall be deemed invalid and no parties shall be liable to any damages or obligations relating to such invalidity. Under such circumstance, the Vendor shall refund the paid Consideration with accrued interest to the Purchaser.

Termination

The Agreement can be, among others, terminated upon mutual consent of both parties. In the event that the Transaction cannot be completed within six months upon the execution of the Agreement, and such failure is not caused by the fault of any of the parties, either party can terminate the Agreement upon written notice to the other party, unless both parties agree to extend such long stop date. Such termination shall not affect the rights and obligations existing before the termination.

ADDITIONAL UNDERTAKINGS BY THE COMPANY

In connection with the Transaction, on 25 May 2017, the Company issued letters to China Agri. The Company confirms that it does not have any investment in companies outside of the Target Company that compete with the Target Business of the Target Company as of the Completion. The Company further provides undertakings that:

(1) to the best of the Company's knowledge, all documents, materials and information provided by the Vendor and the Target Company to the Purchaser and its advisors during the Purchaser's due diligence investigation and the formulation, negotiation, execution and performance of the transaction documents are true, accurate, complete, effective and not misleading;

(2) upon Completion, the Company and its subsidiaries will no longer directly or indirectly engage in or participate in business which may compete with the Target Business of the Target Company in any form;

(3) upon Completion, the Company and its subsidiaries will no longer directly or indirectly hold, own or hold through a third party to hold any equity interest, shares, options or other investment interests in any enterprise which may compete with the Target Business of the Target Company; and

(4) after Completion, in the event that the Company would have any significant investment (i.e. more than 10% in the capital, both in paid up capital or convertible into capital) into a company that engages in business competing with the Target Business of Target Company, the Company shall, subject to the relevant laws and regulatory requirements, offer China Agri to acquire such investment at its appraised value as determined by an independent third party valuer recognized by both parties.

For the purpose of the undertakings, "subsidiaries" means any enterprise or entity directly or indirectly controlled by the Company or jointly controlled by the Company and other party; "control" means (i) ownership of fifty percent (50%) or more of the issued capital or equity share, or registered capital, or (ii) by virtue of the voting rights of more than 50% of the entity, or the power to appoint the majority of the members of the board of directors or similar management, or by contractual arrangements or otherwise, capable of intervening in the management or policy of the entity.

Although non-competition undertakings are not part of the Agreement, they are nevertheless part and parcel to the Transaction as a whole. As this Transaction is a strategic decision made by the Group to focus on the beverage and wine business, which have higher gross margins and better earnings prospects, in the future, the non-competition undertakings are reflections of such strategic decision, and are integral components and the intended results of the Transaction. The non-competition undertakings would only be triggered by the Completion, and the Group will no longer engage in and will not re-enter into the Target Business thereafter. If the Transaction does not proceed to Completion, the non-competition undertakings will be void. If the Transaction proceeds to Completion, it is subject to the consent of China Agri to unwind the non-competition undertakings based on further discussion in the future.

2. INFORMATION OF THE TARGET COMPANY AND THE TARGET BUSINESS

The Target Company is a limited liability company incorporated in the PRC. It is a wholly-owned subsidiary of the Vendor. The Target Company, together with its 10 branch companies located respectively in Beijing, Shanghai, Hangzhou, Nanjing, Guangzhou, Wuhan, Chengdu, Xi'an, Shenyang and Qingdao, is primarily engaged in the Target Business.

The Target Business covers the sale, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, monosodium glutamate (MSG), seasoning sauce and cereals). The Target Business markets its products mainly under the "Fortune" (福臨門) brand, which is a well-known consumer-pack edible oil brand in China, among others. It distributes a portfolio of consumer-pack edible oil products including basic oil (e.g. soybean and blend oils), nutritious oil (e.g. corn, rapeseed, peanut and sunflower oils), high-end oil (e.g. sesame, rice and other premium oils) and other non-oil products (including consumer-pack sugar, soy sauce, vinegar, MSG, seasoning sauce and cereals) through supermarkets and other third party distribution channels. Prior to the Target Company's incorporation, the Vendor was engaged in the Target Business.

The Target Business contributed 38.0% of the Group's revenue from continuing operations and 14.3% of the Group's profit before tax from continuing operations for the year ended 31 December 2016. Within the Target Business, approximately 87.7% of the revenue was contributed by products under the "Fortune" brand and approximately 98.7% of the revenue was contributed by consumer-pack edible oil for the year ended 31 December 2016. The Target Business primarily sells products through a vast network of 989 distributors, serving 550,000 points-of-sale across China. As of 31 December 2016, the audited net asset value of the Target Business was approximately RMB42.7 million.

Set out below is the audited financial information of the Target Business.

	For the year ended 31 December 2015 *(approximately RMB thousand)*	**For the year ended 31 December 2016** *(approximately RMB thousand)*
Revenue	8,125,295	9,214,450
Gross Profit	1,008,538	1,042,491
Profit before tax	93,341	80,055
Profit for the year[1]	93,341	80,055

Note:

1 The Target Business did not incur any tax expenses for the years ended 31 December 2015 and 2016 mainly due to the utilization of tax losses brought forward from previous periods.

3. FINANCIAL IMPACT OF THE TRANSACTION ON THE GROUP

Upon Completion, the Group will cease to hold any direct or indirect equity interest in the Target Business and the financial results of the Target Business will no longer be consolidated into the consolidated financial statements of the Group. On such basis, assuming Completion were to take place on 31 December 2016, it is estimated that as a result of the Transaction, there would be a one-off unaudited gain of approximately RMB1,007.3 million recorded by the Group, which is calculated with reference to the Consideration of RMB1,050.0 million, less the audited net asset value of the Target Business of approximately RMB42.7 million as of 31 December 2016. The expected unaudited gain to be derived from the Transaction is calculated before deducting relevant transaction costs and taxes from the disposal. The actual gain or loss as a result of the disposal to be recorded by the Group may fluctuate depending on the actual date of Completion and is subject to audit and will be reassessed after Completion.

Based on the same assumptions as above, it is estimated that as a result of the Transaction, the net profit of the Group would decrease by approximately RMB80.1 million, being the net profit of the Target Business of 2016; the total assets of the Group would decrease by approximately RMB1,234.7 million, being the difference between (i) the aggregate gross proceeds of RMB1,050.0 million to be received by the Group from the Transaction, and (ii) the aggregate sum of the total assets of approximately RMB2,284.7 million of the Target Business as of 31 December 2016; and the total liabilities of the Group would decrease by RMB2,242.0 million, being the total liabilities of the Target Business as of 31 December 2016. Shareholders should note that the actual financial effects of the Transaction will be determined based on the financials of the Target Business immediately upon Completion and therefore may be different from the amounts mentioned above.

The Group intends to use a larger part of the proceeds from the Transaction to repay certain bank borrowings and to distribute the rest of the proceeds, an amount between HK$200.0 million and HK$300.0 million, as a special dividend to the Shareholders. The special dividend is subject to (a) approval of the Independent Shareholders in respect of the Transaction at the SGM having been obtained; and (b) Completion having taken place. The Board will take into account the then financial and cashflow position of the Group at the respective point in time and the progress of the Transaction before any special dividend is proposed and declared.

A board meeting will be held after the Completion to determine the exact amount of the special dividend. Further announcement(s) in respect of the special dividend will be made by the Company as and when appropriate.

4. REASONS FOR THE TRANSACTION AND BENEFIT TO THE GROUP

The Group has always been dedicated to the improvement of its business operations and the maximization of returns to its Shareholders. After careful deliberations, the management is of the view that the Group should focus on businesses with higher growth potentials, stronger brand attributes, higher gross margins and better earnings prospects to maximize return for the Shareholders. By selling the Target Business, the Group can continue its strategic focus and business portfolio optimization, so that the Group can become more focused on its wine and beverage businesses, enhance its professionalism in business operation, and thereby increase the overall profitability of the Group.

Specifically, in the view of the management, the Transaction is favorable to the Shareholders for the following reasons:

(i) Unlock growth potentials and maximize value, which are currently restrained by the separation of Target Businesses and upstream operations

Selling the Target Business to China Agri allows the integration of the value chain for the whole edible oil business under COFCO. The Target Business engages only in the downstream business of the value chain without a vertical integration with upstream business. In contrast, most branded consumer product companies are vertically integrated with product development, manufacturing and distribution capabilities, to better detect the needs of the end-customers and to timely reflect consumer feedbacks and to adjust their manufacturing strategy accordingly. The growth potential and margin expansion of the Target Business is therefore expected to be limited, given that the Target Company is not able to control the input costs and respond quickly in manufacturing strategy to changing market trends and customer demands. Also, there is limited synergy between the Target Business and the other businesses operated by the Group. By creating synergies with the existing upstream edible oil business of China Agri, the Transaction could unlock the Target Business' growth potentials by removing restrains placed by the separation of Target Business and upstream operations, thereby maximizing the Target Business' value.

(ii) Reduce connected transactions and improve operational efficiency

Most of the Target Business' inventory has been provided by China Agri since 2007; the latter engages in the production and supply of edible oil products for sale. The upstream and downstream of the edible oil business is therefore separated in China Agri and the Group, respectively, and has increased the operational and managerial costs of both groups, as well as increasing unnecessary connected transaction volumes for both listed groups. Selling the Target Business to China Agri would reduce connected transactions between the Group and China Agri, thereby decreasing operational and compliance costs of both groups.

(iii) Maximize Shareholders' return by focusing on high margin products with stronger brand attributes

The Target Business primarily involves sales, distribution and marketing of consumer-pack edible oil and other kitchen food products, where the key market competitiveness lies in large sales volume, high operating efficiency and effective cost management. The Target Business' gross profit margin has been lower than that of the Group's beverage and wine businesses. Selling the Target Business would allow the Group to optimize its product mix and increase return for the Shareholders.

In light of the above, the management believes that it is in the best interest of the Shareholders as a whole to exit the Target Business so that the Group can allocate more resources to the beverage and wine businesses, which generate higher gross margins and have stronger brand attributes, thereby enhancing the Group's overall profitability.

5. LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Transaction are more than 25.0% but all of such applicable percentage ratios are less than 75.0%, the Transaction constitutes a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

COFCO is the ultimate controlling shareholder of the Company as defined under the Listing Rules and thus a connected person of the Company. The Purchaser is a wholly-owned subsidiary of China Agri, which is 58.0% owned by COFCO. The Purchaser is therefore a connected person of the Company. The Transaction constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

COFCO and its associates, holding approximately 74.1% of the equity interest in the Company, will abstain from voting on the resolution in relation to the Agreement and the Transaction.

6. OPINION OF THE BOARD

The Directors (including the independent non-executive Directors after taking into account of the advice from Somerley, whose views are set out separately in this circular in more details) consider that the basis for determining the consideration of the Transaction is fair and reasonable, the terms of the Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Directors associated with COFCO and its subsidiaries and other associates, namely Mr. Ma Jianping, Mr. Jiang Guojin, Ms. Luan Xiuju, Mr. Qin Yelong and Ms. Xiao Jianping, as the connected Directors, have abstained from voting regarding the Agreement and the Transaction. Except as disclosed above, none of the Directors has any material interests in the Agreement and the Transaction and hence no other Director has abstained from voting on such Board resolutions.

7. GENERAL INFORMATION ON THE PARTIES

The Company

The Company is an investment holding company. Through its subsidiaries and associated companies, it is principally engaged in wine, beverage, consumer-pack edible oil and other kitchen food products businesses.

The Vendor

The Vendor is a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company. It is primarily engaged in the sales, distribution and marketing of wines and, through the Target Company, the Target Business, and will cease to engage in the Target Business upon Completion.

The Purchaser

The Purchaser is a wholly-owned subsidiary of China Agri and its primary business is investment holding.

III. SPECIAL GENERAL MEETING

The SGM will be held for the purposes of considering and, if thought fit, approving by the Independent Shareholders the Agreement and the Transaction.

In accordance with the Listing Rules, COFCO and its associates will abstain from voting on the resolution in relation to the Agreement and the Transaction. As of the Latest Practicable Date, based on the knowledge the Company has and after having made all reasonable enquiries by the Company, COFCO and its associates together hold approximately 74.1% of the voting rights of the Company.

A notice convening the SGM to be held at the Chairman's Suite, World Trade Centre Club Hong Kong, 38/F, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 4 July 2017 at 3:30 p.m. is set out on pages SGM-1 to SGM-2 of this circular.

A form of proxy for use by the shareholders at the SGM is enclosed with this circular. For determining the entitlement to attend and vote at the SGM to be held on Tuesday, 4 July 2017, the register of members of the Company will be closed from Thursday, 29 June 2017 to Tuesday, 4 July 2017 (both days inclusive) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the SGM, unregistered holders of Shares of the Company should ensure that all transfer forms accompanied by the relevant Share certificates must be lodged for registration with Tricor Progressive Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in any case no later than 4:30 p.m. on Wednesday, 28 June 2017.

Pursuant to bye-law 75 of the Bye-laws, any vote of Shareholders at a general meeting must be taken by poll. The results of the voting by poll will be published on the HKExnews website of the Stock Exchange and the website of the Company as soon as possible after the conclusion of the SGM.

On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorized representative shall have one vote for each Share registered in his/her/its name in the register of members. A Shareholder entitled to more than one vote need not use all votes or cast all the votes in the same way.

Whether or not you are able to attend the SGM (or any adjournment thereof), please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to Tricor Progressive Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting at the SGM (or any adjournment thereof) in person should you so wish.

The Transaction contemplated under this circular is subject to the satisfaction or waiver (where applicable) of a number of conditions and the Independent Shareholders' approval at the SGM and, accordingly, may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares or other securities of the Company.

IV. RECOMMENDATION

An Independent Board Committee has been formed to advise and provide recommendation to the Independent Shareholders on the Agreement and the Transaction.

Somerley has been appointed as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders on the Agreement and the Transaction.

Based on the relevant information disclosed herein, the Directors (including the independent non-executive Directors after taking into account of the advice of Somerley), consider that the Agreement and the Transaction, though not in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and the terms of the Agreement and the Transaction are fair and reasonable. Accordingly, the Directors recommend the Independent Shareholders of the Company to vote in favor of the resolution in respect of the Agreement and the Transaction to be purposed at the SGM.

Yours faithfully,
By Order of the Board
Jiang Guojin
Managing Director

Chinese Olympic Committee Official Partner
中国奥委会合作伙伴

CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

16 June 2017

To the Independent Shareholders of the Company

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF EQUITY INTERESTS

We have been appointed as the Independent Board Committee to give a recommendation to the Independent Shareholders of the Company in connection with the Agreement and Transaction contained in the circular to the Shareholders of the Company dated 16 June 2017 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Agreement, and the advice and opinion of Somerley in relation thereto as set out on pages 19 to 41 of the Circular, we are of the opinion that the Agreement and the Transaction, though not in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and the terms of the Agreement and the Transaction are fair and reasonable. We therefore recommend that the Independent Shareholders of the Company vote in favor of the resolution to be proposed at the SGM in respect of the Agreement and the Transaction.

Yours faithfully,
For and on behalf of the Independent Board Committee

Stephen Edward Clark	**Li Hung Kwan, Alfred**	**Yuen Tin Fan, Francis**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

Set out below is the letter of advice from the Somerley Capital Limited, Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, in relation to the Agreement and the Transaction, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

16 June 2017

To: The Independent Board Committee and the Independent Shareholders of China Foods Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF EQUITY INTERESTS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the Transaction. Details of the Agreement and the Transaction are set out in the circular issued by the Company to the Shareholders dated 16 June 2017 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 25 May 2017, COFCO Foods Sales & Distribution Co., Ltd., being the Vendor and a wholly-owned subsidiary of the Company, entered into the Agreement with COFCO Fortune Holdings Limited, being the Purchaser and a wholly-owned subsidiary of China Agri, pursuant to which the Vendor will sell its 100.0% Equity Interests in the Target Company to the Purchaser at a consideration of RMB1,050.0 million (equivalent to approximately HK$1,197.0 million).

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Transaction are more than 25.0% (but all of such applicable percentage ratios being less than 75.0%), the Transaction constitutes a major transaction for the Company. As COFCO is the ultimate controlling shareholder of the Company as defined under the Listing Rules, thus a connected person of the Company, and the Purchaser is a wholly-owned subsidiary of China Agri, which is as to 58.0% indirectly owned by COFCO, the Purchaser is a connected person of the Company. The Transaction therefore constitutes a major and connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

As referred to the above, COFCO is considered to have a material different interest from other Shareholders in the Agreement and the Transaction. COFCO and its associates are required to abstain from voting on the resolution to be proposed at the SGM to approve the Agreement and the Transaction.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Messrs. Stephen Edward Clark, Mr. Li Hung Kwan, Alfred and Mr. Yuen Tin Fan, Francis, has been established to advise the Independent Shareholders on the terms of the Agreement and the Transaction and to make a recommendation as to voting. We, Somerley, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated with the Company, the Vendor, COFCO, China Agri, the Purchaser, the Target Company or their respective core connected persons, close associates or associates and accordingly are considered eligible to give independent advice on the above matters. Apart from normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, the Vendor, COFCO, China Agri, the Purchaser, the Target Company or their respective core connected persons, close associates or associates.

In formulating our opinion, we have reviewed, among other things, the Agreement, the annual reports of the Company for the two years ended 31 December 2016 (the "**2016 Annual Report**") and 31 December 2015, certain financial information of the Target Business and the information as set out in the Circular. We have also discussed with the management of the Group regarding the Target Company and the future prospects of the remaining business of the Group after Closing.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete in all material aspect and will remain to be true, accurate and complete in all material aspects up to the date of the SGM. Independent Shareholders will be informed as soon as practicable if we become aware of any material change to such information. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or of the Target Company, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have taken into account the principal factors and reasons set out below:

1. Business of the Group

The Company is an investment holding company. Through its subsidiaries and associated companies, it is principally engaged in beverage, wine and kitchen food businesses.

The Group's beverage business is principally engaged in the processing, bottling and distribution of Coca-Cola sparkling beverages and distribution of Coca-Cola still beverages in the PRC under franchise agreements with The Coca-Cola Company. In 2016, the Group entered into a series of transactions with The Coca-Cola Company and Swire Beverages Holding Limited for refranchising of the Coca-Cola bottling operations in the PRC. The refranchising represents part of the Group's overall strategy to concentrate on expanding its core activities and reflects the Group's long-term commitment to the Coca-Cola beverages bottling business in China. The refranchising also allows the Group to reposition itself as one of the largest beverage bottlers in China and scales up its beverages business and expands its geographical coverage in China.

The Group's wine business is principally engaged in the production and sale of wines in the "Greatwall" brand and the distribution of imported wines in the PRC. The "Greatwall" brand covers a variety of red and white wines and it offers single varietal wines and blended wines using different grape varieties.

The Group's kitchen food business is mainly engaged in the sale, distribution and marketing of edible oil, which is the principal product category, as well as seasoning products. In particular, the "Fortune" brand consumer-pack edible oil sold by the Group ranks second nationwide in terms of market share. Furthermore, the kitchen food segment has also offered large-pack edible oil (8-20 litres per container) to catering industry in China since the second quarter of 2015. The Target Business is a significant part of the kitchen food business.

In addition to the above, the Group had engaged in confectionery business, which primarily involved in the production and distribution of chocolate and other related products. The confectionery business was disposed of in May 2016.

Set out in the table below is the financial performance of the three key business segments and the Group for the two years ended 31 December 2016.

