



Alliance Capital Partners Limited
同人融資有限公司

Room 1502-1503A,
Wing On House,
71 Des Voeux Road Central,
Central, Hong Kong

10 January 2022

To: The Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

A. INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders of the Company on whether the terms of the continuing connected transactions contemplated under the New Master Supply Agreement and the relevant Annual Caps are fair and reasonable, and on a normal commercial terms and in the interests of the Company and its shareholders as a whole. Details of which are set out in the “Letter from the Board” contained in the Circular, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 8 December 2021, the Company announced that the Company and Hong Kong Aluminum Cans entered into the New Master Supply Agreement in relation to the purchase of the Products by the Group from the China Aluminum Cans Group for a term of three years from 1 January 2022 to 31 December 2024 (both days inclusive).

As at the Latest Practicable Date, Mr. Lin, the controlling Shareholder, was beneficially interested in 174,788,500 Shares of the Company, representing approximately 74.72% of the issued share capital of the Company, and was therefore a connected person of the Company. On the other hand, Mr. Lin was beneficially interested in 660,546,000 shares of China Aluminum Cans, representing approximately 73.25% of the issued share capital of China Aluminum Cans as at the Latest Practicable Date. As Hong Kong Aluminum Cans is a wholly-owned subsidiary of China Aluminum Cans, Hong Kong Aluminum Cans is an associate of Mr. Lin and therefore a connected person of the Company. Accordingly, the entering into of the New Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Save as Ms. Ko Sau Mee, Ms. Lin Hing Lei and Mr. Lin Hing Lung who are the spouse, daughter and son of Mr. Lin, respectively, no Director is required to abstain from voting on the board resolution in relation to the approval of the New Master Supply Agreement and the transactions contemplated thereunder, including the Annual Caps.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lee Yiu Pui, Mr. Poon Tak Ching and Mr. Pang Cheung Wai Thomas, has been established by the Company to advise and make recommendations to the Independent Shareholders in respect of the terms of the New Master Supply Agreement and the transactions contemplated thereunder (including the relevant Annual Caps).

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we are independent from, and not associated with the Company or any other party to the New Master Supply Agreement, or their respective substantial shareholder(s) or other connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the terms of the New Master Supply Agreement and the relevant Annual Caps. There was no engagement between the Company and Alliance Capital in the past two years. Apart from this normal professional fee for our services to the Company in connection with the engagement as the Independent Financial Adviser, no other arrangements exist whereby we will receive any fees and/or benefits from the Company or any other party to the New Master Supply Agreement or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

B. BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

- (i) the annual report of the Company for the year ended 31 December 2020;
- (ii) the annual report of the China Aluminum Cans for the year ended 31 December 2020;
- (iii) the interim report of the Company for the six months ended 30 June 2021;
- (iv) the interim report of the China Aluminum Cans for the six months ended 30 June 2021;
- (v) the prospectus of the Company dated 3 June 2019;
- (vi) the circular dated 9 May 2019 issued by the China Aluminum Cans;
- (vii) the New Master Supply Agreement; and
- (viii) other information as set out in the Circular.

We have relied on (i) the information contained or referred to in the Circular and/or the information and representations as provided to us by the Directors and/or the management of the Company (the “**Management**”); (ii) the information and facts supplied by the Company and its advisers; and (iii) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Management, for which they are solely and wholly

responsible, are true, complete, and accurate in all material respects at the time when they were made and continue to be so as at the date of the dispatch of the Circular. We have also assumed that all statements of belief, opinion, expectation, and intention made by the Management in the Circular are reasonably made after due enquiries and careful considerations.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquires, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We have no reasons to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or Directors, which have been provided to us.

We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation in compliance with Rule 13.80 of the Listing Rules. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or its respective subsidiaries or associates.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the continuing connected transactions under the New Master Supply Agreement, we have considered the following principal factors and reasons:

1. Information of the China Aluminum Cans Group and the Group

China Aluminum Cans Group is principally engaged in the manufacturing and sale of monobloc aluminum aerosol cans, which are generally used in the packaging of fast-moving personal care products, as well as pharmaceutical products.

The Group is principally engaged in the design, development, manufacturing and sale of automotive beauty and maintenance products, personal care products and other products including household products.

As per our discussion with the Management, the monobloc aluminum aerosol cans are the major raw materials for the manufacturing business, while China Aluminum Cans Group is principally engaged in the manufacturing and sale of monobloc aluminum aerosol cans. Therefore, we are of the view that the Company entering into the New Master Supply Agreement in relation to the purchase of the Products is in its ordinary course of business.

