



SOMERLEY CAPITAL LIMITED

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25 November 2024

To: the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

- (1) MAJOR TRANSACTION AND CONNECTED TRANSACTION:
ACQUISITION OF THE TARGET COMPANY;
(2) CONTINUING CONNECTED TRANSACTION: PROCUREMENT
TRANSACTIONS UNDER THE MUTUAL SUPPLY AGREEMENT; AND
(3) MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTION:
DEPOSIT SERVICES UNDER THE FINANCIAL SERVICES AGREEMENT

INTRODUCTION

We refer to our appointment to advise the independent board committee and the independent shareholders of COFCO Joycome Foods Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) in relation to (i) the acquisition of 100% equity interest in COFCO Jiahua Industrial Limited (the “**Acquisition**”); and (ii) the purchase of products and services by the Group contemplated under the mutual supply agreement and the deposit services contemplated under the 2024 financial services agreement (the “**Continuing Connected Transactions**”, together with the Acquisition, the “**Transactions**”). Details of the Acquisition and the Continuing Connected Transactions are set out in the “Letter from the Board” (the “**Board Letter**”) contained in the circular of the Company dated 25 November 2024 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 21 October 2024 (after trading hours), the Company and COFCO Industry Investment entered into the Acquisition Agreement pursuant to which COFCO Industry Investment agreed to sell and the Company agreed to acquire 100% equity interest in the Target Company (i.e. COFCO Jiahua) at the consideration of RMB1,569.0707 million.



In addition, on 21 October 2024 (after trading hours), the Company and COFCO entered into the 2024 Mutual Supply Agreement to carry out the relevant transactions for a term from 1 January 2025 to 31 December 2027, and the Company, COFCO Meat and COFCO Finance entered into the 2024 Financial Services Agreement to carry out the relevant transactions for a term from 1 January 2025 to 31 December 2027.

As set out in the Board Letter, as one or more of the applicable percentage ratio(s) (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition are more than 25% but lower than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. In addition, as at the Latest Practicable Date, each of Mainfield and COFCO (HK) is a substantial Shareholder of the Company, which directly held approximately 23.54% and 16.77% of the Shares of the Company, respectively. Both Mainfield and COFCO (HK) are wholly-owned by COFCO, and COFCO Industry Investment is also a wholly-owned subsidiary of COFCO. Therefore, COFCO Industry Investment is a connected person of the Company according to Chapter 14A of the Listing Rules. The Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to the Independent Shareholders' approval, reporting and announcement requirements under the Listing Rules.

As also mentioned in the Board Letter, COFCO and COFCO Finance, a subsidiary of COFCO, are connected persons of the Company pursuant to Chapter 14A of the Listing Rules, and the transactions between the Group and such parties constitute continuing connected transactions under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios for (i) the proposed annual caps of the provision of products and services by COFCO Group to the Group (the "**Procurement Transactions**") under the 2024 Mutual Supply Agreement and (ii) the Proposed Deposit Cap of the Deposit Services under the 2024 Financial Services Agreement exceed(s) 5%, (a) the Procurement Transactions under the 2024 Mutual Supply Agreement and (b) the Deposit Services under the 2024 Financial Services Agreement will be subject to the Independent Shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Fu Tingmei, Mr. Li Michael Hankin and Dr. Ju Jiandong, has been formed to advise the Independent Shareholders in relation to the Transactions. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard (the "**Engagement**").

During the past two years, Somerley has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the connected transaction in relation to the subscription of shares under specific mandate and the application for whitewash waiver (details of which are set out in the Company's circular dated 17 February 2023). The past engagement was limited to providing independent advisory services to the independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagement, Somerley received normal professional fees from the Company. As at the Latest Practicable Date, there were no



relationships or interests between (a) Somerley and (b) the Group, COFCO, COFCO Industry Investment and COFCO Finance that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Engagement.

In formulating our advice, we have reviewed, among other things, the Acquisition Agreement, the 2024 Mutual Supply Agreement, the 2024 Financial Services Agreement, the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”), the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”), the audited consolidated financial statements of the Target Group as set out in Appendix II to the Circular, and the Asset Valuation Report of the Target Company prepared by the Valuer, a summary of which is set out in Appendix V to the Circular. We have also discussed the businesses and future prospects of the Group with the management of the Group (the “**Management**”). We have relied on the information as contained in the Circular and the information and facts supplied, and the opinions expressed, by the Directors and the Management, and we have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects. We have also sought and received confirmation from the Directors that all 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 no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group, the Target Group, COFCO, COFCO Industry Investment, COFCO Finance and their respective associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the Transactions, we have taken into account the following principal factors and reasons:

A. THE ACQUISITION

1. Information on the Group

The Company is a meat business platform under COFCO, and its main businesses include feed production, hog production, slaughtering and cutting, production, distribution and sale of fresh pork and processed meat products, import and distribution of meat products (including pork, beef, poultry and mutton).



1.1. Financial performance

Set out below is a summary of the audited consolidated financial information of the Group for each of the year ended 31 December 2022 (“FY2022”) and 31 December 2023 (“FY2023”) and the unaudited consolidated financial information of the Group for each of the six months ended 30 June 2023 (“HY2023”) and 30 June 2024 (“HY2024”) as extracted from the 2023 Annual Report and the 2024 Interim Report respectively:

	For the six months ended 30 June		For the year ended 31 December	
	2024	2023	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	4,570,820	5,818,410	11,568,322	12,900,684
– Hog production and sales	1,226,591	2,071,204	4,443,555	4,525,875
– Sales of fresh pork	2,063,075	2,086,701	4,141,252	4,743,128
– Sales of processed meat products	376,803	387,853	776,505	756,433
– Sales of imported meat products	904,351	1,272,652	2,207,010	2,875,248
Gross profit/(loss) before biological assets fair value adjustments	(159,252)	376,377	526,047	475,668
Gross profit margin before biological assets fair value adjustments	(3.48)%	6.47%	4.55%	3.69%
Profit/(loss) before biological assets fair value adjustments	(388,720)	168,426	15,806	(319,778)
Profit/(loss) attributable to owners of the Company	251,445	(469,646)	(135,679)	356,674

FY2023 vs FY2022

During FY2023, the Group recorded revenue of approximately RMB11.57 billion, representing a decrease of approximately 10.33% as compared to that for FY2022. According to the 2023 Annual Report, such decrease in revenue was mainly due to (a) the decrease in revenue from hog production and fresh pork business due to the lower domestic hog price and (b) the decrease in revenue from the meat import business as the Company took initiative to reduce pork imports due to the continuous inverted prices of imported frozen pork, combined with lower beef price. The Group recorded a gross profit before biological assets fair value adjustments of approximately RMB526.05 million in FY2023 with a gross profit margin before biological assets fair value adjustments of approximately 4.55% as compared to a gross profit before biological assets fair value adjustments of approximately RMB475.67 million in FY2022 with a gross profit margin



before biological assets fair value adjustments of approximately 3.69%. As set out in the 2023 Annual Report, such increase in gross profit before biological assets fair value adjustments was mainly due to the Company's implementation on cost reduction and efficiency enhancement measures, and reasonable use of the combination of futures and spot commodities business strategy to partially mitigate the adverse effects of spot market downturns. The Group recorded a profit of approximately RMB15.81 million prior to the adjustments in fair value of biological assets for FY2023, as compared to a loss prior to the adjustments in fair value of biological assets of approximately RMB319.78 million for FY2022. As advised by the Management, such turnaround from loss to profit was mainly attributable to the increase in gross profit as discussed above. During FY2023 and FY2022, the adjustment in fair value of biological assets caused the Group's costs of sales to decrease by approximately RMB698.56 million and increase by approximately RMB1,235.73 million respectively. In addition, the impact of agricultural products at fair value less costs to sell at the point of harvest were loss of approximately RMB831.06 million for FY2023 and gain of approximately RMB1,779.94 million for FY2022; and the impact of changes in fair value less costs to sell of biological assets were loss approximately RMB54.31 million for FY2023 and gain of approximately RMB132.50 million for FY2022. Accordingly, the overall net effect of adjustment in fair value of biological assets, which represents impact of the changes in fair value of the biological assets on the financial statements in accordance with the accounting policies of the Company, on profit/(loss) was (i) loss of approximately RMB186.82 million during FY2023 and (ii) gain of approximately RMB676.71 million during FY2022. As a result of the above, the Group recorded a net loss attributable to the owners of the Company of approximately RMB135.68 million for FY2023, as compared to net profit attributable to the owners of the Company of approximately RMB356.67 million recorded for FY2022.

HY2024 vs HY2023

During HY2024, the Group recorded revenue of approximately RMB4.57 billion, representing a decrease of approximately 21.44% as compared to that for HY2023. According to the 2024 Interim Report and as advised by the Management, such decrease in revenue was mainly attributable to the lower year-on-year hog production volume and intentional reduction of meat import business. The Group recorded a gross loss before biological assets fair value adjustments of approximately RMB159.25 million in HY2024 with a negative gross profit margin before biological assets fair value adjustments of approximately 3.48% as compared to a gross profit before biological assets fair value adjustments of approximately RMB376.38 million in HY2023 with a positive gross profit margin before biological assets fair value adjustments of approximately 6.47%. As advised by the Management, such decrease in gross profit margin before biological assets fair value adjustments and the resulting gross loss before biological assets fair value adjustments in HY2024 was mainly due to the hog production business. The Group recorded a loss of approximately RMB388.72 million before biological assets fair value adjustments during HY2024, as compared to the profit of approximately RMB168.43 million before biological assets fair value adjustments during HY2023. As advised by the Management, such change from profit to loss was mainly due to the decrease in revenue



and the decrease in profit margin as discussed above. During HY2024 and HY2023, the adjustment in fair value of biological assets caused the Group's costs of sales to decrease by approximately RMB102.50 million and approximately RMB226.79 million respectively. In addition, the impact of agricultural products at fair value less costs to sell at the point of harvest were loss of approximately RMB48.19 million for HY2024 and loss of approximately RMB359.30 million for HY2023; and the impact of change in fair value less costs to sell of biological assets were gain of approximately RMB583.70 million for HY2024 and loss of approximately RMB521.15 million for HY2023. Accordingly, the overall net effect of adjustment in fair value of biological assets on profit/(loss) was (i) gain of approximately RMB638.02 million during HY2024 and (ii) loss of approximately RMB653.66 million during HY2023. As a result of the above, the Group recorded a net profit attributable to owners of the Company of approximately RMB251.45 million for HY2024, as compared to a net loss attributable to the owners of the Company of approximately RMB469.65 million for HY2023.

