

23 November 2021

To the Independent Board Committee of C.P. POKPHAND CO. LTD.

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF C.P. POKPHAND CO. LTD.
BY WAY OF A SCHEME OF ARRANGEMENT
UNDER SECTION 99 OF THE COMPANIES ACT;**

**(2) PROPOSED WITHDRAWAL OF LISTING OF
C. P. POKPHAND CO. LTD.;**

AND

(3) SPECIAL DEAL RELATING TO ROLLOVER ARRANGEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee in respect of the Proposal, the Scheme and the Rollover Arrangement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) and the explanatory statement (the “**Explanatory Statement**”) contained in the Scheme Document jointly issued by the Offeror and the Company to the Shareholders dated 23 November 2021, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires. Our appointment as the independent financial adviser has been approved by the Independent Board Committee as set out in the Announcement.

On 30 September 2021, the Offeror and the Company jointly announced that the Offeror formally requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under section 99 of the Companies Act. If the Proposal is approved and implemented, all of the Scheme Shares will be cancelled at the Cancellation Price of HK\$1.15 per Scheme Share and the Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange pursuant to Rule 6.15(2) of the Listing Rules, with effect immediately following the Effective Date.

As set out in the Letter from the Board, the Offeror would like to allow ITOCHU to retain its shareholding in the Company after the Scheme becomes effective. As such, the Offeror and ITOCHU have entered into the Rollover Agreement, pursuant to which, among others, ITOCHU will remain as a Shareholder after the Scheme becomes effective and none of the Shares held by ITOCHU will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting. If the Proposal is approved and implemented, approximately 75.00% of the total number of issued Shares will be held by the Offeror, and approximately 25.00% of the total number of issued Shares will be held by ITOCHU, an Offeror Concert Party.

The Independent Board Committee, which comprises Mr. Cheng Yuk Wo and General Udomdej Sitabutr, being all of the non-executive Directors who are not Offeror Concert Parties, has been established to make a recommendation to the Disinterested Shareholders as to whether the Proposal, the Scheme and the Rollover Arrangement are, or are not, fair and reasonable and as to voting in respect of the Scheme at the Court Meeting and the Proposal and the Rollover Arrangement at the SGM. Mr. Meth Jiaravanont, a non-executive Director, is a cousin of Mr. Soopakij Chearavanont and Mr. Suphachai Chearavanont (who are directors of CPF and the Company) and an Offeror Concert Party, and is therefore not considered as independent for the purpose of giving advice or recommendation to the Disinterested Shareholders. Mr. Yoichi Ikezoe, a non-executive Director, is the Deputy CEO for East Asia Bloc, Senior Officer of Asia and Oceania Bloc, CP and CITIC (Overseas Operation) of ITOCHU, and is therefore not considered as independent for the purpose of giving advice or recommendation to the Disinterested Shareholders. Each of Mr. Vinai Vittavasgarnvej, Mrs. Vatchari Vimooktayon and Professor Dr. Pongsak Angkasith, who are independent non-executive Directors, is also a director of CPF, and is therefore not considered as independent for the purpose of giving advice or recommendation to the Disinterested Shareholders.

Our role, as the independent financial adviser to the Independent Board Committee in relation to the Proposal, the Scheme and the Rollover Arrangement, is to advise whether the terms of the Proposal, the Scheme and the Rollover Arrangement are, or are not, fair and reasonable so far as the Disinterested Shareholders are concerned and whether the Disinterested Shareholders should vote in favour of the resolution(s) to approve the Proposal and the Rollover Arrangement at the SGM and the Scheme at the Court Meeting.

INDEPENDENCE DECLARATION

We are not associated or connected with the Company, the Offeror, the Offeror Concert Parties, the counterparties of the Proposal, the Scheme and the Rollover Arrangement or their respective core connected persons or associates. In the two years immediately preceding the Latest Practicable Date, save for (i) the appointment as the independent financial adviser by the Company in relation to certain continuing connected transactions as disclosed in the circular of the Company dated 2 December 2019; (ii) the appointment as the independent financial adviser by Chia Tai Enterprises International Limited (“CTEI”), being an associate of CPF, in relation to the renewal of certain continuing connected transactions as disclosed in the circular of CTEI dated 20 August 2020; (iii) the appointment as the independent financial adviser in relation to a connected and very substantial acquisition and a deemed

disposal as disclosed in the circular of the Company dated 13 October 2020; (iv) the appointment as the independent financial adviser by CTEI in relation to certain continuing connected transactions as disclosed in the circular of CTEI dated 1 April 2021; and (v) this appointment as the independent financial adviser in relation to the Proposal, the Scheme and the Rollover Arrangement, we did not have any other relationship with or interests in the Company, the Offeror, the Offeror Concert Parties, the counterparties of each of the Proposal, the Scheme and the Rollover Arrangement or their respective core connected persons or associates. Given the independence of the engagements, we consider we are eligible to give independent advice on the Proposal, the Scheme and the Rollover Arrangement.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Scheme Document as well as the representations made or provided by the Directors and the senior management of the Company.

The Directors have declared in a responsibility statement set out in the Scheme Document that they jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document in relation to the Group and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Scheme Document by the Directors, in their capacity as Directors, have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Scheme Document were true and accurate at the time they were made and continue to be so up to the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Scheme Document. The Company will notify the Scheme Shareholders of any material changes to information contained or referred to in the Scheme Document as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Scheme Shareholders will also be informed as soon as possible when there are any material changes to the information contained or referred to herein as well as changes to our opinion, if any, after the Latest Practicable Date pursuant to Rule 9.1 of the Takeovers Code.

We have assumed that the Proposal, the Scheme and the Rollover Arrangement will be consummated in accordance with the terms and conditions set forth in the Scheme Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Proposal, the Scheme and the Rollover Arrangement, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Proposal, the Scheme and the Rollover Arrangement. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Scheme Document and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the Offeror, ITOCHU or any of their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposal, the Scheme and the Rollover Arrangement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee, we have considered the following principal factors and reasons:

1. Background and terms of the Proposal, the Scheme and the Rollover Arrangement

The Proposal

As set out in the Explanatory Statement, on 30 September 2021, the Offeror and the Company jointly announced that the Offeror formally requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under section 99 of the Companies Act. If the Proposal is approved and implemented:

- (a) all of the Scheme Shares held by the Scheme Shareholders will be cancelled by way of the reduction of issued share capital of the Company in exchange for the payment of the Cancellation Price of HK\$1.15 per Scheme Share to each Scheme Shareholder by the Offeror;
- (b) immediately after the cancellation of the Scheme Shares, the issued share capital of the Company will be increased to its former amount by the new issuance at par to the Offeror, credited as fully paid, of an aggregate number of Shares equal to the number of Scheme Shares cancelled;
- (c) approximately 75.00% of the total number of issued Shares will be held by the Offeror, and approximately 25.00% of the total number of issued Shares will be held by ITOCHU, an Offeror Concert Party; and
- (d) the Company will make an application to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange pursuant to Rule 6.15(2) of the Listing Rules, with effect immediately following the Effective Date.

