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康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 322)

**STRATEGIC ALLIANCE WITH PEPSICO INC.
DISCLOSEABLE ACQUISITION
DISCLOSEABLE DISPOSAL AND CONNECTED TRANSACTION
POSSIBLE MAJOR DISPOSAL AND CONNECTED TRANSACTION
POSSIBLE MAJOR ACQUISITION, POSSIBLE MAJOR DISPOSAL AND
CONNECTED TRANSACTION
AND
POSSIBLE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

Financial Adviser to the Company

J.P.Morgan

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**



SOMERLEY LIMITED

A letter from the Board is set out on pages 5 to 27 of this circular and a letter from the Independent Board Committee is set out on pages 28 to 29 of this circular. A letter of advice from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 58 of this circular.

A notice of the EGM to be held at the Conference Room, No. 15, The 3rd Avenue, Tianjin Economic-Technological Development Area, Tianjin, the PRC on Friday, 17 February 2012 at 9:00 a.m. is set out on pages 71 to 72 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you intend to attend and vote at the EGM in person, please complete the form of proxy enclosed in accordance with the instructions printed thereon and return it to the office of the Company at Suite 5607, 56/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

* For identification purpose only

20 January 2012

DEFINITIONS

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

“Affiliate”	in relation to any party, any subsidiary or holding company of that party and any subsidiary of such holding company, in each case, from time to time;
“AIB”	AI Beverage Holding Co., Ltd., a company incorporated in Japan with limited liability and as at the Latest Practicable Date, held as to 100% by Asahi Group Holdings, Ltd.;
“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Call Option”	the option granted to PepsiCo to acquire assets and/or undertakings of TAB used solely or primarily in the production of CSD and sports drink products or products licensed to any member of the TAB Group under the Gatorade Exclusive Bottling Agreement as described in the section headed “2(a) Strategic Alliance Arrangements” in this circular;
“CBL”	China Bottlers (Hong Kong) Limited, a company incorporated in Hong Kong which is principally engaged in the business of investment holding and as of the Latest Practicable Date, a wholly-owned subsidiary of FEB;
“CCT Agreements”	the Framework Exclusive Bottling Agreement and the Gatorade Exclusive Bottling Agreement;
“CMCI”	The Concentrate Manufacturing Company of Ireland, a corporation organised under the laws of Ireland and resident in Bermuda which is principally engaged in the production and sale of concentrate;
“Commercial Agreements”	the four agreements, the brief particulars of which are set out in the section headed “2. The Commercial Agreements” in this circular;
“Company”	Tingyi (Cayman Islands) Holding Corp., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange;
“Closing”	closing of the Contribution Agreement;

DEFINITIONS

“Contribution Agreement”	the agreement dated 4 November 2011 between, among others, the Company and PepsiCo, the brief particulars of which are set out in the section headed “1. The Contribution Agreement” in this circular;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“CSD”	carbonated soft drinks;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among others, the Contribution Agreement, the Option Agreement and the CCT Agreements or any adjournment of such meeting;
“Enlarged Group”	the Company and its subsidiaries after Closing, i.e. the Company and its existing subsidiaries and CBL and the Pepsi Bottlers;
“FEB”	Far East Bottlers (Hong Kong) Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of PepsiCo which is principally engaged in the business of investment holding and as at the Latest Practicable Date, the holding company of CBL;
“Framework Exclusive Bottling Agreement”	the agreement dated 4 November 2011 between PepsiCo, CMCI and TAB, the brief particulars of which are set out in the section headed “(a) Framework Exclusive Bottling Agreement” in this circular;
“Gatorade Exclusive Bottling Agreement”	the agreement dated 4 November 2011 between Stokely-Van Camp, Inc. and TAB, the brief particulars of which are set out in the section headed “(b) Gatorade Exclusive Bottling Agreement” in this circular;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors;
“Independent Shareholders”	any shareholder of the Company that will not be required under the Listing Rules to abstain from voting on the resolution at the EGM;

DEFINITIONS

“Issue Option”	the option granted to FEB as described in the section headed “1. The Contribution Agreement — (b) The Issue Option” in this circular;
“Latest Practicable Date”	16 January 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“MKB”	Master Kong Beverages (BVI) Co., Ltd., a company incorporated in the British Virgin Islands with limited liability and as of the Latest Practicable Date, a wholly-owned subsidiary of the Company;
“MOFCOM”	the Ministry of Commerce of the PRC;
“NAV”	net asset value;
“Option Agreement”	the agreement dated 4 November 2011 between the Company and PepsiCo in relation to, among others, the Put Option;
“PepsiCo”	PepsiCo Inc., a company incorporated in North Carolina, the United States of America;
“Pepsi Bottlers”	the 24 bottlers that are exclusively engaged by PepsiCo in the production and distribution of beverage products in the PRC;
“PRC”	the People’s Republic of China excluding Hong Kong, Taiwan and the Special Administrative Region of Macau;
“Put Option”	the option granted to FEB to sell its interest in MKB and TAB to the Company as described in the section headed “3. Strategic Alliance Arrangements” in this circular;
“Sanyo”	Sanyo Foods Co. Ltd., a substantial shareholder of the Company;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	share(s) of US\$0.005 each in the capital of the Company;
“Shareholder(s)”	shareholder(s) of the Company;

DEFINITIONS

“Somerley”	Somerley Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Contribution Agreement, the CCT Agreements and the Option Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Strategic Alliance Arrangements”	the arrangements entered into by, amongst others, the Company, PepsiCo, MKB, FEB and TAB in connection with their ongoing relationship with respect to TAB;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“TAB”	Tingyi-Asahi Beverages Holding Co., Ltd., a company incorporated in the Cayman Islands with limited liability and, as at the Latest Practicable Date, an indirect 50.005% subsidiary of the Company;
“TAB Group”	TAB and its subsidiaries which will, upon Closing, include CBL and the Pepsi Bottlers;
“Ting Hsin”	Ting Hsin (Cayman Islands) Holding Corp., a company incorporated in the Cayman Islands and a controlling shareholder of the Company;
“US\$”	United States dollar, the lawful currency of the United States of America; and
“%”	per cent.

LETTER FROM THE BOARD



康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 322)

Executive Directors:

Mr. Wei Ing-Chou
Mr. Takeshi Ida
Mr. Ryo Yoshizawa
Mr. Wei Ying-Chiao
Mr. Wu Chung-Yi
Mr. Junichiro Ida

Registered office:

Genesis Building
Fifth Floor
P.O. Box 448
George Town
Grand Cayman
Cayman Islands

Independent non-executive Directors:

Mr. Hsu Shin-Chun
Mr. Lee Tiong-Hock
Mr. Hiromu Fukada

Principal place of business in

Hong Kong:
Suite 5607, 56th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

20 January 2012

To the Shareholders

Dear Sir/Madam,

**STRATEGIC ALLIANCE WITH PEPSICO INC.
DISCLOSEABLE ACQUISITION
DISCLOSEABLE DISPOSAL AND CONNECTED TRANSACTION
POSSIBLE MAJOR DISPOSAL AND CONNECTED TRANSACTION
POSSIBLE MAJOR ACQUISITION, POSSIBLE MAJOR DISPOSAL
AND CONNECTED TRANSACTION
AND
POSSIBLE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

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LETTER FROM THE BOARD

INTRODUCTION

The Board announced on 4 November 2011 that the Company and PepsiCo entered into a strategic alliance in respect of their beverage businesses in the PRC. The purposes of this circular are:

- (a) to provide the Shareholders with details of the Contribution Agreement, the CCT Agreements and the Option Agreement;
- (b) to set out the opinion of Somerley, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders, on the Contribution Agreement, the CCT Agreements and the Option Agreement;
- (c) to set out the recommendation of the Independent Board Committee on the Contribution Agreement, the CCT Agreements and the Option Agreement; and
- (d) to give notice of the EGM for the Independent Shareholders to consider and, if thought fit, to approve the Contribution Agreement, the CCT Agreements and the Option Agreement.

THE STRATEGIC ALLIANCE

1. The Contribution Agreement

On 4 November 2011, the Company, PepsiCo, MKB, FEB and TAB entered into the Contribution Agreement in connection with their strategic alliance in the beverage business in the PRC.

(a) *Contribution of the beverage bottling business*

Under the terms of the Contribution Agreement, FEB has agreed to contribute to TAB the entire equity interest in CBL, which holds PepsiCo's equity interests in its 24 bottlers in the PRC, (other than PepsiCo Beverages (Guangzhou) Limited, which PepsiCo is obliged to use reasonable endeavours to transfer to CBL before Closing, and will, in any event, be included in the contribution) in exchange for an indirect 5% interest in TAB, to be held through MKB. PepsiCo's interests in the 24 bottlers upon Closing (assuming the acquisitions detailed in notes 1, 2 and 3 below are completed prior to Closing) will be as follows:

Number of bottlers	Percentage shareholding	Notes
7	100.0%	1
1	94.4%	
1	90.0%	2
1	88.0%	
4	80.0%	
1	75.0%	
3	70.0%	
1	65.0%	3
1	57.5%	
3	50.0%	
1	25.0%	
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LETTER FROM THE BOARD

Notes:

1. PepsiCo's interest in Fuzhou Pepsi-Cola Beverage Company Limited was 88.9%. It is in the process of acquiring the remaining interest in the company from its joint venture partner.
2. PepsiCo's interest in Shenzhen Pepsi-Cola Beverage Company Limited was 75%. It is in the process of acquiring a further 15% equity interest in the company from its joint venture partner.
3. PepsiCo's interest in Beijing Pepsi-Cola Beverage Company Limited was 50%. It is in the process of acquiring a further 15% equity interest in the company from its joint venture partner.

Upon Closing:

- (i) MKB, which is an investment holding company of the Group that holds the Group's interest in TAB, will be owned as to 90.5% by the Company and as to 9.5% by FEB;
- (ii) TAB, which is an investment holding company that holds the Group's beverage business, will be owned as to 52.5% by MKB, as to 30.4% by AIB and as to 17.1% by Ting Hsin;
- (iii) FEB, which is an investment holding company of PepsiCo, will therefore have an indirect 5% interest in TAB; and
- (iv) CBL, which holds PepsiCo's bottling assets in the PRC, will become a wholly-owned subsidiary of TAB and an indirect non wholly-owned subsidiary of the Company.

It is the Directors' intention that upon Closing, MKB will have no assets and liabilities except the equity interests in TAB.

The parties have agreed that the book value of CBL upon Closing will be US\$600 million based on the audited closing accounts prepared for this purpose. The book value of CBL as at 30 June 2011 was less than US\$600 million. Prior to Closing, PepsiCo will carry out certain reorganization of its beverage business in the PRC, including, among others, (i) the transfer of a non-carbonated drink bottler to a subsidiary of CBL; (ii) the acquisition of additional equity interests in certain Pepsi Bottlers with an aggregate consideration of approximately RMB232.7 million; (iii) increase the registered capital of certain Pepsi Bottlers; and (iv) reorganize and repay the debt of the contributed companies under the Contribution Agreement to take the net asset value of CBL to US\$600 million upon Closing. Completion of the acquisition of additional equity interests in certain Pepsi Bottlers is not a condition precedent to Closing. It was through negotiation the parties agreed that the net asset of CBL after reorganization of certain of the Pepsi Bottlers and after the repayment of debt would be US\$600 million. Therefore, the current book value of CBL was not used in determining the valuation related terms.

LETTER FROM THE BOARD

At the same time, MKB will also use its reasonable endeavours to dispose of its 15.45% interest in Hangzhou Kagome Foods Company (“Kagome Foods”), a company engaged in the manufacturing and sale of beverages, prior to Closing and at fair market value. The Company will make announcement as and when required in compliance with the requirements of the Listing Rules when a binding agreement in relation to the disposal of the Company’s 15.45% interest in Kagome Foods has been entered.

Adjustments to consideration

Pursuant to the Contribution Agreement, the parties have agreed on the following adjustments with respect to the net asset value of CBL and the net debt of the TAB Group:

(i) *Adjustment in relation to the net asset value of CBL*

If the audited net asset value of CBL upon Closing is not US\$600 million, then a price adjustment will be made. The Company will ensure that any payment that would need to be made under the adjustment will not result in the transaction falling into a higher category of transaction under Chapter 14 of the Listing Rules.

(ii) *Adjustment in relation to the net debt of the TAB Group after Closing*

If the net debt of the TAB Group (excluding CBL) upon Closing exceeds:

(a) US\$800 million, if Closing takes place on or before 30 June in any calendar year; or

(b) US\$1,000 million, if Closing takes place after 30 June in any calendar year,

TAB has undertaken to pay or procure a one-off payment in cash to FEB of a sum equal to 5% of such excess amount. If the adjusted audited net debt of the TAB Group (excluding CBL) does not exceed US\$800 million or US\$1,000 million (as applicable), neither TAB nor FEB will be required to make any payment under this adjustment mechanism. The Company currently does not expect the net debt amount of the TAB Group would exceed the above amounts which would require payment by the Company of the 5% premium. The Company will ensure that any payment that would need to be made under the adjustment will not result in the transaction falling into a higher category of transaction under Chapter 14 of the Listing Rules.

The unaudited combined before- and after-tax losses of CBL based on US GAAP for the financial years ended 31 December 2009 and 2010 were as follows:

Year ended 31 December	Before-tax loss	After-tax loss
	<i>US\$' million</i>	<i>US\$' million</i>
2009	38.5	45.5
2010	175.7	175.6

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The significant increase in raw material costs and the selling and distribution expenses in 2009 and 2010 impacted the profitability of CBL in these periods.

As at 30 June 2011, the unaudited consolidated net asset value of the TAB Group was approximately US\$1.1 billion. The book value of the 5% interest in TAB is equivalent to approximately US\$55 million and the exchange of the 5% interest in TAB for the PepsiCo's bottling assets in the PRC held by CBL as contemplated under the Contribution Agreement constitutes a deemed disposal of a 9.5% interest in MKB as well as a deemed disposal of a 2.5% interest in TAB, being the changes in the respective effective interest held by the Company in MKB and TAB upon Closing. The consideration for the deemed disposal of a 9.5% interest in MKB as well as a deemed disposal of a 2.5% interest in TAB is US\$600 million, being the agreed net asset value of CBL upon Closing. The deemed gain on the disposal is estimated to be US\$257 million which is based on the unaudited consolidated net asset value of TAB of approximately US\$1.1 billion as at 30 June 2011, the adjusted aggregate book value of CBL of US\$600 million at Closing, and the increases in the Company's attributable net asset value in TAB upon Closing. The Company expects the deemed gain on disposal to be recognized in its income statement will be different, as the estimated deemed gain of US\$257 million disclosed in this circular is only based on the latest available financial information. The Company will not receive any actual proceeds from the deemed disposal, as there are no cash proceeds being paid or received under the Contribution Agreement. Details of the calculation on the deemed gain on disposal is set out below:

	Before Closing	Upon Closing	
	<i>US\$' million</i>	<i>US\$' million</i>	
NAV of TAB as at 30 June 2011	1,120	1,120	A
Add: Agreed NAV of CBL to be contributed	—	600.0	B
NAV of TAB before / upon Closing	1,120	1,720	C = A + B
The Company's equity interest in MKB	100%	90.5%	D
MKB's equity interest in TAB	50.005%	52.5%	E
The Company's attributable NAV in TAB	560	817	C x D x E

Based on the NAV of TAB as at 30 June 2011, the Company's attributable NAV in TAB (through its equity interest in MKB) is approximately US\$560 million. Upon Closing, the Company's attributable NAV in TAB will increase from approximately US\$560 million to approximately US\$817 million. The increase of the Company's attributable NAV in TAB of approximately US\$257 million will constitute a deemed gain on disposal.

(b) *The Issue Option*

FEB has been granted the Issue Option to subscribe for additional shares in MKB in cash to enable FEB to increase its indirect interest in TAB to 20% on a fully-diluted basis. No premium is payable by FEB for the Issue Option and the Issue Option is exercisable at the discretion of FEB. The Issue Option is exercisable in full by FEB at any time from the date of the Contribution Agreement

LETTER FROM THE BOARD

up to 31 October 2015 at a price determined by reference to the date of exercise of the Issue Option. The exercise price is initially based on a US\$15 billion valuation of the enlarged TAB Group if the Issue Option is exercised on or before 31 October 2013. Based on the valuation of US\$15 billion, the initial exercise price of the Issue Option is approximately US\$2,810 million.

The US\$15 billion valuation has been agreed through arm's length negotiations based on the business prospects of the enlarged TAB Group as a result of the synergies created by the Strategic Alliance Arrangements. The valuation was conducted by in-house analysts of the Company without engaging any third-party valuer in May 2011 using valuation methodologies based on trading market multiples and precedent transaction multiples. The exercise price will be adjusted upward with reference to an increase in the valuation of the enlarged TAB Group by 15% in each subsequent year until 2015. The adjustment was a result of arm's length negotiations with reference to the historical growth in the profit of the TAB Group at approximately 15% per year. Under the arrangement, the maximum adjusted exercise price would be approximately US\$3,720 million if the Issue Option is exercised after 31 October 2014 but on or before 31 October 2015.

Similar to the adjustment that may be made upon Closing, if the net debt of the TAB Group (excluding the CBL and the exercise price to be received by TAB for the Issue Option) exceeds US\$500 million following the exercise of the Issue Option, TAB shall pay in cash to FEB of a sum based on the formula below:

$$\text{Payment to be made by TAB} = \left[1 - \frac{(\text{TAB Valuation} - \text{excess})}{\text{TAB Valuation}} \right] \times \text{Issue Option Exercise Price}$$

The Company currently does not expect the net debt amount of the TAB Group would exceed the above amount that would require an adjustment. The Company will ensure that any adjustment that would need to be made will not result in the transaction falling into a higher category of transaction under Chapter 14 of the Listing Rules.

