

16 August 2019

To: *The Independent Board Committee of
China Kangda Food Company Limited*

Dear Sir/Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
FIRST CAPITAL SECURITIES LIMITED
FOR AND ON BEHALF OF ZENITH HOPE LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN THE SHARE CAPITAL OF
CHINA KANGDA FOOD COMPANY LIMITED
(OTHER THAN THOSE ALREADY OWNED AND/OR AGREED TO BE
ACQUIRED BY ZENITH HOPE LIMITED AND/OR
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Offer, details of which are set out in the Composite Document dated 16 August 2019, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

On 26 June 2019 (after trading hours), the Vendor and the Offeror entered into the Share Purchase Agreement, pursuant to which, among others, the Vendor has conditionally agreed to sell, and the Offeror has conditionally agreed to purchase, the Sale Shares, being 300,740,000 Shares, representing approximately 69.46% of the entire issued share capital of the Company as at the Latest Practicable Date, for a total consideration of HK\$240,592,000, equivalent to HK\$0.8 per Sale Share. Completion of the sale and purchase of the HK Sale Shares and SG Sale Shares took place on 4 July 2019 and 10 July 2019 respectively.

Immediately after the Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in a total of 300,740,000 Shares, representing approximately 69.46% of the entire issued share capital of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and/or parties acting in concert with it). As the Company's primary listing is not on the Singapore Stock Exchange and as it is not a Singapore incorporated public company, the Singapore Takeovers Code will not apply.

Rules 2.1 and 2.8 of the Takeovers Code require the Company to establish an independent committee of the Board to give a recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. The Independent Board Committee (comprising of all independent non-executive Directors namely Mr. Lau Choon Hoong, Mr. Song Xuejun and Mr. Lu Zhiwen) has been established by the Company to make recommendations to the Independent Shareholders as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

We are appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to the acceptance in respect of the Offer.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company, the Vendor, the Offeror, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice to the Independent Board Committee in respect of the Offer. During the last two years, there was no previous engagement between us and the Group, the Vendor or the Offeror. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, we do not and did not have any relationship (business, financial or otherwise) amounted to a significant connection (as referred to in Rule 2.6 of the Takeovers Code) with the Company or the Offeror within the past two years for us of a kind reasonably likely to create, or to create the perception of, a conflict of interest for us or which is reasonably likely to affect the objectivity of our advice. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules and Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the representations made to us by the Directors and the senior management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statements in the Composite Document misleading.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in the Composite Document (other than any information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statements in the Composite Document misleading.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Independent Shareholders as a result of the Offer. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Offer, we have considered the principal factors and reasons as set out below:

1. Background information of the Group

1.1 Principal business

The Company is incorporated in Bermuda with limited liability and its Shares are primarily listed on the Main Board of the Stock Exchange and secondarily listed on the main board of Singapore Stock Exchange. The Company is a diversified food manufacturing and processing group based in the PRC and is primarily engaged in the production, processing, sale and distribution of (i) chilled and frozen rabbit meat; (ii) chilled and frozen chicken meat; (iii) processed foods which include a wide range of food products such as instant soup, curry food, chicken-based cooked products, roasted rabbit food, meatballs, de-oxygenated consumer packed chestnuts and seafood; and (iv) other products which mainly include pet food, dehydrated vegetables, poultry, rabbit organs, fruits, dried chili, pig liver, seasoning and high value-added healthcare products.

1.2 Historical financial information

Set out below is a summary of the audited consolidated financial information of the Group for the three financial years ended 31 December 2018 as extracted from (i) the annual report of the Company for the year ended 31 December 2017 (the “2017 Annual Report”) and (ii) annual report of the Company for the year ended 31 December 2018 (the “2018 Annual Report”).