	For the year ended 31 December			
	2016		2015	
	(HK$ million)		*(HK$ million)*	
	Revenue	Segment results	Revenue	Segment results
Beverage	11,290.5	640.5	12,335.0	695.2
Wine	2,503.1	111.1	2,295.4	94.1
Kitchen food	13,963.2	85.7	12,851.9	117.1
Others	229.1	4.2	359.9	11.6
	27,985.9	841.5	27,842.2	918.0
Interest income		18.4		27.9
Dividend income		48.7		46.9
Finance costs		(35.7)		(64.8)
Share of profits of associates		73.0		71.9
Gain on disposal of subsidiaries		118.8		–
Corporate and other unallocated expenses		(416.7)		(324.7)
Profit before tax from continuing operations		648.0		675.2
Profit for the year		743.8		296.5
Profit for the year attributable to the Shareholders		499.7		54.6
– Profits from continuing operations		*177.8*		*153.2*

While both the revenue and results have dropped for 2016, the beverage segment continued to be the major profit contributor to the Group in the past few years. The segment profit of the beverage segment of approximately HK$640.5 million represented over three-fourths of the segment profits of the Group for 2016. The overall sales volume for beverage products by the Group for 2016 increased by 1.9%, which was generally in line with the overall beverages market in the PRC. The overall revenue in RMB terms, however, dropped by 2.5% due to the change of product mix. The segment profit dropped by 1.9% in RMB terms. The segment profit, as a percentage of turnover, improved slightly from 5.64% for 2015 to 5.67% for 2016.

Although the overall sales volume of "Greatwall" wine dropped by 9% for 2016, the wine segment revenue grew by 16.1% in RMB terms due to the change in sales mix, including the substantial growth in imported wine platform, which saw a growth of

16.1% in RMB terms. The wine segment profit improved by 25.7% in RMB terms due to the higher amount of sales and improved gross margin due to the enhancement in product mix and lower costs of raw wines. The segment profit, as a percentage of turnover, improved slightly from 4.10% for 2015 to 4.44% for 2016.

As to the kitchen food segment, driven by the increases in sales volume of "Fortune" branded consumer-pack edible oil and large-pack edible oil of 14.3% and 16.2% respectively, the overall sales revenue for 2016 increased by 15.7% in RMB terms. However, there was a drop in an overall gross profit margin of 1.0 percentage points for oil products due to the increased contribution of large-pack edible oil with relatively lower margin. Together with the increased advertising and marketing expenses in view of intensifying competitions in the market, the segment profit in RMB terms fell by approximately 22.1% for 2016. The segment profit, as a percentage of turnover, declined from 0.91% for 2015 to 0.61% for 2016. Such profit margins were relatively thin and significantly lower than the profit margins achieved by the beverage and wine segments.

2. Information on the Target Company and the Target Business

The Target Company is primarily engaged in the Target Business which covers the sale, distribution and marketing of consumer-pack edible oil and, in a significantly less extent, other kitchen food products including consumer-pack sugar, soy sauce, vinegar, MSG, seasoning sauce and cereals, in the PRC. The Target Business markets its products mainly under the "Fortune" (福臨門) brand, which is a well-known consumer-pack edible oil brand in China, among others. It distributes a portfolio of consumer-pack edible oil products including basic oil (e.g. soybean and blend oils), nutritious oil (e.g. corn, rapeseed, peanut and sunflower oils), high-end oil (e.g. sesame, rice and other premium oils) and other non-oil products (including consumer-pack sugar, soy sauce, vinegar, MSG, seasoning sauce and cereals) through supermarkets and other third party distribution channels. Most of the Target Business' inventory has been provided by China Agri since 2007; the latter engages in the production and supply of edible oil products for sale. The upstream and downstream of the edible oil businesses are therefore separated in China Agri and the Group, respectively.

The Target Company, together with its 10 branch companies located respectively in Beijing, Shanghai, Hangzhou, Nanjing, Guangzhou, Wuhan, Chengdu, Xi'an, Shenyang and Qingdao, is primarily engaged in the Target Business.

The Group has engaged in the kitchen food business, comprising primarily the Target Business for over ten years and the sale, distribution and marketing of large-pack edible oil for approximately two years. Set out in the table below is the revenue and results of the kitchen food segments in the last ten financial years.

	For the year ended 31 December											
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	Cumulative	Average
(All amounts expressed in HK$ million)												
Segment revenue:												
Sales to external customers	13,963.2	12,851.9	11,230.5	12,276.4	14,974.8	13,140.6	8,344.4	6,008.5	6,512.2	4,158.0	103,460.5	10,346.0
Other revenue	12.1	42.0	58.0	35.8	15.8	14.5	10.8	17.2	9.9	(0.3)	215.9	21.6
Revenue from continuing operations	13,975.3	12,893.9	11,288.5	12,312.2	14,990.6	13,155.1	8,355.2	6,025.7	6,522.1	4,157.7	103,676.4	10,367.6
Segment results	85.7	117.1	29.3	(152.1)	(229.7)	162.3	33.6	18.6	4.9	(20.8)	48.7	4.9

As shown in the table above, while the revenue of the kitchen food business of the Group has had an upward trend, the results had been volatile over the last ten-year of its operating history. The results in the most recent two financial years were generally better than those of the other years. On a cumulative basis, the Group recorded a revenue of approximately HK$103,676.4 million and a profit of approximately HK$48.7 million from the kitchen food business over the ten-year period, representing a net margin of approximately 0.05%.

The Target Business contributed 38.0% of the Group's revenue and 14.3% of the Group's profit before tax from continuing operations for the year ended 31 December 2016. Within the Target Business, approximately 87.7% of the revenue was contributed by products sold under the "Fortune" brand and approximately 98.7% of the revenue was contributed by consumer-pack edible oil for the year ended 31 December 2016. The Target Business primarily sells products through a network of 989 distributors, serving 550,000 points-of-sale across China.

Set out below is a summary of the audited statement of profit or loss of the Target Business for the year ended 31 December 2016 and 2015.

	For the year ended 31 December	
	2016	**2015**
	(RMB million)	*(RMB million)*
Revenue	9,214.5	8,125.3
Cost of sales	(8,172.0)	(7,116.8)
Gross profit	1,042.5	1,008.5
Other income	25.4	34.4
Selling and distribution expenses	(976.2)	(919.2)
Administrative expenses	(12.6)	(11.8)
Other expenses and losses	1.0	(18.6)
Profit before tax	80.1	93.3
Income tax expense	–	–
Profit for the year	80.1	93.3

The revenue of the Target Business increased by approximately 13.4% from approximately RMB8,125.3 million (equivalent to approximately HK$9,262.8 million) in 2015 to approximately RMB9,214.5 million (equivalent to approximately HK$10,504.5 million) in 2016. The growth in the revenue was mainly driven by the increase in sales volume of "Fortune" branded consumer-pack edible oil of approximately 14.3% during 2016, which is mainly attributable to the increase in sales from blended oil and soybean oil during the year. The cost of sales in 2016 increased by approximately 14.8% from approximately RMB7,116.8 million (equivalent to approximately HK$8,113.2 million) in 2015 to approximately RMB8,172.0 million (equivalent to approximately HK$9,316.1 million) in 2016. The faster increase in cost of sales led to a drop in overall gross profit margin from approximately 12.4% in 2015 to approximately 11.3% in 2016. The decrease in gross profit margin was mainly attributable to the change in sales mix of the Target Business. During 2016, the sales volume of soybean oil, which has a lower gross profit margin, increased by approximately 18.7% from 2015. Given the above, the overall gross profit margin decreased despite recording an increase in turnover.

Profit before tax for 2016 decreased by approximately 14.1% from approximately RMB93.3 million (equivalent to approximately HK$106.4 million) in 2015 to approximately RMB80.1 million (equivalent to approximately HK$91.3 million) in 2016. The Target Business had no income tax expenses in either 2015 and 2016 mainly due to the utilisation of tax losses brought forward from prior years. As at 31 December 2016, the balance of tax losses carried forward was approximately RMB3 million (equivalent to approximately HK$3.4 million) only.

Set out below is the summary of audited statement of financial position of the Target Business as at 31 December 2016 and 31 December 2015.

	As at 31 December	
	2016	**2015**
	(RMB million)	*(RMB million)*
Non-current assets	3.8	3.6
Current Assets		
Inventories	1,286.0	1,076.7
Accounts and bills receivables and other current assets	497.4	505.1
Amounts due from related parties	308.9	97.2
Cash and cash equivalents	188.6	–
	2,280.9	1,679.0
Current liabilities		
Amounts due to related parties	1,449.6	898.2
Accounts and bills payables and other payables	792.4	724.2
	2,242.0	1,622.4
Net assets	42.7	60.2

The assets of the Target Business mainly comprised inventories, accounts and bills receivables and amounts due from related parties. The amounts due from related parties were largely generated from the sales of edible oil to other members of the COFCO Group. The Target Business did not possess significant non-current assets as the Target Business operates through leasing of warehouses and motor vehicles from independent third parties. The liabilities of the Target Business mainly comprised amounts due to related parties and accounts and bills payables and other payables in relation to the purchase of raw materials. The Target Business had a small amount of equity of approximately RMB42.7 million (equivalent to approximately HK$48.7 million) as at 31 December 2016 and hence the Target Business was mainly financed by current liabilities.

According to a global independent provider of strategic market research, "Fortune" brand ranked second in the market shares in the edible oil market in the PRC and significantly lagged behind the "Arawana" brand, which was in the leading position with almost half of the market share in 2016. The positions and relatively market shares of the "Fortune" brand and the "Arawana" brand in the last few years remained no material change. As mentioned in the 2016 Annual Report, the bulk oil price is expected to rise in 2017. At the same time, advertising and marketing expenses for major competing brands will increase. Hence, gross profit margins and selling prices for packaged edible oil products will continue to be under pressure. Given the industry standings and the prospect of the market, it is considered that the short-term outlook of the Target Business is not particularly attractive.

3. Reasons for and benefits of the Transaction

As set out in the letter from the Board in the Circular, the management is of the view that the Group should focus on businesses with higher growth potentials, stronger brand attributes, higher gross margins and better earnings prospects to maximise return for the Shareholders. By selling the Target Business, the Group can continue its strategic focus and business portfolio optimisation, so that the Group can become more concentrated on its wine and beverage businesses, enhance its professionalism in business operation, and thereby increase the overall profitability of the Group.