The proceeds will be injected into TAB as equity capital and TAB will issue new shares to MKB. MKB will in turn issue new shares to FEB thereby increasing its indirect interest in TAB to 20%. As at 30 June 2011, the unaudited consolidated net asset value of the TAB Group was approximately US\$1.1 billion. The book value of the 15% interest in TAB is equivalent to approximately US\$165 million and the exercise of the Issue Option will constitute a deemed disposal of a 23.8% interest in MKB as well as a deemed disposal of a 7.5% interest in TAB, being the changes in the respective effective interest held by the Company in MKB and TAB upon the exercise of the Issue Option. Assuming that the Issue Option is exercised in 2011, the deemed gain on the disposal is estimated to be US\$997 million which is based on the unaudited consolidated net asset value of TAB as at 30 June 2011 of approximately US\$1.1 billion, the adjusted aggregate book value of CBL of US\$600 million and the proceeds from the subscription of additional shares in MKB of approximately US\$2,810 million in cash. The Company expects the deemed gain or loss to be recognized directly in equity and attributed to the shareholders of the Company will be different as the estimated deemed gain of

LETTER FROM THE BOARD

US\$997 million is only based on the latest available financial information and assuming that the Issue Option is exercised before 31 October 2013. Details of the calculation on the gain of disposal upon the exercise of the Issue Option at the initial option exercise price of US\$2,810 million are as follows:

		<i>US\$' million</i>
NAV of TAB as at 30 June 2011		1,120
Add: Agreed NAV to be contributed		<u>600</u>
NAV of TAB upon Closing	(A)	1,720
% of effective interest in TAB disposed of by the Company	(B)	7.5%
Proceeds from subscription of additional shares		
Valuation of the TAB Group		15,000
To increase the effective interest in TAB from 5% to 20%, the % of equity interest to be subscribed by FEB = 15% / (100% - 20%)		18.75%
Proceeds from additional 18.75% shares subscribed by FEB = USD15,000 million x 18.75%		
	(C)	2,812.5
Deemed gain on disposal of 7.5% effective interest in TAB		
Consideration for the deemed disposal	(C) x 40.02%	1,125.6
Cost of deemed disposal of 7.5% int. in TAB	(A)X (B)	<u>(128.9)</u>
		<u><u>996.7</u></u>

If the Issue Option is exercised at the maximum adjusted exercise price of approximately US\$3,720 million after 31 October 2014 but on or before 31 October 2015, the deemed gain on disposal is estimated to be US\$1,360 million which is assumed that the net asset value of TAB and the adjusted aggregate book value of CBL will remain the same. The amount of US\$1,360 million is based on the unaudited consolidated net asset value of TAB as at 30 June 2011 of approximately US\$1.1 billion, the adjusted aggregate book value of CBL of US\$600 million and the proceeds from the subscription of additional shares in MKB at the maximum adjusted exercise price of approximately US\$3,720 million. The Company expects the deemed gain or loss to be recognized directly in equity and attributed to the shareholders of the Company will be different as the estimated deemed gain of US\$1,360 million is only based on the latest available financial information and assuming that the Issue Option is exercised after 31 October 2014 but on or before 31 October 2015.

LETTER FROM THE BOARD

The detailed calculation of the deemed gain on the disposal of US\$1,360 million in 2015 are as below:

		<i>US\$' million</i>
NAV of TAB as at 30 June 2011		1,120
Add: Agreed NAV to be contributed		<u>600</u>
NAV of TAB before / upon Closing	(A)	1,720
% of effective interest in TAB disposed of by the Company	(B)	7.5%
Proceeds from subscription of additional shares		
Valuation of the TAB Group		19,838
To increase the effective interest in TAB from 5% to 20%, the % of equity interest to be subscribed by		
FEB = 15% / (100% - 20%)		18.75%
Proceeds from additional 18.75% shares subscribed by		
FEB = USD19,838 million x 18.75%	(C)	3,720
Deemed gain on disposal of 7.5% effective interest in TAB		
Consideration for the deemed disposal	(C) x 40.02%	1,489
Cost of deemed disposal of 7.5% int. in TAB	(A)X (B)	<u>(129)</u>
		<u><u>1,360</u></u>

(c) **Conditions**

Closing of the Contribution Agreement will be conditional on the following conditions having been fulfilled:

- (a) clearance of the proposed transaction having been obtained from, or no objection having been raised by, MOFCOM in accordance with the Anti-Monopoly Law of the PRC without being subject to any conditions unacceptable by any party; and
- (b) the Shareholders having passed a resolution to approve the Contribution Agreement, the CCT Agreements and the Option Agreement at a duly constituted general meeting of the Company.

Neither condition has been fulfilled as at the Latest Practicable Date.

2. The Commercial Agreements

On 4 November 2011, PepsiCo, TAB and their respective subsidiaries have also entered into four commercial agreements, which will take effect upon Closing.

LETTER FROM THE BOARD

The Commercial Agreements set out the principles and the terms governing:

- (i) the appointment by PepsiCo of TAB as its franchise bottler, which together with the Pepsi Bottlers and other PepsiCo-approved bottlers TAB may nominate in the future will manufacture, package, bottle, distribute and sell on an exclusive, royalty free basis, and advertise and promote on a non-exclusive, royalty free basis, CSD products under certain trademarks owned by PepsiCo in the PRC;
- (ii) the royalty free licensing of TAB to manufacture, package, distribute and sell on an exclusive basis, and advertise and promote on a non-exclusive basis, sports drink products under certain Gatorade trademarks in the PRC;
- (iii) the granting to TAB of an exclusive royalty free license to manufacture, package, distribute, sell, advertise and promote pure juices, nectars/blended juices and juice drinks under the Tropicana brand and co-branded juice drinks in the PRC; and
- (iv) the granting to TAB of an exclusive and royalty-free license to manufacture, package, distribute, sell, advertise and promote non-carbonated water beverage products under certain Aquafina trademarks in the PRC.

(a) ***Framework Exclusive Bottling Agreement***

The Framework Exclusive Bottling Agreement has been entered into between PepsiCo, CMCI (a wholly-owned subsidiary of PepsiCo) and TAB pursuant to which TAB will be appointed by PepsiCo as its franchise bottler, and with the Pepsi Bottlers and other PepsiCo-approved bottlers TAB may nominate will exclusively manufacture, bottle, package, distribute and sell, and non-exclusively advertise and promote, on a royalty free basis, CSD products in the PRC under certain trademarks owned by PepsiCo and CMCI, and to provide certain bottling procurement and contract management services to PepsiCo.

Under the Framework Exclusive Bottling Agreement, PepsiCo and CMCI (or their nominated supplier) will supply concentrate to the TAB Group and the Pepsi Bottlers. Concentrate price is determined by reference to a percentage of the total net wholesale price of all CSD products sold by the TAB Group and the Pepsi Bottlers in the PRC to wholesale and retail customers. Discounts, allowances, rebates and returns granted by TAB and the Pepsi Bottlers to their customers are netted off from the invoice price to arrive at the net wholesale price. The actual concentrate price payable by TAB and the Pepsi Bottlers is fixed from time to time according to the relative market share of TAB and the Pepsi Bottlers in the relevant period. The concentrate payment will be settled on a monthly basis. The Framework Exclusive Bottling Agreement will expire on 31 December 2050.

PepsiCo and CMCI are granted the Call Option to acquire assets and/or undertakings solely or primarily used in the production of CSD or sports drink products or products licensed to any member of the TAB Group under the CCT Agreements upon the occurrence of certain termination events, including the termination of the CCT Agreements. The assets to be disposed by the Company upon the exercise of the Call Option are the assets used for the production of CSD or sports drink products, which are essentially the interests in the 24 Pepsi Bottlers and any new bottlers which are solely or

LETTER FROM THE BOARD

primarily used in the production of CSD and sports drink products in the future. Thus, on the assumption that the option is exercised at Closing, the value of the assets to be disposed by the Company under the Call Option would be valued at US\$600 million. The Call Option is exercisable at the discretion of PepsiCo (and/or CMCI) and no premium is payable for the Call Option. TAB has an option, exercisable at the discretion of TAB, to put such assets and/or undertakings to any Affiliate of PepsiCo upon the occurrence of certain termination events, including the termination of the CCT Agreements.

The options are exercisable from the termination of the Framework Exclusive Bottling Agreement until the date falling six months after the termination of the Framework Exclusive Bottling Agreement. Upon the exercise of the option, the price payable will be the aggregate book value of the option assets as at the exercise date as stated in the most recent audited accounts of the relevant members of the TAB Group and the net assets value of any interest that is the subject of the option to be transferred. As the option assets under the Call Option will be disposed at the book value of such assets, there should not be any material gain or loss on disposal of the option assets upon the exercise of the Call Option.

Upon termination, TAB will provide assistance to PepsiCo to ensure an orderly transition of operations of the CSD bottling business from TAB to PepsiCo and continuity of supply of CSD products in the PRC. The assistance would include the return of materials and data and the provision of records in connection with the CSD business.

(b) *Gatorade Exclusive Bottling Agreement*

The Gatorade Exclusive Bottling Agreement has been entered into between Stokely-Van Camp, Inc. (a wholly-owned indirect subsidiary of PepsiCo which produces and markets the Gatorade sports drinks) and TAB pursuant to which TAB will be licensed (with the right to sub-license), on a royalty free basis, to exclusively manufacture, bottle, package, distribute and sell, and non-exclusively advertise and promote, sports drinks under certain Gatorade trademarks in the PRC.

Under the Gatorade Exclusive Bottling Agreement, Stokely-Van Camp, Inc. (or its nominated supplier) will supply concentrate to the TAB Group and the Pepsi Bottlers. The concentrate price is determined by reference to a percentage of the total net wholesale price of all Gatorade products sold by the TAB Group and its sub-licensees in the PRC to wholesale and retail customers. Discounts, allowances, rebates and returns granted by TAB and its sub-licensees to their customers are netted off from the invoice price to arrive at the net wholesale price. The concentrate payment will be settled on a monthly basis. The Gatorade Exclusive Bottling Agreement will expire on 31 December 2050.

The terms and procedures for ordering, shipment, delivery, the payment terms (including credit amount, if applicable), and the liabilities for over-due amounts of the concentrate supplied to members of the TAB Group and the Pepsi Bottlers shall be decided by PepsiCo and CMCI or Stokely-Van Camp, Inc. (and adjusted from time to time when necessary), subject to TAB's consent and in accordance with the provisions of the CCT Agreements, and the relevant Pepsi Bottlers shall be provided with reasonable advance notice. The Directors confirm that such terms and procedures will be agreed with PepsiCo and CMCI or Stokely-Van Camp, Inc. on normal commercial terms.

LETTER FROM THE BOARD

For the purpose of the Listing Rules, it is proposed that the amount payable by TAB under the CCT Agreements will be subject to an annual cap of 12% of the turnover of TAB for the relevant financial year. The annual cap is determined by reference to the historical transaction amount between the Pepsi Bottlers and PepsiCo and its relevant subsidiaries for the supply of concentrate and the expected growth in the CSD and sports drink products in the future. The aggregate amounts paid by the Pepsi Bottlers to PepsiCo and its relevant subsidiaries for the supply of concentrate for the CSD products and the sports drink products under the Gatorade trademarks represented approximately 8.49%, 7.16% and 5.75% of the combined revenue of TAB and the Pepsi Bottlers for the two years ended 31 December 2009 and 2010 and the nine months ended 30 September 2011, respectively. Although the proposed annual cap of 12% is higher than the historical figures above, the Directors expect that the transaction value, both on a monetary basis and as a percentage of TAB's turnover, has the potential to increase in the coming years, given the strategic and operational benefits to be brought to the Pepsi Bottlers' operations, including the improvement in operating efficiency and cost control, and the extension of the distribution network following the establishment of strategic alliance between the Company and PepsiCo.

As the annual cap is applicable to the Company through the entire term of the CCT Agreements (i.e. approximately 39 years), setting the annual cap at a lower percentage would limit the growth potential of the transactions under the CCT Agreements and hence the growth potential of TAB's future revenue stream. The Directors, after taking into account of the above and the historical amount paid by the Pepsi Bottlers to PepsiCo and its relevant subsidiaries for the supply of concentrate for the CSD products and the sports drink products under the Gatorade trademarks during the two years ended 31 December 2009 and 2010 and the nine months ended 30 September 2011, and the expected amount payable by the Pepsi Bottlers to PepsiCo and its relevant subsidiaries, consider the annual cap of 12% of the turnover of TAB for the relevant financial year is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company will seek the approval of the independent shareholders if there are changes to the annual cap for the CCT Agreements or the basis of determining the annual cap for the CCT Agreements.

3. The Strategic Alliance Arrangements

Following Closing, FEB will become an indirect shareholder in TAB. The Company and, amongst others, PepsiCo, MKB, FEB and TAB will enter into certain Strategic Alliance Arrangements in connection with their ongoing relationship and the protection of FEB's indirect and minority shareholder's rights.

To preserve TAB as the platform for the strategic alliance, each of the Company and PepsiCo has agreed not to undertake, carry on, be interested or engaged in the non-alcoholic beverage (other than dairy products) business in the PRC. The restriction is subject to agreed carve outs including (1) for certain existing investments; (2) where its participation is for financial investment purposes, or (3) where the PRC is not the primary market, or the non-alcoholic beverage sector is not the focus, of the business that it invests in.

LETTER FROM THE BOARD

FEB has, under the Option Agreement, the Put Option exercisable at its discretion to require the Company to buy all of its interest in MKB and TAB as at the relevant time at fair market value. The Company has a call option exercisable at the discretion of the Company to require FEB to sell all of its interest in MKB and TAB as at the relevant time at fair market value. The triggers for the Option Agreement are the termination of the Framework Exclusive Bottling Agreement, and material breaches of the terms under the agreements for the Strategic Alliance Agreements which govern the relationship between the Company and PepsiCo/FEB as shareholders of MKB and indirect shareholders of TAB and provide the protection of FEB's minority shareholder rights.

Each of FEB and the Company will appoint an internationally recognized investment bank as an expert to determine the fair market value of the enlarged TAB Group at the relevant time when the option is exercised. The fair market value will be determined by the experts assessing the business prospects of the TAB Group and the value of the TAB Group on a going concern basis for an arms' length sale between a willing buyer and a willing seller and on the assumption that the subject matter of the valuation is exposed to an open market.

No premium is payable by either FEB or the Company in respect of the options under the Option Agreement. The exercise period of the options under the Option Agreement will end on the first anniversary of the termination of the Framework Exclusive Bottling Agreement.

Pursuant to Rules 14.76(1) and 14A.71 of the Listing Rules, the Company will inform the Stock Exchange of the actual monetary value of the exercise price, the value of the underlying assets and the profits and revenue attributable to such assets upon the option is exercised and if the actual monetary value results in the transaction falling within a higher classification than the possible major transaction as currently contemplated, the Company will announce this fact and comply with the additional requirements of such higher classification.

To deal with a situation where PepsiCo acquires an additional interest in TAB and to ensure that the Company, Ting Hsin and their respective affiliates own a larger interest in TAB than FEB and members of its group, FEB has pursuant to the Option Agreement granted an option (the "Sell-Down Option") to the Company, exercisable at the discretion of the Company, to require FEB to sell and procure the sale by PepsiCo of such interest in TAB such that the direct and indirect interest of FEB and PepsiCo in TAB is one share less than the aggregate interests of the Company and Ting Hsin in TAB. No premium is payable by the Company for such option and the exercise price will be based on the fair market value of the option shares which is to be determined by agreement between the parties at the time the option is exercised or if no agreement is reached, by experts appointed in the same manner as the other options in the Option Agreement. The Sell-Down Option is exercisable within one year of the occurrence of FEB and/or PepsiCo being interested in more shares in TAB than the combined interests of the Company and Ting Hsin. The Company will comply with the requirements of Chapter 14 and Chapter 14A of the Listing Rules as and when appropriate if the Sell-Down Option is exercised.

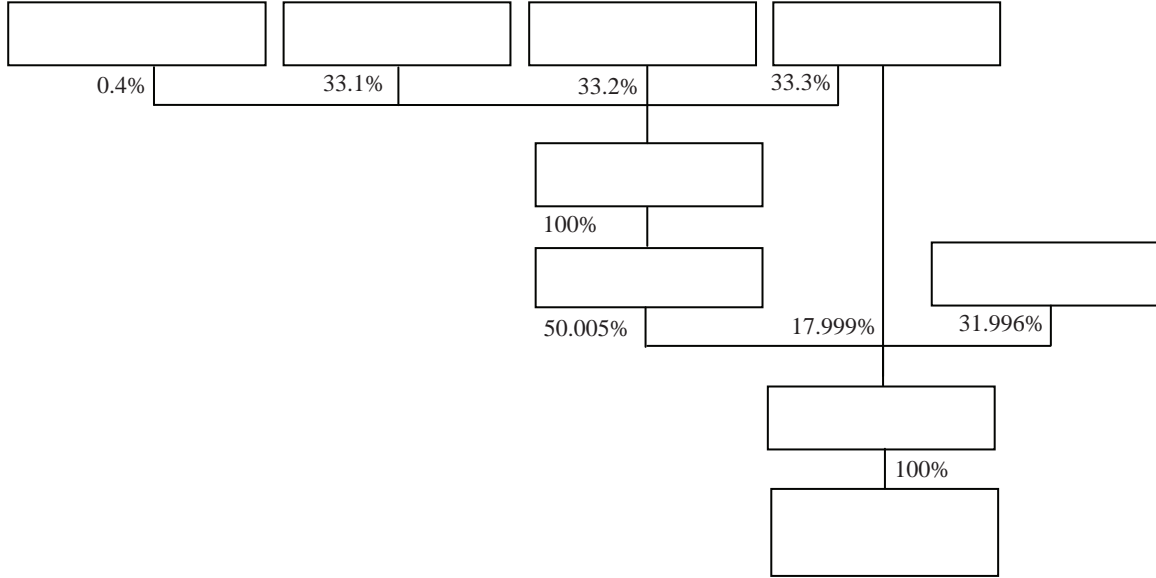
To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, as at the date of the Contribution Agreement, the CCT Agreements and the Option Agreement, PepsiCo and FEB and their respective beneficial owners are independent of, and not connected with, the Company and its connected persons.

SHAREHOLDING AND GROUP STRUCTURE OF THE TAB GROUP

The following charts show the shareholding and structure of the TAB Group before and upon Closing and upon the exercise of the Issue Option.