1.2. Financial position

Set out below is a summary of the financial position of the Group as at 31 December 2022 (audited), 31 December 2023 (audited) and 30 June 2024 (unaudited) as extracted from the 2023 Annual Report and the 2024 Interim Report respectively:

	As at 30 June 2024 RMB'000	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Total assets	17,039,078	16,230,332	18,394,368
– Current assets	5,450,974	5,120,959	7,383,774
– Non-current assets	11,588,104	11,109,373	11,010,594
Total liabilities	7,548,487	6,984,149	10,131,660
– Current liabilities	6,014,571	6,256,381	9,266,042
– Non-current liabilities	1,533,916	727,768	865,618
Net assets attributable to owners of the Company	9,378,909	9,132,352	8,113,545

31 December 2023 vs 31 December 2022

The Group had net assets attributable to owners of the Company of approximately RMB8.11 billion and RMB9.13 billion as at 31 December 2022 and 31 December 2023 respectively. As advised by the Management, such increase in net assets attributable to owners of the Company from 31 December 2022 to 31 December 2023 was mainly attributable to the share subscription of the Company which took place on 24 March 2023 (details of which are set out in the announcement of the Company dated 24 March 2023).



30 June 2024 vs 31 December 2023

The Group had net assets attributable to owners of the Company of approximately RMB9.38 billion as at 30 June 2024, representing an increase of approximately 2.70% as compared to that as at 31 December 2023. As advised by the Management, such increase in net assets attributable to owners of the Company from 31 December 2023 to 30 June 2024 was mainly attributable to the net profit generated by the Group during the period.

The Group had total assets of approximately RMB17.04 billion as at 30 June 2024, which mainly included (i) approximately RMB9.89 billion of property, plant and equipment; and (ii) approximately RMB3.07 billion of biological assets.

The Company recorded total liabilities of approximately RMB7.55 billion as at 30 June 2024, which mainly included (i) approximately RMB2.93 billion of bank borrowings; and (ii) approximately RMB2.33 billion of loan from related companies.

2. Information on COFCO Industry Investment

As set out in the Board Letter, COFCO Industry Investment is a company established in the PRC in June 2023 with limited liability and a wholly-owned subsidiary of COFCO. COFCO Industry Investment is principally engaged in the investment and corporate management consulting businesses and holds 100% equity interest in COFCO Jiahua (i.e. the Target Company).

3. Information on COFCO

As set out in the Board Letter, COFCO is a wholly state-owned company established in the PRC in September 1952 and is currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. COFCO is principally engaged in grain purchase, wholesale of prepackaged food and edible agricultural products, overseas futures business, import and export business, provision of external consulting services, product, exhibition and technical exchange business, hotel investment management, real estate development and management, property management and agency and leasing of self-owned houses.

4. Information on the Target Company

4.1. Business

The Target Company is a company established in the PRC in January 2018 with limited liability. It is wholly owned by COFCO Industry Investment and is an indirect wholly-owned subsidiary of COFCO. The Target Company is principally engaged in investment holding and holds 100% equity interest in COFCO Feed, which is the principal operating subsidiary of the Target Company.



COFCO Feed is committed to providing customers with comprehensive animal nutrition solutions. Its core business covers research and development, production, sales and supporting technical services of feed products such as pig feed, ruminant feed, poultry feed, aquatic feed and premix. With high-quality products, sound technical services and corporate reputation, the core brands of COFCO Feed, “FEEDING THE FUTURE” (五穀豐登) and “RANKING” (銳科), have gained increasing brand influence, steadily expanding market scale. COFCO Feed has developed into a national animal nutrition solution provider.

In terms of production capacity layout, as at the end of 2023, COFCO Feed has 21 feed processing plants in the PRC. The extensive production capacity layout enables COFCO Feed to better serve many leading breeding groups in the PRC. In terms of research and development strength, COFCO Feed has a professional feed research and development team capable of tailoring scientific animal nutrition solutions to the needs of breeding customers. In terms of market competitiveness, building on favorable word of mouth from customers accumulated over the years, COFCO Feed produced and sold more than 2 million tons of feed in 2023, steadily escalating its industry ranking.

For further details of the Target Company (together with its subsidiaries, the “**Target Group**”), including its main products and future development strategy, please refer to the Board Letter.

4.2. Financial performance

Set out below is a summary of major items from the audited consolidated financial information of the Target Group for each of the year ended 31 December 2021 (“FY2021”), FY2022, FY2023, HY2023 (unaudited) and HY2024, prepared in accordance with the Hong Kong Financial Reporting Standards, details of which are included in Appendix II to the Circular:

	For the six months		For the year ended 31 December		
	ended 30 June		ended 31 December		
	2024	2023	2023	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Revenue	3,247,473	3,922,018	8,496,194	7,679,488	6,980,792
Cost of sales	(2,968,886)	3,658,202	(7,861,607)	(7,219,467)	(6,437,997)
Gross profit	278,587	263,816	634,587	460,021	542,795
Selling and distribution expenses and administrative expenses	(190,614)	(207,059)	(439,256)	(345,295)	(387,523)
Profit before tax	96,910	60,752	202,138	123,678	162,723
Profit and total comprehensive income	74,521	44,145	154,932	95,802	127,924
Attributable to:					
– Owners of the Target Company	65,417	42,899	144,130	94,450	125,361
– Non-controlling interests	9,104	1,246	10,802	1,352	2,563



The following analysis is based on our review of the consolidated financial statements of the Target Group as contained in Appendix II to the Circular and our discussion with the Management and the management of the Target Group.

FY2022 vs FY2021

Revenue of the Target Group increased from approximately RMB6.98 billion in FY2021 to approximately RMB7.68 billion in FY2022, representing an increase of approximately 10.00%. Such increase in revenue was mainly arising from the increase in average selling price of the products. Gross profit of the Target Group of FY2022 amounted to approximately RMB460.02 million, with a decrease of approximately RMB82.77 million from FY2021. Such decrease was mainly due to the rising feed ingredient prices which led to the increase in costs.

The Target Group recorded selling and distribution expenses and administrative expenses of approximately RMB345.30 million during FY2022, representing a decrease of approximately 10.90% as compared to FY2021. The decreases in such expenses during FY2022 was mainly due to the tightening cost control measures implemented by the Target Group.

The Target Group recorded a net profit of approximately RMB95.80 million during FY2022, representing a decrease of approximately 25.11% from FY2021. Such decrease was mainly the result of the increase in raw material price which led to the decrease in gross profit, being partially offset by the better control of selling and distribution expenses and administrative expenses as discussed above.

FY2023 vs FY2022

During FY2023, the Target Group recorded revenue of approximately RMB8.50 billion, with an increase of approximately 10.63% from FY2022. Such increase in revenue was mainly due to the Target Group's development strategies such as "good products and good services" (好產品、好服務) which had good market development effect, leading to the increase in sales volume for the year. Gross profit of the Target Group increased from approximately RMB460.02 million in FY2022 to approximately RMB634.59 million in FY2023. The increase in gross profit during FY2023 was mainly attributable to the increase in revenue as discussed above.

The Target Group recorded selling and distribution expenses and administrative expenses of approximately RMB439.26 million in FY2023, with an increase of approximately 27.21% from FY2022. Such increase was mainly due to the active market development, sales growth and fulfillment of performance incentive plans by the Target Group.

The Target Group recorded a net profit of approximately RMB154.93 million during FY2023, representing an increase of approximately 61.72% from FY2022. Such increase was mainly as a result of the impact of the aforesaid changes.



HY2024 vs HY2023

Revenue of the Target Group amounted to approximately RMB3.25 billion during HY2024, which represents a decrease of approximately 17.20% as compared to revenue of HY2023. Such decrease in revenue was mainly due to the decreases in average selling price and sales volume of the products as a result of sluggish downstream breeding market in HY2024. Gross profit of the Target Group amounted to approximately RMB278.59 million during HY2024, with an increase of approximately RMB14.77 million as compared to HY2023. Such increase was mainly due to the leverage of advantages of raw material procurement and better control of procurement rhythm by the Target Group, which led to the decrease in costs.

The Target Group recorded selling and distribution expenses and administrative expenses of approximately RMB190.61 million in HY2024, representing a decrease of approximately 7.94% as compared to those in HY2023. Such decrease was mainly due to the continuous effort in strengthening cost control by the Target Group.

The Target Group recorded a net profit of approximately RMB74.52 million during HY2024, with an increase of approximately 68.81% as compared to HY2023. Such increase in net profit of the Target Group was mainly due to the overall impact of the increase in gross profit and decrease in selling and distribution expenses and administrative expenses as discussed above.

4.3. Financial position

Set out below is a summary of major items from the audited consolidated statements of financial position of the Target Group as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, prepared in accordance with the Hong Kong Financial Reporting Standards, details of which are included in Appendix II to the Circular:

	As at 30 June 2024 RMB'000	As at 31 December 2023 RMB'000	2022 RMB'000	2021 RMB'000
Total assets	2,457,962	2,662,775	2,619,089	1,804,899
– Non-current assets	836,669	837,236	1,331,738	736,318
– Current assets	1,621,293	1,825,539	1,287,351	1,068,581
Total liabilities	1,027,114	1,243,487	1,383,140	682,041
– Current liabilities	1,024,204	1,240,172	1,351,497	669,576
– Non-current liabilities	2,910	3,315	31,643	12,465
Total equity	1,430,848	1,419,288	1,235,949	1,122,858
– Equity attributable to the owners of the Target Company	1,341,560	1,350,293	1,204,332	1,109,882
– Non-controlling interests	89,288	68,995	31,617	12,976



The following analysis is based on our review of the consolidated financial statements of the Target Group as contained in Appendix II to the Circular and our discussion with the Management and the management of the Target Group.

31 December 2022 vs 31 December 2021

Total assets of the Target Group amounted to approximately RMB2,619.09 million as at 31 December 2022, representing an increase of approximately 45.11% as compared to that as at 31 December 2021. Such increase was mainly due to (i) the increase in cash and bank balances and time deposits of approximately RMB535.58 million; (ii) the increase in property, plant and equipment of approximately RMB77.64 million; (iii) the increase in inventories of approximately RMB112.13 million; and (iv) the increase in accounts receivable of approximately RMB97.77 million. The increases in cash and bank balances and time deposits (including time deposits of RMB500 million, carrying interest rate of 2.65% per annum, with a term of two years maturing at 28-30 December 2024) were mainly due to the profit position and positive cash flow during FY2022. The increase in property, plant and equipment was mainly due to the setting up of two new production plants during FY2022. The increases in inventories and accounts receivable were mainly due to the increase in price and revenue growth during FY2022.