2. Reasons for and benefits of the continuing connected transactions

As mentioned in the Letter from the Board, the Management is of the view that the Group would benefit from the New Master Supply Agreement as they can secure a stable supply of the Products and better cope with the fluctuation of aluminum price.

In this regard, we have reviewed the aluminum price listed on the website of the National Bureau of Statistics of China, from which we noted the aluminum price has increased from approximately RMB15,668 per tonne in early January 2021 to approximately RMB23,448 per tonne in mid-October 2021, which represents an increment of approximately 49.7%. As discussed with the Management, such increment was mainly attributable to the supply shortage of aluminum. In order to avoid the possibility of being adversely affected by aluminum supply shortage and price fluctuation, we have discussed with the Management, and they are of the view that it is crucial for the Group to cooperate with a reliable supplier so as to secure stable supply and ease the chances for unnecessary urgency cost and lack of production component, which might in turn cause the Group failing to meet the delivery commitment. Therefore, the Company decided to enter into New Master Supply Agreement with Hong Kong Aluminum Cans, considered the Group has been in a business relationship with China Aluminum Cans Group for more than 12 years, during which there were no disputes and China Aluminum Cans Group had never failed to meet the order demands from the Group.

In light of the above, the Management is of the view and we concur that it is beneficial to continue its long-term relationship with China Aluminum Cans Group with an aim to secure a stable supply of Products and entering into the New Master Supply Agreement is in the interests of the Company and its Shareholders as a whole.

3. Principal terms of the New Master Supply Agreement

Details of the terms of the New Master Supply Agreement are set out in the section headed “NEW MASTER SUPPLY AGREEMENT” in the “Letter from the Board” in the Circular.

(a) Annual Caps

	Annual Caps <i>(HK\$'000)</i>
For the year ending 31 December 2022	39,000
For the year ending 31 December 2023	41,000
For the year ending 31 December 2024	43,000

Despite the proposed Annual Caps are greater than the historical purchase amounts of the Products from the China Aluminum Cans Group during each of the two years ended 31 December 2020 and the six months ended 30 June 2021, the Management is of the view that it is important to maintain higher annual caps in order to allow greater flexibility to capture different business opportunities which may arise in the future after taking into account of several factors, including (i) the market demand for the Group’s personal care products after the outbreak of COVID-19 since 2020 and (ii) the potential growth in sales generated from the United States and the Southeast Asia.

In order to assess whether the basis of determining the proposed Annual Caps are fair and reasonable, we have reviewed the historical usage of the annual caps under the Master Supply Agreement that were approximately HK\$13.6 million, HK\$36.3 million, HK\$11.4 million, representing approximately 54.2%, 92.6% and 24.3% of the respective annual caps during each of the two years ended 31 December 2020 and the six months ended 30 June 2021, respectively. The historical corresponding usage for the year ended 31 December 2020 was about to hit the ceiling of the corresponding annual cap during the outbreak of COVID-19, but decreased in 2021. We noted that the proposed Annual Caps are greater than the historical purchase amounts of the Products from the China Aluminum Cans Group, so we discussed with the Management for the rationale behind. The Management advised that having considered the development of COVID-19 pandemic still remains volatile, and if the COVID-19 pandemic situation worsened, but the Company did not take into account the ad hoc demand on personal care products, similar to the situation in 2020, which represents a historical usage of approximately 92.6%, when determining the proposed Annual Caps, the Group may not be able to capture the potential ad hoc market demand for the Group's personal care products in 2020 as discussed above. Moreover, it will be burdensome to revise the annual caps subsequently. Therefore, after considering the aforementioned reason, together with (i) aluminum being one of the major production components for the Group's production, its price soars since early 2021 leading to an increase in procurement cost, and (ii) the Company's expectation on the increase of purchase demand after the operation commencement of the Thailand production plant in the first quarter of 2022 generated from the potential growth in sales from the United States and the Southeast Asia, the Management is of the view that the proposed Annual Caps should be at least similar to the annual cap for the year ended 31 December 2020 which was approximately HK\$39.2 million and hence, the annual caps are determined at HK\$39.0 million, for the year ending 31 December 2022, and further increased to HK\$41.0 million and HK\$43.0 million for the two years ending 31 December 2024, respectively, after taking into consideration the above business drivers. In this regard, we have discussed with the Management and obtained the quantitative analysis of the Annual Caps as below:

	For the year ending 31 December		
	2022	2023	2024
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Projection based on the historical purchase amount from China Aluminium Cans Group and market demand for the Group's personal care products after the outbreak of COVID-19 since 2020 (the " Projection ") (A)	31,427 <i>(Note 1)</i>	32,998 <i>(Note 2)</i>	34,648 <i>(Note 2)</i>
Additional demand arising from the United States and the Southeast Asia (B) <i>(Note 3)</i>	4,500	4,500	4,500
Buffer (C) <i>(Note 4)</i>	10%	10%	10%
Estimated transaction amount (A + B) x (1 + C)	39,520	41,248	43,063
The Annual Caps	39,000	41,000	43,000

Notes:

- (1) The amount is calculated by taking the average of (i) the actual purchase amount for the year ended 31 December 2020 of approximately HK\$36.3 million and (ii) the annualised purchase amount for the year ending 31 December 2021 of approximately HK\$23.6 million, based on the actual purchase amount for the eleven months ended 30 November 2021 of approximately HK\$21.6 million, and then multiplied by one plus the Management's expected growth in personal care products market of 5%. (i.e. $(\text{HK\$}36.3 \text{ million} + \text{HK\$}23.6 \text{ million}) / 2 \times (1 + 5\%)$).
- (2) The amount represents the Management's expected growth in personal care products market of 5% as compared to the prior year.
- (3) This amount mainly represents the Management's expectation of growth in demand after the operation commencement of the Thailand production plant in the first quarter of 2022 that could ease the impact resulting from the Sino-US trade war, as the Group's purchase of the Products for sales to the United States decreased from approximately RMB13.7 million for the year ended 31 December 2018 to approximately RMB8.9 million for the year ended 31 December 2020, representing a decrease of approximately RMB4.8 million (equivalent to approximately HK\$5.7 million).
- (4) A buffer of 10% takes into account of (i) the flexibility in conducting and expanding its business if the Annual Caps are tailored to future business growth; (ii) the fluctuation of aluminum price; and (iii) exchange rate fluctuation.

In regard to the Projection, we have (i) reviewed the historical purchase amount from China Aluminum Cans Group for the year ended 31 December 2020 and eleven months ended 30 November 2021; (ii) discussed with the Management that the basis for using average purchase amount would cater for volatile COVID-19 development and unexpected ad hoc demand that the Group experienced since 2020; and (iii) reviewed a market research report issued by China Insights Industry Consultancy Limited, which indicated that the market size of China's personal care market is expected to grow from approximately RMB458.7 billion in 2019 to approximately RMB701.4 billion in 2024 at a CAGR of approximately 8.9%, of which the market size of China's hand sanitizer market is expected to increase from approximately RMB2.6 billion in 2019 to approximately RMB7.8 billion in 2024 at a CAGR of approximately 24.6%, while the growth rate adopted in the Projection is 5% per year during each of the three years ending 31 December 2024. In this connection, the Management is of the view and we concur that the basis and assumption for the Projection are fair and reasonable.

On the other hand, with reference to the potential growth in sales generated from the United States and the Southeast Asia market, we have discussed with the Management and noted that the historical purchase amount of Products for sales to the United States decreased from approximately RMB13.7 million for the year ended 31 December 2018 to approximately RMB8.9 million for the year ended 31 December 2020, the Management is of the view that the new production plant in Thailand could ease the impact resulting from the Sino-US trade war and benefit from the lower cost of raw materials from the surrounding area, thereby, enhancing the competitiveness of the Group's products in Asia. Therefore, the sales amount from the United States could be recovered and improved, and the Southeast Asia market could bring additional demand in personal care products to the Group.

In respect of the 10% buffer, the Management is of the view and we concur that the Group would have flexibility to cope with different conditions including unexpected business growth, fluctuation in aluminum price and exchange rate, after considering that (i) the aluminum price has increased by approximately 49.7% from early January 2021 to mid-October 2021 as discussed above, which may incur additional production cost that lead to an increase in transaction amount, and (ii) other potential business opportunities may arise in the future.