(a) Structure as at the Latest Practicable Date

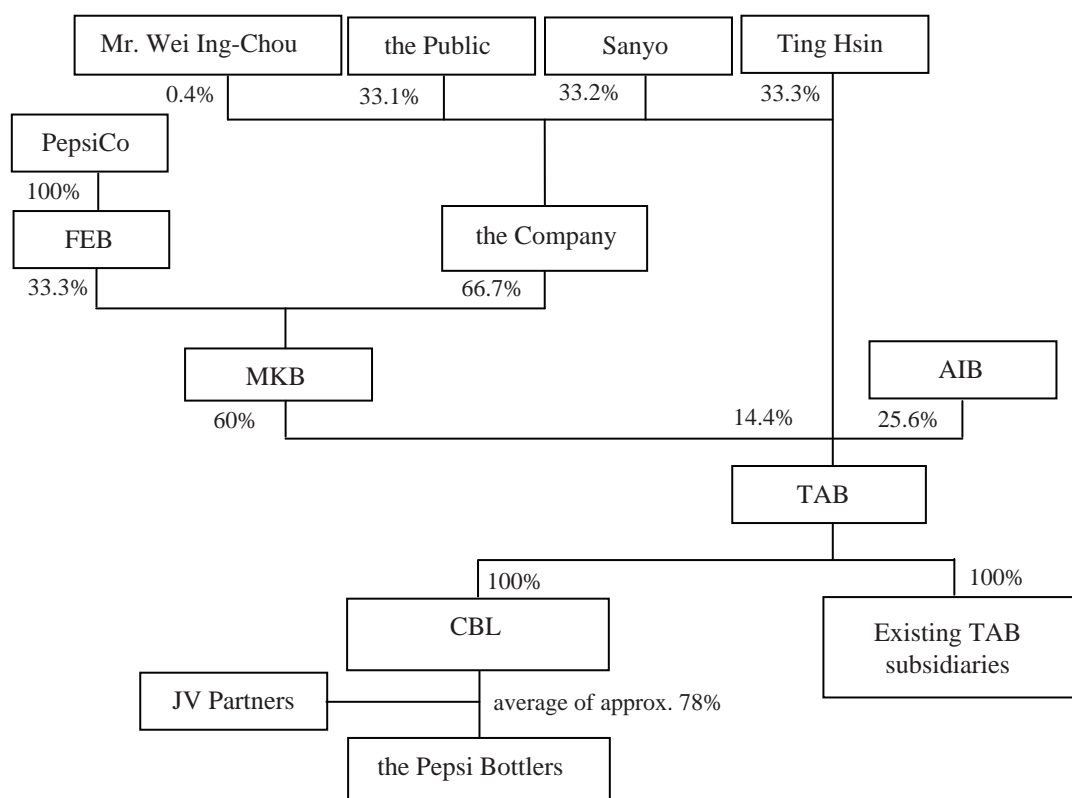
As at the Latest Practicable Date, the shareholding structure of the TAB Group was as follows:



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(c) Upon the exercise of the Issue Option

The shareholding and structure of the TAB Group immediately upon exercise of the Issue Option (assuming that the shareholdings of AIB, MKB and Ting Hsin in TAB and the shareholdings of FEB and the Company in MKB have remained the same since Closing) will be as follows:



REASONS FOR AND BENEFITS OF THE STRATEGIC ALLIANCE

Under the strategic alliance, TAB, together with the Pepsi Bottlers, will be exclusively responsible for manufacturing, bottling, packaging, selling and distributing PepsiCo's CSD and Gatorade branded products, and PepsiCo will retain branding and marketing responsibilities.

TAB will also co-brand its juice products under the Tropicana brand under a license from PepsiCo. TAB, together with the Pepsi Bottlers, will have the exclusive right to manufacture and distribute PepsiCo's non-carbonated beverage products (other than dairy products) in the PRC. In addition, PepsiCo will provide access to its global beverage innovation pipeline.

The strategic alliance with PepsiCo is expected to bring a variety of important benefits, including:

- bringing innovative new products to market faster across PepsiCo and the Company brand offerings and improving choice for consumers;

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- improving operating efficiency and reducing costs by combining local and global expertise in manufacturing and distribution;
- providing better localised service to PepsiCo's national retail and food service customers in the PRC through the Company's distribution expertise;
- supporting new opportunities to develop local economies in interior and western PRC;
- extending the national distribution of PepsiCo's carbonated soft drink and non-carbonated beverage brands; and
- increasing the investment made in PepsiCo's brand portfolio and marketing in the PRC.

The results of the TAB Group will continue to be consolidated into the accounts of the Group after Closing and the exercise of the Issue Option and/or the Put Option. Each of MKB and TAB will remain a subsidiary of the Group after Closing and the exercise of the Issue Option and/or the Put Option.

The terms of the Contribution Agreement, the CCT Agreements and the Option Agreement were determined after arm's length negotiations between the Company and PepsiCo by reference to, among other things, historical financial performance of both CBL and TAB, the growth potential of CBL and TAB, the potential synergies between TAB and CBL, and the book value of CBL. Such factors were considered as a whole in determining the commercial viability of the transaction as well as the terms that the parties could mutually accept for the establishment of the strategic alliance. By combining the strengths of the parties, it is expected that the Strategic Alliance Arrangements will help develop and bring the benefits listed above to the alliance.

The Directors (excluding Mr. Wei Ing-Chou and Mr. Wei Ying-Chiao, who have interests in Ting Hsin and have abstained from voting on the Board resolutions approving the subject transactions) are of the opinion that the terms of the Contribution Agreement, the CCT Agreements and the Option Agreement are fair and reasonable.

INFORMATION ON THE COMPANY

The Company specialises in the production and distribution of instant noodles, beverages and baked goods in the PRC. For three consecutive years from 2008 to 2010, the Company was named one of the 50 best listed companies in Asia by Forbes for its solid financial track record and excellent management and entrepreneurial skills. The Company is listed on the Stock Exchange and had a market capitalization of approximately HK\$116,274 million as of 3 November 2011.

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The TAB Group runs the Company's beverage business. The business of the TAB Group covers mainly ready-to-drink tea, juice, and bottled water, and other beverage products. The unaudited book value of MKB and TAB as at 30 June 2011 were US\$62,504,000 and US\$1,120,378,000, respectively, and the before- and after-tax profits of MKB and TAB for the financial years ended 31 December 2009 and 2010 on were as follows:

	For the year ended 31 December 2009		For the year ended 31 December 2010	
	Before-tax profit (Unaudited) US\$'000	After-tax profit (Unaudited) US\$'000	Before-tax profit (Unaudited) US\$'000	After-tax profit (Unaudited) US\$'000
MKB	42,780	42,780	54,333	54,333
TAB	276,172	228,746	325,672	263,129

INFORMATION ON PEPSICO

PepsiCo offers the world's largest portfolio of billion-dollar food and beverage brands, including 19 different product lines that generate more than US\$1 billion in annual retail sales each. In addition to PepsiCo's main businesses - Quaker, Tropicana, Gatorade, Frito-Lay, and Pepsi Cola, PepsiCo also make hundreds of other enjoyable foods and beverages that are respected household names throughout the world.

INFORMATION ON THE BUSINESS OF THE ENLARGED TAB GROUP

The enlarged TAB Group will continue to run the Company's original beverage business which covers mainly ready-to-drink tea, juice, bottled water, and other beverage products. Under the strategic alliance, the enlarged TAB Group will be exclusively responsible for manufacturing, bottling, packaging, selling and distributing PepsiCo's CSD and Gatorade branded products, and PepsiCo will retain branding and marketing responsibilities. In addition, TAB will also co-brand its juice products under the Tropicana brand and, together with the Pepsi Bottlers, will have the exclusive right to manufacture and distribute PepsiCo's non-carbonated beverage products (other than dairy products) in the PRC.

EFFECT ON EARNINGS, ASSETS AND LIABILITIES

Upon Closing, the Pepsi Bottlers and CBL will become indirect non-wholly-owned subsidiaries of the Group and the results of CBL will be consolidated into the accounts of the Group.

(a) *Effect on earnings*

The unaudited combined losses after tax of CBL under US GAAP for the financial years ended 31 December 2009 and 2010 were approximately US\$45.5 million and US\$175.6 million, respectively. The Pepsi Bottlers and CBL will be managed by the Group after Closing and will operate under the

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new terms of the Commercial Agreements, The Directors consider that the contribution of the beverage bottling business of PepsiCo will contribute to the revenue and earning base of the enlarged TAB Group but the quantification of such contribution will depend on the future performance of the Pepsi Bottlers.

It is estimated that there will be gains on the deemed disposal of the Company's interest in MKB (i) upon Closing and (ii) upon the exercise of the Issue Option by FEB, based on the unaudited consolidated NAV of TAB as at 30 June 2011, the adjusted aggregate book value of CBL of US\$600 million and the proceeds from the payment of the exercise price. Such deemed gains on disposal are estimated to be approximately US\$257 million which will be recognized in the income statement upon Closing, and US\$997 million which will be recognized directly in equity upon the exercise of the Issue Option. The exact amount of the deemed gains on the disposal would be determined on the basis of the actual figures as at the date of Closing or the date exercise of the Issue Option as appropriate, and therefore may be different from the above estimated amounts.

Upon the exercise of the Put Option, the FEB's interest in MKB will be purchased by the Company. As MKB is a subsidiary of the Company, the increase in the Company's equity interest of MKB would be accounted for as equity transaction. No gain or loss from the purchase of FEB's interests in MKB would be recognised in profit or loss.

(b) *Effect on net assets*

Upon Closing, the net book value of the Pepsi Bottlers and CBL will be US\$600 million based on the audited closing accounts prepared for this purpose. Based on the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2011 in Appendix I to this circular, the net assets after non-controlling interests of the Group as at 30 September 2011 would be increased from approximately US\$1,983.3 million to approximately US\$2,583.3 million.

Upon the exercise of the Issue Option by FEB, a minimum amount of US\$2.81 billion, which will be adjusted upward at 15% per annum, will be injected into TAB as equity capital and would represent a significant increase in the Group's working capital considering the bank and cash position of the Group of approximately US\$768.5 million as at 30 September 2011.

Upon the exercise of the Put Option, the Company will purchase all of FEB's interests in MKB and TAB. The interest of MKB to be purchased by the Company is to be priced at fair market value. When the Company settle the amount of the consideration payable to PepsiCo, the bank and cash position of the Group would decrease.

LISTING RULES IMPLICATIONS

Chapter 14 of the Listing Rules

Disclosable Acquisition and Discloseble Disposal

The contribution of PepsiCo's entire interests in the beverage bottling business in the PRC to TAB in exchange for an indirect 5% interest in TAB through the holding of a 9.5% interest in MKB

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constitutes an acquisition and a deemed disposal by the Company. As the relevant percentage ratios under Rule 14.07 of the Listing Rules are over 5% but are below 25%, each of the contribution and the deemed disposal constitutes a discloseable transaction and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Possible Major Disposal

The relevant percentage ratios for the grant of the Issue Option, when aggregated with the issue of the 9.5% interest in MKB upon Closing, are more than 25% but are less than 100%. The grant of the Issue Option constitutes a possible major transaction (deemed disposal) of the Company under Chapter 14 of the Listing Rules and is subject to shareholders' approval.

Possible Major Acquisition and Possible Major Disposal

The relevant percentage ratios for the grant of the Put Option and the Call Option may be more than 25% but will be less than 100%. The grant of the Put Option and the Call Option therefore constitutes a possible major acquisition and a possible major disposal (respectively) of the Company and is subject to shareholders' approval.

Chapter 14A of the Listing Rules

Deemed disposal and Connected Transaction

Under Rule 14A.13(1)(b)(i), the deemed disposal in MKB under the exchange and upon exercise of the Issue Option will constitute a connected transaction of the Company given the 17.999% interest in TAB held by Ting Hsin, a controlling shareholder of the Company.

Possible Major Acquisition, Possible Major Disposal and Connected Transaction

If FEB and PepsiCo (and their respective associates) increase their shareholding in MKB to 10 per cent. or more, through an acquisition of existing or new shares or upon exercise of the Issue Option, FEB will become a substantial shareholder of a non-wholly owned subsidiary of the Company. Accordingly, FEB will be a connected person of the Company and the arrangements under the Commercial Agreements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules, and the transfer of the indirect interest in TAB to the Company upon the exercise of the Put Option and the disposal of the assets under the Call Option will constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Possible Non-Exempt Continuing Connected Transactions

Based on the historical transaction values between PepsiCo and the Pepsi Bottlers on the supply of concentrate by PepsiCo to the Pepsi Bottlers, it is expected that the relevant percentage ratios under Rule 14.07 of the Listing Rules (other than the profit ratio) in respect of the transactions under the CCT Agreements will, on an annual basis, be more than 5%. Assuming the Issue Option is exercised

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or FEB otherwise acquires more shares and becomes a connected person of the Company, the transactions under the CCT Agreements will constitute non-exempt continuing connected transactions and will be subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Rule 14A.35(1) of the Listing Rules provides that the duration of the continuing connected transaction agreements must be fixed and reflect normal commercial terms and, except in special circumstances, must not exceed three years. The Company has engaged an independent financial adviser to explain and justify that it would be normal business practice for agreements in the nature of the CCT Agreements to be of such duration (i.e. 39 years), to satisfy the Stock Exchange that special circumstances exist in compliance with Rule 14A.35(1) of the Listing Rules.

Rule 14A.35(2) of the Listing Rules provides that an annual cap must be set and such annual cap must be expressed in terms of monetary value rather than a percentage of the Company's annual revenue. The Company has applied to the Stock Exchange and received a waiver allowing the annual cap for the CCT Agreements to be expressed as a percentage of TAB's turnover on the condition that the Company will disclose clearly the turnover of TAB in its annual reports during the entire term of the CCT Agreements (i.e. 39 years). TAB runs the Company's beverage business and its revenue is already disclosed in the segment analysis of the Company's financial statements. The Company will continue to do so and set out the revenue of TAB in its future annual reports and will provide clearer disclosure that the beverage segment revenue of the Company is the revenue of TAB.

Waiver from the strict requirements of Rule 14.67(6)(a)(i) and (ii) and Rule 14.67(7) of the Listing Rules

Under the terms of the Option Agreement, FEB has the Put Option exercisable at its discretion to require the Company to acquire all of its interests in MKB and TAB as at the relevant time at fair market value. The transfer of such interests by FEB upon the exercise of the Put Option constitutes a possible acquisition by the Company. Given that the actual monetary value of the exercise price, the value of the underlying assets and the profits and revenue attributable to such assets could only be determined at the relevant time when the Put Option is exercised, the acquisition of such interests by the Company upon the exercise of the Put Option would be classified at least as a major transaction of the Company as required by Rule 14.76(1) of the Listing Rules.

Rule 14.67(6)(a)(i) and (ii) of the Listing Rules provides that on an acquisition of any business, company or companies, the Company should include in its circular an accountants' report on the business, company or companies being acquired in accordance with Chapter 4 of the Listing Rules, and a pro forma statement of the assets and liabilities of the Group combined with the assets and liabilities of the business, company or companies being acquired on the same accounting basis. Rule 14.67(7) of the Listing Rules further provides that the circular should also include a management discussion and analysis of results of the business, company or companies being acquired covering all those matters set out in paragraph 32 of Appendix 16 to the Listing Rules for the period reported in the accountant's report.

LETTER FROM THE BOARD

Given that the Put Option will only become exercisable after Closing and the target of the possible acquisition upon the exercise of the Put Option (i.e. MKB and the enlarged TAB Group) does not presently exist, in order to comply with the requirements of Rule 14.67(6)(a)(i) and (ii), the Company would have to do the following additional accounting and auditing work:

- (i) conduct an audit on CBL and the Pepsi Bottlers in accordance with the auditing Guideline 3.340 “Prospectuses and the Reporting Accountant”; and
- (ii) draw up the financial statements of MKB and its subsidiaries, including that of CBL and the Pepsi Bottlers, in conformity with HKFRS for the three years ended 31 December 2010 and the relevant stub periods.

The Company considers that it would be practically difficult and overly burdensome to complete the additional work because significant amount of time and resource would need to be committed by the Company to complete such a task given that:

- (a) the combined accounts of CBL and the Pepsi Bottlers for the relevant reporting periods are not readily available;
- (b) the financial results of CBL and the Pepsi Bottlers are recorded under different accounting standards from those of the Company;
- (c) the 24 bottlers are located in different parts of China;
- (d) the management of CBL have to identify the GAAP difference between HKFRS and the accounting standards adopted by CBL and the Pepsi Bottlers; and
- (e) the management of CBL have to prepare the combined financial statements of CBL and the Pepsi Bottlers under HKFRS, including the disclosure required under the Companies Ordinance and HKFRS.

Full compliance with Rule 14.67(6)(a)(i) would involve a significant amount of work and cost to the Company which only yields information that is not meaningful to the Shareholders’ assessment of the proposed transaction or the Put Option. With the additional accounting and auditing work, Closing and hence the Company’s ability to benefit from the strategic alliance would be delayed.

The Company further considers that each of MKB and TAB will continue to be accounted for as subsidiaries of the Company with the results consolidated into the financial statements of the Group and disclosed in the annual reports of the Group. The Put Option, if exercised, will only increase the Group’s interest in a subsidiary in the future. As such, although CBL and the Pepsi Bottlers are newly acquired and their historical information has not been disclosed to its shareholders or the public, the Company considers that such information is of minor importance and their omission would not

LETTER FROM THE BOARD

materially affect the shareholders' assessment of the assets and liabilities, financial position, profits and losses and prospects of the enlarged TAB Group for the following reasons:

- (i) the historical information would not reflect the operation of the Pepsi Bottlers under the management of the Group;
- (ii) the historical information would not reflect the benefits and the potential of the Strategic Alliance Arrangements; and
- (iii) upon completion of the Proposed Transaction, the results of CBL and the Pepsi Bottlers will be consolidated into the accounts of the Group and the segment analysis of the Group's financial statements would better enable the Shareholders and the investors to assess the position of the enlarged TAB Group.