(a) Condensed consolidated income statement

	For the year ended 31 December		
	2018	2017	2016
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Revenue	1,403,673	1,335,667	1,262,785
Cost of sales	(1,282,316)	(1,225,438)	(1,161,209)
Gross profit	121,357	110,229	101,576
Other income and other gains	36,826	30,624	61,370
Profit from operations	32,756	21,687	48,999
Profit/(loss) attributable to owners of the Company	5,642	(15,783)	6,295



(i) Audited consolidated results for the year ended 31 December 2017 (“FY2017”)

As discussed in the 2017 Annual Report, the revenue of the Group increased by approximately 5.8% from approximately RMB1,262.8 million for the year ended 31 December 2016 (“FY2016”) to approximately RMB1,335.7 million for the FY2017. Such increase was mainly due to the increase in revenue from chilled and frozen meat products and other products. During the FY2017, the Group (i) expanded the volume of breeding and increased productivity of chilled rabbit meat and (ii) had an increase in sales volume of chicken meat products. As such, the revenue from chilled and frozen meat products increased by approximately 14.5% to approximately RMB426.0 million for the FY2017. In addition, due to the increase in demand on pet food products from exploring new overseas customers on an ongoing basis and consolidating and strengthening the effort in the export of pet food products, revenue derived from other products increased by approximately 36.8% to RMB218.8 million for the FY2017.

The gross profit of the Group increased by approximately 8.5% from approximately RMB101.6 million for the FY2016 to approximately RMB110.2 million for the FY2017, while the gross profit margin increased from approximately 8.0% to approximately 8.3%. The increase in gross profit margin was mainly attributable to (i) the improve in gross profit margin of chilled and frozen rabbit meat from approximately -2.8% to 2.7% due to sales of rabbit skin related products at a low price during the fourth quarter of 2016; and (ii) increase in gross profit margin of chilled and frozen chicken meat and other products from approximately 1.7% to 2.7% and 9.0% to 9.9% as a result of increase in selling prices, partially offset by the decrease in gross profit margin of processed products from approximately 11.9% to 11.2%.

Despite the increase in revenue and gross profit for the FY2017, the profit from operations decreased from approximately RMB49.0 million for the FY2016 to approximately RMB21.7 million for the FY2017. Such decrease was mainly due to (i) the substantial decrease in other income and other gains from approximately RMB61.4 million for the FY2016 to approximately RMB30.6 million for the FY2017 due to the substantial decrease in gains arising from changes in fair value less estimated costs to sell of biological assets by 95.7% to approximately RMB1.6 million as a result of the mortality rate of the chicken caused by bad weather during the FY2017; (ii) increase in administrative expenses by 19.1% which was mainly due to (a) increase of the staff costs of the senior management and (b) increase in professional fees in relation to the conversion of the Company’s listing status in the Singapore Stock Exchange and the change in the Company’s shareholding structure in January 2017 and June 2017; and (iii) increase in other operating expenses by 39.5% to approximately RMB26.3 million for FY2017 which was mainly attributable to the increase of written off of property, plant and equipment as a result of the upgrading of the existing factories facilities and the conversion of animal farm (from a chicken farm to a rabbit farm).

As a result of the foregoing, the Group recorded loss attributable to owners of the Company for the FY2017 of approximately RMB15.8 million as compared to a profit attributable to owners of the Company of approximately RMB6.3 million for the FY2016.

(ii) Audited consolidated results for the year ended 31 December 2018 (“FY2018”)

As discussed in the 2018 Annual Report, the revenue of the Group increased by approximately 5.1% from approximately RMB1,335.7 million for the FY2017 to approximately RMB1,403.7 million for the FY2018. Such increase was mainly due to the increase in revenue from (i) processed food by approximately 16.8% to approximately RMB807.2 million for the FY2018 as a result of the increase in demand of processed chicken meat products; (ii) chilled and frozen chicken meat by approximately 18.3% to approximately RMB318.1 million for the FY2018 because of the swine fever epidemic which caused the increase in demand for chicken related products, partially offset by decrease in revenue from (i) chilled and frozen rabbit meat by approximately 30.3% to approximately RMB109.6 million which was mainly attributable to the disposal of Jilin Kangda Foods Co., Ltd, the then wholly-owned subsidiary of the Group which principally engaged in production of rabbit food products; and (ii) other products by approximately 22.8% to approximately RMB168.9 million which was mainly attributable to the disposal of Laiwu Kangda Feeds Co., Ltd, the then wholly-owned subsidiary of the Group which principally engaged in sales of feed products.