The Scheme will provide that all of the Scheme Shares will be cancelled in exchange for the Cancellation Price of HK\$1.15 per Scheme Share. The Offeror will not increase the Cancellation Price and does not reserve the right to do so. No offer for the Series B Convertible Preference Shares is made by the Offeror under Rule 14 of the Takeovers Code as all of the Series B Convertible Preference Shares are held by CPF, the Offeror's parent.

The Rollover Arrangement

As set out in the Letter from the Board and the Explanatory Statement, the Offeror and ITOCHU have entered into the Rollover Agreement, pursuant to which:

- (a) subject to, among others, the Disinterested Shareholders' approval, ITOCHU will remain as a Shareholder after the Scheme becomes effective and none of the Shares held by ITOCHU will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting;
- (b) ITOCHU has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws and regulations, to exercise, or, as the case may be, to procure the exercise of the voting rights in respect of the Shares owned by it directly on resolutions in relation to the Scheme in accordance with the Offeror's directions, and in the absence of any such directions, to vote in favour of all resolutions which are necessary to implement the Scheme proposed at a general meeting of the Company, and that it shall be bound by, and take all actions necessary to implement the Scheme;
- (c) ITOCHU has further undertaken that it will not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by it; acquire, subscribe for or otherwise deal in the securities of the Company without prior consent of the Offeror, nor will it accept any other offer in respect of all or any of such Shares; and
- (d) ITOCHU will remain on the register of members of the Company immediately after the Scheme becomes effective.

The Rollover Agreement will be terminated if the Scheme lapses or is withdrawn in accordance with its terms.

Shareholding structure

On the assumption there is no change in shareholding of the Company before the Effective Date, the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal is set out below:

Shareholders	As at the Latest Practicable Date		Immediately upon completion of the Proposal	
	Number of Shares held	Approximate% of the total issued Shares of the Company	Number of Shares held	Approximate% of the total issued Shares of the Company
Offeror and Offeror Concert Parties				
<i>Shares held not subject to the Scheme</i>				
– CPF Group ⁽¹⁾	11,974,521,097	49.74	18,053,877,924	75.00
– ITOCHU ⁽²⁾	6,017,959,308	25.00	6,017,959,308	25.00
Sub-total	17,992,480,405	74.74	24,071,837,232	100.00
<i>Shares held subject to the Scheme</i>				
– Mr. Kanchanadul ⁽³⁾	3,000,000	0.01	–	–
– The Chiaravanont Brothers ⁽³⁾	59,000,000	0.25	–	–
– Mr. Chearavanont ⁽³⁾	37,600,000	0.16	–	–
– Dr. Thammasart ⁽³⁾	1,862,000	0.01	–	–
– Mr. Chirakitcharern ⁽³⁾	1,420,000	0.01	–	–
– Mr. Meth Jiaravanont ⁽³⁾	21,000,000	0.09	–	–
Sub-total	123,882,000	0.51	–	–
Sub-total: Offeror and Offeror Concert Parties	18,116,362,405	75.26	24,071,837,232	100.00
Disinterested Shareholders	5,955,474,827	24.74	–	–
Total	24,071,837,232	100.00	24,071,837,232 ⁽⁴⁾	100.00

Notes:

- (1) CPF Group held 11,974,521,097 Shares through the Offeror, a wholly-owned subsidiary of CPF, and 1,261,077,748 Series B Convertible Preference Shares through CPF. CPF was also taken to be interested in the 6,017,959,308 Shares held by ITOCHU as a result of certain provisions in the SHA pursuant to section 317 of the SFO.
- (2) ITOCHU was also taken to be interested in the 11,974,521,097 Shares and 1,261,077,748 Series B Convertible Preference Shares in which CPF was interested as a result of certain provisions in the SHA pursuant to section 317 of the SFO.
- (3) Each of Mr. Kanchanadul, the Chiaravanont Brothers, Mr. Chearavanont, Dr. Thammasart, Mr. Chirakitcharern and Mr. Meth Jiaravanont is an Offeror Concert Party. Please refer to the Letter from the Board and the Explanatory Statement for details.
- (4) Under the Scheme, all of the issued share capital of the Company will, on the Effective Date, be reduced by cancelling the Scheme Shares. On the assumption that there is no change in shareholding of the Company before the Effective Date, immediately upon such reduction, the issued share capital of the Company will be increased to its former amount prior to the cancellation of the Scheme Shares by the issue at par to the Offeror, credited as fully paid, of the same number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished.

2. Information of the Group

2.1 Background information of the Group

The Company is a limited liability company incorporated in Bermuda, whose Shares are listed on the Main Board of the Stock Exchange. The Group operates in Vietnam and the PRC. In Vietnam, the Group is principally engaged in the (1) production and sale of animal feed, (2) breeding, farming and sale of livestock and aquatic animals, and (3) production and sale of value-added processed food products. In the PRC, the Group is principally engaged in poultry farming and production and sale of value-added processed food products. The Group also has a significant investment in a company operating in the PRC which is principally engaged in the production and sale of animal feed and breeding, farming and sale of swine and sale of pork.

2.2 Financial information

On 1 December 2020, the Group completed the merger of its China feed and swine food businesses under CTI, originally a subsidiary of the Group, with the swine farming business of CPG in China. The merger was structured as an all-share transaction settled by CTI issuing new shares, representing 65% of CTI's enlarged share capital, to CPG. Consequently, the Group's shareholding in CTI reduced from 100% to 35%. The Group's main businesses in China before 1 December 2020 included feed, poultry farming, swine food and value-added processed food businesses. Since 1 December 2020, the Group's main businesses in China included (i) poultry farming and value-added processed food businesses operated by its subsidiaries, and (ii) feed and integrated swine businesses operated by CTI (and its subsidiaries), an associate of the Group. In terms of financial reporting under the consolidated statement of comprehensive income, continuing operations principally cover (i) the Group's China poultry farming and value-added processed food businesses, (ii) the Group's Vietnam operations and (iii) the share of profit of a 35%-owned associate in China (i.e. CTI). Discontinued operations principally include the Group's China feed and swine food businesses.

Set out below is a summary of the financial information of the Group for each of the two years ended 31 December 2019 and 2020 ("FY2019" and "FY2020", respectively) as extracted from the annual reports of the Company for FY2019 and FY2020, for the six months ended 30 June 2020 and 2021 ("1H2020" and "1H2021", respectively) as extracted from the interim reports of the Company for 1H2021, and the nine months ended 30 September 2020 and 2021 ("9M2020" and "9M2021", respectively).