Given that the Group's accounts will continue to provide a segmental analysis of the enlarged TAB Group, the Company considers that the Shareholders and the investing public would have adequate access to the financial information of TAB at the relevant time when the Put Option is exercised. The waiver would not result in undue risks being imposed on the Shareholders and the investors. In addition, the Put Option only forms a part of the Strategic Alliance Arrangements, and that the circular would incorporate important information including the statement of indebtedness and statement of sufficiency of working capital, the Company is of the view that there is sufficient information for the Shareholders and the investors to make an informed assessment on the status of the Company and the merits of the Strategic Alliance Arrangements and the omission of the financial information will not mislead the Shareholders. On the contrary, the inclusion of the historical figures in the circular to demonstrate the effects of the exercise of the Put Option would be confusing and misleading to the Shareholders, as it will not give a truthful picture of the time when the Put Option is being exercised and reflect the results and benefits of the Strategic Alliance Arrangements and the Pepsi Bottlers being managed by the Group.

Accordingly, the Company has applied to the Stock Exchange and received a waiver from the strict compliance with the requirements of Rules 14.67(6)(a)(i) and (ii) and 14.67(7) of the Listing Rules.

Waiver from the strict requirements of Rule 14.66(10) of the Listing Rules in relation to Paragraph 43 of Appendix 1, Part B

The Company has applied to the Stock Exchange for a waiver from the strict compliance of the requirements of Rule 14.66(10) of the Listing Rules in relation to Paragraph 43 of Appendix 1, Part B to the Listing Rules so as to enable details relating to certain commercial sensitive information (the "Commercially Sensitive Information"), including the PepsiCo's concentrate price and pricing structure, the co-operative advertising and marketing spend and subsidies, the specific details of the non-compete undertakings, the specific triggers for termination and exercise of the Option Agreement and the assistance to be provided following termination of the CCT Agreements, be redacted from the Framework Exclusive Bottling Agreement, the Gatorade Exclusive Bottling Agreement and the Option Agreement that will be made available for public inspection pursuant to Paragraph 43 of Appendix 1, Part B to the Listing Rules.

LETTER FROM THE BOARD

PepsiCo operates in the market for CSDs where there are only two global players. The commercial arrangements that PepsiCo has with its bottlers are highly confidential in nature and extremely commercial sensitive. If the Commercially Sensitive Information is made available for inspection to the public, this would enable the principal competitor of PepsiCo to have visibility on the pricing of the concentrate and the advertising and marketing co-operation arrangements that are being made available to the PepsiCo Bottlers and allow the principal competitor of PepsiCo to operate in a way that could enhance its position and disadvantage the Company and therefore the Shareholders. Losing its competitive position will detrimentally affect the Company's ability to maximise the value of the assets that it is acquiring under, and the commercial impetus for, the Strategic Alliance Arrangements and may potentially have a negative impact on the perception of the business prospects and future performance of the Company and PepsiCo.

The Company has applied the waiver on the ground that:

- (a) disclosure of the Commercially Sensitive Information would be inappropriate and unduly burdensome and would have adverse effect on the business and operation of the Group and the Group may lose competitiveness in pricing, marketing and/or strategic planning;
- (b) the Commercially Sensitive Information is not as such as will influence assessment of the assets and liabilities, financial position, profits and losses and prospects of the TAB Group;
- (c) non-disclosure of the Commercially Sensitive Information would not be contrary to the public interest or seriously detrimental to the Company; and
- (d) the redaction and the omission of the Commercially Sensitive Information is not likely to mislead investors with regards to the facts and circumstances, knowledge of which is essential for the informed assessment of the Company.

The Stock Exchange has granted a waiver from the strict compliance with the requirements of Rule 14.66(10) of the Listing Rules in respect of Paragraph 43 of Appendix 1, Part B to the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Contribution Agreement, the CCT Agreements and the Option Agreement. Somerley has been appointed the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Contribution Agreement, the CCT Agreements and the Option Agreement.

EGM

The Company will convene the EGM at the Conference Room, No. 15, The 3rd Avenue, Tianjin Economic-Technological Development Area, Tianjin, the PRC on Friday, 17 February 2012 at 9:00 a.m. at which ordinary resolution will be proposed for the purpose of considering and, if thought fit, approving the Contribution Agreement, the CCT Agreements and the Option Agreement.

LETTER FROM THE BOARD

Ting Hsin and its associates (including Mr. Wei Ing-Chou), which were interested in an aggregate of 1,882,298,366 Shares as at the Latest Practicable Date, will abstain from voting on the resolution proposed at the EGM to approve the Contribution Agreement, the CCT Agreements and the Option Agreement given Ting Hsin's 17.999% interest in TAB.

Sanyo has given an undertaking to the Company to cast all of its voting rights in respect of an aggregate of 1,854,827,866 Shares, representing approximately 33.2% of the issued share capital of the Company as of the Latest Practicable Date in favour of the resolutions to approve the Contribution Agreement, the CCT Agreements and the Option Agreement proposed at the EGM.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you propose to attend and vote at the EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed therein and return the same to the Company's office in Hong Kong at Suite 5607, 56/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

ADDITIONAL INFORMATION

You are advised to read carefully the letter from the Independent Board Committee, which contains its recommendation to the Independent Shareholders in respect of the Contribution Agreement, the CCT Agreements and the Option Agreement, set out on pages 28 to 29 of this circular. Your attention is also drawn to the letter of advice from Somerley containing its advice to the Independent Shareholders set out on pages 30 to 58 of this circular.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board of
TINGYI (CAYMAN ISLANDS) HOLDING CORP.
Wei Ing-Chou
Chairman

康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Contribution Agreement, the CCT Agreements and the Option Agreement to be proposed at the EGM.

Yours faithfully,

For and on behalf of

**The Independent Board Committee of
Tingyi (Cayman Islands) Holding Corp.**

Mr. Hsu Shin-Chun

Mr. Lee Tiong-Hock

Mr. Hiromu Fukada

Independent Non-executive Directors

LETTER FROM SOMERLEY

The following is a letter of advice from Somerley Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

20 January 2012

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**STRATEGIC ALLIANCE WITH PEPSICO INC.
DISCLOSEABLE ACQUISITION
DISCLOSEABLE DISPOSAL AND CONNECTED TRANSACTION
POSSIBLE MAJOR DISPOSAL AND CONNECTED TRANSACTION
POSSIBLE MAJOR ACQUISITION, POSSIBLE MAJOR DISPOSAL
AND CONNECTED TRANSACTION
AND
POSSIBLE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the following:

- (i) the Contribution Agreement entered into between, among others, the Company, TAB (a non-wholly-owned subsidiary of MKB, which is in turn wholly-owned by the Company) and PepsiCo in connection with the contribution of PepsiCo's entire interests in the beverage bottling business in the PRC to TAB (the "Contribution") and the Issue Option;
- (ii) the Option Agreement entered into between, among others, the Company and PepsiCo in connection with options to be granted over the shares of MKB and TAB, including the Put Option granted to FEB (a wholly-owned subsidiary of PepsiCo); and
- (iii) the Framework Exclusive Bottling Agreement and the Gatorade Exclusive Bottling Agreement entered into between TAB and (a) PepsiCo and CMCI, and (b) Stokely-Van Camp, Inc. respectively in connection with, among others, certain continuing connected transactions (the "Continuing Connected Transactions") and options to be granted on certain production assets of TAB, including the Call Option granted to PepsiCo.

LETTER FROM SOMERLEY

Details of the transactions contemplated under the Contribution Agreement, the Option Agreement, the Framework Exclusive Bottling Agreement and the Gatorade Exclusive Bottling Agreement, and the aggregate percentage-based annual cap (the “Annual Cap”) for the Continuing Connected Transactions for each of the years ending 31 December 2050, an extended period, are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 20 January 2012 (the “Circular”), of which this letter forms a part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

TAB is currently owned as to (i) 50.005% by MKB; (ii) 17.999% by Ting Hsin, a controlling shareholder of the Company; and (iii) 31.996% by AIB. Given the fact that Ting Hsin is a substantial shareholder of TAB and of the Company, the transactions contemplated under the Contribution Agreement will constitute non-exempt connected transactions (“Connected Transactions”) of the Company. Upon exercise of the Issue Option, FEB will become a substantial shareholder of TAB, and hence a connected person of the Company. The subsequent exercise of the Put Option and/or the Call Option will constitute non-exempt connected transaction(s) (“Possible Connected Transaction(s)”) of the Company. The revolving transactions under the CCT Agreements will constitute non-exempted continuing connected transactions of the Company.

Accordingly, the Connected Transactions, the Possible Connected Transactions and the Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. Ting Hsin and its associates (including Mr. Wei Ing-Chou) shall abstain from voting on the resolution approving the Contribution Agreement, the Option Agreement and the CCT Agreements at the EGM. Sanyo, which was interested in approximately 33.2% of the issued share capital of the Company as at the Latest Practicable Date, has signed an undertaking to the Company to vote in favour of the resolution approving the Contribution Agreement, the Option Agreement and the CCT Agreements.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Fukada Hiromu, has been established to make recommendations to the Independent Shareholders as to whether (i) the Contribution Agreement, the Option Agreement and the CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) the entering into of the Contribution Agreement, the Option Agreement and the CCT Agreements are in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; (iii) the setting of the Annual Cap based on a percentage of TAB’s revenue for the corresponding financial year, and the Annual Cap itself, are fair and reasonable so far as the Independent Shareholders are concerned, and (iv) it is the normal business practice for contracts in the nature of the CCT Agreements to be of such duration (i.e. 39 years). We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Group, the confirmation from FEB and the representations expressed by the financial advisers and legal advisers of the Group and PepsiCo and have assumed that they are true, accurate and complete and will remain so up to the date of the EGM. We have also sought and received confirmations from the executive Directors that all

LETTER FROM SOMERLEY

material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been omitted or withheld from us, nor to doubt the truth, accuracy or completeness of the information provided to us. We have, however, not conducted any independent investigation into the business and affairs of the Group, CBL or PepsiCo and their respective subsidiaries and associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

We have reviewed the Contribution Agreement, the Option Agreement and the CCT Agreements, all of which are related to the strategic alliance with PepsiCo regarding the beverage bottling businesses in the PRC, as a package. As it is not possible to accept some features and reject others, Independent Shareholders should consider the Contribution Agreement, the Option Agreement and the CCT Agreements as a whole, based on the factors and reasons set out in detail below. Our opinion and recommendation on the Contribution Agreement, the Option Agreement and the CCT Agreements are also arrived at after assessing the Contribution Agreement, the Option Agreement and the CCT Agreements as a whole.

In arriving at our opinion and recommendation on the terms of the Contribution Agreement, the Option Agreement and the CCT Agreements, we have taken into account the principal factors and reasons set out below:

(A) THE CONTRIBUTION AGREEMENT AND THE OPTION AGREEMENT

1. Background to and reasons for the Contribution and the Issue Option

(a) *Introduction*

The Group is principally engaged in the production and distribution of instant noodles, beverages and baked goods in the PRC.

The TAB Group runs the Company's beverage business, which covers mainly ready-to-drink tea, juice, and bottled water, and other beverage products. For the three years ended 31 December 2010 and the nine months ended 30 September 2011, the revenue generated from the beverage business of the Group accounted for approximately 45.0%, 50.1%, 52.9% and 56.0% of the Group's total revenue.

PepsiCo and its subsidiaries (the "PepsiCo Group") operate worldwide food and beverage businesses, including 19 different product lines that generate more than US\$1 billion in annual retail sales each.

LETTER FROM SOMERLEY

(b) *The Contribution and the Issue Option*

Pursuant to the Contribution Agreement, FEB will contribute to TAB its 100% equity interest in CBL (together with its subsidiaries, the “CBL Group”), which, through its wholly-owned subsidiary, PepsiCo Investments China Limited (“PICL”), will hold the PepsiCo Group’s beverage bottling businesses in the PRC upon Closing, in exchange for an indirect equity interest of approximately 5% in TAB, which operates the beverage business of the Group. Further, PepsiCo Group will have the Issue Option to increase its indirect interest in TAB from approximately 5% to approximately 20% on a fully-diluted basis.

Following Closing, TAB, together with the Pepsi Bottlers, will be exclusively responsible for manufacturing, bottling, packaging, selling and distributing PepsiCo’s CSD and Gatorade branded products in the PRC, and PepsiCo will retain branding and marketing responsibilities.

As part of this strategic alliance, the Contribution is expected to bring a variety of benefits to the Group, including but not limited to:

- (i) bringing innovative new products to the market faster and improving choices for consumers;
- (ii) improving operating efficiency and reducing costs by combining local and global expertise in manufacturing and distribution; and
- (iii) giving the Group the opportunity to expand its business by extending the national distribution of PepsiCo’s carbonated soft drink and non-carbonated beverage products.

2. **Principal terms of the Contribution Agreement**

Subject matter

The Contribution

The Contribution Agreement was entered into on 4 November 2011 between the Company, PepsiCo, MKB, FEB and TAB. Pursuant to the Contribution Agreement, PepsiCo Group will contribute its 100% equity interest in CBL, which in turn indirectly holds PepsiCo Group’s interest in the Pepsi Bottlers and operates the PepsiCo Group’s beverage bottling businesses in the PRC, to TAB at Closing. The book value of CBL upon Closing will be US\$600 million based on the audited closing accounts prepared for this purpose. In consideration for such contribution, TAB will issue new shares to MKB, and MKB will issue new shares to FEB at Closing, such that FEB will directly hold approximately 9.5% of the share capital of MKB and will indirectly hold an effective interest of approximately 5.0% of the share capital of TAB.

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The terms of the Contribution Agreement were determined after arm's length negotiations between the Company and PepsiCo by reference to, among other things, the historical financial performance of both CBL and TAB, the growth potential of CBL and TAB, the potential synergies between CBL and TAB, and the book value of CBL.

The Issue Option

Pursuant to the Contribution Agreement, FEB has been granted the Issue Option to subscribe in cash for additional shares in MKB to enable FEB to increase its indirect interest in TAB from approximately 5% to approximately 20% on a fully-diluted basis. Set out below are the principal terms of the Issue Option:

Date of grant	: 4 November 2011
Period of exercise	: any time on or before 31 October in each calendar year during the period from the date of the Contribution Agreement until and including 31 October 2015 at the sole discretion of FEB in full on one occasion
Exercise price (the "Issue Option Exercise Price")	: the initial exercise price payable by FEB to TAB shall be US\$2,810 million if the notice for exercising the Issue Option is issued on or before 31 October 2013. Such initial exercise price is determined with reference to, among others, the enlarged TAB Group's future expected valuation of US\$15 billion, and will increase by 15% each year after 31 October 2013, until the end of the exercise period (the "TAB Valuation").

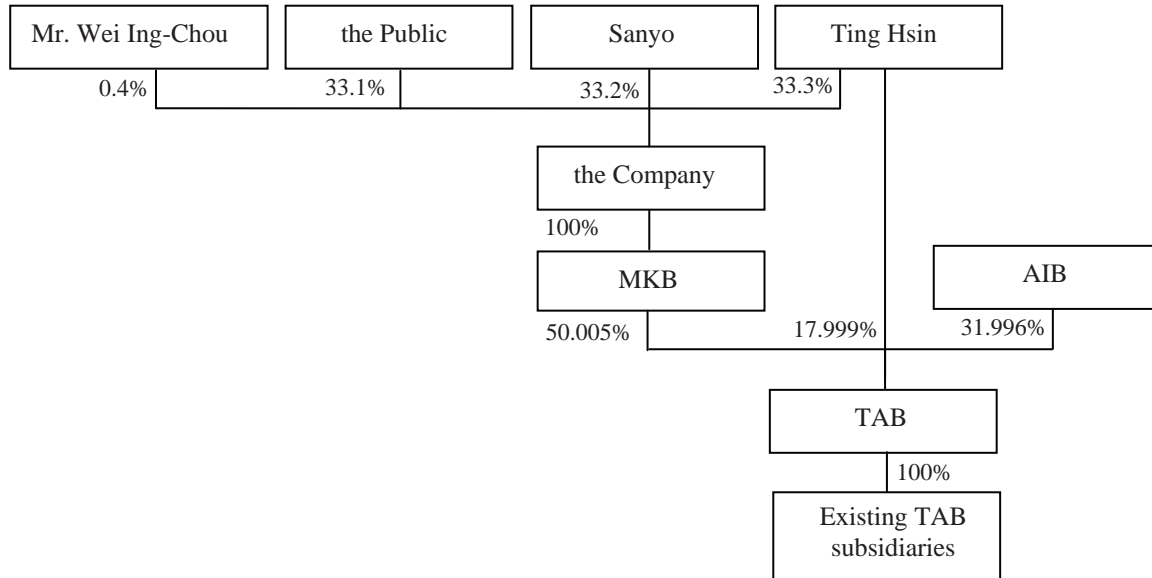
Upon the issue of the notice for exercising the Issue Option, shares of TAB shall be issued to MKB and in consideration for which, MKB shall allot and issue, fully paid, to FEB such number of shares of MKB which will result in FEB holding indirectly approximately 20% of the fully diluted share capital of TAB.