Total liabilities of the Target Group amounted to approximately RMB1,383.14 million as at 31 December 2022, representing an increase of approximately 102.79% as compared to that as at 31 December 2021. Such increase was mainly due to (i) the increase in account and bills payables of approximately RMB178.27 million which was mainly as a result of the increase in price of raw materials; and (ii) the increase in bank borrowings of approximately RMB535.79 million which was mainly for construction of new production plants and replenishment of short term working capital.

Total equity of the Target Group amounted to approximately RMB1,235.95 million as at 31 December 2022, representing an increase of approximately 10.07% as compared to that as at 31 December 2021. Such increase was mainly due to an increase in equity attributable to the owners of the Target Group of approximately RMB94.45 million mainly because of the profit made by the Target Group during FY2022.

31 December 2023 vs 31 December 2022

Total assets of the Target Group amounted to approximately RMB2,662.78 million as at 31 December 2023, which maintained at a similar level as compared to that as at 31 December 2022.

Total liabilities of the Target Group amounted to approximately RMB1,243.49 million as at 31 December 2023, representing a decrease of approximately 10.10% as compared to that as at 31 December 2022. Such decrease was mainly due to (i) the decrease in account and bills payables of approximately RMB128.19 million as a result of decrease in inventories; and (ii) the decrease in bank borrowings of approximately RMB80.95 million as a result of the repayments during FY2023.



Total equity of the Target Group amounted to approximately RMB1,419.29 million as at 31 December 2023, representing an increase of approximately 14.83% as compared to that as at 31 December 2022. Such increase was mainly due to the increase in equity attributable to the owners of the Target Group of approximately RMB145.96 million mainly because of the profit made by the Target Group during FY2023.

30 June 2024 vs 31 December 2023

Total assets of the Target Group amounted to approximately RMB2,457.96 million as at 30 June 2024, representing a decrease of approximately 7.69% as compared to that as at 31 December 2023. Such decrease was mainly due to (i) the decrease in cash and bank balances of approximately RMB130.13 million as a result of the repayment of loans and distribution of dividends by the Target Company; and (ii) the decrease in receivables (including account receivables and amounts due from related parties) of approximately RMB67.57 million as a result of the strengthened accounts receivable management of the Target Group.

Total liabilities of the Target Group amounted to approximately RMB1,027.11 million as at 30 June 2024, representing a decrease of approximately 17.40% as compared to that as at 31 December 2023. Such decrease was mainly due to (i) the decrease in account and bills payables of approximately RMB50.63 million as a result of decrease in inventories; and (ii) the decrease in bank borrowings of approximately RMB171.17 million as a result of the repayments during HY2024.

Total equity of the Target Group amounted to approximately RMB1,430.85 million as at 30 June 2024, which maintained at a similar level as compared to that as at 31 December 2023.

5. *Reasons for and benefits of the Acquisition*

The Group is one of the leading meat enterprises in the PRC whose business and operation cover the entire industry chain which includes feed production, hog production, slaughtering and cutting, production, distribution and sale of fresh pork and processed meat products, import and distribution of meat products (including pork, beef, poultry and mutton). As set out in the Board Letter, the Group has strived to improve its strategic layout, adhering to the core strategic directions on cost dominance, technology-driven and brand leadership, and is committed to building a more competitive meat conglomerate with a comprehensive industry value chain. The Acquisition of the Target Company will enable the Group to enhance its value chain, including the feed business, and accelerate the strategic objectives implementation. We are of the view that the Acquisition is in line with the industry development plan of the PRC government and the Company's development strategy:

- According to the "14th Five-Year Plan on National Animal Husbandry and Veterinary Industry Development" 《“十四五”全國畜牧獸醫行業發展規劃》 published by the Ministry of Agriculture and Rural Affairs of the PRC on 14 December 2021, the expansion of production capacity and supply assurance



capability is one of the key targets of the PRC animal husbandry during the 14th five-year period. The total meat production volume of the PRC animal husbandry is expected to increase by approximately 15% from approximately 77.48 million tons in 2020 to approximately 89.00 million tons in 2025.

- As further mentioned in the “14th Five-Year Plan on National Animal Husbandry and Veterinary Industry Development” 《“十四五”全國畜牧獸醫行業發展規劃》, the PRC government also calls for the establishment of modern breeding system by constructing a whole industry chain of breeding, slaughtering, processing and cold chain logistics, to enhance the development level of the animal husbandry.
- Under the context of the industry development trend, the Group has made continuous effort in expanding its production capabilities. Upon completion of the Acquisition, the Target Group (which is principally engaged in research and development, production, sales and supporting technical services of feed products, and currently a feed supplier of the Group) is expected to provide the Group with stable source of supply of feed, increase the feed sufficiency rate and improve the operation efficiency of the Group.
- The Target Group has been profit making during FY2021, FY2022, FY2023 and HY2024, and has recorded an increase in both revenue and profit after tax for FY2023. Further details of the information of the Target Group, including the financial information, are set out in the section headed “4. Information on the Target Company” of this letter. Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Group. Having considered the aforesaid operating performance of the Target Group, it is expected that the earnings of the Enlarged Group will be enhanced after the completion of the Acquisition. Further analysis on the financial effect of the Acquisition is included in the section headed “8. Financial effects of the Acquisition” in this letter.
- The Group has made continuous business development effort throughout the industry value chain. As set out in the 2024 Interim Report, the Company continued its construction of new capacities for hog production, which was mainly in the advantageous areas of Jilin. In relation to the fresh pork business of the lower cycle, the Company also optimized production capacity layout, with the Pinggu cutting center in Beijing being put into operation in August 2024. The Company has also been accelerating product research and development and enhance channel promotion in order to continuously expand the brand influence of “Joycome”. For further details, please refer to the 2024 Interim Report.



As set out in the Board Letter, the Company considers that the Acquisition will bring in the following benefits:

- (i) *Align with the Group's development strategy to help further enhance its core competitiveness*

The Acquisition is highly aligned with the Group's long-term development strategy. In terms of costs, feed is one of the major components in hog production. The Acquisition will increase the Group's self-sufficiency rate in feed, lowering feed procurement costs and intermediaries expenses, and integrate COFCO Group's sector resources in an in-depth manner, fully leveraging its strengths to realize industrial synergies through market analysis and raw material procurement, thereby effectively reducing breeding costs. In terms of research and development, COFCO Feed has advanced feed processing equipment, a professional research and development team with rich R&D experience, to build good cooperation relations with research institutes. COFCO Feed has precise formulas and proprietary technologies for fine processing to efficiently integrate the evaluation of feed ingredients, optimization of feed formulas and improvement of animal productivity, and is capable of tailoring scientific animal nutrition solutions to the needs of breeding customers. In recent years, COFCO Feed has been committed to the research of new products, processes and ingredients with the aim of quality and efficiency improvement. Various research and development projects have been carried out to apply the results into all types of products and successfully introduced to the market, thus effectively solving the technical problems of breeding customers. The Acquisition will integrate the research and development resources of both parties and further optimize the Group's farming feeds formula by utilizing the research and development experience and capabilities of COFCO Feed, thereby improving breeding efficiency through research and innovation.

Accordingly, the Acquisition will help enhance the core competitiveness of the Group.

- (ii) *Optimize business structure to enhance the business risk-resilient capability*

Before the completion of the Acquisition, the Group's revenue was mainly generated from hogs, fresh pork, processed meat products and imported meat products, which were largely impacted by the cyclical fluctuations of the hog production industry. On the other hand, COFCO Feed's products are diversified, covering various feed categories such as hog, ruminant, poultry and aquatic feeds, and serving many leading breeding groups in the PRC, including Mengniu Dairy, in addition to the Group.

Upon the Acquisition, the Group will be able to further enhance the diversity of its revenue composition. From one end, utilizing different fluctuation cycles of the feed industry and the hog production industry, the Group can effectively reduce the impact of sector cyclicity; on the other end, through the expansion of breeding coverage apart from hog production, such as ruminants, poultry and aquaculture, the Group will further diversify its operational risks and enhance its overall risk-resistant capability.



(iii) Optimize financial indicators and improve profitability

Over the past three years, the annual profit after tax of the Target Group remained within a range of approximately RMB95 million to RMB155 million, with return on equity ranging from 8.1% to 12.1%. Hence, the Acquisition will enhance the profitability of the Group. For illustrative purpose only, upon completion of the Acquisition, the Group's earnings per share (after annualization) and return on equity (after annualization) for the six months ended 30 June 2024 will increase from RMB0.11 to RMB0.14 and from 5.3% to 7.0%, respectively. In addition, the net cash generated from operating activities of the Target Group for the past three years amounted to RMB414 million, RMB145 million and RMB278 million, respectively, maintaining a continuous cash inflow. The Acquisition will further improve the cash flow status of the Group.

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Group. The integration of both parties will further optimize the Group's financial indicators, enhance profitability and cash flow levels, improving the Group's overall competitiveness.

(iv) Enhance the strategic layout of the entire industry value chain, providing momentum to future developments

With its unique advantages in raw material procurement, solid research and development capabilities, stable product quality, professional market-oriented team, good supporting technical services and corporate reputation, as well as influential core brands, namely "FEEDING THE FUTURE (五穀豐登)" and "RANKING (銳科)", COFCO Feed has steadily expanded its market size in recent years and has developed into a national animal nutrition solution provider with promising future development prospects.

Through the Acquisition, the Group will integrate upstream high-quality resources, further improve the strategic layout of the entire industry value chain, strengthen the core strategic directions on cost dominance, technology-driven and brand leadership, gain new development momentum, and accelerate the building of a more competitive meat conglomerate with a comprehensive industry value chain.

Having considered the benefits of the Acquisition as mentioned above and that the Acquisition is in line with the industry development plan of the PRC government and the Company's development strategy, we consider that although the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.



6. *Principal terms of the Acquisition*

Set out below are the principal terms of the Acquisition Agreement, further details of which are set out in the Board Letter.