The gross profit of the Group increased by approximately 10.1% from approximately RMB110.2 million for the FY2017 to approximately RMB121.4 million for the FY2018, while the gross profit margin increased from approximately 8.3% to approximately 8.6%. As discussed in the 2018 Annual Report, the increase in gross profit margin was mainly attributable to (i) increase in gross profit margin of processed food from approximately 11.2% to 12.5% due to increase in selling price as a result of higher demand for high-value processed chicken products; and (ii) increase in gross profit margin of other products from approximately 9.9% to 11.4% as a result of increase in selling prices, partially offset by the turnaround from gross profit to gross loss of the chilled and frozen chicken meat, which was mainly due to higher purchase cost and resulted in increased in rearing cost of chicken in FY2018 as there was a shortfall in the supply of baby chick as affected by H7N9 in FY2017.

The profit from operations for the FY2018 increased from approximately RMB21.7 million to approximately RMB32.8 million, which was mainly due to (i) increase in gross profit as discussed above and (ii) the increase in other income and other gains from approximately RMB30.6 million for the FY2017 to approximately RMB36.8 million for the FY2018 as a result from (a) substantial increase in gains arising from changes in fair value less estimated costs to sell of biological assets from approximately RMB1.6 million to RMB10.5 million due to the decrease in mortality rate of the chicken during the FY2018 and (b) gain on disposal of two subsidiaries (Jilin Kangda Foods Co., Ltd and Laiwu Kangda Feeds Co., Ltd) of approximately RMB5.2 million.

As a result of the above, the Group recorded profit attributable to owners of the Company for the FY2018 of approximately RMB5.6 million as compared to a loss attributable to owners of the Company of approximately RMB15.8 million for the FY2017.

(b) *Condensed Consolidated Balance Sheet*

	As at 31 December		
	2018	2017	2016
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Current assets	896,336	728,154	725,145
Non-current assets	867,576	958,514	1,003,985
Total assets	1,763,912	1,686,668	1,729,130
Current liabilities	1,074,584	961,008	992,806
Non-current liabilities	24,215	59,471	57,791
Total liabilities	1,098,799	1,020,479	1,050,597
Net current liabilities	(178,248)	(232,854)	(267,661)
Net assets	665,113	666,189	678,533
Equity attributable to owners of the Company	639,071	635,060	650,433



(i) Financial position of the Group as at 31 December 2017

As at 31 December 2017, the total assets of the Group amounted to approximately RMB1,686.7 million, representing a decrease of approximately 2.5% as compared to that as at 31 December 2016. The decrease was primarily due to the decrease in property, plant and equipment by 5.6% to approximately RMB747.8 million as at 31 December 2017 due mainly to additions of property, plant and equipment of approximately RMB49.2 million and this was offset by a depreciation charge and disposal of property, plant and equipment of approximately RMB67.5 million and approximately RMB25.7 million respectively.

As at 31 December 2017, the total liabilities of the Group amounted to approximately RMB1,020.5 million, with a decrease of approximately 2.9% as compared to that as at 31 December 2016, primarily due to the decrease in the trade and bills payable by approximately 14.6% to approximately RMB263.5 million as at 31 December 2017. The decrease in the trade and bills payables was mainly due to the decrease of bill payables secured by the pledged deposits from approximately RMB139.8 million to approximately RMB79.0 million as at 31 December 2017.

The Group recorded net current liabilities and net assets of approximately RMB232.9 million and RMB666.2 million, respectively as at 31 December 2017 as compared to net current liabilities and net assets of approximately RMB267.7 million and RMB678.5 million, respectively as at 31 December 2016.

(ii) Financial position of the Group as at 31 December 2018

As at 31 December 2018, the total assets of the Group amounted to approximately RMB1,763.9 million, representing an increase of approximately 4.6% as compared to that as at 31 December 2017. The increase was primarily due to the (i) increase in trade and bills receivables by 25.1% to approximately RMB122.7 million as at 31 December 2018, mainly due to the increase in sales during the year; and (ii) increase in pledged deposits, increased to approximately RMB311.1 million for FY2018 as approximately RMB291.1 million of the bank deposit was secured against the bills payables of the Group.