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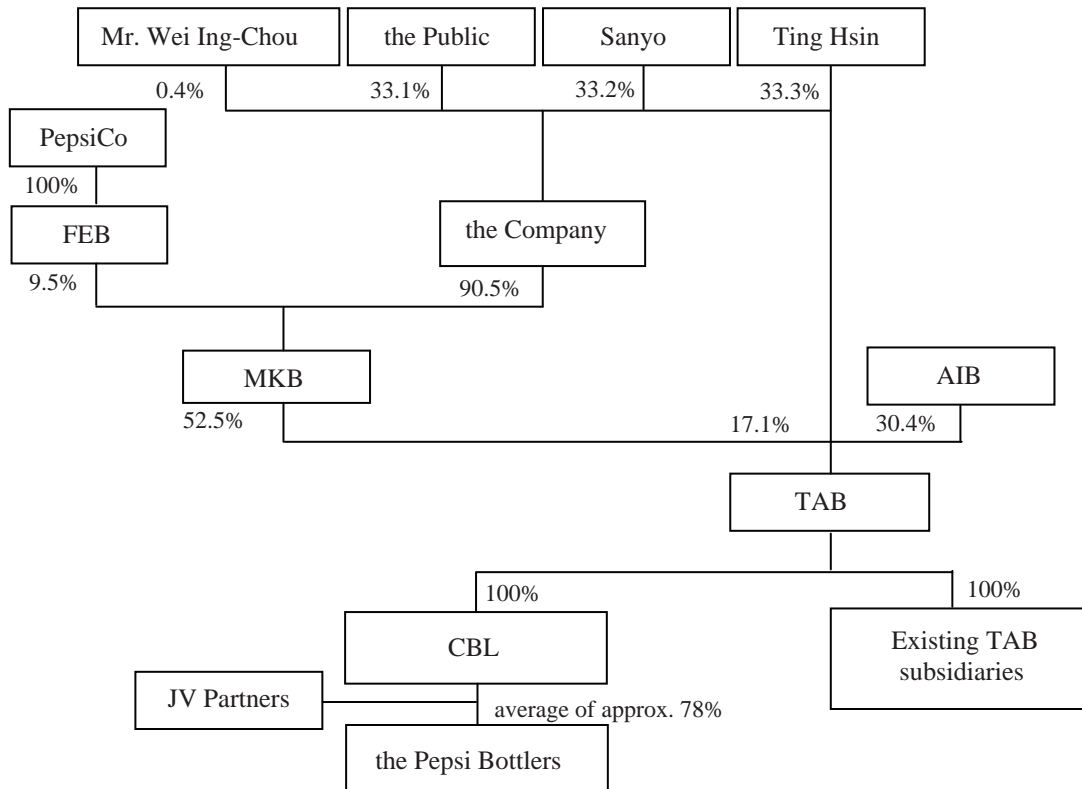
Shareholding structure

Set out below is the simplified shareholding structure of the TAB Group (i) as at the Latest Practicable Date, (ii) upon Closing, and (iii) upon the exercise of the Issue Option:

(i) *as at the Latest Practicable Date*

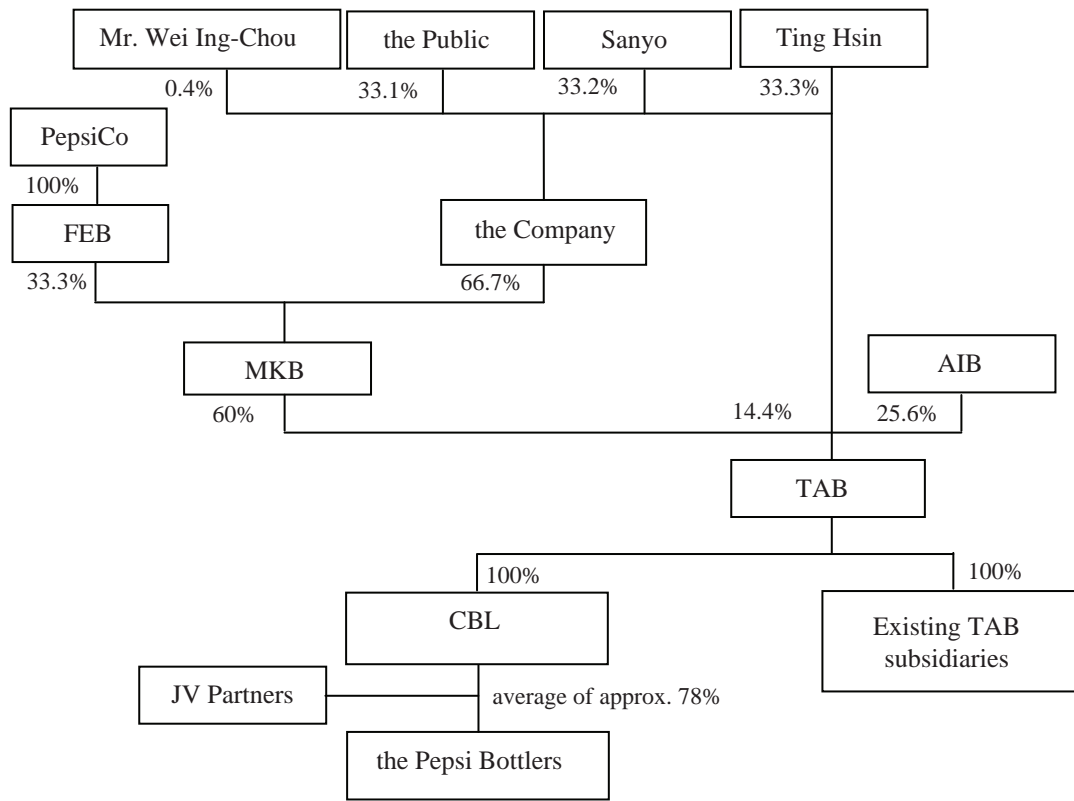


(ii) *upon Closing*



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(iii) *upon full exercise of the Issue Option*



Upon Closing, FEB will be interested in approximately 9.5% of the share capital of MKB, which in turn will be interested in approximately 52.5% of the share capital of TAB. At the same time, TAB would be interested in the entire share capital of CBL, which in turn will hold the Pepsi Bottlers.

Upon full exercise of the Issue Option, FEB will increase its equity interest in MKB from approximately 9.5% to approximately 33.3%, and MKB will in turn increase its equity interest in TAB from approximately 52.5% to approximately 60%.

Condition precedents

Closing of the Contribution Agreement shall be conditional on the following conditions having been fulfilled:

- (i) clearance of the proposed transaction having been obtained from, or no objection having been raised by, MOFCOM in accordance with the Anti-Monopoly Law of the PRC without being subject to any conditions unacceptable by any party; and
- (ii) the Shareholders having passed a resolution to approve the Contribution Agreement, the CCT Agreements and the Option Agreement at a duly constituted general meeting of the Company.

Either condition has not yet been fulfilled as at the Latest Practicable Date.

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Reorganisations prior to Closing

Pursuant to the Contribution Agreement, the PepsiCo Group is required to use all reasonable endeavours to carry out certain reorganisations of CBL prior to Closing, which include, among others, (i) the transfer of a non-carbonated drink bottler (“PepsiCo Guangzhou”) to PICL from another company in the PepsiCo Group; (ii) acquisitions of additional equity interests in certain Pepsi Bottlers, with a total consideration of approximately RMB232.7 million to be borne by the PepsiCo Group; (iii) increases in registered capital of certain Pepsi Bottlers; and (iv) reorganise and repay the debt of certain members of CBL to take the net asset value of CBL to US\$600 million upon Closing. MKB is also required to use all reasonable endeavours to dispose its 15.45% equity interest in Hangzhou Kagome Foods Company, a company engaged in the manufacturing and sale of beverages, prior to Closing at fair market value.

Closing

Closing shall take place on the last business day of the month in which the unconditional date falls (or, if the unconditional date is less than three business days before the end of that month, on the last business day of the following month). The unconditional date refers to the first business day on or by which all of the conditions precedent to the Contribution Agreement have been fulfilled.

Adjustments to consideration after Closing

(i) *Adjustment in relation to the net debt of the TAB Group after Closing*

If the net debt of the TAB Group (excluding the CBL Group) as defined in the Contribution Agreement as at the date of Closing exceeds:

- (a) US\$800 million, if Closing takes place on or before 30 June in any calendar year; or
- (b) US\$1,000 million, if Closing takes place after 30 June in any calendar year,

TAB has undertaken to pay or procure a one-off payment in cash to FEB of a sum equal to 5% of such excess amount. If the adjusted audited net debt of the TAB Group (excluding the CBL Group) does not exceed US\$800 million or US\$1,000 million (as applicable), neither TAB nor FEB shall be required to make any payment under this adjustment mechanism.

(ii) *Adjustment in relation to the net debt of the TAB Group after exercise of the Issue Option*

Similarly, if the net debt of the TAB Group (excluding the CBL Group and the exercise price to be received by TAB for the Issue Option) exceeds US\$500 million following the exercise of the Issue Option, TAB shall pay in cash to FEB of a sum based on the formula below:

$$\text{Payment to be made by TAB} = \left[1 - \frac{(\text{TAB Valuation} - \text{excess})}{\text{TAB Valuation}} \right] \times \frac{\text{Issue Option}}{\text{Exercise Price}}$$

LETTER FROM SOMERLEY

(iii) *Adjustment in relation to the net asset value of the CBL Group*

Pursuant to the Contribution Agreement, if the audited NAV of the CBL Group (as adjusted in accordance with the Contribution Agreement) as at Closing is:

- (a) greater than US\$600 million, then TAB shall pay an amount equal to the difference to FEB in cash; or
- (b) less than US\$600 million, then FEB shall pay an amount equal to the difference to TAB in cash.

As shown from the above adjustment mechanism, the Group is effectively acquiring businesses from PepsiCo Group with a NAV of US\$600 million.

3. **Principal terms of the Option Agreement**

Pursuant to the Option Agreement, the Put Option has been granted by the Company to FEB, and a similar call option has been granted by FEB to the Company, in respect of FEB's equity interest in MKB and TAB following Closing. Both options will become effective upon Closing.

Under the Put Option, FEB will be entitled to, upon occurrence of triggering events as stipulated in the Option Agreement, sell all of its equity interest in MKB and TAB as at the relevant time to the Company at fair market value. Similarly, under the call option granted to the Company, the Company will be entitled to, upon occurrence of similar triggering events, acquire all of the equity interest in MKB and TAB owned by FEB as at the relevant time at fair market value. Such fair market value will be determined by assessing the business prospects of the TAB Group. The triggers for the Option Agreement include the termination of the Framework Exclusive Bottling Agreement and material breaches of the terms under the agreements for the Strategic Alliance Arrangements. No premium is payable by either FEB or the Company for the options under the Option Agreement, and their exercise period will end on the first anniversary of the termination of the Framework Exclusive Bottling Agreement.

Apart from the above, an additional option was granted by FEB to the Company to deal with a situation where PepsiCo acquires an additional interest in TAB (the "Sell-Down Option"), exercisable at the discretion of the Company, to ensure that the Company, Ting Hsin and their respective affiliates (together the "Ting Hsin Group") own a larger interest in TAB than FEB and members of its group (the "FEB Group"). Under the Sell-Down Option, in the event the ownership interest in TAB held by the FEB Group is bigger than that held by the Ting Hsin Group, the Company will be entitled to acquire such ownership interest in TAB from the FEB Group at fair market value, such that the ownership interest to be held by the Ting Hsin Group will be one share more than that held by the FEB Group. No premium is payable by the Company for the Sell-Down Option and the exercise price will be based on the fair market value of the option shares at the time the option is exercised. The Sell-Down Option is exercisable within one year of the occurrence of FEB and/or PepsiCo being interested in more shares in TAB than the combined interests of the Ting Hsin Group.

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4. Information on the Group

The Company is currently owned as to approximately 33.3% by Ting Hsin. The Group is principally engaged in the production and distribution of instant noodles, beverages and baked goods in the PRC. The Group's beverage business segment is operated through its 50.005% owned subsidiary, TAB.

The business of the TAB Group covers mainly ready-to-drink tea, juice, bottled water, and other beverage products. TAB has been a significant contributor to the Group's operating results. For the year ended 31 December 2010, the Group's beverage business accounted for approximately 52.9% (2009: approximately 50.1%) and 43.0% (2009: approximately 45.7%) of the total revenue and net profit (before non-controlling interests) of the Group respectively. As at 30 June 2011, the unaudited consolidated net asset value of the TAB Group was approximately US\$1.1 billion.

5. Information on the Pepsi Bottlers

The Pepsi Bottlers are the 24 bottlers wholly or partly owned by the PepsiCo Group and exclusively engaged in the production and distribution of beverage products in the PRC, under trademarks owned by the PepsiCo Group. When the CBL Group is contributed to TAB at Closing it will include CBL, PICL (a wholly-owned subsidiary of CBL) and the Pepsi Bottlers, which will either be wholly or partly owned by PICL. The beverage products produced by the Pepsi Bottlers include CSD, sports drinks, juice beverages, ready-to-drink tea, bottled water and functional drinks.

The unaudited combined losses before tax of CBL under US GAAP for the financial years ended 31 December 2009 and 2010 were approximately US\$38.5 million and US\$175.7 million respectively. The unaudited combined losses after tax of CBL under US GAAP for the financial years ended 31 December 2009 and 2010 were approximately US\$45.5 million and US\$175.6 million respectively. The losses of CBL in 2009 and 2010 were principally due to the significant increase in raw materials costs and the selling and distribution expenses during the same period. The Directors have informed that they believe they have identified the principal causes of the losses for 2010, and consider that there is hope for substantial expansion of revenue and reduction of costs due to improvement in operating efficiency and cost control, and the extension of the distribution network, following the establishment of strategic alliance between the Company and PepsiCo.

6. Evaluation of the Contribution and the Issue Option

The Contribution

The Contribution is effectively an exchange of (i) the CBL Group and (ii) approximately 5% of TAB as enlarged by CBL (the "Enlarged TAB"). As the Pepsi Bottlers, the operating subsidiaries of CBL, were suffering losses in prior periods, an assessment of the share exchange against earnings of

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TAB and the Pepsi Bottlers is not possible. As an alternative, we have compared the Company's share of TAB's assumed valuation (on the basis set out below) before and upon Closing in assessing the fairness of such share exchange:

	<i>US\$'m</i>	<i>US\$'m</i>	
Net profit of TAB in 2010 (<i>Note 1</i>)		263.1	A
The Company's attributable net profit of TAB in 2010 (50.005%)		131.6	B = A x 50.005%
Net profit attributable to Shareholders in 2010		476.8	C
Percentage of net profit attributable to TAB		27.6%	D = B / C
Average market capitalisation of the Company (<i>Note 2</i>)		15,248.0	E
Attributable market capitalisation to TAB (50.005%)		4,207.4	F = D x E
Assumed valuation of TAB (100%)		8,413.9	G = F / 50.005%
	Before Closing	Upon Closing	
Assumed valuation of TAB	8,413.9	8,413.9	G
Add: Agreed NAV of CBL to be contributed (<i>Note 3</i>)	—	600.0	H
Assumed valuation of TAB before/upon Closing	8,413.9	9,013.9	I = G + H
The Company's equity interest in MKB (<i>Note 4</i>)	100.0%	90.5%	J
MKB's equity interest in TAB (<i>Note 4</i>)	50.005%	52.5%	K
The Company's share of assumed valuation in TAB	4,207.4	4,282.7	I x J x K

Notes:

1. Net profit of TAB in 2010 of US\$263.1 million is extracted from the section headed "Information on the Company" of the Letter from the Board in the Circular.
2. Average market capitalisation of the Company from 4 October 2011 to 3 November 2011 (the last trading day before the announcement of the Contribution) was utilised in arriving at the above figure (Source: Bloomberg), assuming an exchange rate between US\$ and HK\$ of 7.8.

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3. As (i) a valuation of the CBL Group is not available, and (ii) it is considered inappropriate to use the existing NAV of CBL Group given the reorganisations involved prior to Closing as mentioned in the sub-section above headed “Principal terms of the Contribution Agreement — Reorganisations prior to Closing”, we consider it reasonable to use the agreed NAV of CBL to be contributed of US\$600 million in the above calculation as an alternative basis for valuation.

4. As mentioned in the section above headed “Principal terms of the Contribution Agreement”, in consideration for FEB contributing its 100% equity interest in CBL to TAB, (i) TAB will issue new shares to MKB at Closing, such that MKB’s interest in TAB will be increased from approximately 50.005% to approximately 52.5%, and (ii) MKB will issue new shares to FEB at Closing, such that FEB will directly hold approximately 9.5% of MKB, and the Company’s interest in MKB will be reduced from 100% to 90.5%.

As shown in the above table, the Company’s share of the assumed valuation in TAB (through its equity interest in MKB) is approximately US\$4,207.4 million. Upon Closing, TAB will be enlarged by the injection of the CBL Group, with an agreed NAV to be contributed of US\$600 million. Although the Company’s effective interest in TAB will be reduced from approximately 50.0% before Closing to approximately 47.5% upon Closing, its share of the assumed valuation in TAB will increase slightly by approximately US\$75.3 million (or approximately 1.8%), from approximately US\$4,207.4 million to approximately US\$4,282.7 million. We consider such increase in the Company’s effective interest in TAB of approximately US\$75.3 million, which is the net effect incorporating both the contribution of the agreed NAV of US\$600 million and the reduction in the Company’s shareholding in MKB from 100% to 90.5%, beneficial to the Shareholders.

As a cross-check, we have compared the Company’s attributable NAV in TAB before and upon Closing:

	Before Closing	Upon Closing	
	<i>US\$’m</i>	<i>US\$’m</i>	
NAV of TAB as at 30 June 2011 (<i>Note</i>)	1,120.4	1,120.4	A
Add: Agreed NAV of CBL to be contributed	<u>—</u>	<u>600.0</u>	B
NAV of TAB before / upon Closing	1,120.4	1,720.4	C = A + B
The Company’s equity interest in MKB	100%	90.5%	D
MKB’s equity interest in TAB	<u>50.005%</u>	<u>52.5%</u>	E
The Company’s attributable NAV in TAB	560.3	817.4	C x D x E

Note: NAV of TAB as at 30 June 2011 of approximately US\$1,120.4 million is extracted from the section headed “Information on the Company” of the Letter from the Board in the Circular.

Based on the NAV of TAB as at 30 June 2011, the Company’s attributable NAV in TAB (through its equity interest in MKB) is approximately US\$560.3 million. Upon Closing, the Company’s attributable NAV in TAB will increase by approximately US\$257.1 million, from approximately US\$560.3 million to approximately US\$817.4 million.

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The Issue Option

As discussed in the section above headed “Principal terms of the Contribution Agreement”, FEB has been granted the Issue Option to top up its effective interest in TAB from approximately 5% to approximately 20%. The exercise prices, which will be settled by FEB in cash, are arrived at with reference to the agreed valuations of TAB in future. The formulae below illustrate the relationship between the exercise price and TAB’s agreed future valuation:

$$(5\% \times \text{TAB's agreed future valuation}) + \text{exercise price} = 20\% \times (\text{TAB's agreed future valuation} + \text{exercise price})$$

$$\Leftrightarrow \text{Exercise price} = \text{TAB's agreed future valuation} \times 18.75\%$$

According to the above, the agreed future valuations of TAB can be calculated as follows:

	31 Oct 2013	
	US\$'m	
Initial exercise price prior to 31 October 2013	2,810	A
Conversion factor	18.75%	B
Agreed future valuation of TAB (Pre-money) (Note 1)	15,000	C = A / B
Assumed valuation of TAB (100%) (Note 2)	8,413.9	D
% increase in agreed future valuation of TAB compared to TAB’s current assumed valuation	78.3%	E = C / D - 1
Implied compound annual growth rate of TAB’s valuation in the coming two years	33.5%	$\sqrt[2]{(1+E)} - 1$

Notes:

1. The agreed future valuation of TAB of US\$15,000 million represents TAB’s valuation prior to the injection of the initial exercise price of US\$2,810 million into TAB.
2. The assumed valuation of TAB (100%) of approximately US\$8,413.9 million is extracted from the calculation presented in the sub-section above headed “Evaluation of the Contribution and the Issue Option — The Contribution”.