The letter from the Board in the Circular also stated that the Target Company is primarily engaged in the downstream business of the consumer-pack edible oil value chain, and its long-term competitiveness and growth have been driven by large sales volume, relatively high operational efficiency and low cost and expenses. By integrating with the upstream raw material processing business of the edible oil value chain, the Transaction could unlock synergies and growth potentials, thereby maximising the value of the Target Business and the upstream operations. The Transaction could also reduce connected transactions between the Group and China Agri, thereby decreasing operational and compliance costs of the Group. Furthermore, the management of the Group is also of the view that the Transaction will maximise Shareholders' return by focusing on high margin products with stronger brand attributes. For the detailed reason for and benefits of the Transaction, please refer to the section 4 headed "Reasons for the Transaction and benefit to the Group" in the letter from the Board in the Circular.

In light of the above, the management of the Group believes that it is in the best interest of the Company and the Shareholders as a whole to exit the Target Business at a reasonable price consideration so that the Group can allocate more resources to the beverage and wine businesses, which generate higher gross margins and have stronger brand attributes, thereby enhancing the Group's overall profitability.

Furthermore, based on our review and discussion with the management of the Group, we noted the followings:

(a) Low margin of the Target Business

As mentioned in the 2016 Annual Report, the growth rate of macro-economy in China remained at a relatively low level, with slackened growth in consumption expenditure. The Group continued to face vigorous domestic competition as new or imported products were introduced to the market by other industry players. In view of the challenges, the Group has implemented a series of initiatives to improve operational efficiency, which was demonstrated by, among other things, the disposal of unprofitable confectionery business and certain unattractive low margin wine assets. Although the kitchen food business segment achieved profitability in the last two years, its profit margin remains substantially lower than the other two major business segments of the Group. For instance, the margins, being the segment results over the segment revenue, of the beverage segment for the two years ended 31 December 2016 and 2015 were approximately 5.7% and 5.6% respectively. The margins of the wine segment during the corresponding years were approximately 4.4% and 4.1% respectively. On the other hand, the margins of kitchen food segment during the corresponding years were only approximately 0.6% and 0.9% respectively. One of the possible reasons is that consumer-pack edible oil and other kitchen food products, being daily necessities, are more price sensitive as well as being more competitive. Therefore, customers are less brand sensitive and the Target Business's margin has remained at a relatively low level.

(b) High operating costs due to lack of control over manufacturing process and delivery locations

While many of its competitors have a vertically integrated process from product development to manufacturing and distribution, the Target Business primarily involves in the downstream process, i.e. sales, distribution and marketing, of consumer-pack edible oil and other kitchen food products and purchases the edible oil mainly from China Agri. The lack of control over manufacturing process and delivery locations has resulted in relatively high transportation and logistics costs, particularly the Target Business ranks second in the consumer-pack edible oil market and has a broad geographical presence in the PRC. Also, the Target Business has limited initiative in pricing and market development.

(c) Limited earnings growth prospect

As stated in the 2016 Annual Report, the bulk oil price is expected to rise in 2017. At the same time, advertising and marketing expenses for major competing brands will increase. Hence, gross profit margins and selling prices for packaged edible oil products will continue to be under pressure. Accordingly, while the sales volume of "Fortune" branded consumer-pack edible oil increased by low double digit in 2016, the earnings growth prospect of the Target Business is considered limited.

(d) *Lack of synergy among the three business segments of the Group*

The Group is principally engaged in three business segments, namely beverage, wine, and kitchen food products. While all the products of the Group are foods and drinks, based on discussion with the management of the Group, the three business segments are managed under separate sales teams and are operated under their own business strategies. For example, the wine segment targets consumers with strong brand preference. On the other hand, brand and product loyalty of edible oil is considered relatively low, customers may change to different oil types and brands from time to time. Save for the sharing of headquarter and corporate expenses, there are limited synergy or cross segment business opportunities among the three segments. The exit of the Target Business therefore is not expected to have any noticeable impact on the operations and financial results of the remaining beverage and wine business segments of the Group.

(e) *Reduce the number of continuing connected transactions with China Agri*

The Target Business has been purchasing bulk edible oils and other raw materials from China Agri from time to time pursuant to a framework agreement entered into between the Company and COFCO dated 8 December 2014 (Details of which are set out in the announcement of the Company dated 8 December 2014). Such purchases constitute continuing connected transactions for the Company under the Listing Rules. Upon Completion, the aforesaid purchases will cease and hence the continuing connected transactions with the COFCO Group in this respect will also be eliminated. The Company does not expect there will be any existing continuing transactions between the Target Company and the Group that will become connected transaction upon Completion.

As advised by the management of the Group, while it is not practicable to quantify the reduction in the estimated operational and compliance costs resulting from the Transaction, given the time cost spent by and commitment from the management of the Group on the routine internal control procedures, ongoing monitoring and annual review of the continuing connected transactions, the Transaction will save the management resources in carrying out the abovementioned operating procedures in relation to the Target Business and hence the relevant operation and compliance costs are expected to be reduced.

Having considered the Group's business strategy and the analysis as set out above, we concur with the view of the Company and we consider that the Transaction represents an opportunity for the Group to focus on the Company's beverage and wine segments. The Transaction also allows the Group to realise its investment in the Target Business with an estimated gain, before transaction costs and taxes and subject to audit, of approximately RMB1,007.3 million (equivalent to approximately HK$1,148.3 million).

4. Principal terms of the Agreement

A summary of principal terms of the Agreement is set out below.

Date: 25 May 2017

Parties:

Vendor: COFCO Food Sales & Distribution Co., Ltd. (a wholly-owned subsidiary of the Company)

Purchaser: COFCO Fortune Holdings Limited

Subject Matter:

The Vendor will sell all of its 100.0% Equity Interests in the Target Company to the Purchaser. Upon Completion, the Target Company will cease to be a subsidiary of the Company and the Purchaser will hold 100.0% Equity Interests of the Target Company.

Consideration:

Pursuant to the Agreement, the Consideration for the sale of all of the Vendor's 100.0% Equity Interests in the Target Company to the Purchaser is RMB1,050.0 million (equivalent to approximately HK$1,197.0 million) in accordance with the payment terms as set out below.

As informed by the Company, the Consideration was determined on an arm's length basis between the Vendor and the Purchaser taking into account, among others, (i) historical performance of the Target Business for the years ended 31 December 2015 and 2016; (ii) challenges facing the Target Business such as limited growth potential and margin expansion due to the separate of the Target Business and upstream operations; and (iii) the valuation of comparable companies listed globally either with similar business model as that of the Target Business who primarily focus on downstream distribution or with comparable product portfolio as that of the Target Business such as edible oil or kitchen food products.

Payments:

(a) The Purchaser shall deposit an amount equal to 30.0% of the Consideration (equivalent to RMB315.0 million (equivalent to approximately HK$359.1 million)) into the Escrow Account as security deposit ("**Security Deposit**") for the Transaction within 5 business days after signing the Agreement. The Security Deposit was received on 2 June 2017 in accordance with the terms of the Agreement.

(b) The Security Deposit made to the Escrow Account shall be released and transferred, and the Purchaser shall pay 30.0% of the Consideration (equivalent to RMB315.0 million (equivalent to approximately HK$359.1 million)), to an account designated by the Vendor, within 10 business days after the fulfillment of the following conditions:

(i) the Purchaser has completed all financial, legal and other due diligence in relation to the Transaction to the satisfaction of the Purchaser;

(ii) the Agreement has been approved by the shareholder of the Target Company and a copy of the relevant shareholder's resolution has been provided to the Purchaser;

(iii) the Agreement has been approved by the internal decision-making bodies (including but not limited to the boards of directors) of the Vendor and the Purchaser, respectively, and the relevant disclosure obligations have been fulfilled;

(iv) the Transaction has been approved by the boards of directors and shareholders at respective general meetings of both the Company and China Agri, respectively;

(v) the Transaction has been approved by the internal decision-making body of COFCO; and

(vi) the Transaction and the articles of association of the Target Company amended pursuant to the Transaction have been approved by the relevant authorities and copies of relevant approvals have been provided to the Purchaser by the Target Company.

As at the Latest Practicable Date, conditions (i) and (v) above have been fulfilled.

(c) The Purchaser shall pay the remaining amount (i.e. 40.0%) of the Consideration (equivalent to RMB420.0 million (equivalent to approximately HK$478.8 million)) into an account designated by the Vendor within 5 business days after the fulfillment, among others, of the following conditions:

(i) the Target Company has completed the state-owned assets ownership alteration registration pursuant to the Transaction; and

(ii) the Target Company has obtained a new business license pursuant to the Transaction and has provided a copy of the new business license to the Purchaser.

As at the Latest Practicable Date, none of the conditions above have been fulfilled.

The Group intends to use a larger part of the proceeds from the Transaction to repay certain bank borrowings and to distribute the rest of the proceeds, an amount between HK$200.0 million and HK$300.0 million, as a special dividend to the Shareholders. The special dividend is subject to (a) approval of the Independent Shareholders in respect of the Transaction at the SGM having been obtained; and (b) Completion having taken place. The exact amount of the special dividend will be determined after Completion.

Completion

The Completion shall take place at the date when the business registration alteration formalities with the relevant Administration for Industry & Commerce in connection with the Transaction have been completed and the Target Company has obtained a new business license. At Completion, the Target Company will be engaged only in the Target Business and will discontinue any other business prior to Completion. The Completion is expected to take place in the fourth quarter of 2017.

Default Penalty

For any delay in the payment of any part or all of the Consideration, the Purchaser shall pay a daily default penalty fee of 0.03% of the unpaid portion of the respective payments. If any payment is delayed for more than 30 days, then the Vendor will have the right to terminate the Agreement and to seek damages arising thereof.

Termination

The Agreement can be, among others, terminated upon mutual consent of both parties. In the event that the Transaction cannot be completed within six months upon the execution of the Agreement (that is to say 25 November 2017), and such failure is not caused by the fault of any of the parties, either party can terminate the Agreement upon written notice to the other party, unless both parties agree to extend such long stop date.