Continuing operations	FY2019 US\$'000 (restated) (audited)	FY2020 US\$'000 (audited)	1H2020 US\$'000 (unaudited)	1H2021 US\$'000 (unaudited)	9M2020 US\$'000 (unaudited)	9M2021 US\$'000 (unaudited)
<i>Revenue</i>						
China agri-food operations	713,712	855,934	383,790	437,686	616,139	669,772
Vietnam agri-food operations	2,781,298	3,476,772	1,675,506	1,865,555	2,583,287	2,634,924
Others	230	233	116	110	174	164
Total revenue	3,495,240	4,332,939	2,059,412	2,303,351	3,199,600	3,304,860
Cost of sales	(2,796,044)	(3,051,310)	(1,403,552)	(1,747,479)	(2,206,063)	(2,659,928)
Gross profit	699,196	1,281,629	655,860	555,872	993,537	644,932
Net changes in fair value of biological assets	105,554	2,820	(13,792)	(42,249)	(8,740)	(137,986)
Other income, net	15,330	33,907	9,346	17,534	17,536	26,024
Selling and distribution costs	(94,280)	(114,261)	(53,688)	(71,601)	(83,098)	(104,333)
General and administrative expenses	(210,436)	(224,038)	(106,611)	(119,453)	(175,666)	(178,534)
Finance costs	(109,816)	(104,707)	(46,166)	(43,459)	(63,800)	(65,863)
Share of profits and losses:						
– Joint ventures	(37)	(50)	(24)	(1)	(31)	(2)
– A 35%-owned associate	–	66,450	–	30,421	–	(63,972)
– Other associates	(58)	(226)	(42)	(146)	(73)	(197)
Profit before tax	405,453	941,524	444,883	326,918	679,665	120,069
Income tax	(81,113)	(189,158)	(92,413)	(75,378)	(142,675)	(66,457)
Profit for the year/period from continuing operations	324,340	752,366	352,470	251,540	536,990	53,612
Discontinued operations						
– Results from operating activities, net of tax	143,364	188,657	96,080	–	154,600	–
– Gain on deemed disposal of CTI	–	1,466,255	–	–	–	–
Profit for the year/period from discontinued operations	143,364	1,654,912	96,080	–	154,600	–
Profit for the year/period	467,704	2,407,278	448,550	251,540	691,590	53,612
Profit attributable to Shareholders						
– Continuing operations	216,940	519,153	235,523	161,869	356,521	(16,573)
– Discontinued operations	128,863	169,643	86,587	–	139,561	–
	345,803	688,796	322,110	161,869	496,082	(16,573)
Discontinued operations						
– Gain on deemed disposal of CTI	–	1,466,255	–	–	–	–
	345,803	2,155,051	322,110	161,869	496,082	(16,573)
Profit attributable to non-controlling interests:						
– Continuing operations	107,400	233,213	116,947	89,671	180,469	70,185
– Discontinued operations	14,501	19,014	9,493	–	15,039	–
	121,901	252,227	126,440	89,671	195,508	70,185
Profit for the year/period	467,704	2,407,278	448,550	251,540	691,590	53,612

Latest financial performance

On 12 November 2021, the Company issued the Third Quarterly Results Announcement in relation to the unaudited consolidated results of the Group for 9M2021, the full text of which is set out in Appendix III to the Scheme Document. As the Third Quarterly Results Announcement was made after the commencement of the Offer Period in respect of the Proposal, the unaudited profit figures, “profit for the period” and “loss attributable to Shareholders of the Company” for 9M2021 as set out in the Third Quarterly Results Announcement constituted a profit forecast pursuant to Rule 10 of the Takeovers Code, and would have to be reported on by both the relevant financial advisers and auditors or accountants of the Company. The Profit Estimate has been reported on by KPMG, the auditors of the Company, and us, which the respective letters from KPMG and us have been set out in the Third Quarterly Results Announcement and in Appendix III to the Scheme Document.

As disclosed in the Third Quarterly Results Announcement, the Group recorded an unaudited consolidated loss attributable to Shareholders of approximately US\$16.6 million for 9M2021 as compared to the profit of approximately US\$496.1 million for the corresponding period. Such decrease from profit to loss was mainly attributable to (i) in respect of the Group’s business in China, the deteriorated performance of its food and poultry farm subsidiaries and its 35%-owned feed and swine farm associate (i.e. CTI) as a result of lower poultry and swine prices. The Group recorded share of loss of the 35%-owned feed and swine farm associate (i.e. CTI) of approximately US\$64.0 million as compared to a profit of approximately US\$139.6 million attributable to Shareholders (as recognised in discontinued operations of the Group) that was consolidated by the Group in 9M2020 prior to the completion of the merger of CTI on 1 December 2020; (ii) in respect of the Group’s Vietnam business, less profit being generated from its agri-food business mainly because of lower swine prices, which the Group’s average swine price in Vietnam decreased from approximately VND79,472 per kilogram in 9M2020 to approximately VND67,392 per kilogram in 9M2021, attributable to the increase in swine supply as farmers rebuilt their herds after the outbreak of the African Swine Fever in Vietnam in early 2019, which led to a spike in swine prices in late 2019 and 2020 (Group’s 2019 average swine price: VND46,199 per kilogram; Group’s 2019 fourth quarter average swine price: VND64,205 per kilogram; Group’s 2020 average swine price: VND76,585 per kilogram); and (iii) recording a significant negative net change in fair value of biological assets for 9M2021 due to lower swine prices in Vietnam and China.

1H2021 vs 1H2020

For continuing operations, the Group recorded revenue of approximately US\$2,303 million for 1H2021, representing an increase of approximately US\$244 million or 11.8% as compared to approximately US\$2,059 million for 1H2020. Such increase was mainly attributable to (i) the increase in revenue of the Group's agri-food business in Vietnam of approximately US\$190 million, or approximately 11.3%, for 1H2021 mainly contributed by the increase in sales volume; and (ii) the increase in revenue of the Group's agri-food business in China of approximately US\$54 million, or approximately 14.0%, for 1H2021 mainly contributed by the increase in sales volume.

The Group's profit attributable to Shareholders in 1H2021 decreased by approximately US\$160 million or 49.7% from approximately US\$322 million in 1H2020 to approximately US\$162 million in 1H2021. Such decrease was mainly contributed by (i) the Group's business in China, which the performance of the Group's poultry farm and food subsidiaries and its 35%-owned feed and integrated swine associate deteriorated as a result of lower poultry and swine prices; and (ii) the Group's business in Vietnam, which the performance of its agri-food business regressed mainly due to lower swine prices and higher raw material costs.

FY2020 vs FY2019

For continuing operations, the Group recorded revenue of approximately US\$4,333 million for FY2020, representing an increase of approximately US\$838 million or 24.0% as compared to approximately US\$3,495 million (restated) for FY2019. Such increase was mainly attributable to the increase in revenue of the Group's agri-food business in Vietnam of approximately US\$695 million, or approximately 25.0% year-on-year.

The Group's profit attributable to Shareholders in FY2020 amounted to approximately US\$2,155 million. Excluding the one-off gain on the deemed disposal of CTI of approximately US\$1,466 million, the Group's adjusted profit attributable to Shareholders in FY2020 amounted to approximately US\$689 million, which represents an increase of approximately US\$343 million, or approximately 99.2%, as compared to that of approximately US\$346 million (restated) for FY2019. Such increase was mainly due to a significant increase in swine prices in Vietnam in 2020 when compared to 2019, resulting in higher profit margin from the Vietnam farming business.