Date	21 October 2024 (after trading hours)
Parties	The Company (as the buyer); and COFCO Industry Investment (as the seller)
Subject Matter	The seller agreed to sell and the buyer agreed to acquire 100% equity interest in the Target Company.
Consideration	According to the valuation results in the Asset Valuation Report issued by Zhongqihua with 30 June 2024 as the valuation reference date, the consideration for the buyer to acquire 100% equity interest in the Target Company is RMB1,569.0707 million, which was determined after arm's length and amicable negotiation between the parties and on normal commercial terms.
Conditions Precedent to the Closing	The closing shall be conditional upon the following conditions precedent to the closing having been satisfied on or before the date falling 3 months from the date of execution of the Acquisition Agreement (the "Long Stop Date", subject to extension by the parties in writing), provided that the buyer shall have the right, at its sole discretion, to waive in writing any of the conditions precedent to the closing set out in (ii) and (iii) at any time on or before the Long Stop Date: (i) the applicable laws do not prohibit or prevent the completion of the transaction, and no competent governmental authority has issued a final and non-appealable ruling that prohibits or prevents any party from completing the transaction; (ii) all the seller warranties (further details of which are set out in the Board Letter) made by the seller shall be true, accurate, and not misleading in all material respects as of the execution date and the closing date (which shall be the fifth business day following the date on which all conditions precedent to the closing are satisfied or (if applicable) waived by the relevant parties, or such other date as agreed by the parties), as well as at any time between the execution date and the closing date, as if such seller warranties were made on such dates (except for seller warranties that are specifically made as of a particular date, which shall be true and accurate only as of that date);



- (iii) as of the closing date, the seller and COFCO Jiahua, COFCO Feed or their respective subsidiaries have complied with and fulfilled, in all material respects, all the agreements, undertakings, obligations, and conditions to which they are parties;
- (iv) all terms of the Acquisition Agreement have become effective;
- (v) the buyer has obtained an express opinion from the National Development and Reform Commission of the PRC that the transaction is not subject to foreign investment security review or the transaction has passed the foreign investment security review.

Payment

The arrangements for closing and payment of consideration were as follows:

The closing shall take place on the closing date at a place and time agreed by the parties in writing.

Unless otherwise agreed by the parties in writing, each party shall procure the Target Company to apply for registration of change for the equity transfer with the market supervision and administration authority as soon as possible on or after the closing date (no later than ten business days following the closing date), to register the buyer as the sole shareholder of the Target Company holding its 100% equity interest, and obtain the formal written documents issued by the market supervision and administration authority, including the business license certifying that the Target Company has been converted into a foreign-invested enterprise (the “**Business License for Foreign-Invested Enterprise**”).

The buyer shall pay or procure the payment of the entire transaction consideration to the seller in cash within three months from the date on which the Target Company obtains the Business License for Foreign-Invested Enterprise.



7. Assessment of the consideration of the Acquisition

7.1. Valuation of the Target Company

As set out in the Board Letter, the consideration for the Acquisition was based on the valuation results in the Asset Valuation Report issued by the Valuer, namely Zhongqihua, with 30 June 2024 as the valuation reference date.

According to the Asset Valuation Report, the appraised value of 100% equity interest in the Target Company as at 30 June 2024 (the “**Appraised Value**”), being the valuation reference date, amounted to RMB1,569.0707 million. In preparing the Asset Valuation Report, the Valuer selected the asset-based approach to conclude the Appraised Value.

For due diligence purpose, we have reviewed the Asset Valuation Report prepared by the Valuer and have discussed with the Valuer regarding the valuation of the Target Company with details set out below. In the course of our review, we have discussed with the Valuer its scope of work and expertise, and also the methodologies, bases and assumptions adopted in the Asset Valuation Report. Further details of the Asset Valuation Report are set out in Appendix V to the Circular.

(a) Scope of work and qualifications of the Valuer

The Valuer was engaged to prepare the Asset Valuation Report which sets out an independent valuation on 100% equity interest in the Target Company as at the valuation reference date (the “**Independent Valuation**”). The Asset Valuation Report has been prepared in compliance with the relevant professional standards issued by the Ministry of Finance of the PRC and China Appraisal Society.

We have discussed with the Valuer regarding the expertise of the Valuer and the relevant engagement team members. We understand that the Valuer is a qualified PRC asset valuation agency accredited by China Appraisal Society to perform the Independent Valuation and has experience in handling asset valuation exercises for assets within the PRC and around the world. The two responsible signing persons of the Asset Valuation Report have over 15 and 20 years’ industry experience in conducting valuation exercises, respectively. We have also enquired with the Valuer and the Valuer confirmed that it is independent from the Company, the Target Group and COFCO to perform the Independent Valuation under the relevant professional standards.

We have also reviewed the terms of the Valuer’s engagement letter and noted that the purpose of the valuation is to perform a valuation of the market value of the equity interest of the Target Company. The Valuer’s engagement letter also contains standard valuation scopes that are typical of company valuations carried out by independent valuers.



(b) Valuation methodologies

Based on our discussion with the Valuer and review of the Asset Valuation Report, it is noted that the Valuer has concluded the Appraised Value based on the asset-based approach. We understand that the Valuer has considered the three commonly used valuation approaches for valuation of a company, namely the asset-based approach, the market approach and the income approach:

- (1) Asset-based approach: Under the asset-based approach, the value of a company is appraised based on the value of individual assets and liabilities. As the Valuer could obtain the financial and asset information of the Target Group and the required data and information of the asset are readily available, the condition for adopting the asset-based approach is fulfilled. In addition, given that the business of the Target Group would require relatively substantial amount of asset investment, the Valuer has adopted the asset-based approach for the Independent Valuation.
- (2) Income approach: Under the income-approach, the value of a company is appraised based on discounted future cash flows. As the Target Group has been operating in the industry for many years with a stable customers base, the future income can be reasonably projected. The Valuer considers that the condition for adopting income approach is fulfilled. However, due to the impact of the macroeconomic situation, intensified competition in the feed industry, and fluctuations in raw materials, the result of the valuation by the income approach is uncertain. Therefore, income approach is not adopted by the Valuer for concluding the Appraised Value in the Independent Valuation.
- (3) Market approach: Under the market approach, the value of a company is appraised based on comparison with comparable companies and/or transactions. The Valuer was unable to obtain information regarding comparable transactions of similar corporate scale. In addition, the operations of listed companies in related industries include feed, breeding, fresh food and other industrial chain, while the Target Group only engages in the feed industry. Hence, the market approach was not adopted by the Valuer in the Independent Valuation.

(c) Valuation assumptions

We have reviewed the Asset Valuation Report and discussed with the Valuer in respect of the key assumptions adopted for performing the Independent Valuation. We understand from the Valuer that the assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted during the Independent Valuation. We also consider that the assumptions adopted in the Asset Valuation Report are general in nature and we are not aware of any material facts which lead us to doubt the reasonableness of the assumptions adopted by the Valuer.



(d) Details of valuation

We have reviewed the Asset Valuation Report and discussed with the Valuer regarding its work done to arrive at the valuation of different items. We understand from the Valuer that when performing the Independent Valuation based on asset-based approach, the Valuer categorised the assets and liabilities of the Target Company into different categories. Since the Target Company is principally engaged in investment holding and the main operations are carried out by COFCO Feed and its subsidiaries, key assets of the Target Company include, among other things, long-term equity investment which represents its investment in COFCO Feed. At the same time, COFCO Feed also owns long-term equity investments, representing interests in other companies such as its subsidiaries and/or associates. We understand from the Valuer that when valuing long-term equity investments under the asset-based approach, the long-term equity investments will be classified into two categories, namely (1) wholly-owned and controlling long-term equity investments; and (2) non-controlling long-term equity investments. In assessing the valuation of wholly-owned and controlling long-term equity investments (i.e. subsidiaries of the Target Company), the Valuer assessed the value of the entire equity of shareholders in the investees, which was derived at based on valuation of the underlying assets and liabilities of such investees, and then multiply such value by the shareholding percentage to arrive at the value of the long-term equity investments. In other words, under such approach, the Independent Valuation of the Target Company was derived from the individual assets and liabilities of the Target Company and its subsidiaries.

According to the summary of Asset Valuation Report as set out in Appendix V to the Circular, the appraised value of the long-term equity investments represented an appreciation of approximately RMB398 million as compared to its book value. The main reasons for the appreciation of long-term equity investments are as follows: (1) the Target Company accounts for its investees under the cost method, and its book value represents static investment costs, after a period of operation and management, the subordinate investees have accumulated certain profits to varying degrees, resulting in their net assets as at the valuation reference date being higher than their original investment costs; (2) each of the subordinate investees is engaged in the production and sales of feed, and the sale price of the inventory to be sold is higher than the book accounting cost of such inventory; therefore, there is a certain appreciation in inventory as at the valuation reference date; and (3) most of the subordinate investees have production facilities, including their own factories, land and equipment, and there is a certain appreciation of these assets after revaluation.

Further details of the Independent Valuation based on asset-based approach are set out below:

(i) Current assets

Cash and cash equivalents, including bank deposits and other cash and cash equivalents were appraised through checking of bank statements and reconciliation statements etc.



For trade debtors and other receivables, including balances due from related companies, the market value was appraised based on the recoverable amounts. For amounts with likelihood of non-recoverable amounts, the Valuer has estimated the non-recoverable amounts through aging analysis after studying the Target Group's credit policy, customer composition and credit status, and the recovery of receivables in previous years.

For prepayments, the Valuer has enquired the details of the prepayments and checked to the underlying contracts on a sampling basis, and market value was appraised based on book values for those with expected receipt of respective goods and rights.

Inventories of the Target Group comprised of raw materials, work in progress and finished goods. Raw materials were valued based on the market value of the raw materials and the relevant expenses that could reasonably be incurred during purchase, such as transportation and inspection costs. Work in progress was valued based on book values plus reasonable margins. Finished goods were valued based on selling prices (net of tax) and reasonable margins.

For other current assets such as value added tax receivables, the Valuer has checked to the underlying documents and appraised them based on book values.

(ii) Non-controlling long-term equity investments

Non-controlling long-term equity investments of the Target Group represented mainly investments in associates. Such items were appraised based on the net assets value of the underlying associates and the shareholding of the Target Group.

(iii) Buildings

For buildings which were self constructed for the purpose of own use (such as production plants), they were appraised based on replacement cost method. Under the replacement cost method, the Valuer took into account the current status of the assets and the cost to be incurred to replicate such assets.

For buildings which were acquired from the market, they were appraised based on market comparison method. In arriving at the valuation, the Valuer has identified comparable properties and made adjustments based on transaction status, transaction time, regional factors and other individual factors.

(iv) Machineries and equipment

The machineries and equipment were mainly appraised by the replacement cost method based on the nature and characteristics of the equipment, data collection and other relevant conditions, while vehicles and electronic equipment with a second-hand market were valued based on the second-hand market price or realizable amount on the valuation reference date.



(v) Construction in progress

For construction-in-progress in which the main equipment or construction had been recognized as fixed assets while some cost items had not been recognized, if the value is already reflected in the assessed value of fixed assets, the appraised value of such construction-in-progress will be zero.

For construction in progress that started construction within six months from the valuation reference date, the appraised value was based on the reported amount of such projects having deducted any unreasonable expenditures after accounts verification.