5. Non-competition undertakings to China Agri by the Company

In connection with the Transaction, the Company confirms to China Agri that the Company does not have any investment in companies outside of the Target Company that compete with the Target Business of the Target Company as of the Completion. The Company further provides undertakings that, among other things:

(i) upon Completion, the Company and its subsidiaries will no longer directly or indirectly engage in or participate in business which may compete with the Target Business of the Target Company in any form;

(ii) upon Completion, the Company and its subsidiaries will no longer directly or indirectly hold, own or hold through a third party to hold any equity interest, shares, options or other investment interests in any enterprise which may compete with the Target Business of the Target Company; and

(iii) after Completion, in the event that the Company would have any significant investment (i.e. more than 10% in the capital, both in paid up capital or convertible into capital) into a company that engages in business competing with the Target Business of Target Company, the Company shall, subject to the relevant laws and regulatory requirements, offer China Agri to acquire such investment at its appraised value as determined by an independent third party valuer recognised by both parties.

Although the non-competition undertakings are not part of the Agreement, they are nevertheless part and parcel to the Transaction. The non-competition undertakings would only be triggered by the Completion, and the Group will no longer engage in and will not re-enter into the Target Business thereafter. If the Transaction does not proceed to Completion, the non-competition undertakings will be void. If the Transaction proceeds to Completion, it is subject to the consent of China Agri to unwind the non-competition undertakings based on further discussion in the future.

6. Evaluation of the Consideration

The Target Company is primarily engaged in the sale, distribution and marketing of consumer-pack edible oil. We have not requested for an independent valuation on the Target Company as we consider the factors and the analysis in relation the Transaction as set out in this letter, including the evaluation of the Consideration by reviewing comparable peers as set out below, are adequate for drawing our opinion on the Transaction.

In assessing the fairness and reasonableness of the Consideration, we compared the price-to-earnings multiples (the "**P/E Multiples**") and price-to-book multiples (the "**P/B Multiples**") represented by the Consideration against the market valuation of companies (i) listed on the Stock Exchange; (ii) with principal activities of sale, distribution and marketing of consumer-pack edible oil in the PRC; and (iii) with the majority of turnover and segment profit derived from such principal activities in the latest financial year (the "**Primary Comparables**"). We have attempted but are unable to identify any company which is solely engaged in sale and distribution of consumer-pack edible oil (i.e. downstream business only). We therefore expanded the scope to companies engaging in either or both manufacturing, sale and distribution of consumer-pack edible oil (i.e. upstream and/or downstream businesses). Set out below is the list of the Primary Comparables together with their respective P/E Multiples and P/B Multiples.

Company name	Stock code	Listing location	Principal business activities	Latest financial reporting date	Market capitalisation as at the Latest Practicable Date	P/E Multiple	P/B Multiple
						(Note 1)	*(Note 2)*
					(HK$ million)	*(times)*	*(times)*
Changshouhua Food Company Limited ("**Changshouhua**")	1006	Hong Kong	Changshouhua is principally engaged in production and sale of corn oil, including non-branded corn oil and own brand corn oil; other oil mainly refined edible sunflower seed oil, refined edible olive oil, refined edible cotton seed oil; and corn meal.	31 December 2016	2,271.3	7.6	0.8
China Agri *(Note 3)*	606	Hong Kong	China Agri is principally engaged in oilseeds processing; production and sale of biochemical and biofuel products; processing and trading of rice; wheat processing; and production and sale of brewing materials.	31 December 2016	17,639.6	12.4	0.7
Lam Soon (Hong Kong) Limited ("**Lam Soon**")	411	Hong Kong	Lam Soon is principally engaged in manufacturing and sale of broad range of food products including flour and edible oils; household and institutional cleaning products.	31 December 2016	2,662.3	10.3	1.5
					Average	**10.1**	**1.0**
					Median	**10.3**	**0.8**
					Maximum	**12.4**	**1.5**
					Minimum	**7.6**	**0.7**
The Transaction						**13.1** *(Note 4)*	**24.6** *(Note 5)*

Source: Bloomberg, the Stock Exchange filings and the respective companies' annual or interim reports

Notes:

1. The P/E Multiples of the Primary Comparables are calculated based on the market capitalisation of the Primary Comparables as at the Latest Practicable Date divided by the trailing twelve-month profit attributable to the shareholders of the Primary Comparables as shown in their respective latest published annual or interim reports. The trailing twelve-month profit attributable to the shareholders is (i) for Changshouhua and China Agri, the profit attributable to the shareholders for the year ended 31 December 2016; and (ii) for Lam Soon, the profit attributable to the shareholders for the year ended 30 June 2016, plus that for the six months ended 31 December 2016 and minus that for the six months ended 31 December 2015.

2. The P/B Multiples of the Primary Comparables are calculated based on the market capitalisation of the Primary Comparables as at the Latest Practicable Date divided by the consolidated net asset value (the "**NAV**") attributable to the shareholders of the Primary Comparables as shown in their respective latest published annual or interim reports.

3. China Agri, the holding company of the Purchaser of the Transaction, is principally engaged in, among others, the extraction, refining and trading of edible oil and related products. Given the subject product (i.e. the edible oil) is the same of the Target Business, China Agri may face similar market and operational risks as those encountered by the Target Business. Therefore, while China Agri is largely focus on upstream business, we consider it is still eligible as one of the Primary Comparables for the analysis above.

4. The implied P/E Multiple of the Transaction of approximately 13.1 times is calculated based on the Consideration of approximately RMB1,050.0 million divided by the audited net profit attributable to the Target Business for the year ended 31 December 2016 of approximately RMB80.1 million.

5. The implied P/B Multiple of the Transaction of approximately 24.6 times is calculated based on the Consideration of approximately RMB1,050.0 million divided by the audited NAV of the Target Business as at 31 December 2016 of approximately RMB42.7 million.

As set out in the table above, the implied P/E Multiple and implied P/B Multiple of the Transaction are approximately 13.1 times and 24.6 times respectively.

The P/E Multiples of the Primary Comparables ranged from approximately 7.6 times to approximately 12.4 times with an average and a median of approximately 10.1 times and 10.3 times respectively. The P/B Multiples of the Primary Comparables ranged from approximately 0.7 times to approximately 1.5 times with an average and a median of approximately 1.0 times and 0.8 times respectively. The implied P/E Multiple of the Transaction is higher than the average and median of that of the Primary Comparables and is also above the high end of the range. The implied P/B Multiple of the Transaction is significantly higher than that of all Primary Comparables.

In addition to the review of the Primary Comparables, for reference purpose, we also conducted a review on companies listed in Asia (other than the Stock Exchange) with principal activities of sale, distribution and market of edible oil-related products (the "**Secondary Comparables**", together with the Primary Comparables, the "**All Comparables**") in the latest financial year. As the Secondary Comparables are listed on other stock exchanges, their pricings may therefore different from the Hong Kong listed peers due to the characteristics and risks of their respective capital markets. We have not made any adjustment to the valuation of the Secondary Comparables as such adjustment would be rather arbitrary and subjective. Given the above, we have put more weight on the Primary Comparables in our analysis and the Secondary Comparables are shown for reference purpose. Set out below is the list of the Secondary Comparables together with their respective P/E Multiples and P/B Multiples.

Company name	Stock code	Listing location	Principal business activities	Latest financial reporting date	Market capitalisation as at the Latest Practicable Date	P/E Multiple	P/B Multiple
					(HK$ million)	*(Note 1)* *(times)*	*(Note 2)* *(times)*
Daodaoquan Grain and Oil Company Limited 道道全糧油股份有限公司 ("**Daodaoquan**")	002852	Shenzhen	Daodaoquan is a China-based company principally engaged in the research, development, production and sales of edible vegetable oil.	31 March 2017	9,120.0	33.7 *(Note 3)*	10.3 *(Note 3)*
Nisshin Oillio Group Limited ("**Nisshin Oillio**")	2602	Tokyo	Nisshin Oillio is a Japan-based company mainly engaged in the oil manufacturing-related business with oils and oilseed segment providing household edible oil, business use edible oil, processing oils and meals.	31 March 2017	7,953.9	14.8	0.9
Thai Vegetable Oil Public Company Limited ("**Thai Vegetable Oil**")	TVO	Bangkok	Thai Vegetable Oil is a Thailand-based company engaged in the manufacture and distribution of soy meal and soybean oil.	31 March 2017	5,834.9	10.1	2.9
J-Oil Mills Inc ("**J-Oil**")	2613	Tokyo	J-Oil is a Japan-based company mainly engaged in the oil manufacturing-related business including the manufacture, processing and sale of oils and fats, as well as meal products.	31 March 2017	4,836.1	19.3	0.8
The Secondary Comparables					**Average**	**19.5**	**3.7**
					Median	**17.1**	**1.9**
					Maximum	**33.7**	**10.3**
					Minimum	**10.1**	**0.8**
All Comparables					**Average**	**15.5**	**2.6**
					Median	**12.4**	**0.9**
					Maximum	**33.7**	**10.3**
					Minimum	**7.6**	**0.7**
The Transaction						**13.1**	**24.6**

Source: Bloomberg and the respective companies' annual or interim reports or prospectus

Notes:

1. The P/E Multiples of the Secondary Comparables are calculated based on the market capitalisation of the Secondary Comparables as at the Latest Practicable Date divided by the trailing twelve-month profit attributable to the shareholders of the Secondary Comparables. The trailing twelve-month profit

attributable to the shareholders is, (i) for Daodaoquan and Thai Vegetable Oil, the profit attributable to the shareholders for the year ended 31 December 2016, plus that for the three months ended 31 March 2017 and minus that for the three months ended 31 March 2016; and (ii) for Nisshin Oillio and J-Oil, the profit attributable to the shareholders for the year ended 31 March 2017.

2. The P/B Multiples of the Secondary Comparables are calculated based on the market capitalisation of the Secondary Comparables as at the Latest Practicable Date divided by the consolidated NAV attributable to the shareholders of the Secondary Comparables as shown in their respective latest published annual/interim results announcements or annual/interim reports.