	As at 31 December 2020 <i>US\$'million</i> (audited)	As at 30 June 2021 <i>US\$'million</i> (unaudited)
Non-current assets	4,581	4,634
Current assets	2,017	2,078
Non-current liabilities	1,337	1,379
Current liabilities	1,228	1,368
Net assets	4,033	3,965
Net assets attributable to Shareholders	3,548	3,496

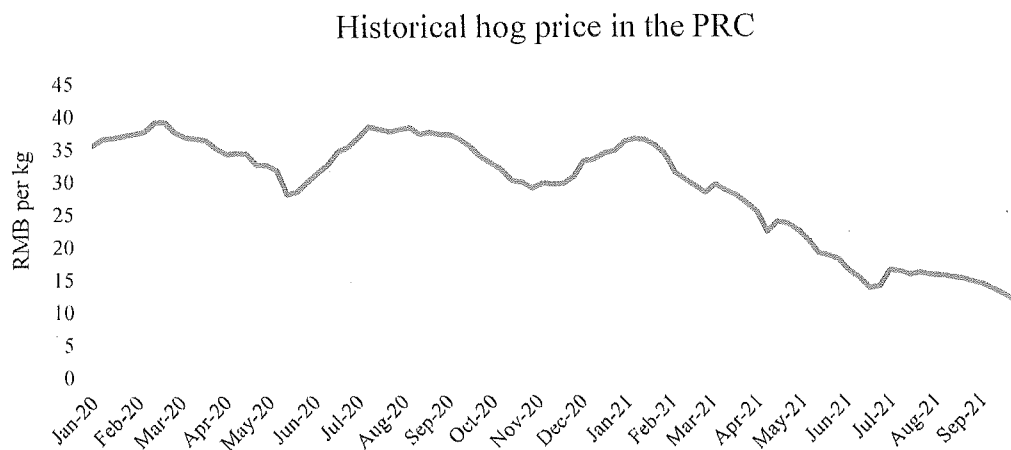
As at 30 June 2021, the Group recorded net assets attributable to Shareholders of approximately US\$3,496 million, which represented a slight decrease of approximately 1.5% in the Group's net assets from approximately US\$3,548 million as at 31 December 2020.

As at 30 June 2021, the Group's non-current assets amounted to approximately US\$4,634 million, which mainly comprised (i) investment in CTI (being a 35%-owned associate) of approximately US\$2,266 million; (ii) property, plant and equipment of approximately US\$1,680 million; and (iii) other right-of-use assets of approximately US\$430 million. The Group's current assets amounted to approximately US\$2,078 million as at 30 June 2021, which mainly comprised (i) current biological assets of approximately US\$682 million; (ii) inventories of approximately US\$546 million; and (iii) prepayments, deposits and other receivables of approximately US\$216 million.

As at 30 June 2021, the Group's non-current liabilities amounted to approximately US\$1,379 million, which mainly comprised (i) bank borrowings of approximately US\$857 million; and (ii) lease liabilities of approximately US\$461 million. The Group's current liabilities amounted to approximately US\$1,368 million as at 30 June 2021, which mainly comprised (i) trade and bills payables of approximately US\$522 million; (ii) other payables and accruals of approximately US\$315 million; and (iii) dividend payable of approximately US\$247 million.

2.3 Outlook of the Group

As disclosed in the interim report of the Group for 1H2021, in view of the market uncertainties in its two operating regions, namely China and Vietnam, especially on animal protein prices, which showed a downward trend in 1H2021, and the COVID-19 situation, the Group remains cautious for the second half of 2021. As further disclosed in the Company's profit warning announcement dated 19 October 2021 in relation to the Group's unaudited results for 9M2021, the Board expects the Group's operations for the rest of the year to continue to be negatively impacted by the low poultry and swine prices in China and low swine prices in Vietnam, which may or may not fall further. As disclosed in the Third Quarterly Results Announcement, the Group recorded significant negative net change in fair value of biological assets attributable to Shareholder for 9M2021 of approximately US\$126.6 million, which was due to lower swine prices in Vietnam and China.



Source: 國家生豬市場 (SPEM) and the Ministry of Agriculture and Rural Affairs of the PRC

Since the outbreak of the African Swine Fever in 2018 and followed by the outbreak of COVID-19 in 2019, hog price has surged in the PRC as a result of the shortage of hog supply, reaching approximately RMB39.16 per kg in the week of 24 February 2020. According to the Wall Street Journal, after two years of soaring pork prices, the PRC now faces the opposite problem of a depressed market. As set out in the chart above, since January 2021, hog price in the PRC has tumbled from approximately RMB36.04 per kg in the first week of January 2021 to approximately RMB11.60 per kg in the week of 27 September 2021, representing a decrease of approximately 70.4%.

According to the Wall Street Journal, Chinese farmers spent much of last year rebuilding their herds, before domestic pork supplies normalised and prices began sliding. Hog population in the PRC currently stands at about 439 million, up from around 370 million in the previous year. The depressed hog prices were mainly attributable to the fact that (i) farmers who fattened their pigs as they waited for a recovery in prices rushed to sell their heavy hogs when prices declined earlier this year; and (ii) the new outbreaks of African Swine Fever in certain parts of China has caused some panic selling. Market analysts are of the view that strong rebound of hog price is unlikely even the Lunar New Year holidays approaches in early 2022, which is typically a high season for pork consumption in the PRC.

On the other hand, the PRC government has continued its efforts to stabilise hog price. According to the Consumer News and Business Channel (CNBC), the government has worked to ensure sufficient supply by releasing the meat from national reserves during shortages, and, more recently, encouraging consumption to counter oversupply.

Taking into account the uncertainties towards the development of the African Swine Fever and COVID-19 as well as the hog price, the management of the Company remains cautious for the outlook of the Group. Given that (i) the Cancellation Price represents a premium over (a) the Share price during the Review Period (as defined below) (as illustrated in the section headed “5.2 *Historical Share price performance*” below); and (b) the net assets value attributable to Shareholders per Share as at 30 June 2021 (as illustrated in the section headed “5.1 *Cancellation Price comparison*” below); (ii) the thin liquidity and low trading volume of the Shares during the Review Period (as defined below) prior to the publication of the Announcement (as illustrated in the section headed “4.1 *Benefits of the Proposal to the Scheme Shareholders*” below); and (iii) the Cancellation Price is fair and reasonable from a comparable analysis perspective (as illustrated in the section headed “5.3 *Comparable companies*” below), we are of the view that the Proposal provides an opportunity for the Disinterested Shareholders to exit and realise their investments in the Group.

3. Information of the Offeror

3.1 Background information of the Offeror

The Offeror is a company incorporated in the British Virgin Islands with limited liability. It is principally engaged in investment holding and it is wholly-owned by CPF, which is one of the largest agri-food conglomerates in the Asia Pacific region operating in agro-industrial and integrated food businesses, and whose shares are listed on The Stock Exchange of Thailand under stock code CPF, with Charoen Pokphand Group Company Limited a major shareholder, holding directly and indirectly 46.49% interest in CPF.

3.2 *The Offeror's intention in relation to the Group*

As set out in the Explanatory Statement, the Offeror, together with ITOCHU, intend for the Group to maintain its existing business following the implementation of the Proposal. As at the Latest Practicable Date, while the Offeror has conducted preliminary exploration and assessment of the advantages, disadvantages and feasibility of different strategic options for the Group's future development, including asset disposals, asset acquisitions, business divestment, restructuring and/or diversification and/or capital raisings or listing of its business in overseas stock or debt markets, the Offeror, together with ITOCHU, have not made any decisions, in the event the Scheme becomes effective, to make any material changes to the business and/or disposal or redeployment of assets of the Group, or to make any significant changes to the employment of employees of the Group, or to terminate or scale down any part of the business of the Group as a result of the implementation of the Proposal.