For construction in progress that started construction more than six months from the valuation reference date and were under normal construction, unless there were significant price changes in equipment, materials, labor, etc. involved in the investment during the period, the appraised value will be based on the book value after deducting any unreasonable expenses. If the prices of equipment, materials, labor, etc. have changed significantly, the replacement value will be determined based on all the costs required to re-establish the completed work of the project under normal circumstances on the valuation reference date. In the case of severe physical obsolescence depreciation, functional obsolescence depreciation and economic obsolescence depreciation, the various depreciation amounts would also be considered.

(vi) Land use rights

The land use rights were valued by the market comparison method and the benchmark land price coefficient correction method according to the land market conditions in each region.

Under the market comparison method, the Valuer has compared transactions of similar land parcels with the recent period, and adjusted the land price based on the differences in transaction status, dates, regions and individual factors.

Under the benchmark land price coefficient correction method, the Valuer referred to the benchmark land price established by the local government and adjusted the land price based on analysis of various factors affecting the land price.

(vii) Intangible assets

The intangible assets mainly included software purchased and software shared within the COFCO Group.

For software shared within the COFCO Group, the appraised value was based on book value. For software purchased, the appraised value was determined with reference to the market price of such software having deducted the fees associated with any updates.



(viii) Long term deferred expenses

For long term deferred expenses, the Valuer selected and checked the original accounting vouchers, contracts, invoices, etc. to verify and arrive at the market value.

(ix) Deferred tax assets

In determining the appraised value of the deferred tax assets, the Valuer has verified the rationality of the Target Group's various provisions and the rationality and correctness of the formation and calculation of deferred tax debits.

(x) Other non-current assets

Other non-current assets mainly included prepayments made for equipment payments and construction projects. The Valuer has checked the general ledger and statement balances and has checked the equipment purchase contracts, original vouchers and other relevant information.

(xi) Liabilities

The Target Company's liabilities included short-term borrowings, notes payable, accounts payable, employee compensation payable, taxes payable, other payables and contract liabilities. The Valuer had verified the book value based on the details and relevant financial information provided by the Target Company.

(e) Conclusion

Having discussed with the Valuer and reviewed with it the reasons for adopting the various valuation methodologies, the bases and assumptions used for the valuation and the valuation result, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the Appraised Value as at the valuation reference date are in line with the industry practice. In assessing the fairness of the consideration, we consider it is appropriate to refer to the Independent Valuation conducted by the Valuer in respect of the Appraised Value.

7.2. Comparable companies

In assessing the fairness and reasonableness of the consideration of the Acquisition, we consider that it is appropriate to perform an analysis of comparable companies based on the trading multiples, such as price to earnings ("P/E") ratio and price to book ("P/B") ratio which are commonly adopted analysis in analyzing the fairness and reasonableness of consideration. In this regard, we have performed a search on Bloomberg terminal for listed companies which are principally engaged in similar line of business as the Target Group, being the production and sales of feeds in the PRC and derived more than 50% of their revenue from such business based on their respective latest annual reports available as at the date prior to the Latest



Practicable Date. To the best of our knowledge and endeavour and as far as we are aware of, we found 9 listed companies which met our selection criteria (the “Comparable Companies”) and they are exhaustive. Details of the P/E and P/B ratios of the Comparable Companies are set out below:

Comparable Companies	P/E ratio (note 1)	P/B ratio (note 1)
Hunan Zhenghong Science and Technology Develop Co., Ltd. (stock code: SZ000702)	N/A (note 2)	6.90
Guangdong Yuehai Feeds Group Co. Ltd. (stock code: SZ001313)	126.07	2.00
Boen Group Co., Ltd. (stock code: SZ001366)	38.70	2.28
Guangdong Haid Group Co., Limited (stock code: SZ002311)	28.39	3.51
Beijing Dabeinong Technology Group Co., Ltd. (stock code: SZ002385)	N/A (note 2)	2.31
Shenzhen Kingsino Technology Co., Ltd. (stock code: SZ002548)	N/A (note 2)	2.27
Tangrenshen Group Co., Ltd. (stock code: SZ002567)	N/A (note 2)	1.31
Shandong Teamgene Technology Co., Ltd. (stock code: SH603151)	22.83	1.55
Fujian Tianma Science and Technology Group Co., Ltd. (stock code: SH603668)	N/A (note 2)	2.69
Maximum	126.07	6.90
Minimum	22.83	1.31
Median	33.54	2.28
Average	54.00	2.76
The Acquisition	10.89 (note 3)	1.17 (note 4)

Notes:

1. The P/E ratios of the Comparable Companies are calculated based on their respective closing prices as quoted on the Shenzhen Stock Exchange/the Shanghai Stock Exchange as at the Latest Practicable Date, divided by their respective net profit attributable to the owners of the company for FY2023 per share (based on their total issued shares as at 31 December 2023). The P/B ratios of the Comparable Companies are calculated based on their respective closing prices as quoted on the Shenzhen Stock Exchange/the Shanghai Stock Exchange as at the Latest Practicable Date, divided by their respective net assets to the owners of the company per Share as at 30 September 2024 (based on their total issued shares as at 30 September 2024).
2. The subject company recorded loss attributable to the owners of the company during the latest financial year (i.e. FY2023).
3. The implied P/E ratio of the Acquisition is calculated based on the Acquisition consideration and the audited profit attributable to the owners of the Target Company for FY2023.
4. The implied P/B ratio of the Acquisition is calculated based on the Acquisition consideration and the audited net assets to the owners of the Target Company as at 30 June 2024.



As shown in the table above, 5 out of 9 Comparable Companies have been loss making during the latest financial year. For the remaining 4 Comparable Companies, the P/E ratios vary greatly with a range of approximately 22.83 to approximately 126.07. The implied P/E ratio of the Acquisition is lower than the P/E ratios of the Comparable Companies.

Given the relatively small sample size and wide range of the P/E ratios of the Comparable Companies, we consider that it is more meaningful to consider the P/B ratios of the Comparable Companies for our analysis. The P/B ratios of the Comparable Companies range from approximately 1.31 to approximately 6.90, with a median of approximately 2.28. The implied P/B ratio of the Acquisition of approximately 1.17 is lower than the range of P/B ratios of the Comparable Companies. In this regard, we consider that the consideration of the Acquisition is not over-valued as compared to the Comparable Companies and is favorable to the Company.

7.3. Conclusion

Taking into account (i) that the consideration was based on the valuation results of the Asset Valuation Report issued by the Valuer, (ii) our view regarding the Independent Valuation as concluded in the sub-section 7.1(e) above, and (iii) the implied P/E and P/B ratios of the Acquisition are lower than the range of P/E and P/B ratios of the Comparable Companies respectively, we are of the view that the consideration for the Acquisition is fair and reasonable.

8. Financial effects of the Acquisition

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group, as if the Acquisition had been completed on 30 June 2024, is set out in Appendix IV to the Circular. Set out below is the analysis on the financial effects of the Acquisition on the Group based on the unaudited pro forma financial information of the Enlarged Group and our discussion with the Management.

(i) Assets, liabilities and net assets

As at 30 June 2024, the Group had total assets, total liabilities and net assets of approximately RMB17.04 billion, RMB7.55 billion and RMB9.49 billion respectively. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, as if the Acquisition had been completed on 30 June 2024, the unaudited pro forma total assets and total liabilities of the Enlarged Group would increase to approximately RMB19.11 billion and RMB9.77 billion respectively, while the net assets of the Enlarged Group would decrease to approximately RMB9.34 billion.



(ii) Total liabilities to total assets ratio and liquidity

As at 30 June 2024, the total liabilities to total assets ratio of the Group was approximately 44.30%. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, as if the Acquisition had been completed on 30 June 2024, the liabilities-to-assets ratio of the Enlarged Group would increase to approximately 51.11%.

The Group had cash and bank balances of approximately RMB506.89 million as at 30 June 2024. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, the cash and bank balances would decrease to approximately RMB457.57 million as if the Acquisition had been completed on 30 June 2024 (assuming that the consideration of the Acquisition had been settled in full amount, with no adjustments, on 30 June 2024 and the settlement had been funded by interest-bearing borrowings of RMB1,255 million and internal fund of RMB314 million).

We are aware of the increase in total liabilities to total assets ratio and decrease in cash and bank balances of the Enlarged Group as just mentioned. Nonetheless, we consider that the foregoing should be balanced by the benefits of the Acquisition (details of which are set out in the section headed “5. Reasons for and benefits of the Acquisition” of this letter). As mentioned above, the Target Group has been profit making during FY2021, FY2022 and FY2023; and has recorded an increase in both revenue and profit after tax for FY2023. The Target Group has also generated net cash from operations during each of FY2021, FY2022, FY2023 and HY2024. The operation and financial performance of the Target Group are expected to contribute to the Enlarged Group.

According to the “Working Capital Statement” as contained in Appendix I of the Circular, the Directors are of the opinion that taking into account the Group’s internal resources, operating cash flow, financing instruments and the impact of the Acquisition, and in the absence of unforeseen circumstances, the Group will have sufficient working capital to meet its present requirements for a period of 12 months from the date of the Circular.

(iii) Earnings

Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the results of the Target Group will be consolidated into that of the Group. As the Target Group has been profit-making for the three years ended 31 December 2021, 2022 and 2023 and for the six months ended 30 June 2024, it is expected that the Acquisition will enhance the profitability of the Group.



B. THE CONTINUING CONNECTED TRANSACTIONS

I. The Procurement Transactions

1. Reasons for and benefits of the Procurement Transactions

The 2024 Mutual Supply Agreement represents a continuation of the 2021 Mutual Supply Agreement. According to the Board Letter, the products and services provided by COFCO Group, which mainly include feed ingredients, feed production material and/or products, meat products, warehousing and other operation related products and services, were used for the production and operation of the Group.

The central reserved meat is one of the products to be provided by COFCO Group to the Group under the 2024 Mutual Supply Agreement. According to the Board Letter, when the supply in the hog and pork market is tight and the price rises significantly, the Chinese government will sell central reserved meat to the market through the subsidiaries of COFCO to promptly increase the market supply, and the Group can participate in the bidding and make purchases in a market-oriented manner and at an appropriate price. When there is an oversupply of hog and pork in the market and the price drops significantly, the Chinese government will purchase central reserved meat from the market through the subsidiaries of COFCO.

We understand from the Management that the Group has maintained good and stable business relationship with COFCO Group in the past few years. The Procurement Transactions are expected to provide the Group with a stable supply of raw materials and services required for the production and operation, which will benefit the Group's business development. In addition, as advised by the Management, the Target Group has also been procuring feed ingredients from COFCO Group. Upon the completion of the Acquisition, the Procurement Transactions will also be vital to the Enlarged Group, in particular in ensuring stable supply of raw material for feed production of the Target Group.