3. Daodaoquan has been listed on Shenzhen stock exchange since March 2017 and a significant amount of net proceeds raised from its initial public offering, being approximately RMB1,116.6 million (equivalent to approximately HK$1,272.9 million), remained unutilised, as such, the current market capitalisation value of Daodaoquan may not only reflect the value of operations of Daodaoquan but also the value of such unutilised cash. In the event that such unutilised cash is deducted from the market capitalisation and the NAV of Daodaoquan on a dollar-for-dollar basis, the "net of unutilised cash" implied historical P/E Multiple would become approximately 32.3 times and the implied historical P/B Multiple would become approximately 11.0 times.

4. Wilmar International Limited ("**Wilmar**") (stock code in Singapore stock exchange: F34) is engaged in, among other things, the sales and distribution of edible oil (in the brand name of Arawana) in the PRC. Wilmar is also engaged in the processing, merchandising, branding and distribution of tropical oil, grains and sugar. According to Wilmar's annual report for the year ended 31 December 2016, the oilseeds and grains segment (which comprises the sales and distribution of edible oil) only contributed approximately 21.5% of the total segment results and therefore we consider Wilmar is not a direct comparable to the Target Business and exclude Wilmar from the analysis above.

5. Xiwang Foodstuffs Co., Ltd ("**Xiwang**") (stock code in Shenzhen stock exchange: 000639) is primarily engaged in, among other things, the production and distribution of corn oil (in the brand name of Xiwang). After our review of the published information on Xiwang, Xiwang completed an acquisition of business principally engaging in bodybuilding and muscle building supplements in late 2016. The bodybuilding and muscle building supplements segment contributed more than 50% of Xiwang's revenue (on an annualised basis) for the year ended 31 December 2016. Therefore, we consider Xiwang is no longer a direct comparable to the Target Business and exclude Xiwang from the analysis above.

6. Listed companies principally engaging in wholesale distribution, which have a similar operational model to the Target Business, have also been considered. These companies include: (i) DKSH Holding AG (stock code in Switzerland stock exchange: DKSH); (ii) Mitsubishi Shokuhin Co., Ltd (stock code in Tokyo stock exchange: 7451); (iii) Metcash Limited (stock code in Australia stock exchange: MTS); (iv) PALTAC Corp (stock code in Tokyo stock exchange: 8283); and (v) Chefs' Warehouse Inc (stock code in NASDAQ: CHEF). Having considered that the abovementioned companies are: (i) principally operating outside the PRC; (ii) engaged in distribution of various consumer products; and/or (iii) not listed on the Stock Exchange, we have not included these companies in our analysis.

We consider that the Primary Comparables and the Secondary Comparables, which covers all listed companies principally engaging in manufacturing, sale and distribution of consumer-pack edible oil across the Asia region, are exhaustive and would serve as a fair and representative sample for the purpose of drawing a meaningful comparison to the Consideration.

Based on the tables in relation to the Primary Comparables and Secondary Comparables above, the P/E Multiples of the All Comparables ranged from approximately 7.6 times to approximately 33.7 times with an average and a median of approximately 15.5 times and 12.4 times respectively. The P/B Multiples of the All Comparables ranged from approximately 0.7 times to approximately 10.3 times with an average and a median of approximately 2.6 times and 0.9 times respectively. The implied P/E Multiple of the Transaction of 13.1 times is with the range of that of the All Comparables and is higher than the median of that of the All Comparables. The implied P/B Multiple of the Transaction of 24.6 times is higher than that of the All Comparables.

7. Financial effects of the Transaction on the Group

(a) Revenue and net profit attributable to the Shareholders

Upon Completion, the Company will not hold any equity interest in the Target Business and the financial results of the Target Business will be deconsolidated from those of the Group. For the year ended 31 December 2016, the consolidated revenue and the consolidated net profit of the Group (from continuing operations) attributable to the Shareholders were approximately HK$27,985.9 million and approximately HK$177.8 million respectively, which included the revenue and the net profit of the Target Business of approximately RMB9,214.5 million (equivalent to approximately HK$10,504.5 million) and approximately RMB80.1 million (equivalent to approximately HK$91.3 million) respectively. Upon Completion, the revenue and the profit or loss of the Target Business will cease to be taken up by the Group.

Furthermore, a one-off gain or loss on the Transaction, which will be equal to the Consideration less the NAV of the Target Business, will be recorded by the Group. Based on the Consideration of RMB1,050.0 million (equivalent to approximately HK$1,197.0 million) and the NAV of the Target Business of approximately RMB42.7 million (equivalent to approximately HK$48.7 million) as at 31 December 2016, the unaudited gain on the Transaction would be approximately RMB1,007.3 million (equivalent to approximately HK$1,148.3 million) before taking into account the estimated transaction costs of approximately RMB30.0 million (equivalent to approximately HK$34.2 million) and taxes from the Transaction (the "**Estimated Gain**").

The actual amount of gain or loss on the Transaction will be subject to change as such amount will be calculated based on carrying values of the NAV of the Target Business as of the date on which Completion takes place.

(b) NAV attributable to the Shareholders

Upon Completion, all assets and liabilities of the Target Business will be deconsolidated from those of the Group. As at 31 December 2016, the consolidated NAV of the Company attributable to the Shareholders was approximately HK$5,461.1 million, which included the NAV of the Target Business of approximately RMB42.7 million (equivalent to approximately HK$48.7 million).

Upon Completion, the NAV of the Group will be adjusted based on the gain or loss on the Transaction as discussed in paragraph (a) headed "Revenue and net profit attributable to the Shareholders". Based on the above, the NAV of the Group would be enhanced by approximately RMB1,007.3 million (equivalent to approximately HK$1,148.3 million), before taking into account the estimated transaction costs of approximately RMB30.0 million (equivalent to approximately HK$34.2 million), taxes from the Transaction and the payment of special dividend of up to approximately HK$300.0 million.

Similarly, the actual amount of gain or loss on the Transaction will be subject to change as such amount will be calculated based on carrying values of the NAV of the Target Business as of the date on which Completion takes place.

(c) Gearing

As at 31 December 2016, the gearing ratio of the Group was approximately 9.6%, representing the net borrowings of the Group of approximately HK$524.9 million (i.e. total interest-bearing bank and other borrowings of approximately HK$1,645.1 million less the sum of cash and cash equivalents of approximately HK$1,120.2 million) divided by total equity of the Group attributable to the Shareholders of approximately HK$5,461.1 million.

Assuming Completion took place on 31 December 2016, the net borrowing of the Group would be eliminated after taking into account (i) the net cash proceed from the Transaction of approximately HK$1,162.8 million (the "**Net Cash Proceed**"), being the Consideration of approximately RMB1,050.0 million (equivalent to approximately HK$1,197.0 million) less the estimated transaction costs of approximately RMB30.0 million (equivalent to approximately HK$34.2 million); and (ii) the cash balance of the Target Business of approximately RMB188.6 million (equivalent to approximately HK$215.0 million) as 31 December 2016. Similarly, the total equity of the Group as at 31 December 2016 would increase to approximately HK$6,609.4 million due to the Estimated Gain of approximately RMB1,007.3 million (equivalent to approximately HK$1,148.3 million), before taking into account of the payment of special dividend of up to HK$300.0 million. Based on the above, the net gearing ratio of the Group upon Completion would become zero given the net cash position of the Group.

(d) Liquidity

As at 31 December 2016, the Group had net working capital, i.e. total current assets less total current liabilities, of approximately HK$1,437.9 million. Assuming Completion took place on 31 December 2016 and after taking into account (i) the Net Cash Proceed of approximately HK$1,162.8 million; and (ii) the net working capital of the Target Business as at 31 December 2016 of approximately RMB38.9 million (equivalent to approximately HK$44.3 million), the net working capital of the Group as at 31 December 2016 would increase by approximately 77.8% to approximately HK$2,556.4 million, before taking into account the payment of special dividend of up to HK$300.0 million.

DISCUSSION AND ANALYSIS

The Group is principally engaged in beverage, wine and kitchen food businesses. The recent refranchising of the Coca-Cola bottling operations in the PRC and the disposal of the confectionery business in last year are examples demonstrating the management's commitment in executing their stated strategy, which is to focus on businesses with higher growth potentials, stronger brand attributes, higher gross margins and better earnings prospects to maximise return for the Shareholders.

The Group's kitchen food business has been operated for over ten years. While the revenue of the kitchen food business of the Group has shown an upward trend, the results had been volatile over the last ten-year of its operating history. On a cumulative basis, the Group recorded a profit of approximately HK$48.7 million from the kitchen food business over the ten-year period with a net margin of approximately 0.05%. Despite the recent improvement in the financial performance of the Target Business, its return remains low as compared to other two segments of the Group. Having considered the above and (i) the high operating costs due to lack of control over manufacturing process and delivery locations; (ii) the limited earnings growth prospect of the Target Business and the market share of the "Fortune" brand significantly lagged behind the market leader; (iii) the lack of synergy among the three business segments of the Group; and (iv) the reduction in the number of the continuing connected transactions with China Agri, we concur with the view of the Company that the exit of the Target Business will allow the Group to devote more management resources to the beverage and wine businesses, which generate higher gross margins and have stronger brand attributes, thereby enhancing the Group's overall profitability. Also, given the Target Business, being a downstream player, has been substantially relied on China Agri as its supplier of inventory, the sale of the Target Business to other party or a separate listing of the Target Business is not very realistic and therefore the disposal of the Target Business to China Agri is considered a logical move.

The Consideration is RMB1,050.0 million (equivalent to approximately HK$1,197.0 million), which was determined on an arm's length basis between the Vendor and the Purchaser. The implied P/E Multiple of the Transaction of approximately 13.1 times is higher than the average and median of that of the Primary Comparables and is also above the high end of the range. The implied P/B Multiple of the Transaction of approximately 24.6 times is significantly higher than that of all Primary Comparables. After taking into account the Secondary Comparables, the implied P/E Multiple of the Transaction is with the range of that of All Comparables and is higher than the median of that of the All Comparables, and the implied P/B Multiple of the Transaction of 24.6 times is higher than all of that of the All Comparables. As the Target Business is unlisted, its value in theory shall be lower than those listed peers because of its lack of marketability. Despite the unlisted nature of the Target Business, the implied P/E Multiple and the implied P/B Multiple of the Transaction are higher than the Primary Comparables and are generally comparable to the All Comparables. On this basis, the Consideration is considered favourable to the Company.