After the Scheme becomes effective, however, the Offeror, together with ITOCHU, will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group. The Offeror will, together with ITOCHU, continue to explore business, investment, capital raising or listing opportunities in overseas stock and debt markets and consider whether any asset disposals, asset acquisitions, business divestment, restructuring and/or diversification will be appropriate and feasible for enhancing the Company's future development and strengthening its revenue bases. Any disposal or redeployment of assets or businesses of the Group in the future, if any, will be conducted in compliance with the constitutional documents of the Group and the Takeovers Code (if applicable).

4. Reasons for and benefits of the Proposal

4.1 *Benefits of the Proposal to the Scheme Shareholders*

An opportunity for Scheme Shareholders to monetize Shares

The average daily trading volume of Shares for the six-month period, 12-month period and 24-month period up to and including the Last Trading Day were approximately 18,024,780 Shares, 12,276,550 Shares and 9,657,990 Shares per day, representing only approximately 0.07%, 0.05% and 0.04% respectively of the total number of issued Shares as at the Latest Practicable Date.

The low trading liquidity of the Shares could make it difficult for Scheme Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares. As such, the Scheme presents an immediate opportunity for Scheme Shareholders to monetize their investments for cash and redeploy the proceeds from accepting the Scheme into other investment opportunities.

Cancellation Price represents an attractive exit premium

The Proposal allows an exit for the Scheme Shareholders at a significant premium to the current market price. As set out in the section headed “*The Proposal – Comparisons of value*” of the Explanatory Statement, the Cancellation Price of HK\$1.15 per Scheme Share represents a significant premium of approximately 17.35% and 30.68% over the average closing price of approximately HK\$0.98 and HK\$0.88 per Share for the 10 and 90 trading days up to and including the Last Trading Day, respectively, and a premium of 1.77% over the highest closing price of HK\$1.13 per Share during the Relevant Period. The Cancellation Price also represents a premium of approximately 7.52% over the unaudited consolidated net asset value attributable to Shareholders per issued share of the Company of approximately US\$0.14 (equal to approximately HK\$1.07, using an exchange rate of US\$1 = HK\$7.75 as at the date of the Announcement) as at 30 June 2021.

We have performed a trading liquidity analysis of the Shares for the period from 1 September 2020 (being approximately one year prior to the Last Trading Day) up to and including the Latest Practicable Date (the “**Review Period**”). The number of trading days per month, the average daily number of the Shares traded during the month, and the respective percentages of the Shares’ average daily trading volume as compared to (i) the total number of issued Shares held by the Disinterested Shareholders as at the Latest Practicable Date; and (ii) the total number of Shares in issue as at the Latest Practicable Date during the Review Period are tabulated below:

Month	Number of trading days	Average daily trading volume <i>Number of Shares</i>	% of the average daily trading volume to total number of issued Shares held by the Disinterested Shareholders as at the Latest Practicable Date <i>(Note 1)</i> <i>Approximate%</i>	% of the average daily trading volume to total number of Shares in issue as at the Latest Practicable Date <i>(Note 2)</i> <i>Approximate%</i>
2020				
September	22	12,342,909	0.21	0.05
October	18	7,378,667	0.12	0.03
November	21	4,286,185	0.07	0.02
December	22	13,127,841	0.22	0.05

Month	Number of trading days	Average daily trading volume Number of Shares	% of the average daily trading volume to total number of issued Shares held by the Disinterested Shareholders as at the Latest Practicable Date (Note 1) Approximate%	% of the average daily trading volume to total number of Shares in issue as at the Latest Practicable Date (Note 2) Approximate%
2021				
January	20	10,548,515	0.18	0.04
February	18	38,929,499	0.65	0.16
March	23	27,836,668	0.47	0.12
April	19	8,605,115	0.14	0.04
May	20	12,119,226	0.20	0.05
June	21	11,137,413	0.19	0.05
July	21	9,104,982	0.15	0.04
August	22	8,395,675	0.14	0.03
September	17	40,085,649	0.67	0.17
	(Note 3)			
October	18	51,244,986	0.86	0.21
November (up to and including the Latest Practicable Date)	15	29,601,005	0.50	0.12

Source: the website of the Stock Exchange

Notes:

- (1) Based on 5,955,474,827 existing Shares held by the Disinterested Shareholders as at the Latest Practicable Date.
- (2) Based on 24,071,837,232 issued Shares as at the Latest Practicable Date.
- (3) Trading in Shares was suspended on 27 September 2021, 28 September 2021, 29 September 2021 and 30 September 2021.

As illustrated from the table above, the average daily trading volume of the Shares was thin during the Review Period. From September 2020 to September 2021 (prior to the issue of the Announcement on 30 September), the average trading volume in each month was (i) below 0.7% of the total number of issued Shares held by the Disinterested Shareholders as at the Latest Practicable Date; and (ii) below 0.2% of the total number of Shares in issue as at the Latest Practicable Date.

In light of the above, we concur with the view of the Company that the trading liquidity of the Shares is low and disposal of a large number of Shares by Shareholders in the open market may have adverse impact on the price of Shares. Taking into account our analysis on the Cancellation Price as set out in the section headed “5. *The Cancellation Price*” below, we are also of the view that the Proposal provides the Disinterested Shareholders with an opportunity to realise their investment in the Company for cash at a premium without having to suffer any illiquidity discount.

4.2 *Benefits of the Proposal to the Company*

The privatisation of the Company will permit the Offeror and the Company to make strategic decisions focused on long-term growth and benefits, free from the pressure of market expectations and share price fluctuations which arise from the Company being a publicly listed company.

The Proposal, which entails the delisting of the Company, is also expected to reduce the administrative costs and management resources associated with maintaining the Company’s listing status and compliance with regulatory requirements and, in turn, allow greater flexibility for the Offeror and the Company to manage the Group’s business.

5. The Cancellation Price

5.1 *Cancellation Price comparison*

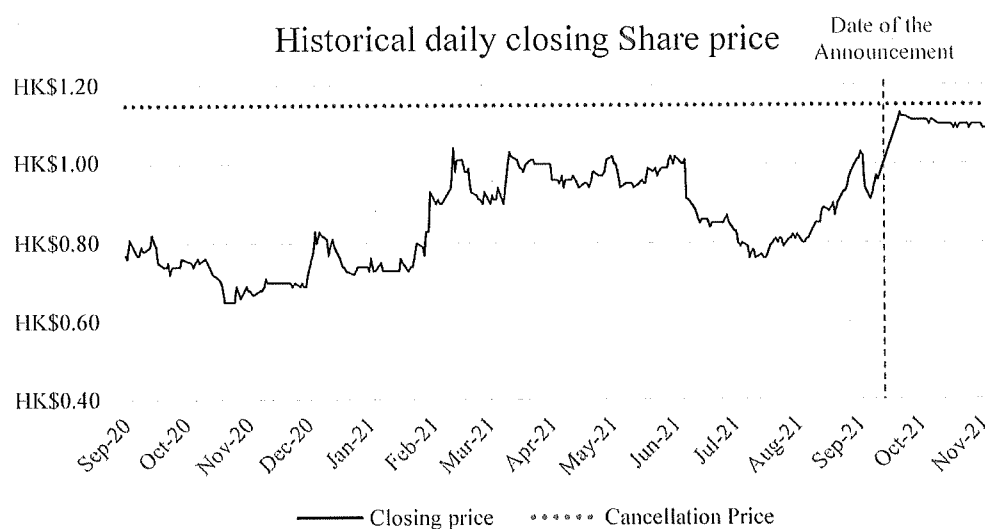
The Cancellation Price of HK\$1.15 per Scheme Share represents:

- a premium of approximately 5.50% over the closing price of HK\$1.09 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 19.79% over the closing price of HK\$0.96 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 22.34% over the average closing price of approximately HK\$0.94 per Share based on the daily closing prices as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;
- a premium of approximately 17.35% over the average closing price of approximately HK\$0.98 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 27.78% over the average closing price of approximately HK\$0.90 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

- a premium of approximately 33.72% over the average closing price of approximately HK\$0.86 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 30.68% over the average closing price of approximately HK\$0.88 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 27.78% over the average closing price of approximately HK\$0.90 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- a premium of approximately 5.94% over the audited consolidated net asset value attributable to Shareholders per issued share of the Company of approximately US\$0.140 (equal to approximately HK\$1.09, using an exchange rate of US\$1 = HK\$7.75 as at the date of the Announcement) as at 31 December 2020; and
- a premium of approximately 7.52% over the unaudited consolidated net asset value attributable to Shareholders per issued share of the Company of approximately US\$0.138 (equal to approximately HK\$1.07, using an exchange rate of US\$1 = HK\$7.75 as at the date of the Announcement) as at 30 June 2021.

5.2 *Historical Share price performance*

In assessing the reasonableness of the Cancellation Price, we have considered the historical movement of the price of the Shares. Set out below is a chart showing the movement of the closing prices of the Shares against the Cancellation Price during the Review Period.



Source: the website of the Stock Exchange

Notes:

- (1) On 14 September 2020, the Company issued the announcement in relation to a connected and very substantial acquisition and a deemed disposal.
- (2) On 12 November 2020, the Company issued the unaudited results announcement for the nine months ended 30 September 2020.
- (3) On 24 February 2021, the Company issued the annual results announcement for the year ended 31 December 2020.
- (4) On 13 May 2021, the Company issued the unaudited results announcement for the three months ended 31 March 2021.
- (5) On 27 May 2021, the Company issued the announcement in relation to the proposed spin-off and separate listing of Chia Tai Investment Co., Ltd.
- (6) On 11 June 2021, the Company issued the profit warning announcement in relation to the interim results for the six months ended 30 June 2021.
- (7) On 13 August 2021, the Company issued the interim results and interim dividend announcements for the six months ended 30 June 2021.
- (8) On 27 September 2021, the Shares was halted with effect from 9:00 a.m., and resumed at 9:00 a.m. on 4 October 2021.
- (9) On 30 September 2021, the Company issued (i) the Announcement and (ii) the profit warning announcement in relation to the financial results for the eight months ended 31 August 2021.
- (10) On 19 October 2021, the Company issued the profit warning announcement in relation to the unaudited quarterly results for 9M2021.
- (11) On 12 November 2021, the Company issued the Third Quarterly Results Announcement.

During the Review Period and prior to the publication of the Announcement on 30 September, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.65 per Share recorded on 22 October 2020, 23 October 2020 and 27 October 2020 and HK\$1.04 per Share recorded on 17 February 2021, respectively. Following the publication of the Announcement, the price of the Shares rose from HK\$0.96 per Share on 24 September 2021 to HK\$1.11 per Share on 4 October 2021 and the closing prices of the Shares were at a range between HK\$1.09 per Share to HK\$1.13 per Share following the publication of the Announcement and up to the Latest Practicable Date. The Cancellation Price is above the range of the closing price of the Shares during the entire Review Period.

Therefore, from the perspective of the historical price performance of the Shares, we are of the view that the Cancellation Price is fair and reasonable, and represents an opportunity for Disinterested Shareholders to realise their investments in the Group.

5.3 Comparable companies

For 1H2021, the Group's breeding, farming and sale of livestock and aquatic animals business in the PRC and Vietnam contributed approximately 66.0% of the total revenue of the Group. We have conducted a comparable analysis through identifying listed companies on the Stock Exchange engaging in similar business of the Group (the "**Comparable Companies**"), which (i) are listed on the Main Board of the Stock Exchange; (ii) are principally engaged in breeding, farming and sale of livestock (for the avoidance of doubt excludes vegetation farming), which at least 40% of the total revenue was attributable to such business based on the latest published financial results; and (iii) have a market capitalisation of more than HK\$1,000 million as at the Latest Practicable Date. As at the Latest Practicable Date, the market capitalisation of the Company was approximately HK\$26.2 billion. The Comparable Companies have been identified through our research based on information on the website of the Stock Exchange. It is an exhaustive list based on these criteria.

In assessing the reasonableness of the Cancellation Price, we have adopted the price-to-earnings ("**P/E Ratio(s)**") multiple analysis and the price-to-book ("**P/B Ratio(s)**") multiple analysis which are two of the most commonly adopted and accepted approaches in valuing revenue-generating entities with recurrent income engaging similar business to the Group.

Set out below are the P/E Ratios and P/B Ratios of the Comparable Companies based on their trailing 12 months net profit based on their closing prices as at the Latest Practicable Date and their latest published financial information:

Company name (Stock code)	Principal business	Geographical region	Market Capitalisation ⁽¹⁾ HK\$'million	Net profit ⁽²⁾ HK\$'million	Net assets ⁽³⁾ HK\$'million	P/E Ratio ⁽⁴⁾ Times	P/B Ratio ⁽⁵⁾ Times
WH Group Limited (288.HK) ⁽⁶⁾	(i) slaughtering, sales of pork and hog farming; (ii) production and sales of packaged meat products; and (iii) slaughtering and sales of poultry and other services	Mainly US and PRC	66,845	9,013	81,553	7.4	0.8
COFCO Joycome Foods Limited (1610.HK) ⁽⁶⁾	(i) hog breeding and sales of hog; (ii) sales of imported meat products; and (iii) slaughtering and sales of meats	PRC	11,355	1,833	10,180	6.2	1.1

Company name (Stock code)	Principal business	Geographical region	Market Capitalisation ⁽¹⁾ <i>HK\$'million</i>	Net profit ⁽²⁾ <i>HK\$'million</i>	Net assets ⁽³⁾ <i>HK\$'million</i>	P/E Ratio ⁽⁴⁾ <i>Times</i>	P/B Ratio ⁽⁵⁾ <i>Times</i>	
Shandong Fengxiang Co., Ltd. (9977.HK) ⁽⁶⁾	(i) production and sales of processed chicken meat products; (ii) production and sales of raw chicken meat products; and (iii) production and sale of chicken breeds	Mainly PRC	2,534	Loss making	3,868	N/A	0.7	
China Yurun Food Group Limited (1068.HK)	(i) slaughtering, production and sales of meat; and (ii) manufacture and distribution of processed meat	PRC	1,568	Loss making ⁽⁷⁾	Net liabilities	N/A	N/A	
						Minimum	6.2	0.7
						Maximum	7.4	1.1
						Average	6.8	0.9
The implied P/E Ratio and P/B Ratio of the Cancellation Price						7.1 ⁽⁸⁾⁽¹⁰⁾	1.1 ⁽⁹⁾⁽¹⁰⁾	

Source: Bloomberg and the websites of the Stock Exchange

Notes:

- (1) Market capitalisation of the Comparable Companies are sourced from Bloomberg as Latest Practicable Date.
- (2) The respective net profit/loss of the Comparable Companies are based on their trailing 12 months net profit/loss attributable to equity owners calculated based on their respective latest published financial results.
- (3) The respective net assets of the Comparable Companies are based on their net assets attributable to equity owners based on their respective latest published financial results.
- (4) The P/E ratio of the Comparable Companies are calculated by dividing their market capitalisations as at the Latest Practicable Date by their net profit attributable to equity owners based on their trailing 12 months net profit/loss calculated based on their latest published financial results.
- (5) The P/B ratio of the Comparable Companies are calculated by dividing their market capitalisations as at the Latest Practicable Date by their net assets attributable to equity owners based on their latest published financial results.