The growth of the assumed valuation of TAB, from its current value (by reference to the average market capitalisation of the Company during the month before the announcement of the Contribution) of approximately US\$8,413.9 million to US\$15,000 million as at 31 October 2013, implies a compound annual growth rate of approximately 33.5% in the coming two years. Assuming the price

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to earnings (“P/E”) ratio of TAB remains constant, the agreed valuation of US\$15,000 million also implies a compound annual growth rate of TAB’s net profit of 33.5% in the coming two years.

	31 Oct 2013	31 Oct 2014	31 Oct 2015	
	<i>US\$’m</i>	<i>US\$’m</i>	<i>US\$’m</i>	
Agreed future valuations of TAB (Pre-money) (<i>Note 1</i>)	15,000	17,250	19,840	A
Assumed current valuation of TAB (100%) (<i>Note 2</i>)	<u>8,413.9</u>	<u>8,413.9</u>	<u>8,413.9</u>	B
Overall increase in valuation	78.3%	105.0%	135.8%	C = A / B - 1
Approximate number of years to 31 October 2013, 2014 and 2015	<u>2</u>	<u>3</u>	<u>4</u>	D
Implied compound annual growth rate of TAB’s valuation	33.5%	27.0%	23.9%	$\sqrt[D]{(1+C)} - 1$

Notes:

1. The agreed future valuations of TAB of US\$15,000 million, US\$17,250 million and US\$19,840 million represent TAB’s valuations prior to the injection into TAB of the initial exercise price of US\$2,810 million, US\$3,230 million and US\$3,720 million respectively.
2. The assumed valuation of TAB (100%) of approximately US\$8,413.9 million is extracted from the calculation presented in the sub-section above headed “Evaluation of the Contribution and the Issue Option — The Contribution”.

Pursuant to the Contribution Agreement, the initial exercise price will increase by 15% each year after 31 October 2013 until the end of the exercise period (i.e. 31 October 2015). Again assuming the P/E ratio of TAB remains constant, the above contract term also implies that TAB’s net profit will grow at 15% per annum during the two-year period ending 31 October 2015. On this basis, the implied compound annual growth rates of TAB’s net profit would be approximately 33.5%, 27.0% and 23.9% for the 2-year, 3-year, and 4-year period ending 31 October 2013, 31 October 2014 and 31 October 2015 respectively. These implied compound annual growth rates are higher than the actual growth rate of TAB’s net profit of approximately 15.0% in 2010 over 2009 (TAB’s net profit in 2010 and 2009 are approximately US\$263.1 million and US\$228.7 million respectively). The agreed exercise prices of the Issue Option would have been lower had it been set with reference only to the actual net profit growth rate of TAB in 2010 over 2009. In this perspective, we consider the higher exercise prices of the Issue Option agreed under the Contribution Agreement beneficial to the Shareholders.

Shareholders should note that the implied compound annual growth rates of TAB’s net profit as described above should not be construed as an assurance or forecast by the Group or the PepsiCo Group of TAB’s future net profit.

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From the Company's point of view, there will be a cost incurred by the Company when the Issue Option is written in favour of FEB upon Closing. We have utilised the Black-Scholes option pricing model using the same parameters as above. We have also assumed that TAB has proportionally the same dividend yield and same price volatility as the Company, given TAB, although not being a listed company with readily available valuation and pricing information itself, represented a significant subsidiary of the Company contributing more than 50% of the Group's turnover in 2010. Based on our calculation of the value of the Issue Option, the cost of the Issue Option in favour of FEB is not material when compared to the net profit and net assets of the Group. On this basis, in the context of the strategic alliance between the Company and PepsiCo as a whole where the Company will be able to acquire PepsiCo's beverage bottling businesses in the PRC, we consider it is in the interests of the Shareholders to grant the Issue Option to FEB.

7. Evaluation of the options under the Option Agreement

The Option Agreement will only become relevant if inter alia the CCT Agreements are terminated, which implies the alliance with PepsiCo has not turned out as expected. In that case, it is prudent in our view to have a means to dissolve the alliance, in order to provide the contracting parties with a certain method of substantially restoring them to their respective positions before the formation of the alliance with limited disruption to the business.

Upon occurrence of triggering events as stipulated in the Option Agreement leading to the exercise of the Put Option, the Company is required to purchase the equity interest in MKB and TAB owned by FEB. In evaluating the Put Option, we note that the interest of MKB and TAB to be repurchased by the Company is to be priced at fair market value. Theoretically, from a financial point of view, a put option would have zero value if its exercise price is the then fair market value of the underlying assets, which is the equity interest in MKB and TAB in this case. We have reviewed the Option Agreement, including the basis of determining the exercise price of the Put Option and the call option under the Option Agreement. Given that (i) there should be a means to dissolve the alliance should the CCT Agreements be terminated; and (ii) the Company has similarly been granted a call option to acquire FEB's equity interest in MKB and TAB upon occurrence of similar triggering events, we are of the view that it is reasonable for the Company to grant the Put Option to FEB pursuant to the Option Agreement.

8. Financial effect on the Group

Earnings

Upon Closing, CBL will become a wholly-owned subsidiary of TAB, and TAB will be 52.5% owned by MKB, which will in turn be 90.5% owned by the Company. The financial results and financial position of CBL would be consolidated into the financial statements of the Group.

The unaudited combined losses after tax of CBL under US GAAP for the financial years ended 31 December 2009 and 2010 were approximately US\$45.5 million and US\$175.6 million respectively. As such, the acquisition of CBL would not immediately contribute profit to the Group upon Closing. However, the Directors believe that the Group would be able to provide better local service to PepsiCo's national retail and food service customers in the PRC through the Company's extensive

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sales force presence, and would bring improvements to the Pepsi Bottlers' operating efficiency and cost control given the Company's valuable experience in its profitable beverage business in the PRC, and are therefore of the view that the Pepsi Bottlers will provide positive contribution to the Group's profitability in due course.

It is estimated that there will be gains on the deemed disposal of the Company's interest in MKB (i) upon Closing and (ii) upon exercise of the Issue Option by FEB, based on the unaudited consolidated NAV of TAB as at 30 June 2011, the adjusted aggregate book value of CBL of US\$600 million and the proceeds from the payment of the initial Issue Option Exercise Price of US\$2,810 million. Such deemed gains on the disposal are estimated to be approximately US\$257 million upon Closing, and US\$997 million upon exercise of the Issue Option. If the maximum Issue Option Exercise Price of US\$3,720 million is used, the deemed gains on the disposal upon exercise of the Issue Option by FEB would be increased from approximately US\$997 million to approximately US\$1,360 million. The exact amount of the deemed gains on the disposal would be determined on the basis of the actual figures as at the date of Closing or the date of exercise of the Issue Option as appropriate, and therefore may significantly be different from the above estimated amounts.

Asset base

As at 30 September 2011, the unaudited consolidated total assets and consolidated net assets (excluding non-controlling interests) of the Group amounted to approximately US\$5,741.0 million and US\$1,983.3 million respectively. The agreed NAV of CBL to be contributed of US\$600 million will be consolidated to the financial statements of the Group upon Closing, which is expected to further enhance the asset base of the Group.

Working capital

In order to carry out the long-term marketing plans for the promotion and distribution of the PepsiCo beverage products as required under the Commercial Agreements (including the CCT Agreements), the Group would have to make significant initial investment in facilities and equipment. The Directors believe that the Enlarged Group would have sufficient working capital to meet the above initial investment needs, having considered the cash position, available facilities and gearing of the Enlarged Group.

Following the exercise of the Issue Option by FEB, a minimum amount of US\$2,810 million, increasing at 15% per annum (calculated on the date of exercise of the Issue Option as further detailed in the above sub-section headed "Principal terms of the Contribution Agreement — Subject matter — The Issue Option") will be injected to TAB as equity capital, which would represent a significant increase in the Group's working capital considering the bank and cash position of the Group of approximately US\$768.5 million as at 30 September 2011.

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(B) THE CCT AGREEMENTS

1. Background to and reasons for the Continuing Connected Transactions

PepsiCo and the Pepsi Bottlers are currently cooperating under the existing commercial agreements (the “Existing EBAs”) between the Pepsi Bottlers and PepsiCo. The Framework Exclusive Bottling Agreement will act as the master agreement between PepsiCo and TAB in respect of the Existing EBAs or the new form of commercial agreements if the Pepsi Bottlers agree to migrate (as discussed below), under which PepsiCo or its relevant subsidiaries will continue to supply concentrate and provide marketing and advertising support to the TAB Group, and new co-branding and distribution arrangements with the TAB Group will come into effect. The parties intend that the terms of the Existing EBAs will be modified to conform with the standard terms under the Framework Exclusive Bottling Agreement. In respect of any of the Pepsi Bottlers that do not wish to migrate to the standard terms of the Framework Exclusive Bottling Agreement, the Existing EBAs will stay in place and TAB will use its best endeavours to ensure the compliance of the Pepsi Bottlers with the terms of the Existing EBAs.

The entering into of the CCT Agreements forms part of the foundation for a strategic alliance between PepsiCo and the Company. TAB, together with the Pepsi Bottlers, will be responsible for manufacturing, selling and distributing PepsiCo’s CSD products and the Gatorade sports drinks through members of the TAB Group and the Pepsi Bottlers while PepsiCo will retain branding and marketing responsibilities.

2. Principal terms of the CCT Agreements

The principal terms of the Framework Exclusive Bottling Agreement and the Gatorade Exclusive Bottling Agreement are set out below:

(a) Scope of transaction

Pursuant to the Framework Exclusive Bottling Agreement entered into between PepsiCo, CMCI and TAB on 4 November 2011, TAB will be appointed by PepsiCo and CMCI as the franchise bottler and TAB will, together with the Pepsi Bottlers and on a royalty-free basis, exclusively manufacture, package, bottle, distribute and sell, and non-exclusively advertise and promote, CSD products distributed and sold under trademarks owned by the PepsiCo Group in the PRC, and provide bottling procurement and contract management services to PepsiCo.

Pursuant to the Gatorade Exclusive Bottling Agreement entered into between Stokely-Van Camp, Inc. (a wholly-owned indirect subsidiary of PepsiCo which produces and markets the Gatorade sports drinks) and TAB on 4 November 2011, TAB will be licensed (with the right to sublicense), on a royalty-free basis, to exclusively manufacture, bottle, package, distribute and sell, and non-exclusively advertise and promote, sports drinks under Gatorade trademarks in the PRC.

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(b) *Duration of the CCT Agreements*

The CCT Agreements will become effective upon Closing and end on 31 December 2050.

(c) *Pricing*

Under the Framework Exclusive Bottling Agreement, PepsiCo and CMCI (or their nominated suppliers) will supply concentrate to members of the TAB Group and the Pepsi Bottlers at a price determined by reference to certain percentages (which vary over time and according to technical factors such as sugar concentration and market performance for the beverage products) of the aggregate net wholesale price, being the total invoiced price of all CSD products sold by members of the TAB Group to wholesale and retail customers in the PRC, less certain qualified deductions.

Under the Gatorade Exclusive Bottling Agreement, Stokely-Van Camp, Inc. (or its nominated suppliers) will supply concentrate to members of the TAB Group and the Pepsi Bottlers at a price to be determined by reference to certain percentages (which vary according to technical factors such as sugar concentration and market performance for the beverage products) of the aggregate net wholesale price, being the total invoiced price of all Gatorade products sold by members of the TAB Group and its sub-licensees to wholesale and retail customers in the PRC, less certain qualified deductions.

The Directors confirm that there is currently no comparable pricing basis offered by other independent third parties to the Group, as PepsiCo and its affiliates will be the only supplier of concentrate for branded beverages to the Group after Closing. In assessing the fairness and reasonableness of the concentrate pricing under the CCT Agreements, we have reviewed the concentrate pricing structure as stipulated in the CCT Agreements, and obtained the confirmation letter from the director of FEB of details of the concentrate pricing structures between the PepsiCo Group and its certain other joint venture partners in countries other than the PRC, as well as the current arrangements with the Pepsi Bottlers. However, we have not reviewed the relevant agreements between the PepsiCo Group and these joint venture partners. From the confirmation letter that we received from FEB, the relevant agreements have similar or higher concentrate pricing structure than that offered by PepsiCo to the Group.

Based on the above, we are of the view that the concentrate pricing structure under the CCT Agreements is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We noted that certain details of the CCT Agreements and the Option Agreement, including but not limited to the concentrate pricing, namely the Commercially Sensitive Information, will be redacted and omitted from the CCT Agreements and the Option Agreement that will be made available for public inspection. As stated in the Letter from the Board in the Circular, PepsiCo operates in the market of CSDs where there are only two global players. The commercial arrangements that PepsiCo has with its bottlers are confidential in nature and commercially sensitive. The entering into of the Contribution Agreement, the Option Agreement and the CCT Agreements is a strategic move by the Company to form an alliance with PepsiCo, and in this context, in our view, what will benefit PepsiCo in developing its business in the PRC will in turn benefit the Company and its shareholders.

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PepsiCo is one of the global market leaders in the food and beverage business, and it is in the interests of the Company and the Shareholders to maximise the market of carbonated soft drinks and other beverage products covered under the Commercial Agreements (including the CCT Agreements) in the PRC and not to do anything which would hinder its development. The Directors therefore consider it reasonable to accept such redaction and omission of the Commercially Sensitive Information after considering the alliance with PepsiCo. We concur with the Directors' view that if the Commercially Sensitive Information is made available to the public, the principal competitor of PepsiCo would have visibility on the concentrate pricing and other co-operation arrangement between PepsiCo and the Company, and would be able to move in a strategic way that could jeopardise PepsiCo's existing market position and subsequent interests of the Company and the Shareholders. However, the redaction and omission of the concentrate pricing structure from the CCT Agreements that will be made available for public inspection do not affect our assessment of the fairness and reasonableness of the concentrate pricing structure as stipulated in the CCT Agreements.

(d) *Call Option upon termination of the CCT Agreements*

Pursuant to the Framework Exclusive Bottling Agreement, the Call Option has been granted by TAB to CMCI and PepsiCo, and a similar put option has been granted by CMCI and PepsiCo to TAB, in respect of the assets and/or undertakings solely or primarily used in the production of beverage products under the CCT Agreements (the "Call Option Assets"). The assets to be disposed by the Company upon the exercise of the Call Option are the assets used for the production of CSD or sports drink products under the CCT Agreements, which are essentially the interests in the 24 Pepsi Bottlers and any new bottlers which are solely or primarily used in the production of CSD and sports drink products in the future. No premium is payable by CMCI or PepsiCo for the Call Option.

Under the Call Option, CMCI and PepsiCo will be entitled, upon termination of the CCT Agreements or occurrence of other termination events as stipulated in the Framework Exclusive Bottling Agreement, to acquire the Call Option Assets at their book value. Similarly, a put option has been granted to TAB to dispose the Call Option Assets at their book value. The above options will become effective upon occurrence of certain termination events as stipulated in the Framework Exclusive Bottling Agreement and will end on the date falling six months after the termination of the Framework Exclusive Bottling Agreement.

(e) *Other terms*

The terms and procedures for ordering, shipment, delivery, the payment terms (including credit amount, if applicable), and the liabilities for over-due amounts of the concentrate supplied to members of the TAB Group and the Pepsi Bottlers shall be decided by PepsiCo and CMCI or Stokely-Van Camp, Inc. (and adjusted from time to time when necessary), subject to TAB's consent and in accordance with the provisions of the CCT Agreements, and the relevant Pepsi Bottlers shall be provided with reasonable advance notice. We consider it fair given such terms and procedures has to be agreed by both parties including TAB. The Directors confirm that such terms and procedures will be agreed with PepsiCo and CMCI or Stokely-Van Camp, Inc. on normal commercial terms.

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3. Duration of the CCT Agreements

The duration of the CCT Agreements is a period of approximately 39 years ending on 31 December 2050. We have discussed with the management of the Company the rationale for the duration of the CCT Agreements, as follows:

Duration reflects outstanding commitment on the Existing EBAs

The Framework Exclusive Bottling Agreement will operate as the master agreement to the Existing EBAs and any new form of commercial agreements entered into with the Pepsi Bottlers. The Existing EBAs are long-term strategic contracts, the durations of which are as long as fifty years, which have given both PepsiCo and the Pepsi Bottlers certainty in relation to the arrangements. The last of the Existing EBAs will expire in 2050. The termination of the Framework Exclusive Bottling Agreement in 2050 ensures that none of the Existing EBAs will be affected as a result of entering into the CCT Agreements and that the relationship between Pepsi and the PRC joint venture partners (comprising most of the Pepsi Bottlers) will be maintained in the long run. In relation to the Gatorade Exclusive Bottling Agreement, there is no such similar commercial agreement in place (i.e. existing Pepsi Bottlers have not been granted any exclusive manufacturing right in respect of the Gatorade branded products). However, both the Company and PepsiCo are of the view that the four Commercial Agreements (including the CCT Agreements) should be considered as a whole, and accordingly the Gatorade Exclusive Bottling Agreement should have the same duration as the Framework Exclusive Bottling Agreement.

Compensation for a significant capital investment

Pursuant to the CCT Agreements, TAB, together with the Pepsi Bottlers and on a royalty-free basis, will exclusively manufacture, package, distribute and sell, and non-exclusively advertise and promote, CSD products and sports drink products under trademarks owned by the PepsiCo Group. In order to carry out the long-term marketing plans for the promotion and distribution of the PepsiCo's beverage products as required under the CCT Agreements, the Group would have to make a significant initial investment in facilities and equipment. With significant capital commitments and the allocation of significant resources to promote and market the PepsiCo beverage products, it is in the interest of the Group that a long-term contract be granted by the PepsiCo Group to supply the Group with the required concentrate and to permit the use by the Group of the relevant intellectual property rights for the PepsiCo beverage products. From the Company's point of view, the long-term commitment of the PepsiCo Group would allow the Group sufficient time to realise the full potential of the PepsiCo beverage business in the PRC. On the other hand, the long-term nature of CCT Agreements will provide PepsiCo with certainty that a long-term working relationship is established between PepsiCo and the Group, which will give PepsiCo confidence in committing to the relationship while helping to protect PepsiCo's brands.