The financial effects of the Transaction on the Group are expected to be generally positive. The estimated gain on the Transaction is expected to increase both the consolidated earnings and consolidated NAV attributable to the Shareholders, albeit reduction in revenue. Also, both the gearing and the working capital of the Group are expected to improve upon Completion.

The Group intends to distribute part of the proceeds of the Transaction, an amount between HK$200.0 million to HK$300.0 million, as a special dividend to the Shareholders, after using a larger part of the proceeds to repay certain bank borrowings. This will provide additional cash return to the Shareholders.

The Company has provided undertakings to China Agri that, upon Completion, the Group agreed not to engage, participate and invest in business that may compete with the Target Business. Such undertakings have no time limit and are not subject to the condition that COFCO remains the controlling shareholder of the Target Business, the Group and China Agri. While the absence of the above terms in these undertakings are somewhat restrictive to the Group, having considered, among other factors, (i) the unsatisfactory financial performance of the kitchen food segments in the last ten financial years; (ii) the Transaction is a strategic decision made by the Group to exit the Target Business upon Completion and focus on the beverage and wine businesses; (iii) the fairness and reasonableness of the Consideration; and (iv) the other terms of the Agreement, it is considered acceptable to provide such undertakings.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Agreement and the Transaction, though not in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and the terms of the Agreement and the Transaction are fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Agreement and the Transaction.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Danny Cheng
Director

1. FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2014, 2015 AND 2016

Financial information of the Group for the three financial years ended 31 December 2014, 2015 and 2016 is disclosed in pages 101 to 112 of the annual report of the Company for the year ended 31 December 2014, pages 109 to 121 of the annual report of the Company for the year ended 31 December 2015 and pages 137 to 153 of the annual report of the Company for the year ended 31 December 2016 respectively, all of which are published on both the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.chinafoodsltd.com). Quick links to the annual reports of the Company are set out below.

1) Annual report of the Company for the year ended 31 December 2014:

   http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0429/LTN20150429560.pdf

2) Annual report of the Company for the year ended 31 December 2015:

   http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0426/LTN20160426261.pdf

3) Annual report of the Company for the year ended 31 December 2016:

   http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0426/LTN20170426414.pdf

2. INDEBTEDNESS STATEMENT

At the close of business on 30 April 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had (i) outstanding unsecured bank borrowings of approximately HK$4,084 million (equivalent to approximately RMB3,618 million); and (ii) other unsecured loans due to non-controlling shareholders of subsidiaries of approximately HK$25 million (equivalent to approximately RMB22 million).

Save for the aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 30 April 2017, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, finance leases or hire purchase commitments, guarantees or other materials contingent liabilities. The Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since 30 April 2017.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the financial resources available to the Group (including internally generally fund and the available banking facilities), the Group will have sufficient working capital for its present requirements for a period of 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

As disclosed in the Company's annual report for the year ended 31 December 2016, the Directors expect that in 2017, the Chinese economy will continue to face challenges from unfavorable factors, particularly intensified competition in the food and beverage industry, which is likely to bring enormous challenges to the Group's businesses. On the other hand, with an increased contribution of consumption to the PRC economy, widening application and innovation of internet technology and business models, together with deepening reforms in state-owned enterprises, there will be new opportunities and dynamics for our business development.

Under such circumstances, the Group intends to grasp the opportunities, overcome challenges and push forward its business development. Strategically, the Group intends to further optimize the business mix and focus on core products in order to enhance management and improve profitability. Meanwhile, after the completion of the refranchising transaction of bottling operations, the Group intends to integrate the newly acquired beverage business into the existing one in order to realize synergy. The Group will continue to improve operational quality and efficiency with enhanced execution. The Group intends to strengthen the brand marketing by focusing on promoting star products and core products, with enhanced execution, in order to drive sales growth. The Group also intends to further launch market-oriented incentive reforms, with strengthened reward and punishment mechanism. The Company believes that with the implementation of the above initiatives, in 2017, the Group anticipates to achieve breakthrough in its development, with a focused strategy on core businesses and enhancement in operational quality.

i. Beverage Business

The beverage business of the Group is primarily carried out by COFCO Coca-Cola Beverages Limited ("CCBL"), an entity jointly established by the Company and The Coca-Cola Company, in which the Company holds a 65% interest.

On 17 November 2016, CCBL, the Coca-Cola Company and Swire Beverages Holdings Limited ("Swire") entered into an inter-conditional non-public sale equity transfer master agreement, pursuant to which: (i) CCBL shall acquire the bottling operations of the Coca-Cola Company in six regions including Heilongjiang, Jilin, Liaoning, Shanxi, Sichuan and Chongqing for an aggregate base consideration (subject to adjustment) of approximately RMB2,900 million; and (ii) CCBL shall acquire the bottling operation of Swire in Shanxi for a base consideration (subject to adjustment) of approximately RMB487 million (collectively, the "Acquisitions"). On the same day, according to relevant requirements for the sale of state-owned assets, CCBL and the Company decided to publish formal disclosure on the website of the China Beijing Equity Exchange relating to the Company's public sale of its entire interests in the bottling operations in Jiangxi, Hainan and Guangdong (Zhanjiang and Maoming) and its associated and minority interests in the bottling operations of six other regions (including Jiangsu, Zhejiang, Shanghai, Wenzhou, Huizhou and Guangdong). On 16 December 2016, CCBL, the Company and Swire (being the successful bidder in the public sale) entered into a public sale equity transfer master agreement for the disposal of equity interests in the abovementioned bottling operations at an aggregate consideration of RMB2,122 million (collectively, the "Disposals").

The Acquisitions and Disposals represent part of the Company's overall strategy to concentrate on expanding its core activities, and reflect its long-term commitment to the Coca-Cola beverages bottling business in China. The Acquisitions are expected to further deepen this important strategic partnership through more cooperation opportunities between the Company and The Coca-Cola Company. The Acquisitions are also the important step for repositioning the Company as one of the largest beverage bottlers in China, presenting a significant opportunity for the Company to scale-up its beverages business expand its geographical coverage, creating economies of scale and capitalizing on the attractive longterm growth trends in China's beverage market.

The Acquisitions and the Disposals were completed on 1 April 2017 (except for the disposal by the Group to Swire of the interest in one of the Public Sale Companies, the Coca-Cola bottling unit of Shanghai Shen-Mei Beverage and Food Co., Ltd (上海申美飲料食品有限公司可口可樂裝瓶部), pending the satisfaction of certain conditions)

With over 16 years of experience in the Coca-Cola bottling business, the Company's senior management team has a proven track record and demonstrated capability in the running of the business. The Company is confident in facilitating a smooth transition and integration of the bottling operations which the Company acquired in the new territories. Following the completion of the Acquisition, the Company believes that it will be able to create cost synergies through streamlining the operations of the Coca-Cola bottling franchise territories, increasing productivity, improving the flow of the operation and reducing the cost of distribution and transportation. The significant increase in production capacity is expected to provide a favorable factor for future production growth.

Annual sales volume and revenue are expected to increase significantly following the completion of the Acquisitions and the Disposals. The unit cost of the products and the rate of expenses are however expected to be under pressure resulting from the impact of the integration, intensifying market competitions and additional costs for the promotion of the new products. Gross profit margins, however, are expected to benefit from stable prices of key packaging materials, continued improvement in packaging mix, and the launching and sale of new products (such as Minute Maid Essential Delight "淳萃" high content juice, Ice Dew "Chun Yue" and Aquarius "Shui Dong Le").

ii. Wine Business

The Group's wine business is mainly based on its famous "Greatwall" brand, which has a fine tradition and has long been a leader in the China wine market. Due to the popularity of the brand and the high quality of its products, "Greatwall" wine is the top pick for state banquets. The Group is developing its imported wines platform, 中糧名莊薈, based on distribution cooperation with a number of well-known international wine companies, and well-known château brands from various countries, for the import of value-added wines into the PRC market.

In 2017, the Group will continue to reposition "Greatwall" as a mid- to high-end wine brand. To this end, the Group will increase brand promotion and investments in advertising and marketing, continue to launch promotions during important national events; focus on "Greatwall Five Stars" strategic products and streamline product types for the continuous optimization of product mix. The Group will also further improve its distribution systems by deepening channel penetration; further cooperating with distributors by employing resources on promotional activities at points of sale so as to improve inventory turnover and to enhance quality and efficiency in the supply chain by benchmarking. With such initiatives, the Group will strive for the continuing growth of our wine business.

iii. Kitchen Food Business

The Group's kitchen food business covers the sale, distribution and marketing of edible oil which is the principal product category, as well as the sale, distribution and marketing of sugar, soy sauce, vinegar, MSG, seasoning sauce and cereals. After Completion, it is expected that the Group will no longer engage in the Target Business, and the Group intends to allocate more resources to the development of the Group's higher-margin beverage and wine businesses and to fund any potential acquisitions that the Group believes can maximize the Shareholders' return.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

1. DISCLOSURE OF INTERESTS OF DIRECTORS

As of the Latest Practicable Date and in accordance with the records of the Company maintained in accordance with the SFO and the Listing Rules, the interests and short positions of the Directors and their associates in the Shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register of members of the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (together, "**Discloseable Interests**") were as follows:

Discloseable Interests in the Shares and underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of Shares held *(Note 1)*	Number of underlying Shares held *(Note 2)*	Total number of Shares and underlying Shares held	Approximate percentage of issued Shares *(Note 3)*
Mr. Jiang Guojin	Beneficial Owner	426,000	–	426,000	0.02%
Ms. Luan Xiuju	Beneficial Owner	–	740,000	740,000	0.03%
Mr. Ma Jianping	Beneficial Owner	–	600,000	600,000	0.02%

Discloseable Interests in the shares and underlying shares of China Agri, an associated corporation

Name of Director	Capacity/Nature of interest	Number of shares held *(Note 4)*	Number of underlying shares held	Total number of shares and underlying shares held	Approximate percentage of issued shares *(Note 5)*
Mr. Jiang Guojin	Beneficial Owner	100	–	100	0.00%

Notes:

1. Long positions in the Shares of the Company, other than equity derivatives such as share options, warrants or convertible bonds.