Taking into account the above, in particular that (i) the Procurement Transactions are in line with the Group's principal business; (ii) the products and services provided by COFCO Group enable the Group to obtain stable supply of raw materials and services required for the production and operation; and (iii) the Procurement Transactions would ensure stable supply of raw material for feed production of the Target Group, we concur with the Directors that the Procurement Transactions are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.



2. *Principal terms of the Procurement Transactions*

The Procurement Transactions are part of the transactions to be contemplated under the 2024 Mutual Supply Agreement which was entered into between the Company and COFCO on 21 October 2024. The validity period of the 2024 Mutual Supply Agreement is from 1 January 2025 to 31 December 2027, subject to Independent Shareholders' approval at the EGM. Further details of the Procurement Transactions are set out in the section headed "2024 Mutual Supply Agreement" of the Board Letter and the key terms of the Procurement Transactions are set out below:

Details of the transactions: Under the 2024 Mutual Supply Agreement:

COFCO Group provides the Group with the following products and services, including:

- (1) COFCO Group provides the Group with feed ingredients, including but not limited to corn, soybean meal, soybean oil, wheat, grain by-products (such as rice bran meal, ground rice, bran, etc.) and other materials and/or products used for feed production; and
- (2) COFCO Group provides the Group with meat products, warehousing and other products and services; specifically, the meat products provided by COFCO Group to the Group represent central reserved meat.

Pricing Policy: The prices for the provision of the products and services between the Group and COFCO Group were determined with reference to the prevailing market prices of identical or similar products and services by the relevant parties on a fair and reasonable basis after arm's length negotiation.

For the Procurement Transactions, when determining the prevailing market prices of products and services provided by COFCO Group to the Group, the Group will obtain the prevailing market prices through various channels, if applicable, including (a) recent comparable transactions involving Independent Third Parties; (b) obtaining quotations on products or parts or processes composing quotations from at least two suppliers (including COFCO Group and/or its associates) by making enquiries via e-procurement system, e-mail, telephone, etc.; and (c) obtaining market data through channels such as Dalian Commodity Exchange (www.dce.com.cn), Sublime China Information (www.sci99.com), www.boyar.cn, Wind Data and National Grain Trade Center (www.grainmarket.com.cn). In respect of the sale of central reserved meat by COFCO Group to the Group, the price is determined upon price



bidding by the participating enterprises, including the Group, through the electronic system of Beijing China Merchandise Reserve Exchange and is not higher than the price of identical or similar products purchased from Independent Third Parties by the Group during the same period.

The specific pricing policies for the purchase of products and services by the Group from COFCO Group are disclosed in the sub-section headed “Pricing Policy” under the section headed “2024 Mutual Supply Agreement” of the Board Letter.

Assessment of the terms of the Procurement Transactions

Based on our discussion with the Management regarding the pricing policies of the Procurement Transactions, we noted that in determining the prices of the products and services to be provided by COFCO Group to the Group, the Group would take into account the prevailing market prices of the products and services obtained from various channels (if applicable); and in particular, the Group would obtain quotations for comparable products/services and launch bidding processes for the selection of suppliers. For our due diligence purpose, we have obtained (a) individual agreements; and (b) the relevant bidding/quotation related documents, regarding the procurement of (i) feed ingredients, (ii) warehousing and other products and services, and (iii) central reserved meat by the Group from COFCO Group during 2022 to 2024. For each of the transaction type, one set of documents, including the individual agreement with COFCO Group together with the corresponding bidding/quotation related documents were obtained for each of 2022, 2023 and 2024. As the relevant documents cover different types of historical Procurement Transactions of the Group throughout the term of the 2021 Mutual Supply Agreement, we consider such documents to be fair and representative. We noted from the said documents that (i) for the purchase of feed ingredients and central reserved meat, the purchase prices of the Group from COFCO Group were determined by the bidding process; (ii) for the procurement of warehousing service (the Group had not procured warehousing from COFCO Group during 2024, only transactions in 2022 and 2023 were reviewed), the price paid by the Group to COFCO Group were lower than the prices quoted by other Independent Third Parties for comparable warehousing facilities for 2022; while the Group could not locate appropriate warehousing facilities from Independent Third Parties for 2023, the pricing terms of the transactions with COFCO Group were determined based on those in 2022 with inflation adjustment; and (iii) for procurement of other products and services, the prices paid by the Group to COFCO Group were lower than the prices quoted by other Independent Third Parties for similar products and services (“**Our Findings on the Historical Procurement Transactions**”).

In view of the above, we are of the view that the terms of the Procurement Transactions are on normal commercial terms and are fair and reasonable.



3. *Proposed annual caps of the Procurement Transactions*

Set out below are (i) the historical annual caps for FY2022, FY2023 and the year ending 31 December 2024; (ii) the historical transaction amounts for FY2022, FY2023 and the nine months ended 30 September 2024; and (iii) the proposed annual caps for each of the three years ending 31 December 2025, 2026 and 2027, for the Procurement Transactions as extracted from the Board Letter:

	For the year ended 31 December 2022 RMB'00,000,000	For the year ended 31 December 2023 RMB'00,000,000	For the year ending 31 December 2024 RMB'00,000,000
Historical annual cap(s)	36.32	48.33	55.01
Historical transaction amounts	19.53	19.08	8.39 (note)
Utilisation rate (%)	53.77	39.48	N/A
	For the year ending 31 December 2025 RMB'00,000,000	For the year ending 31 December 2026 RMB'00,000,000	For the year ending 31 December 2027 RMB'00,000,000
Proposed annual cap(s) (the “ Proposed Procurement Cap(s) ”)	42.80	54.19	62.56

Note: for the nine months ended 30 September 2024

We noted that the utilization rates of the historical annual caps of the Procurement Transactions were relatively low for each of the two years ended 31 December 2022 and 2023. As advised by the Management, the entering into of the Procurement Transactions were determined by the Group based on, among other things, the market conditions and terms of the products and services available. In particular, the suppliers and terms of the procurement of products and services by the Group would be determined through quotation or tender process, and being affected by the then market conditions. The Procurement Transactions would only be entered into by the Group when considered favourable.

In arriving at the Proposed Procurement Caps, the Directors have considered the factors as stated under the sub-section headed “Basis for Determining the Proposed Annual Caps” under the section headed “2024 Mutual Supply Agreement” of the Board Letter. For our due diligence purpose, we have obtained and reviewed the calculation of the Proposed Procurement Caps for each of the three years ending 31 December 2025, 2026 and 2027, and have discussed with the Management regarding the basis of the same.



Based on the calculation, we noted that the Proposed Procurement Caps were determined based on the estimated transaction amounts of different types of transactions (including the procurement of feed ingredients, warehousing service, central reserved meat and other products and services) for the each of the three years ending 31 December 2025, 2026 and 2027. As advised by the Management, the Proposed Procurement Caps had been determined after taking into account the impact of the Acquisition, and the estimated transaction amounts of such transactions were considered and estimated by various business departments of the Group and the Target Group.

(i) Feed ingredients

According to the calculation, majority of the estimated transaction amounts were attributable to the transactions relating to the procurement of feed ingredients, representing over 97% of the purchase under the Procurement Transactions for each of the three years ending 31 December 2025, 2026 and 2027. The transaction amounts of feed ingredients procurement for each of the three years ending 31 December 2025, 2026 and 2027 were determined based on, (a) the estimated quantity for respective types of feed ingredients (such as corn and wheat, soybean meal and other materials) required for the Group's hog production business based on the hog production volume of the Group and the feed ingredients formula (after deducting the amount of external procurement of feeds) and the proportion of feed ingredients to be purchased from the COFCO Group (excluding the Target Group); (b) the estimated quantity for respective types of feed ingredients (such as corn and wheat, soybean meal and other materials) required based on the planned feed sales volume of the Target Group, the feed ingredients formula and the proportion of feed ingredients to be purchased from the COFCO Group (excluding the Group); and (c) the estimated unit prices for the respective types of feed ingredients (which were assumed to be constant during the three years ending 31 December 2027, and were within the range of the historical unit prices of the respective types of feed ingredients purchased by the Group during FY2022 and FY2023).

(ii) The remaining products and services

According to the calculation, the remaining less than 3% of the estimated transaction amounts relate to the procurement of warehousing service, central reserved meat and other products and services.

In determining the estimated transaction amounts for the procurement of warehousing services for each of the three years ending 31 December 2025, 2026 and 2027, the Company took into account (i) the business segment of the Group which requires the warehousing services; (ii) the average historical demand (in terms of quantity) of such services during 2022 to 2024 of such business segment, plus an estimated annual growth rate to cater for the business growth of the segment; and (iii) the historical unit costs of warehousing services during FY2023, plus an estimated annual growth rate to cater for the potential increase in warehousing costs.



In determining the estimated transaction amounts for the purchase of central reserved meat for each of the three years ending 31 December 2025, 2026 and 2027, the Company took into account (i) the historical price range of central reserved meat; and (ii) the estimated quantity of purchase based on the Management's estimation with reference to the government policy and the historical bidding record regarding the purchase of central reserved meat. We understand from the Management that the Group expects to win the tender of 2,400 tons of central reserved meat annually during each of the three years ending 31 December 2025, 2026 and 2027. We have further reviewed and discussed with the Management the Group's participation in tender of central reserved meat and noted that the amount of 2,400 tons was determined based on the Group's tender participation record in the past.

According to the calculation, the estimated transaction amounts for other products and services included testing kits, uniforms and other miscellaneous fees and expenses. As advised by the Management, such amounts were estimated based on the business needs of the relevant business departments.

Taking into account the above, we consider that the Proposed Procurement Caps are fair and reasonable.

II. The Deposit Services

1. Reasons for and benefits of the Deposit Services

According to the Board Letter, COFCO Finance is a non-banking financial institution and an indirect wholly-owned subsidiary of COFCO established in the PRC since 2002 with the approval of PBC. It is subject to the supervision of National Financial Regulatory Administration. According to the business license, COFCO Finance is authorised to provide services such as (a) the provision of financial and financing consultation services, credit appraisal and relevant consulting services and agency business services; (b) assisting implementation of payables and receivables of the transaction amounts; (c) handling of deposits, loans and bills acceptance and discounting; (d) conducting settlements and other relevant settlements; and (e) the provision of loans.