- (6) The presentation of figures from published information of WH Group Limited was in US\$ while Shandong Fengxiang Co., Ltd. and COFCO Joycome Foods Limited were in RMB. The exchange rate for the conversion of HKD into RMB is RMB1.0 = HK\$1.21; the exchange rate for the conversion of HKD into US\$ is US\$1.0 = HK\$7.75.
- (7) China Yurun Food Group Limited recorded trailing 12 months net loss attributable to equity owners after excluding the one-off gain on deconsolidation of subsidiaries of approximately HK\$3,491.3 million for 1H2021.
- (8) The implied P/E Ratio of the Cancellation Price is calculated by dividing the hypothetical value of consideration payable of approximately HK\$29,132.9 million (the “**Hypothetical Consideration**”) (being the hypothetical value for acquiring 100% of the total number issued shares, based on the sum of 24,071,837,232 ordinary Shares and 1,261,077,748 Series B Convertible Preference Shares in issue multiplied by the Cancellation Price of HK\$1.15) by the trailing 12 months net profit of the Group attributable to the shareholders of the Company for the period ended 30 June 2021 of approximately US\$528.6 million (equivalent to approximately HK\$4,096.3 million, using the exchange rate of US\$1 to HK\$7.75 as at the Latest Practicable Date), based on the sum of (i) the net profit of the Group attributable to the Shareholders of the Company for the six months ended 30 June 2021 of approximately US\$161.9 million; and (ii) the net profit of the Group attributable to the Shareholders of the Company for the six months ended 31 December 2020, excluding the gain on deemed disposal of CTI of approximately US\$1,466.3 million, of approximately US\$366.7 million.
- (9) The implied P/B Ratio of the Cancellation Price is calculated by dividing the Hypothetical Consideration of approximately HK\$29,132.9 million by the net asset value of the Group attributable to the Shareholders of the Company as at 30 June 2021 of approximately US\$3,496.3 million (equivalent to approximately HK\$27,096.0 million, using the exchange rate of US\$1 to HK\$7.75 as at the Latest Practicable Date).
- (10) The Series B Convertible Preference Shares are issued and fully paid. The Series B Convertible Preference Shares do not have voting rights but are entitled to dividends of the Company. As the Series B Convertible Preference Shares form part of the share capital of the Company and the holder(s) of the Series B Convertible Preference Shares have equity interest in the Group, the calculation of the Hypothetical Consideration takes into account the Series B Convertible Preference Shares.

With reference to the table above, the implied P/E Ratio of the Cancellation Price of approximately 7.1 times is within the range of the P/E Ratios of the Comparable Companies from approximately 6.2 times to 7.4 times and higher than the average of the P/E Ratios of the Comparable Companies of approximately 6.8 times.

In addition to the P/E Ratio approach, we have also considered the P/B Ratio approach as an additional benchmark in assessing the fairness and reasonableness of the Cancellation Price. As set out in the table above, the implied P/B Ratio of the Cancellation Price of approximately 1.1 times is within the range of the P/B Ratios of the Comparable Companies from approximately 0.7 times to 1.1 times and higher than the average and equal to the high end of the P/B Ratios of the Comparable Companies of approximately 0.9 times and 1.1 times respectively.

In summary, from the perspective of the market comparable analysis, in light of the fact that both the implied P/E Ratio and the implied P/B Ratio fell within the range of those of the Comparable Companies and are each higher than the average of those of the Comparable Companies, we consider the Cancellation Price is fair and reasonable and in the interests of the Company and Disinterested Shareholders as a whole.

5.4 Privatisation precedents

We are of the view that past privatisation transactions of companies listed on the Stock Exchange may not be a good reference for assessing the fairness and reasonableness of the Cancellation Price considering these companies are from different industries, which therefore have different market fundamentals and prospects. Accordingly, we consider the analysis in the sections above to be more relevant for the Disinterested Shareholders.

6. The Rollover Arrangement

As set out in the Letter from the Board, the Offeror would like to allow ITOCHU to retain its shareholding in the Company after the Scheme becomes effective. ITOCHU holds in aggregate approximately 25.00% of the total number of issued Shares of the Company as at the Latest Practicable Date.

6.1 Information of ITOCHU

ITOCHU has been a strategic industrial investor of the Company since it became a Shareholder by acquiring Shares from CPFI in 2014. ITOCHU was incorporated in 1949 and became publicly listed on the Tokyo Stock Exchange in 1950.

6.2 The Rollover Agreement

As set out in the Explanatory Statement, the Offeror and ITOCHU have entered into the Rollover Agreement, pursuant to which:

- (a) subject to, among others, the Disinterested Shareholders' approval, ITOCHU will remain as a Shareholder after the Scheme becomes effective and none of the Shares held by ITOCHU will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting;
- (b) ITOCHU has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws and regulations, to exercise, or, as the case may be, to procure the exercise of the voting rights in respect of the Shares owned by it directly on resolutions in relation to the Scheme in accordance with the Offeror's directions, and in the absence of any such directions, to vote in favour of all resolutions which are necessary to implement the Scheme proposed at a general meeting of the Company, and that it shall be bound by, and take all actions necessary to implement the Scheme;
- (c) ITOCHU has further undertaken that it will not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by it; acquire, subscribe for or otherwise deal in the securities of the Company without prior consent of the Offeror, nor will it accept any other offer in respect of all or any of such Shares; and

- (d) ITOCHU will remain on the register of members of the Company immediately after the Scheme becomes effective.

The Rollover Agreement will be terminated if the Scheme lapses or is withdrawn in accordance with its terms.

Further details of the Rollover Arrangement and the Rollover Agreement are set out in the section headed “5. *Special deal relating to the Rollover Arrangement*” of the Explanatory Statement.

6.3 *Reasons for and benefits of the Rollover Arrangement*

The Rollover Arrangement, if approved, will in effect enable ITOCHU, being an Offeror Concert Party, to retain its shareholding in the Company after the Scheme becomes effective. ITOCHU held in aggregate approximately 25.00% of the total number of issued Shares of the Company as the Latest Practicable Date.