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Sustained revenue flow for the Group

The aggregate amounts paid by the Pepsi Bottlers to the PepsiCo Group for the supply of concentrate for the CSD products and the sports drink products under certain Gatorade trademarks represented approximately 8.49%, 7.16% and 5.75% of the combined revenue of TAB and the Pepsi Bottlers for the two years ended 31 December 2009 and 2010 and for the nine months ended 30 September 2011 respectively. The Company anticipates that the contribution of the PepsiCo beverage business to the Group's total revenue will increase over time given the strategic alliance between the Company and PepsiCo. To maximise and to sustain the return from the PepsiCo beverage business, it is essential for the Group to secure a stable and long-term supply of concentrate from the PepsiCo Group.

Similar arrangements between PepsiCo and joint venture partners in other parts of the world

The entering into of long-term bottling or franchise arrangements with joint venture partners is a normal business practice of PepsiCo in distributing its products around the world. We have obtained a confirmation letter from the director of FEB regarding the contract duration of three strategic bottling arrangements (the "PepsiCo Comparable Transactions"), which are similar to the CCT Agreements, with joint venture partners in other parts of the world. Each of the PepsiCo Comparable Transactions is a long-term contract with terms ranging from 10 years to 30 years, with an average term of 20 years, in which the local counter-party is assured of receiving continuing support from PepsiCo while PepsiCo is assured that the PepsiCo beverage business is being run properly and efficiently.

Comparable Transactions

In light of the unique products of the PepsiCo Group, it would be difficult to find any other products with comparable penetration in the consumer market except for Coca Cola. It is apparent that The Coca Cola Company ("TCCC") has a very long term relationship with the members of John Swire & Sons Limited ("Swire") in Hong Kong and China. According to the website of Swire, its relationship with TCCC began in 1965, but no detail is available in public domain. As an alternative, in considering the duration of the CCT Agreements, we have reviewed a number of intellectual property right licensing agreements entered into by companies listed on the Stock Exchange (the "Comparable Transactions") principally engaged in the food and beverage manufacturing industry. The following is a list of the Comparable Transactions announced during the period from 1 January 2007 to the Latest Practicable Date that we are able to identify from the website of the Stock Exchange. Details of the Comparable Transactions are set out below:

Parties	Period of agreement	Type of transaction
1. First Pacific Company Limited ("First Pacific") (stock code: 142) and PT Lajuperdana Indah ("PTLI")	2.75 years	Grant of an exclusive license to use, manufacture, sell, distribute, advertise and promote sugar products under "INDOSUGAR" trademark in Indonesia, by a subsidiary of First Pacific to PTLI Date of announcement: 22 March 2011

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Parties	Period of agreement	Type of transaction
2. First Pacific and Dufil Prima Foods Plc (“DUFIL”)	3 years	Grant of an exclusive license for the use of “Indomie” trademark in Nigeria, by a subsidiary of First Pacific to DUFIL Date of circular: 18 November 2010
3. First Pacific and Pinehill Arabian Food Ltd. (“Pinehill”)	3 years	Grant of an exclusive license for the uses of “Indomie”, “Supermi” and “Pop Mie” trademarks in certain countries in the Middle East, by a subsidiary of First Pacific to Pinehill Date of circular: 18 November 2010
4. First Pacific and Salim Wazaran Brinjikji Limited , Salim Wazaran Abu Elata , Salim Wazaran Hilaby Co. and various joint venture entities, collectively “SAWAZ Group”	3 years	Grant of a non-exclusive license for the use of “Indomie” trademark in certain countries in the Middle East and Africa, by a subsidiary of First Pacific to SAWAZ Group Date of circular: 18 November 2010
5. DaChan Food (Asia) Limited (“DaChan”) (stock code: 3999) and Great Wall Enterprise Co., Ltd. (“GWE”)	3 years	Grant of an exclusive and non-transferable license for the use of certain trademarks, by GWE to DaChan Date of announcement: 23 November 2009

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Parties	Period of agreement	Type of transaction
6. San Miguel Brewery Hong Kong Limited (“San Miguel”) (stock code: 236) and San Miguel International Limited (“SMIL”)	30 years	Grant of an exclusive right to use the licensed trademarks in direct connection with the distribution and sale of beer products in Guangdong and Hainan Provinces, the PRC and a non-exclusive right to use such trademarks elsewhere in the PRC, by SMIL to a subsidiary of San Miguel Date of announcement: 19 September 2007
7. San Miguel and Guangzhou Brewery (“GB”)	30 years	Grant of non-exclusive rights to use the trademarks “Guang’s” and “Guang’s Pineapple Beer” in direct connection with the distribution and sale of beer products with no geographic restriction, by GB to a subsidiary of San Miguel Date of announcement: 19 September 2007
8. San Miguel and Neptunia Corporation Limited (“Neptunia”)	5 years and renewable for successive further terms of 5 years each at the sole option of Neptunia	Grant by Neptunia to San Miguel of the following: <ul style="list-style-type: none"> — An exclusive right for the production, sale and distribution of “San Miguel” beer in Hong Kong — An exclusive right for the sale and distribution of “San Miguel” beer in Macau — A non-exclusive right for the importation, sale and distribution in China, Guam and Vietnam of “San Miguel” pilsener beer produced in Hong Kong — An exclusive right for the production, sale and distribution of “SUN LIK” beer in Hong Kong

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Parties	Period of agreement	Type and pricing of transaction
		<p>— An exclusive right for the importation, sale and distribution of “SUN LIK” beer in Macau and the continental United States, such beer to be produced in Hong Kong</p> <p style="text-align: right;">Date of announcement: 19 September 2007</p>
9. San Miguel and San Miguel Brewing International Limited (“SMBIL”)	43.5 years	<p>Grant of non-exclusive rights to use various “San Miguel” and “Valor” related trademarks for the production, distribution and sale of beer, malt and other beverage products in the PRC, by SMBIL to a subsidiary of San Miguel</p> <p style="text-align: right;">Date of announcement: 19 September 2007</p>

Sources: The announcements or circulars of the respective companies

The above Comparable Transactions have durations ranging from approximately 2.75 years (transaction no.1) to as long as 43.5 years (transaction no.9). Among the 9 Comparable Transactions, 4 have a term of more than three years. The Comparable Transactions have an average duration of approximately 13.7 years.

The 39-year term of the CCT Agreements is longer than the average duration of the Comparable Transactions of approximately 13.7 years. It is also longer than the average duration of the PepsiCo Comparable Transactions of approximately 20 years, which we consider more comparable to the terms of the CCT Agreements given both of them are related to the supply of beverages under the trademarks owned by the PepsiCo Group. Although the CCT Agreements have a relatively longer duration, we have considered the relevant factors regarding the duration of the CCT Agreements:

- the duration of the CCT Agreements is set with reference to the Existing EBA with the longest remaining term, which will terminate in 2050, in order to avoid uncertainties arising from changes to existing arrangements in place;
- given the significant capital commitments and resources required, the 39-year term of the CCT Agreements allows the Group time to use the relevant intellectual property rights for the PepsiCo beverage products, and to realise the full potential of the PepsiCo beverage business in the PRC; and

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- the duration of the CCT Agreements allows the Group to secure a stable and long-term supply of concentrate from the PepsiCo Group, which in turn enable the Group to maximise and to sustain the return from the PepsiCo beverage business, with the anticipation that the contribution of the PepsiCo beverage business to the Group's total revenue will increase over time.

In light of the above rationale and the result of our research on the Comparable Transactions and the Pepsi Comparable Transactions, we consider that it is normal business practice for contracts in the nature of the CCT Agreements to be of such duration (i.e. 39 years).

4. The Annual Cap

Expression of the Annual Cap as a percentage of TAB's turnover

Pursuant to the terms of the CCT Agreements, the Annual Cap for each of the financial years ending 31 December 2050 is expressed as a percentage of TAB's revenue (as enlarged by the TAB's acquisition of CBL) for that financial year. We have considered the following factors:

- (a) Sum payable to the PepsiCo Group calculated by reference to a percentage of net wholesale price received by the Pepsi Bottlers

Pursuant to the terms of the CCT Agreements, the price of concentrate is determined by reference to certain percentages of the aggregate net wholesale price of the PepsiCo beverage products as received by the Pepsi Bottlers from third parties. The net wholesale price refers to the invoiced price of the PepsiCo beverage products sold by the Pepsi Bottlers to customers (wholesale and retail) in the PRC less certain qualified deductions. The more the Pepsi Bottlers sell to third parties, the higher the transaction values under the CCT Agreements and the revenue of the Group. In other words, the transaction values under the CCT Agreements are directly related to TAB's revenue. We also consider that (i) other measures such as a cap based on a percentage of gross profit or expenses are not appropriate given that they may not be directly related to the transaction values under the CCT Agreements, and (ii) using TAB's revenue as the basis of the cap is appropriate, as the future revenue of CBL and the transaction values under the CCT Agreements would be accounted for in the book of TAB.

- (b) Accommodation to the Group's future growth in its PepsiCo beverage business

Having taken into account the expected growth in the sale of PepsiCo beverage products by the Group and the possible impact of inflation on the Group's revenue during the term of the CCT Agreements, the Directors consider an annual cap expressed as a percentage of TAB's revenue for that financial year would provide the Group with certain degree of flexibility to capture additional revenue as business opportunities arise from further demand for the PepsiCo beverage products. If the Annual Cap is set as a monetary amount, it would act as a barrier to the growth of the volume of sales by the CBL Group in the event that there is any increase in sales volume of the CBL Group or any increase in the price of concentrate to be provided by the PepsiCo Group.

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Having considered the above, we consider the setting of the Annual Cap based on a percentage of TAB's revenue for the corresponding financial year is fair and reasonable so far as the Independent Shareholders are concerned.

Assessment of the Annual Cap

- (a) Review of historical transaction values for the two years ended 31 December 2010 and for the nine months ended 30 September 2011

The aggregate amounts paid by the Pepsi Bottlers to the PepsiCo Group for the supply of concentrate for the CSD products and the sports drink products under certain Gatorade trademarks represented approximately 8.49%, 7.16% and 5.75% of the combined revenue of TAB and the Pepsi Bottlers for the two years ended 31 December 2009 and 2010 and for the nine months ended 30 September 2011 respectively. Although, as shown above, the transaction values as a percentage of the combined revenue of TAB and the Pepsi Bottlers decreased during the period under review, the transaction values in monetary terms actually increased in 2010 and further increased for the nine months ended 30 September 2011 on a full-year projection basis. This is because TAB's revenue increased to a greater extent when compared to the increase in the transaction values during the same period.

As further elaborated in the sub-section below headed "The Annual Cap", the Directors expect that the transaction value as a percentage of TAB's revenue (as enlarged by the TAB's acquisition of CBL) under the CCT Agreements has the potential to increase in coming years given the strategic alliance between the Company and PepsiCo.

- (b) The Annual Cap

During the term of the CCT Agreements, the Annual Cap is proposed at 12% of TAB's revenue (as enlarged by the TAB's acquisition of CBL) for that financial year. Although such percentage was higher than the 8.49%, 7.16% and 5.75% for the two years ended 31 December 2009 and 2010 and for the nine months ended 30 September 2011 respectively, the Directors expect that the transaction value, both on a monetary basis and as a percentage of TAB's revenue, has the potential to increase in coming years, given the strategic and operational benefits to be brought to the Pepsi Bottlers' operations including the improvement in operating efficiency and cost control, and the extension of the distribution network, following the establishment of strategic alliance between the Company and PepsiCo.

In addition, as the Annual Cap is applicable to the Company throughout the entire term of the CCT Agreements (i.e. approximately 39 years), setting the Annual Cap at a lower percentage would limit the growth potential of the transactions under the CCT Agreements and hence the growth potential of TAB's future revenue stream. As mentioned in the sub-section above headed "The Annual Cap — Expression of the Annual Cap as a percentage of the TAB's turnover", we agree with the Directors that it is impossible to set the Annual Cap as monetary amounts and to predict the transaction values for the next 39 years under the CCT Agreements.

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Generally speaking, in our opinion, it is in the interests of the Group and the Shareholders to determine the Annual Cap in a way that can accommodate the potential growth of the Group's business. Provided that the pricing bases for the Continuing Connected Transactions are fair and reasonable and the conduct of those transactions is subject to annual review by the independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules, the Group would have flexibility in conducting its businesses if the Annual Cap is tailored to future business growth. In assessing the reasonableness of the Annual Cap, we have discussed with the management of the Group (i) their projected growth in future revenue of TAB (including the future revenue of the CBL Group) in the coming few years, (ii) the bases of the revenue projection, including the expected revenue from different beverage products and the expected market share of CBL's business in the PRC; and (iii) the factors contributing to the fixing of the Annual Cap, including any expected change in concentrate price due to market performance for the beverage products. We consider it reasonable for the Company to use the above factors in determining the Annual Cap. In respect of the future financial performance of the CBL Group, we have reviewed and discussed with management of the Group the estimated future revenue and costs of the CBL Group, taking into account the benefits of the strategic alliance with PepsiCo and improvements to the Pepsi Bottlers' operating efficiency and cost control brought by the Group. Based on the above analysis, we consider that the Annual Cap for the Continuing Connected Transactions is fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that the Annual Cap should not be construed as an assurance or forecast by the Group of its future revenues.

5. Evaluation of the options under the Framework Exclusive Bottling Agreement

As discussed under the sub-section above headed "2(d) Call Option upon termination of the CCT Agreements", upon termination of the CCT Agreements or occurrence of other termination events as stipulated in the Framework Exclusive Bottling Agreement, CMCI and PepsiCo will have the right to exercise the Call Option.

The Call Option enables the PepsiCo Group essentially to buy back its PRC beverage bottling business injected to TAB under the Contribution Agreement in case the partnership between the Group and the PepsiCo Group is terminated, and the Call Option Assets will be priced at their book value instead of fair market value, which may give rise to a loss to the Group if the fair market value of the Call Option Assets is higher than the book value at that time. However, the Group has also been granted a similar put option to dispose such assets to PepsiCo Group upon termination of the CCT Agreements or other termination events. That means, both parties have the right to terminate if the cooperation between the Company and PepsiCo is unsuccessful. As such, we consider it fair for the Company to grant the Call Option to CMCI and PepsiCo and to have the put option of the same underlying assets, as part of arrangements for unwinding the alliance if it has not been successful.

LETTER FROM SOMERLEY

6. Annual review of the Continuing Connected Transactions

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Continuing Connected Transactions:
 - (i) have received the approval of the Board;
 - (ii) are in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;
 - (iii) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and
 - (iv) have not exceeded the Annual Cap;
- (c) the Company shall allow, and shall procure the relevant counterparties to the Continuing Connected Transactions to allow, the Company's auditors to have sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b). The Board must state in the annual report whether the Company's auditors have confirmed the matters stated in Listing Rule 14A.38; and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the reporting requirements for the Continuing Connected Transactions, in particular, (a) the restriction of the values of the Continuing Connected Transactions by way of the Annual Cap; and (b) the requirements under the Listing Rules for ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transactions and the Annual Cap, we are of the view that there exist appropriate measures to govern the conduct of the Continuing Connected Transactions and to safeguard the interests of the Independent Shareholders.

LETTER FROM SOMERLEY

OPINION AND RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that the Contribution Agreement, the Option Agreement and the CCT Agreements are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. In our view, the entering into of the Contribution Agreement, the Option Agreement and the CCT Agreements is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. We also consider the setting of the Annual Cap based on a percentage of TAB's revenue for the corresponding financial year, and the Annual Cap itself, are fair and reasonable so far as the Independent Shareholders are concerned, and that it is the normal business practice for contracts in the nature of the CCT Agreements to be of such duration (i.e. 39 years). Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

I. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2010 AND THE NINE MONTHS ENDED 30 SEPTEMBER 2011

The table set out below is the summary financial information of the Group for the three years ended 31 December 2010 and the nine months ended 30 September 2010 and 30 September 2011 as extracted from the annual results of the Company for the years ended 31 December 2008, 2009 and 2010 and the third quarterly results of the Group for the nine months ended 30 September 2010 and 30 September 2011.