As mentioned in the Board Letter, the PRC laws do not permit companies, including subsidiaries and associates, other than regulated financial institutions, to extend intra-group loans directly. Any such loan must be directed through a regulated financial institution. COFCO Finance is a non-banking financial institution approved and regulated by PBC and National Financial Regulatory Administration, and is authorised to provide various kinds of financial services to COFCO and its members in the PRC, including deposit-taking and loan services. COFCO Finance is also authorised to provide to the Group all services set out in the 2024 Financial Services Agreement.



As confirmed by the Management, COFCO Finance is required to operate in compliance with 《企業集團財務公司管理辦法》 (Administrative Measures for the Group Finance Companies*) (the “**Administrative Measures**”) promulgated by China Banking and Insurance Regulatory Commission (the role of which is now covered by National Administration of Financial Regulation). The Administrative Measures regulate the operation of non-banking financial institutions which provide financial management services to the enterprise group member entities. The Administrative Measures set out certain compliance and risk control requirements/measures in relation to the operation of group finance companies, including but not limited to maintaining certain financial ratios at all times.

As advised by the Management, thanks to the long-term relationship between COFCO Finance and the Group, COFCO Finance has in-depth understanding about the Group’s business and is able to provide high quality services to meet the Group’s demand. In addition, COFCO has provided the undertakings to the Company in connection with the 2024 Financial Services Agreement (the “**Undertakings**”), pursuant to which COFCO undertakes to the Company that (a) it will maintain its actual control over COFCO Finance and ensure that COFCO Finance operates in compliance with regulations; (b) it shall use its best endeavors and take all possible reasonable means to ensure that COFCO Finance will fulfill its obligations under the 2024 Financial Services Agreement; and (c) in the event of an urgent situation where COFCO Finance encounters payment difficulties, it undertakes to increase the corresponding capital of COFCO Finance in accordance with the actual needs for resolving the payment difficulties. We consider that the Undertakings provide security and comfort to the Company by reducing the default risks of COFCO Finance under the 2024 Finance Services Agreement.

According to the Board Letter, the main reasons for the Group to procure the Deposit Services from COFCO Finance are as follows:

- (a) the use of COFCO Finance as a vehicle to manage the funds of the Group would allow the Group to conduct more efficient deployment of funds among members of the Group;
- (b) the interest rates on the Deposit Services offered by COFCO Finance to the Group will be equal to or more favourable than, on a case by case basis, those offered to the Group by any third party;
- (c) COFCO Finance is regulated by PBC and National Financial Regulatory Administration, and it provides services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, capital risk can be controlled through the implementation of the risk control measures as stipulated in the 2024 Financial Services Agreement (details of which are set out in the section headed “2. Principal terms of the Deposit Services” below);
- (d) the Group is expected to benefit from COFCO Finance’s better understanding of the Group’s operations, which should render more expedient and efficient services than other commercial banks in the PRC;



- (e) the Undertakings from COFCO will provide security and comfort to the Company, and reduce the risks which the Group may be exposed to in the event of default of COFCO Finance under the 2024 Financial Services Agreement;
- (f) pursuant to the relevant regulations of PBC and National Financial Regulatory Administration, the customers of COFCO Finance are limited to the group members of COFCO, which effectively reduces the potential risks that COFCO Finance may otherwise be exposed to if its customers include other entities unrelated to COFCO;
- (g) the arrangements under the 2024 Financial Services Agreement would promote liquidity among the Group, which will facilitate the settlement business of the members of the Group, enhance the overall ability of the Group to repay debts, and assist in monitoring and controlling financial risks;
- (h) the arrangements under the 2024 Financial Services Agreement would help reduce finance costs, accelerate the turnover of capital and reduce trading costs and expenses, thus enhancing the profitability of the Group;
- (i) the arrangements under the 2024 Financial Services Agreement would allow for prompt and accurate monitoring and regulation of the application of funds within the Group, thus enhancing the capital management and control of the Group; and
- (j) COFCO Finance has maintained good working relationship with the Group and its members over the years and their continuous cooperation can ensure higher work efficiency.

Taking into account the above, we concur with the Directors that, although the Deposit Services are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Deposit Services

The Deposit Services are part of the transactions to be contemplated under the 2024 Financial Services Agreement which was entered into among the Company, COFCO Meat and COFCO on 21 October 2024. The validity period of the 2024 Financial Services Agreement is from 1 January 2025 to 31 December 2027, subject to Independent Shareholders' approval at the EGM. Further details of the Deposit Services are set out in the section headed "2024 Financial Services Agreement" of the Board Letter and the key terms of the Deposit Services are set out below:

Details of the transactions: COFCO Finance will provide Deposit Services to the Group pursuant to the 2024 Financial Services Agreement. The Group will open and maintain deposit accounts with COFCO Finance.



The interest rates for the Group's deposits with COFCO Finance will be determined in accordance with the standard deposit rates promulgated by PBC from time to time. The Company will check for the standard deposit rates promulgated by PBC each month, and the interest rates on the Deposit Services to be offered by COFCO Finance to the Group will not be lower than the interest rates offered by the Major PRC Commercial Banks for the same level of deposits of the same period.

Termination:

Save as described below, the 2024 Financial Services Agreement shall not be terminated by any party unilaterally. In addition to the default events provided by the Civil Code of the PRC, the 2024 Financial Services Agreement will be terminated with immediate effect if COFCO Finance fails to satisfy any operation condition as follows:

- (a) the capital adequacy ratio is not less than 10.5%;
- (b) the non-performing assets ratio is not more than 3%;
- (c) the non-performing loan ratio is not more than 2%;
- (d) the net fixed assets shall not be more than 20% of net capital; or
- (e) the ratio of investment balance to net capital is not more than 70%.

COFCO Finance has established a complete internal control system to ensure that it operates properly and its indicators meet relevant requirements. In addition, COFCO Finance will submit monthly regulatory statements to the Beijing Regulatory Bureau of the National Financial Regulatory Administration and prepare monthly accounting statements to ensure that operating conditions are met. The Company also requires COFCO Finance to provide the Company with a quarterly audit report on the internal control for risk management prepared by a Chinese certified public accountant to stay up-to-date on COFCO Finance's operating conditions.

Upon termination of the 2024 Financial Services Agreement, the Group may withdraw all deposits with COFCO Finance at any time.



Assessment of the terms of the Deposit Services

According to the Board Letter, with respect to the Group, an internal integrated assessment mechanism on the deposit rates will be established based on fair market principle. The rates offered by the Major PRC Commercial Banks will change accordingly after a change in the standard rates promulgated by PBC. The interest rates of deposit of the Major PRC Commercial Banks are determined according to the standard rates promulgated by PBC from time to time which are fairly stable and will fluctuate according to the situations of the customers. The interest rates of deposit of the Major PRC Commercial Banks are displayed on their websites, which are open for public search. Prior to placing deposits to COFCO Finance, the Company will seek the interest rates quotation from the Major PRC Commercial Banks to make the strategic decisions on the deposits services. The interest rates for the Deposit Services offered by COFCO Finance to the Group will be no less favourable than those offered by the Major PRC Commercial Banks.

According to the Board Letter, the Group and COFCO Finance had taken certain specific measures in relation to the Deposit Services. The internal integrated assessment will be conducted by the treasury cashiers, head of treasury, fund managers and financial managers of the finance department of the Company. With respect to COFCO Finance, a risk management committee and an independent audit department have been established to, among other things, review the Deposit Services. Details of the measures were set out under the sub-section headed “Pricing Policy” under the section headed “2024 FINANCIAL SERVICES AGREEMENT” of the Board Letter. We consider the effective implementation of such measures would help to ensure fair pricing of the Deposit Services according to the pricing policy.

For our due diligence purpose, we have also obtained from the Company deposit records regarding deposits by the Group at COFCO Finance (which included both current deposits and term deposits) during 2021 to 2024 and searched for the interest rates offered by certain of the Major PRC Commercial Banks during the relevant period. For each type of deposit, one set of deposit record was obtained during each of 2022, 2023 and 2024. As the deposit records cover different types of previous deposits of the Group throughout the term of the 2021 Financial Services Agreement, we consider such documents to be fair and representative. We noted from the said documents that the interest rates for the Group’s deposits were higher than the interest rates offered by the relevant Major PRC Commercial Banks under review for the same type of deposits of the same period (“**Our Findings on the Historical Deposit Records**”).

Having consider the above, we are of the view that the terms of the Deposit Services are on normal commercial terms and are fair and reasonable.



3. *Proposed annual caps of the Deposit Services*

Set out below are (i) the historical annual caps for FY2022, FY2023 and the year ending 31 December 2024; (ii) the historical transaction amount (i.e. the historical maximum daily deposit amounts (including interest accrued thereon)) for FY2022, FY2023 and the nine months ended 30 September 2024; and (iii) the proposed annual caps (i.e. the maximum daily deposit amounts (including interest accrued thereon)) for the three years ending 31 December 2025, 2026 and 2027 for the Deposit Services as extracted from the Board Letter:

	For the year ended 31 December 2022 RMB'00,000,000	For the year ended 31 December 2023 RMB'00,000,000	For the year ending 31 December 2024 RMB'00,000,000
Historical annual cap(s)	15	18	20
Historical amounts	12.42	13.32	11.92 (note)
Utilisation rate (%)	82.80	74.00	59.55
	For the year ending 31 December 2025 RMB'00,000,000	For the year ending 31 December 2026 RMB'00,000,000	For the year ending 31 December 2027 RMB'00,000,000
Proposed annual cap(s) (the "Proposed Deposit Cap(s)")	30	30	30

Note: for the nine months ended 30 September 2024

In arriving at the Proposed Deposit Caps, the Directors have considered the factors as stated under the sub-section headed "Basis for Determining the Proposed Annual Caps" under the section headed "2024 FINANCIAL SERVICES AGREEMENT" of the Board Letter. For our due diligence purpose, we obtained and reviewed the calculation of the Proposed Deposit Caps for each of the three years ending 31 December 2025, 2026 and 2027.