In light of the above, we concur with the view of the Management that the proposed Annual Caps have taken into account, among other things, both the historical sales amount and the additional demand arising from the United States and the Southeast Asia over the next three years to (i) cope with latest market development under the outbreak of COVID-19 and Sino-US trade war, and (ii) for the sake of flexibility to capture the aforementioned business opportunities are fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

(b) Pricing policy

In assessing the fairness and reasonableness of the pricing policy under the New Master Supply Agreement, we have reviewed (i) the latest full transaction list with China Aluminum Cans Group (the “**Full List**”) and (ii) reviewed selected samples which covered around 15% of the total purchase amount of Products for the nine months ended 30 September 2021, including purchase orders of the products provided by China Aluminum Cans Group to the Group and their corresponding comparable quotations (the “**Selected Samples**”).

Per review of the Full List and Selected Samples, we noted that the Group has implemented the pricing policy and the transactions between the China Aluminum Cans Group and the Group are in line with prevailing market price as we noted that each of the Selected Samples are supported by either a corresponding comparable quotation from the independent suppliers of the Group or two corresponding comparable quotations from the independent customers of the China Aluminum Cans Group, which serves the purpose of ascertaining the prices in the transactions are in line with that of the market. Therefore, we concur with the Management’s view that the pricing policy of the New Master Supply Agreement was fair and reasonable.

(c) Periodic review and internal control

To ensure the Group’s conformity with the above pricing policy in relation to the transactions contemplated under the New Master Supply Agreement and the proposed Annual Caps will not be exceeded, we have discussed with the Group and understood that the Company has adopted certain internal control procedures. For instance, (i) the purchasing department will request the China Aluminum Cans Group to provide at least two quotations to its independent customers in relation to the same type of the Products procured by the Group, (ii) the finance department of the Group will prepare a monthly report containing the transaction details, including but not limited to the types and specifications of the products, quantity, purchase price of connected transactions entered into during the month (the “**Monthly CT report**”) for the

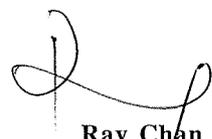
purpose of monitoring whether (1) the transactions with the China Aluminum Cans Group is in line with the pricing policy stated in the New Master Supply Agreement; (2) the major terms of the transactions have any changes; and (3) the actual amount of the connected transaction has exceeded the amount of the proposed Annual Cap. If the actual transaction amount reaches approximately 90% of the proposed Annual Caps or the major terms of the transactions have any changes at any time during the year, the finance department will report to the connected transaction officer of the Company, who will seek advice from the audit committee of the Company, and the Board will consider taking appropriate measures, including but not limited to revisiting and determining if the changes on the major terms are on normal commercial terms, further revisiting the Annual Caps amounts and complying with the relevant announcement and shareholders' approval requirements in accordance with the Listing Rules. In addition, the Company advised that the independent non-executive Directors will review the continuing connected transactions contemplated under the New Master Supply Agreement to ensure that such agreement is entered into on normal commercial terms, is fair and reasonable, and are carried out pursuant to the terms of such agreement on an annual basis, while the auditors of the Company will also conduct an annual review on the transactions contemplated under such agreement to ensure that they have been carried out in accordance with the pricing policies of such agreement and have not exceeded the Annual Caps.

Per review of the compliance manual for connected transactions adopted by the Group, based on the procedures listed, we have selected (i) two Monthly CT reports for the connected transactions during March 2021 and August 2021, and (ii) the meeting minutes of the independent non-executive Directors dated 23 March 2021 for the connected transactions with the China Aluminum Cans Group during the year ended 31 December 2020 of which the independent non-executive Directors were of the opinion that the continuing connected transactions are (1) in the ordinary and usual course of business of the Company; (2) on normal commercial terms or better; and (3) in accordance to the agreement governing them, on fair and reasonable terms and in the interests of the shareholders of the Company, which are in line with the protocol stated in the compliance manual and the pricing policy stated in the Master Supply Agreement, which is the same as the New Master Supply Agreement. Therefore, we are of the view that the Company has sufficient and effective internal control policy to ensure the proposed Annual Caps will not be exceed and the price of the Product are on normal commercial terms, fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

D. RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the entering into the New Master Supply Agreement is in ordinary course of business of the Company, and is on normal commercial terms, which are fair and reasonable so far as the Company's Independent Shareholders are concerned and in the interests of the Company and its shareholders as a whole. Accordingly, we recommend the Company's Independent Board Committee to advise the Company's Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the relevant continuing connected transactions and the Annual Caps under the New Master Supply Agreement.

Yours faithfully,
For and on behalf of
Alliance Capital Partners Limited



Ray Chan
Executive Director

Mr. Ray Chan is a licensed person under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities and have participated in various initial public offerings and transactions involving companies listed in Hong Kong, including the provision of independent financial advisory services.