2. Long positions in the underlying shares of the Company under share options granted to Directors pursuant to a share option scheme of the Company.

3. The percentages were calculated based on the total number of Shares of the Company in issue as of the Latest Practicable Date, i.e. 2,797,223,396 shares.

4. Long positions in the shares of China Agri, other than equity derivatives such as share options, warrants or convertible bonds.

5. The percentages were calculated based on the total number of shares of China Agri in issue as of the Latest Practicable Date, i.e., 5,249,880,788 shares.

Save as disclosed above, none of the Directors or chief executive and their respective associates had any other Discloseable Interests.

2. SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS

As of the Latest Practicable Date, so far as the Directors were aware and in accordance with the records in the register kept by the Company under section 336 of the SFO, the following persons or entities, not being a Director or chief executive of the Company, had interests or short positions in the Shares or underlying shares of the Company:

Name of substantial shareholder	Number of Shares held *(Note 1)* Directly beneficially owned	Through controlled corporations	Total number of Shares	Approximate percentage of issued Shares *(Note 2)*
CHINA FOODS (HOLDINGS) LIMITED	2,072,688,331	–	2,072,688,331	74.10%
COFCO (Hong Kong) Limited		2,072,688,331 *(Note 3)*	2,072,688,331	74.10%
COFCO Corporation	–	2,072,688,331 *(Note 4)*	2,072,688,331	74.10%

Notes:

1. Long positions in the Shares of the Company, other than equity derivatives such as share options, warrants or convertible bonds.

2. The percentages were calculated based on the total number of Shares of the Company in issue as at the Latest Practicable Date, i.e. 2,797,223,396 shares.

3. COFCO (Hong Kong) Limited ("COFCO (HK)"), through its wholly-owned subsidiary, CHINA FOODS (HOLDINGS) LIMITED, was deemed to be interested in 2,072,688,331 Shares.

4. COFCO Corporation, through its wholly-owned subsidiary, COFCO (HK), was deemed to be interested in 2,072,688,331 Shares.

Save as disclosed above, so far as is known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As of the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contracts with the Company or any other member of the Group save for those expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENT

As of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have since 31 December 2016, being the date to which the latest published audited consolidated accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired, disposed of by or leased to any member of the Group.

As of the Latest Practicable Date, none of the Directors were materially interested, directly or indirectly, in any subsisting contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group.

5. MATERIAL CONTRACTS

As of the Latest Practicable Date, the following material contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the issue of this circular:

1. the Agreement;

2. a master agreement dated 16 December 2016 entered into among COFCO Coca-Cola Beverages Limited (a 65%-owned subsidiary of the Company), the Company and Swire Beverages Holdings Limited (太古飲料控股有限公司), in

respect of the terms and conditions of the sale and purchase of equity interests in certain companies engaged in the production, bottling, sale and distribution of certain Coca-Cola beverages together as a package through public sale;

3. a master agreement dated 17 November 2016 entered into among COFCO Coca-Cola Beverages Limited (a 65%-owned subsidiary of the Company), The Coca-Cola Company, and Swire Beverages Holdings Limited（太古飲料控股有限公司）, in relation to the terms and conditions of the purchase and sale of equity interests in certain companies engaged in the production, bottling, sale and distribution of certain Coca-Cola beverages;

4. an asset and equity transaction agreement dated 12 September 2016 and entered into between COFCO (BVI) No. 30 Limited, a wholly-owned subsidiary of the Company, and Longhua Group Co., Ltd.（隆華集團有限公司）in relation to the sale of 55% equity interest in COFCO Junding Vineyard Co., Ltd.（中糧君頂酒莊有限公司）for a consideration of RMB1 and assumption of certain debts owed by COFCO Junding Vineyard Co., Ltd.（中糧君頂酒莊有限公司）by Longhua Group Co., Ltd.（隆華集團有限公司）;

5. an asset and equity transaction agreement dated 12 September 2016 and entered into between COFCO Wines & Spirits Co., Ltd.（中糧酒業有限公司）, a wholly-owned subsidiary of the Company, and Longhua Group Co., Ltd.（隆華集團有限公司）in relation to the sale of 55% equity interest in Shandong COFCO Junding Wines & Spirits Co., Ltd.（山東中糧君頂酒業有限公司）for a consideration of RMB1 and assumption of certain debts owed by Shandong COFCO Junding Wines & Spirits Co., Ltd.（山東中糧君頂酒業有限公司）by Longhua Group Co., Ltd.（隆華集團有限公司）;

6. an equity transfer and debt assignment agreement dated 31 December 2015 and entered into between the Company and Tops Properties Limited in relation to the transfer of the entire equity interests in Prized Developments Limited and certain shareholder's loan for a total consideration of RMB611,000,000; and

7. a financial services agreement dated 11 December 2015 and entered between the Company, COFCO Foods Sales & Distribution and COFCO Finance Corporation Limited for a term commencing from 1 January 2016 and expiring on 31 December 2018, pursuant to which, COFCO Finance Corporation Limited shall provide the Group depository services, fund transfer services, entrustment loan services and the other financial services.

6. LITIGATION

As of the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

7. COMPETING INTERESTS

As of the Latest Practicable Date, none of the Directors and their respective associates was materially interested in any business which competed or was likely to compete, either directly or indirectly, with that of the Group's business and which require disclosure under Rule 8.10 of the Listing Rules.

8. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2016, being the date up to which the latest published audited consolidated accounts of the Group were made up.

9. EXPERT'S QUALIFICATIONS AND CONSENTS

The following is the qualification of expert who has given its advices for inclusion in this circular:

Name	Qualifications
Somerley Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Somerley has given and has not withdrawn its written consent to the issue of this circular with reference to its name in the form and context in which it appears.

As of the Latest Practicable Date, Somerley did not have any shareholding in the Company or any other member of the Group or have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.

As of the Latest Practicable Date, Somerley did not have direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2016 (the date up to which the latest published audited consolidated accounts of the Group were made up) or proposed to be so acquired, disposed of or leased.

10. GENERAL INFORMATION

i. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

ii. The principal office and principal place of business of the Company in Hong Kong is 33/F., COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.

iii. The Company secretary of the Company is Ms. Liu Kit Yee, Linda. She is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

iv. The Company's branch share registrar and transfer office in Hong Kong is Tricor Progressive Limited whose business address is at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal office in Hong Kong at 33/F., COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the SGM:

i. the Agreement;

ii. the letters of undertakings as set out on pages 10 to 11 of this circular;

iii. the letter from the Independent Board Committee, the text of which is set out on page 18 of this circular;

iv. the letter from the Somerley, the text of which is set out on pages 19 to 41 of this circular;

v. the letter of consent from Somerley referred to in the above paragraph headed "Expert's Qualifications and Consents" in Appendix II;

vi. this circular;

vii. the annual reports of the Company referred to in Appendix I;

viii. material contracts referred to in the above paragraph headed "Material Contracts" in Appendix II;

ix. the Bye-laws; and

x. other documents referred to in the circular.

Chinese Olympic Committee Official Partner
中国奥委会合作伙伴

CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of China Foods Limited (the "**Company**") will be held at the Chairman's Suite, World Trade Centre Club Hong Kong, 38/F, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 4 July 2017 at 3:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

"**THAT**

(1) the Agreement (as defined in the circular of the Company dated 16 June 2017) (the "**Circular**") entered into between COFCO Food Sales & Distribution Co., Ltd.（中糧食品營銷有限公司）and COFCO Fortune Holdings Limited dated 25 May 2017 (a copy of which has been produced to the SGM and marked "A" and signed by a Director for the purpose of identification) (details of which are set out in the Circular) and the transactions contemplated thereunder including, without limitation, the Transaction (as defined in the Circular, including the information and non-competition undertakings) be and are hereby approved, confirmed and ratified; and

(2) any one or more directors of the Company be and are hereby authorized to do all such things and execute all such documents as they in their absolute discretion deem fit or appropriate to give effect to the Agreement and the implementation of all the transactions contemplated thereunder including, without limitation, the Transaction.

Yours faithfully,
By Order of the Board
Jiang Guojin
Managing Director

Beijing, 16 June 2017

Notes:

1. Shareholders are reminded to read carefully details of the Agreement as set out in the Circular to which this notice forms part.

2. For determining the entitlement to attend and vote at the SGM to be held on Tuesday, 4 July 2017, the register of members of the Company will be closed from Thursday, 29 June 2017 to Tuesday, 4 July 2017 (both days inclusive) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the SGM, unregistered holders of Shares of the Company should ensure that all transfer forms accompanied by the relevant Share certificates must be lodged for registration with Tricor Progressive Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in any case no later than 4:30 p.m. on Wednesday, 28 June 2017.

3. Any member of the Company entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and vote for him. A proxy need not be a member of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged at Tricor Progressive Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM (or any adjournment thereof).

5. Where there are joint holders of any Share of the Company, any one of such holders may vote at the SGM, either in person or by proxy, in respect of such Share as if he were solely entitled to vote, but if more than one of such joint holders are present at the SGM in person or by proxy, the person so present whose name stands first in the register of members of the Company in respect of such Share shall alone be entitled to vote.

6. Completion and return of the form of proxy will not preclude a member from attending and voting at the SGM (or any adjournment thereof) in person should he so wishes. In such event, the form of proxy shall be deemed to be revoked.

7. Pursuant to the bye-law 75 of the Company's Bye Laws, the voting at the SGM will be taken by poll.

8. In this notice, reference to one gender includes all genders and reference to the singular includes the plural and vice versa.

As at the date of this notice, the Board comprises: Mr. Ma Jianping as the chairman of the Board and a non-executive director; Mr. Jiang Guojin, Ms. Luan Xiuju and Mr. Zhou Chenguang as executive directors; Mr. Qin Yelong and Ms. Xiao Jianping as non-executive directors; and Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Yuen Tin Fan, Francis as independent non-executive directors.