According to the calculation, the Proposed Deposit Caps include the principal component and the interest component. For the principal component, we noted that the estimated maximum balances for each of the three years ending 31 December 2027 were determined with reference to (i) the estimated funds required for the Group's operating, financing and investment activities and (ii) the estimated funds from the Target Group. According to the calculation and as advised by the Management, for each of the three years ending 31 December 2025, 2026 and 2027 (i) the estimated funds required for the Group's operating activities (i.e. the daily reserved funds required to meet the daily business needs of the Group), with a daily reserve limit of approximately RMB650 million, were determined based on (a) the funds required for settlement of products and services as incurred in the previous year, taking into



account the potential growth based on the business needs and plan of the Group (the “**Potential Business Growth**”) and (b) the expected capital turnover of the Group taking into account the business nature and operation of the Group; (ii) the estimated funds required for the Group’s financing activities (i.e. the reserved funds for monthly repayment of the Group’s outstanding short term borrowings), with a monthly repayment peak of approximately RMB850 million, were determined with reference to the amount of short term borrowings as at the end of the previous year, taking into account the potential growth based on the business needs and plan of the Group (i.e. the Potential Business Growth); (iii) the estimated funds required for the Group’s investment activities, with a monthly investment peak of approximately RMB500 million, were determined based on the estimated annual investment budgets of the Group; and (iv) the estimated funds from the Target Group for each of the three years ending 31 December 2025, 2026 and 2027 which were determined based on the maximum daily balance (including principal and interests) of the deposits of the Target Group and is expected to be approximately RMB1.0 billion. For our due diligence purpose, (i) we have further inquired into the Management on the basis for the Potential Business Growth. As advised by the Management, the Group plans to continue increasing its production capacity and the Potential Business Growth caters for the Group’s needs in financing and daily operation; and (ii) for the estimated funds from the Target Group for each of the three years ending 31 December 2025, 2026 and 2027, we have reviewed the amount of liquid current assets of the Target Group as at 30 June 2024 and considered that the estimated funds from the Target Group applied in the calculation is justifiable. Accordingly, we consider the estimation by the Management to be justifiable.

For the interest component, we noted that the estimated transaction amounts for each of the three years ending 31 December 2025, 2026 and 2027 were determined with reference to (i) the maximum daily deposit amount in the year and (ii) estimated interest rate. As advised by the Management, in determining the interest component, the maximum possible interest amounts (based on the highest historical interest rate during the term of the 2021 Finance Services Agreement) were computed for prudence sake. In this regard, we noted that the highest deposit interest rate of the Group at COFCO Finance was in line with the interest rate adopted in the calculation.

Taking into account the above, we consider that the Proposed Deposit Caps are fair and reasonable.

III. Internal Control, Review And Conditions For The Continuing Connected Transactions

According to the Board Letter, the Company has established (1) reporting, approval and, if required, selected verification procedures in place to ensure that the agreed price and terms of continuing connected transactions are no less favorable to the relevant member(s) of the Group than those available to or from (as appropriate) Independent Third Parties and also compliance with the pricing policy; and (2) procedures and policies for identifying connected persons and monitoring the annual caps of the continuing connected transactions. The legal department of the Group is responsible for identifying the Group’s connected persons from new customers or suppliers on a monthly basis and updating the list of connected persons in a timely manner. The finance department of the Group will then monitor the actual transaction amounts



with connected persons on a monthly basis to ensure that such amounts do not exceed the relevant annual caps. When the actual transaction amounts almost reach the allowable annual caps, the legal department and the finance department will notify all relevant departments and report to the Board when necessary for it to consider revising the annual caps, in order to comply with the relevant provisions of the Listing Rules and the Group's internal policies.

In relation to the Deposit Services, according to the Board Letter, in order to ensure that the annual caps set for the Deposit Services are not exceeded:

- (a) a daily funds report will be issued every morning by the treasury cashiers on the amount of deposits and the situation of change in funds. The head of treasury and the financial manager can adjust the funds strategy according to the daily funds report;
- (b) the head of treasury will compile a 20-calendar-day rolling capital forecast every week which could reduce the incidence of liquidity excess;
- (c) the fund manager will compile the monthly fund plan at the beginning of each month to arrange the monthly fund balance in advance and make arrangements for the Group's deposits, to make sure that the annual caps will not be exceeded; and
- (d) internal control reports on the risk management issued by COFCO Finance quarterly will be reviewed by the Company.

As set out in the 2023 Annual Report, the Company attaches great importance to the building and improvement of the risk management and internal control system. The Board reviews and evaluates the effectiveness of the internal control and risk management system of the Company two times a year. For FY2023, the Board completed the review and evaluation of the effectiveness of the internal control and risk management system of the Company and considered it is effective and adequate (the **"Company's Review on Internal Control"**).

According to the Company's 2022 annual report and 2023 Annual Report, the independent non-executive Directors have reviewed relevant continuing connected transactions of the Company (including the transactions contemplated under the 2021 Mutual Supply Agreement and the 2021 Financial Services Agreement) during each of the year ended 31 December 2022 and 2023 and confirmed that such continuing connected transactions had been entered into (i) in the ordinary and usual course of the Group's business; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in compliance with fair and reasonable terms regulating various agreements of the continuing connected transactions and in the interest of the Company and the Shareholders of the Company as a whole (the **"INEDs' Confirmation"**).



The auditors of the Company have performed a review of the continuing connected transactions of the Group, including, among other things, the transactions contemplated under the 2021 Mutual Supply Agreement and the 2021 Financial Services Agreement for each of the year ended 31 December 2022 and 2023. We noted from the Company's 2022 annual report and 2023 Annual Report that the auditors were engaged to report in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants, and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules". The auditors have issued their unqualified letter in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules confirming that (i) nothing has come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Board; (ii) for transactions involving the provisions of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the annual cap as set by the Company (the "**Auditors' Confirmation**").

Having consider Our Findings on the Historical Procurement Transactions, Our Findings on the Historical Deposit Records, the Company's Review on Internal Control, the INEDs' Confirmation and the Auditors' Confirmation, we do not doubt the effectiveness of the internal control for the Procurement Transactions and the Deposit Services under the 2021 Mutual Supply Agreement and the 2021 Financial Services Agreement respectively.

In compliance with the Listing Rules, the Continuing Connected Transactions are also subject to a number of conditions which include, among other things:

- (i) the Proposed Procurement Caps and the Proposed Deposit Caps will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Procurement Transactions and the Deposit Services and confirm in the Company's annual report whether the Procurement Transactions and the Deposit Services have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;



- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the Procurement Transactions and the Deposit Services and they must confirm in a letter to the Board whether anything has come to their attention that causes them to believe that the transactions:
 - (a) have not been approved by the Board;
 - (b) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the transactions; and
 - (c) have exceeded the Proposed Procurement Caps and the Proposed Deposit Caps;
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;
- (v) the Company must allow, and ensure that COFCO and COFCO Finance allow, the auditors of the Company sufficient access to their records of the transactions for the purpose of the auditors' reporting on the Procurement Transactions and the Deposit Services. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and
- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the Procurement Transactions and the Deposit Services exceeds the relevant proposed annual cap(s), or that there is any material amendment to the terms of the 2024 Mutual Supply Agreement and the 2024 Financial Services Agreement.

In light of the conditions imposed on the continuing connected transactions, in particular, (1) the limit of the value of the transactions by way of the Proposed Procurement Caps and the Proposed Deposit Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the Procurement Transactions and the Deposit Services; and (3) the on-going review by the auditors of the Company confirming the relevant annual cap(s) not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Procurement Transactions and the Deposit Services and safeguard the interests of the Independent Shareholders.



DISCUSSION

The Acquisition

The Group is one of the leading meat enterprises in the PRC and it has strived to improve its strategic layout, adhering to the core strategic directions on cost dominance, technology-driven and brand leadership, and is committed to building a more competitive meat conglomerate with a comprehensive industry value chain. On the other hand, the Target Group is principally engaged in research and development, production, sales and supporting technical services of feed products, and is currently one of the feed suppliers of the Group. It is expected that the Acquisition will bring in a number of benefits to the Group, including (i) alignment with the Group's development strategy to help further enhance its core competitiveness; (ii) optimizing business structure to enhance the business risk-resilient capability; (iii) optimizing financial indicators and improving profitability; and (iv) enhancing the strategic layout of the entire industry value chain, providing momentum to future developments. Further details of the benefits of the Acquisition are set out in the sub-section headed "5. Reasons for and benefits of the Acquisition" under the section headed "A. THE ACQUISITION" of this letter above.

We have reviewed the audited financial information of the Target Group. The Target Group has been profit making during the past three years of FY2021, FY2022 and FY2023, and also during HY2024. Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Company. Based on the pro forma financial information of the Enlarged Group, as if the Acquisition had been completed on 30 June 2024, there would be a slight decrease in the net assets value and an increase in total liabilities to total assets ratio. Nevertheless, we consider it has to be balanced by the benefits of the Acquisition. In respect of earnings, it is expected that the Acquisition will enhance the profitability of the Group after taking into account the financial performance of the Target Group in the recent three years during FY2021, FY2022 and FY2023 and during HY2024.

The consideration for the Acquisition is RMB1,569.0707 million, which was determined based on, among other things, the valuation results in the Asset Valuation Report issued by the Valuer. We have reviewed the Asset Valuation Report and discussed with the Valuer regarding the details of the Independent Valuation. Based on our review, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the Appraised Value as at the valuation reference date are in line with the industry practice, and it is appropriate to refer to the Independent Valuation in assessing the fairness of the consideration. In addition, we have performed an analysis based on Comparable Companies when assessing the fairness of the consideration of the Acquisition. Based on our analysis, the implied P/E and P/B ratios of the Acquisition are lower than the range of P/E and P/B ratios of the Comparable Companies, respectively. We are of the view that the consideration for the Acquisition is fair and reasonable.



The Continuing Connected Transactions

Both the Procurement Transactions and the Deposit Services have been carried out between the Group and COFCO Group under the mutual supply agreement and the financial services agreement since the listing of the Company on the Stock Exchange in 2016, and the 2024 Mutual Supply Agreement and the 2024 Financial Services Agreement represent a continuation of such relationship. The Continuing Connected Transactions will bring in benefits to the Group and further details are discussed under the sub-sections headed “1. Reasons for and benefits of the Procurement Transactions” and “1. Reasons for and benefits of the Deposit Services” under the section headed “B. THE CONTINUING CONNECTED TRANSACTIONS” of this letter above. We concur with the Directors that the Procurement Transactions and the Deposit Services are in the interests of the Company and the Shareholders as a whole.

We have reviewed and performed due diligence work on the terms of the Continuing Connected Transactions. We are of the view that the terms of the Procurement Transactions and the Deposit Services are on normal commercial terms and are fair and reasonable.

We have also reviewed the basis of the proposed annual caps of the Continuing Connected Transactions, and we consider that the Proposed Procurement Caps and the Proposed Deposit Caps are fair and reasonable.

OPINION AND RECOMMENDATION

The Acquisition

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Acquisition are on normal commercial terms and are fair and reasonable; and (ii) although the Acquisition is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) in relation to the Acquisition to be proposed at the EGM.



The Continuing Connected Transactions

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable; (ii) the Procurement Transactions are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) although the Deposit Services are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) in relation to the Continuing Connected Transactions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

* *For identification purpose only*