As set out in the Explanatory Statement, ITOCHU is a long-established company incorporated in 1949 with its shares listed on the Tokyo Stock Exchange in 1950, and has been a strategic industrial investor of the Company since 2014. The operations of the ITOCHU group, being one of the largest trading companies in the world, cover a broad spectrum of industries, which include the trading of feed, farm and food products. Based on the annual report of ITOCHU for the year ended 31 March 2021, ITOCHU generated substantial revenue of approximately US\$35,907 million from its food related business. The Offeror is of the view that it is important for the Company to retain ITOCHU as a Shareholder after the completion of the Scheme so that ITOCHU can continue to contribute and share its management resources, global business network and technology platform with the Company’s business operations, which will enhance the Company’s competitiveness in the market and benefit the Group’s long-term sustainable development and growth. Given the substantial scale of operation of ITOCHU and its vast experience as a well-established conglomerate, which ITOCHU is also one of the existing suppliers and customers of the Company, we concur with the view of the Offeror that it is important for the Company to retain ITOCHU as a Shareholder after the completion of the Scheme. For avoidance of doubt, the Scheme Shareholders should note that if the Scheme becomes effective, they shall not be participating in any future benefits that the Company may derive, including those from the Rollover Agreement.

We also note that according to the Rollover Agreement, ITOCHU has further undertaken that it will not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by it; acquire, subscribe for or otherwise deal in the securities of the Company without prior consent of the Offeror, nor will it accept any other offer in respect of all or any of such Shares. This is a commercial arrangement between ITOCHU and the Offeror which shall not affect the rights of Disinterested Shareholders under the Proposal. As the Scheme Shareholders will be compensated by the Cancellation Price, any future transfer after the Proposal and the Scheme become effective between ITOCHU and the Offeror would not affect the Scheme Shareholders.

In the case where the Disinterested Shareholders were given the opportunity to retain interests in the Company, subsequent to the Scheme had become effective and the withdrawal of listing of the Shares, their interests would no longer be safeguarded by regulations relating to minority shareholders protection applicable to listed companies on the Stock Exchange, in particular, (i) the existing protections under the Chapter 14 and Chapter 14A of the Listing Rules regarding notifiable transactions and connected transactions respectively, and (ii) the general mandate or specific shareholders' approval requirement for issuing new shares in relation to the dilution of shareholdings under the Listing Rules that are currently applicable to the Company as a Hong Kong listed company. In addition, the Takeovers Code would only remain applicable to the Company as long as the Company remains a public company in Hong Kong. In the event that the Company ceases to be a public company, it would no longer be subject to the Takeovers Code. In that case, the interests of the Disinterested Shareholders would only be safeguarded primarily by the constitutional documents of the Company and provisions regarding minority shareholders' interest protection under the Companies Law, which do not necessarily provide the same level of minority protections that would be available had the Listing Rules and the Takeovers Code continued to apply. In addition, the liquidity of the Shares will be significantly lower as no public trading in the Shares would be available upon delisting.

Taking into account (i) if the Proposal and the Scheme are approved, the Rollover Shareholders shall have to assume the potential risks of holding the then unlisted shares of the Company with significantly lower market liquidity than shares of listed companies; (ii) the Group considers it is important and beneficial for the Company to retain ITOCHU as a Shareholder after the completion of the Scheme; and (iii) the Rollover Agreement does not provide ITOCHU with interests in the Company which ITOCHU does not originally own, we are of the view that the Rollover Arrangement is fair and reasonable as far as the Disinterested Shareholders are concerned.

6.4 The approval of the Rollover Arrangement as a condition of the Proposal and the Scheme

As mentioned in the paragraph headed "*Terms of the Proposal - Conditions of the Proposal and the Scheme*" in the Explanatory Statement, the passing of an ordinary resolution by the Disinterested Shareholders at a SGM of the Company to approve the Rollover Arrangement, forms part of the conditions of the Proposal and the Scheme.

Taking into account (i) the reasons for and the benefits of the Rollover Arrangement as set out in the section headed "*6.3 Reasons for and the benefits of the Rollover Arrangement*" and our analysis thereon as set out above; and (ii) the Rollover Arrangement does not prejudice against the Disinterested Shareholders as far as they are concerned, we are of the view that the Rollover Arrangement being one of the conditions of the Proposal and the Scheme is fair and reasonable as far as the Disinterested Shareholders are concerned.

RECOMMENDATION

Based on the above principal factors and reasons, in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- (i) the Cancellation Price is (a) at a premium to the historical prices of the Shares throughout the entire Review Period prior to the publication of the Announcement, and represents (b) a premium of approximately 27.78% over the average closing price of approximately HK\$0.90 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and (c) a premium of approximately 7.52% over the unaudited consolidated net asset value attributable to Shareholders per issued share of the Company of approximately US\$0.14 (equal to approximately HK\$1.07, using an exchange rate of US\$1 = HK\$7.75 as at the date of the Announcement) as at 30 June 2021;
- (ii) the implied P/E Ratio of the Cancellation Price of approximately 7.1 times is within the range of the P/E Ratios of the Comparable Companies from approximately 6.2 times to 7.4 times and higher than the average of the P/E Ratios of the Comparable Companies of approximately 6.8 times;
- (iii) the implied P/B Ratio of the Cancellation Price of approximately 1.1 times is within the range of the P/B Ratios of the Comparable Companies from approximately 0.7 times to 1.1 times and higher than the average and equal to the high end of the P/B Ratios of the Comparable Companies of approximately 0.9 times and 1.1 times respectively;
- (iv) the trading volume of the Shares on the Stock Exchange was generally thin during the Review Period prior to the publication of the Announcement, and the Proposal and the Scheme provide an opportunity for the Disinterested Shareholders to realise their investment at the Cancellation Price without exerting a downward impact on the Share price; and
- (v) the Rollover Arrangement does not prejudice against the Disinterested Shareholders and is fair and reasonable as far as the Disinterested Shareholders are concerned,

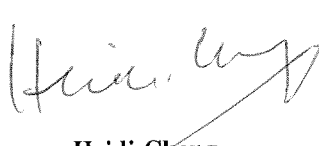
we (i) consider that the Proposal, the Scheme and the Rollover Arrangement are fair and reasonable so far as the Disinterested Shareholders are concerned, and (ii) recommend the Disinterested Shareholders to vote in favour of (a) relevant resolutions to approve the Scheme at the Court Meeting and the Proposal at the SGM; and (b) the ordinary resolution to approve the Rollover Arrangement at the SGM.


Since the publication of the Announcement, the closing Share prices have been trading below the Cancellation Price within a narrow band of around HK\$1.09 per Share to HK\$1.13 per Share but significantly above the average closing price during the Review Period prior to the publication of the Announcement of approximately HK\$0.85 per Share. Disinterested Shareholders should note that there is no assurance that the Share price will remain at the current level if the Proposal and the Scheme lapse.

Further details regarding the procedures of the Proposal and the Scheme are set out in the Explanatory Statement. The Disinterested Shareholders are urged to act according to the timetable set out in the Scheme Document if they wish to qualify for entitlements under the Scheme.

As different Scheme Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Disinterested Shareholders who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Ballas Capital Limited


Heidi Cheng
Managing Director


Colin Lee
Assistant Director

Note: Ms. Heidi Cheng of Ballas Capital Limited has been a responsible officer of Type 6 (advising on corporate finance) regulated activities since 2003, and Mr. Colin Lee of Ballas Capital Limited has been a licensed representative of Type 6 (advising on corporate finance) regulated activities from 2013 to 2018 and since 2020.