Results

	Year ended 31 December			Nine months ended 30 September 2010	Nine months ended 30 September 2011
	2008	2009	2010	2010	2011
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Turnover and revenue	<u>4,272,053</u>	<u>5,081,113</u>	<u>6,681,482</u>	<u>5,309,437</u>	<u>6,344,121</u>
Cost of Sales	(2,897,449)	(3,321,764)	(4,782,037)	(3,670,065)	(4,663,534)
Gross profit	1,374,604	1,759,349	1,899,445	1,639,372	1,680,587
Other net income	82,427	79,913	183,373	130,552	136,726
Distribution costs	(826,651)	(1,032,759)	(1,121,477)	(933,598)	(1,011,791)
Administrative expenses	(86,398)	(96,651)	(125,953)	(100,735)	(147,165)
Other operating expenses	(68,405)	(81,650)	(92,081)	(52,097)	(36,432)
Finance costs	(31,168)	(12,644)	(6,511)	(5,571)	(8,126)
Share of results of associates	<u>7,812</u>	<u>9,550</u>	<u>9,978</u>	<u>9,978</u>	<u>—</u>
Profit before taxation	452,221	625,108	746,774	687,901	613,799
Taxation	<u>(90,185)</u>	<u>(124,613)</u>	<u>(134,200)</u>	<u>(144,916)</u>	<u>(148,852)</u>
Profit for the year/period	<u>362,036</u>	<u>500,495</u>	<u>612,574</u>	<u>542,985</u>	<u>464,947</u>
Earnings per share					
<i>Basic</i>	US4.66 cents	US6.86 cents	US8.53 cents	US7.13 cents	US6.44 Cents
<i>Diluted</i>	<u>US4.66</u> <u>cents</u>	<u>US6.85</u> <u>cents</u>	<u>US8.50</u> <u>cents</u>	<u>US7.10</u> <u>cents</u>	<u>US6.41</u> <u>Cents</u>

Assets and liabilities

	As at 31 December			As at 30 September 2010	As at 30 September 2011
	2008	2009	2010	2010	2011
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Assets					
Non-current assets	2,142,770	2,383,075	3,203,845	2,689,196	4,038,409
Current assets	<u>818,796</u>	<u>1,024,618</u>	<u>1,612,346</u>	<u>1,875,922</u>	<u>1,702,609</u>
Total assets	2,961,516	3,407,693	4,891,412	4,791,311	5,741,018
Equity and liabilities					
Issued capital	27,934	27,934	27,934	27,934	27,951
Reserves	<u>1,179,269</u>	<u>1,434,710</u>	<u>1,793,324</u>	<u>1,683,174</u>	<u>1,955,357</u>
Total capital and reserves attributable to owners of the Company	1,207,203	1,462,644	1,821,258	1,711,108	1,983,308
Non-controlling interests	<u>331,435</u>	<u>446,420</u>	<u>547,929</u>	<u>536,057</u>	<u>599,292</u>
Total equity	<u>1,538,638</u>	<u>1,909,064</u>	<u>2,369,187</u>	<u>2,247,165</u>	<u>2,582,600</u>
Non-current liabilities	187,195	190,670	294,312	246,530	327,383
Current liabilities	<u>1,235,483</u>	<u>1,307,959</u>	<u>2,225,293</u>	<u>2,297,616</u>	<u>2,831,035</u>
Total liabilities	<u>1,422,878</u>	<u>1,498,629</u>	<u>2,522,225</u>	<u>2,544,146</u>	<u>3,158,418</u>
Total assets less current liabilities	<u>1,725,833</u>	<u>2,099,734</u>	<u>2,666,119</u>	<u>2,493,695</u>	<u>2,909,983</u>

Financial information of the Group for each of the three years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2010 and the nine months ended 30 September 2011, are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (www.masterkong.com.cn):

- (i) the annual report of the Company for the year ended 31 December 2010 dated 21 March 2011 published on 31 March April 2011 (pages 65-181);

- (ii) the annual report of the Company for the year ended 31 December 2009 dated 22 March 2010 published on 12 April 2010 (pages 52-151);
- (iii) the annual report of the Company for the year ended 31 December 2008 dated 21 April 2009 published on 27 April 2009 (pages 60-133);
- (iv) the third quarterly results announcement of the Company dated 15 November 2010 for the three months and nine months ended 30 September 2010 (pages 2-4); and
- (v) the third quarterly results announcement of the Company dated 14 November 2011 for the three months and nine months ended 30 September 2011 (pages 2-4).

II. INDEBTEDNESS

Borrowings

As at 30 November 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately US\$1,709,069,000, of which unsecured bank loans, unsecured loans from group companies of PepsiCo and unsecured other borrowings amounted to US\$1,323,392,000, US\$384,036,000 and US\$1,641,000 respectively. As at 30 November 2011, approximately US\$219,147,000 and US\$235,983,000 of the total bank loans of the Enlarged Group was guaranteed by PepsiCo and its subsidiaries, and the Company and its subsidiaries respectively through corporate guarantees.

Save as disclosed in this circular, as at the Latest Practicable Date, the Enlarged Group had no other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) nor acceptance credits or hire purchase commitments, no matter guaranteed, unguaranteed, secured or unsecured borrowings and debt.

Save as disclosed in this circular, as at the Latest Practicable Date, the Group had no mortgages and charges.

Contingent liabilities

As at 30 November 2011, the Enlarged Group had no material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade payable in ordinary course of the business, as at the close of business 30 November 2011, the Enlarged Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdraft, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantee or other material liabilities.

IV. WORKING CAPITAL

After taking into account the financial resources available to the Enlarged Group, including the internally generated funds and the available banking facilities, the Directors are of the opinion that the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

V. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change to the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited financial statements of the Company were made up.

VI. FUTURE PROSPECTS

2011 is the commencement year of the Twelfth Five-Year Plan. It is expected that the Chinese economy will remain strong in the medium to long term. The changing economic structure in the PRC to a more consumption oriented one will continue to be the general trend, and enormous development potential still exists in the market for fast moving consumer products in China. Moreover, the changes in the income and allocation structure and the acceleration of urbanization will increase the consumption levels of food and beverage of all the high, medium and low income groups. The percentage of industrialized food consumption will increase further. Instant food products, leisure food products and beverage consumption amounts will continue to increase at higher growth rates. However, abnormal climate may increase the uncertainties in the supply of raw materials and may bring about continuous rising prices. Besides, the rising labour costs will drive up the prices of agricultural products and non-food products. Since cost-driven inflation follows a spiral rising process, the food industry may be facing more stringent cost pressures in the future.

Ready-to-drink ("RTD") tea, bottled water and fruit juice are currently the major competitive products of the Group. Master Kong's tea drinks accounted for half of the RTD tea market in China in 2010 and became a major player in the beverage market. The RTD tea market is highly competitive with all major PRC and international enterprises as well as multinational enterprises striving to enter this market. Under such circumstances, focusing on research and development, the Group's Master Kong's RTD tea products accounted for 54.6% market share and emerged as a market leader at the top position in the tea segment, with the iced tea, green tea and jasmine tea series becoming billion dollar brands.

As competition intensified in the bottled water sector, brands were more focused. Enterprises participated in market competition with sizable operations. The Group had been expanding its production scale continuously with effective nationwide networks in order to satisfy market demand more readily and quickly, and capture market demand opportunities through economies of scale, bringing more healthy, safer, beneficial and convenient products to the consumers. In the China Bottled Water Industry Awards 2010 organized by the China Beverage Industry Association, Master Kong's natural water won the Excellent Package Design Award and the Excellent TV Advertising Award for its outstanding performance in promoting the continuous, healthy and stable development of the bottled water industry in China, its leadership role in enhancing package design and advertising production standards in the industry and the sharing of excellent design and creative ideas.

In the case of fruit juice, the consumption pattern, health ideas and consumer behavior have become more rational, as consumers became more mature in their awareness of health knowledge and product information. In order to provide more and delicious and healthier fruit juices for consumers, the Company had been devoting efforts in the research and development of new products and to increase the types of products on offer. New products for consumers were launched each year to satisfy the customized requirements of diversified consumers.

The Directors consider that competition in the beverage industry will continue to present challenges for the Group. However, the Directors believe that the Group has its strengths to maintain its competitiveness in the industry. The Group has an experienced management team so as to adopt suitable long term and short term strategies to cater for market challenges and risks, and diversified products offering to serve the needs of consumers. The Group will adjust product mix actively to satisfy market demand and develop products with competitive advantages continuously. Connecting road networks will be strengthened with improved distribution in order to expand sales and market shares, in addition, more new products will be launched in order to enhance the competitive advantages of Master Kong continuously in the soft drinks market.

The Company has a history of successful partnerships with other companies, and this strategic alliance will combine the Group's superb distribution reach with PepsiCo's innovation prowess. The Group will be able to bring innovative new products to market faster across the PepsiCo and the Company brand offerings and improve product choices for consumers. It will also improve operating efficiency and reduce costs by combining local and global expertise in manufacturing and distribution. The Directors view the future prospects with confidence and believe there are significant opportunities for growth in the Chinese market and that through this partnership the Group will enhance its competitive position in this attractive market.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests in Shares

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive officer of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the shares and underlying shares of the Company

Name of Director	Number of Shares		Number of
	Personal interests	Corporate interests (Note 1)	underlying Shares under options (Note 2)
Mr. Wei Ing-Chou	13,242,000	1,859,776,366	9,280,000
Mr. Wei Ying-Chiao	—	1,859,776,366	—

(ii) Long position in shares of associated corporations

Name of Director	Name of associated corporation	Number of shares of the associated corporation held	Nature of interest
Mr. Wei Ing-Chou	TAB	179,918	Corporate
Mr. Wei Ying-Chiao	TAB	179,918	Corporate

Notes:

- (1) The 1,859,776,366 Shares were held and registered under Ting Hsin. Ting Hsin is beneficially owned as to approximately 43.94% by Ho Te Investments Limited (“Ho Te”), as to approximately 30.15% by Rich Cheer Holdings Limited (“Rich Cheer”), as to 25.23% by China Foods Investment Corp., an independent third party which was incorporated by Itochu Corporation and Asahi and as to the remaining 0.68% by unrelated third parties. Ho Te and Rich Cheer were owned as to 100% by Profit Surplus Holdings Limited (“Profit Surplus”). Profit Surplus is the trustee of an unit trust, which is in turn held by four discretionary trusts in equal proportions. HSBC International Trustee Limited is the trustee of each of the abovementioned discretionary trusts, the settlers and discretionary objects of the four discretionary trusts are as follows:
- Wei Chang Lu-Yun is the settler of one of the above discretionary trusts with Wei Chang Lu-Yun and Wei Ing Chou as the discretionary objects;
 - Lin Li-Mien is the settler of one of the above discretionary trusts with Lin Li-Mien and Wei Ying-Chiao as the discretionary objects;
 - Wei Hsu Hsiu-Mien is the settler of one of the above discretionary trusts with Wei Hsu Hsiu-Mien and Wei Yin-Chun as the discretionary objects; and
 - Wei Tu Miao is the settler of one of the above discretionary trusts with Wei Tu Miao and Wei Yin-Heng as the discretionary objects.
- (2) Wei Ing-Chou is also personally interested in 13,242,000 Shares and holds 9,280,000 share options (2,000,000 share options are exercisable during the period from 21 March 2013 to 20 March 2018 at an exercise price of HK\$9.98 per Share, 2,816,000 share options are exercisable during the period from 23 April 2014 to 22 April 2019 2,816,000 at an exercise price of HK\$9.38 per share, 2,200,000 share options are exercisable for the period from 1 April 2015 to 31 March 2020 at an exercise price of HK\$18.57 per share and 2,264,000 share options are exercisable during the period from 12 April 2016 to 11 April 2021 at an exercise price of HK\$19.96 per share) under the share option scheme of the Company passed by an extraordinary general meeting of the Company held on 20 March 2008. Wei Chang Lu-Yun, being the spouse of Wei Ing-Chou, is also deemed to be interested in the shares and the underlying shares held by Wei Ing-Chou.
- (3) These 179,918 Shares were held by and registered under the name of Ting Hsin. Please refer to note (1) for the shareholding structure of Ting Hsin.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive officer of the Company, had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company, or were required, pursuant to the Model Code of the Listing Rules to be notified to the Company and the Stock Exchange.

(b) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group or any associated company of the Company (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

(c) As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries; and
- (ii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

(d) Directors' interests in competing businesses

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company under section 336 of the SFO, the persons other than a Director or chief executive of the Company who had an interest or short position in the shares and 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 were as follows:

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company
Ting Hsin (<i>Note 1</i>)	Beneficial owner	1,859,776,366	33.27
Ho Te Investments Limited (<i>Note 1</i>)	Interest of controlled company	1,859,776,366	33.27

Name of shareholder	Capacity in which interests are held	Number of shares	Interests as to % of the issued share capital of the Company
Rich Cheer Holdings Limited <i>(Note 1)</i>	Interest of controlled company	1,859,776,366	33.27
Profit Surplus Holdings Limited <i>(Note 1)</i>	Trustee of an unit trust	1,859,776,366	33.27
HSBC International Trustee Limited <i>(Note 1)</i>	Trustee of discretionary trusts	1,859,776,366	33.27
Wei Yin-Chun <i>(Note 1)</i>	Beneficiary of a discretionary trust	1,859,776,366	33.27
Wei Yin-Heng <i>(Note 1)</i>	Beneficiary of a discretionary trust	1,859,776,366	33.27
Wei Chang Lu-Yun <i>(Notes 1 and 2)</i>	Settlor and beneficiary of a discretionary trust/interest of a spouse	1,882,298,366	33.67
Lin Li-Mien <i>(Note 1)</i>	Settlor and beneficiary of a discretionary trust/interest of a spouse	1,859,776,366	33.27
Wei Hsu Hsiu-Mien <i>(Note 1)</i>	Settlor and beneficiary of a discretionary trust/interest of a spouse	1,859,776,366	33.27
Wei Tu Miao <i>(Note 1)</i>	Settlor and beneficiary of a discretionary trust/interest of a spouse	1,859,776,366	33.27
Sanyo Foods Co., Ltd.	Beneficial owner	1,854,827,866	33.18

1. The 1,859,776,366 Shares were held and registered under Ting Hsin. Ting Hsin is beneficially owned as to approximately 43.94% by Ho Te Investments Limited (“Ho Te”), as to approximately 30.15% by Rich Cheer Holdings Limited (“Rich Cheer”), as to 25.23% by China Foods Investment Corp., an independent third party which was incorporated by Itochu Corporation and Asahi and as to the remaining 0.68% by unrelated third parties. Ho Te and Rich Cheer were owned as to 100% by Profit Surplus Holdings Limited (“Profit Surplus”). Profit Surplus is the trustee of an unit trust, which is in turn held by four discretionary trusts in equal proportions. HSBC International Trustee Limited is the trustee of each of the abovementioned discretionary trusts, the settlers and discretionary objects of the four discretionary trusts are as follows:
 - Wei Chang Lu-Yun is the settler of one of the above discretionary trusts with Wei Chang Lu-Yun and Wei Ing Chou as the discretionary objects;
 - Lin Li-Mien is the settler of one of the above discretionary trusts with Lin Li-Mien and Wei Ying-Chiao as the discretionary objects;
 - Wei Hsu Hsiu-Mien is the settler of one of the above discretionary trusts with Wei Hsu Hsiu-Mien and Wei Yin-Chun as the discretionary objects; and
 - Wei Tu Miao is the settler of one of the above discretionary trusts with Wei Tu Miao and Wei Yin-Heng as the discretionary objects.
2. Wei Ing-Chou is also personally interested in 13,242,000 Shares and holds 9,280,000 share options (2,000,000 share options are exercisable during the period from 21 March 2013 to 20 March 2018 at an exercise price of HK\$9.98 per Share, 2,816,000 share options are exercisable during the period from 23 April 2014 to 22 April 2019 at an exercise price of HK\$9.38 per share, 2,200,000 share options are exercisable for the period from 1 April 2015 to 31 March 2020 at an exercise price of HK\$18.57 per share and 2,264,000 share options are exercisable during the period from 12 April 2016 to 11 April 2021 at an exercise price of HK\$19.96 per share) under the share option scheme of the Company passed by an extraordinary general meeting of the Company held on 20 March 2008. Wei Chang Lu-Yun, being the spouse of Wei Ing-Chou, is also deemed to be interested in the shares and the underlying shares held by Wei Ing-Chou.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares and 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.

Save for Mr. Wei Ing-Chou and Mr. Wei Ying-Chiao, who are directors of Ting Hsin, none of the Directors is a director or employee of a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contract, not being contracts entered into in the ordinary course of business, were entered into by members of the Group within the two years immediately preceding the Latest Practicable Date which is, or may be material:

- (a) the Contribution Agreement;
- (b) the Option Agreement;
- (c) the Framework Exclusive Bottling Agreement; and
- (d) the Gatorade Exclusive Bottling Agreement.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. EXPERT’S QUALIFICATION AND CONSENT

Each of Mazars CPA Limited and Somerley Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

The following is the qualification of the expert who has given its opinions or advices which are contained in this circular:

Name	Qualification
Mazars CPA Limited	Certified public accountants
Somerley Limited	A corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO.

As at the Latest Practicable Date, Mazars CPA Limited and Somerley Limited did not have any direct or indirect interest in any asset which had been, since 31 December 2010, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, Mazars CPA Limited and Somerley Limited were not interested in any Share or share in any member of the Group nor did it have any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

7. MISCELLANEOUS

- (a) The registered office of the Company is Genesis Building, Fifth Floor, P.O. Box 448, George Town, Grand Cayman, Cayman Islands and the principal place of business of the Company in Hong Kong is at Suite 5607, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (b) The Company's Hong Kong branch share registrar and transfer office is Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The company secretary of the Company is Mr. Ip Pui-Sum, a fellow member of the Association of Chartered Certified Accountants (United Kingdom) and an associate of the Hong Kong Institute of Certified Public Accountants, the Society of Chinese Accountants and Auditors, the Chartered Institute of Management Accountants, the Institute of Chartered Secretaries and Administrators and an ordinary member of the Hong Kong Institute of Chartered Secretaries.
- (d) The English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong during normal business hours from the date of this circular and up to and including 17 February 2012:

- (a) the memorandum and articles of association of the Company;
- (b) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out in this circular;
- (c) the letter from Somerley, the text of which is set out in this circular;
- (d) the written consent referred to in the paragraph headed "Expert's qualification and consent" in this Appendix;
- (e) the annual report of the Company for the two years ended 31 December 2009 and 2010;
- (f) the third quarterly report of the Company for the nine months ended 30 September 2010 and 30 September 2011;
- (g) each of the material contracts set out under the paragraph headed "Material Contracts" in this Appendix; and
- (h) this circular.

康師傅控股有限公司*

TINGYI (CAYMAN ISLANDS) HOLDING CORP.

(Incorporated in the Cayman Islands with limited liability)

NOTICE OF EGM

- (f) the directors of the Company (the “**Directors**”) be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents (if any) and to do all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated under the Contribution Agreement, the Option Agreement and the CCT Agreements.”

By Order of the Board
Tingyi (Cayman Islands) Holding Corp.
Ip Pui-Sum
Company Secretary

Tianjin, the PRC, 20 January 2012

Principal Office in Hong Kong:

Suite 5607, 56/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.
3. In order to be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority must be delivered to the Company’s Hong Kong office at Suite 5607, 56/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting thereof (as the case may be).
4. Completion and return of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. In the case of joint registered holders of any share, if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person, or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

As at the date of this notice, the executive Directors of the Company are Mr. Wei Ing-Chou, Mr. Takeshi Ida, Mr. Ryo Yoshizawa, Mr. Wei Ying-Chiao, Mr. Wu Chung-Yi and Mr. Junichiro Ida; the independent non-executive Directors of the Company are Mr. Hsu Shin-Chun, Mr. Lee Tiong-Hock and Mr. Hiromu Fukada.