As at 31 December 2018, the total liabilities of the Group amounted to approximately RMB1,098.8 million, with an increase of approximately 7.6% as compared to that as at 31 December 2017, primarily due to increase in trade and bills payables increased by 92.4% to approximately RMB507.2 million as at 31 December 2018. The increase in the trade and bills payables was due mainly to the increase in bill payables secured by the pledged deposits from approximately RMB79.0 million for FY2017 to approximately RMB346.0 million for FY2018.

The Group recorded net current liabilities and net assets of approximately RMB178.2 million and RMB665.1 million, respectively as at 31 December 2018 as compared to net current liabilities and net assets of approximately RMB232.9 million and RMB666.2 million, respectively as at 31 December 2017.

Conclusion

Based on the discussion on the Group's financial performance and financial position above, we have the following observations:

- (i) Unsatisfactory financial performance of the Group for the three years ended 31 December 2018

We noted that the profits from operations of the Group amounted to RMB49.0 million, RMB21.7 million and RMB32.8 million while other income and other gains amounted to approximately to RMB61.4 million, RMB30.6 million and RMB36.8 million for each of the three years ended 31 December 2018, respectively. According to 2017 Annual Report and the 2018 Annual Report, other income and other gains mainly consisted (i) changes in fair value less estimated costs to sell of biological assets (i.e. FY2016: RMB37.8 million; FY2017: RMB1.6 million and FY2018: RMB10.5 million); (ii) insurance claims (i.e. FY2016: RMB3.1 million; FY2017: RMB6.1 million and FY2018: RMB6.9 million) and (iii) gain on disposals of subsidiaries (i.e. FY2016: nil; FY2017: nil and FY2018: RMB5.2 million), which were non-recurring in nature. Should the other income and other gains of the Group being excluded, the Group would record a loss from operations of approximately RMB4.1 million, RMB8.9 million and RMB12.4 million for each of the three years ended 31 December 2018, respectively, which was mainly due to increase in administrative expenses and other expenses. Accordingly, although the Group recorded a continuing increase in revenue and gross profits over the past three years, we consider that the Group did not have satisfactory financial performance during the past three financial years.

- (ii) Net current liabilities position and general decrease in equity attributable to owners of the Company

The Group recorded net current liabilities as at 31 December 2016, 2017 and 2018. Such net current liabilities were mainly due to the current portion of bank borrowings of approximately RMB529.0 million, RMB525.3 million and RMB422.9 million. We would like to draw your attention that as stated in the annual reports of the Company for each of the three years ended 31 December 2018, BDO Limited, the auditors of the Company, was of the view that there were material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. For further details, please refer to Appendix II to this Composite Document. In addition, we noted that the equity attributable to owners of the Company decreased from RMB650.4 million as at 31 December 2016 to RMB639.1 million as at 31 December 2018.

As discussed above, the auditor of the Company was of the view that the net current liabilities and the substantial portion of bank and other borrowings were due for repayment within a year indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business. After our discussion with the management of the Company, we understand that the Company will (i) continue to expand its production volume; (ii) renew certain bank borrowings, aggregate of up to RMB344 million, to the Group for another year upon the maturity of the bank borrowings and (iii) explore the alternative source of funding in order to deal with the net current liabilities of the Group.

However, in case that the Group is not able to further renew its bank borrowings upon maturity or biological assets and inventories cannot be readily converted into cash or the Group's receivables cannot be received in a timely manner or any unforeseeable market event happens that affects the operation of the Group, the Group might not be able to repay the debt that fall due and the Company might face the liquidity risk.

2. Prospect of the Group

As stated in the 2018 Annual Report, with the growing awareness on environmental protection by the PRC government and uncertainties in the market, the development of the food industry will continue to face challenges with low growth and intense competition. The Group's operation strategy in the coming years is to place further emphasis on the differentiation of products and the development of sales channels. The Group will leverage on its research and development team's capability in the product development of the high value-added processed foods, healthcare and biological products. However, we do not aware of any concrete development plan as disclosed in the Company in the 2018 Annual Report.

Background of the Offeror

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability on 6 July 2018. As at the Latest Practicable Date, the Offeror is wholly owned by Eternal Myriad Limited, an investment holding company incorporated in the British Virgin Islands with limited liability on 10 August 2018, which is beneficially and ultimately wholly-owned by Mr. Wu. The sole director of the Offeror is Mr. Peng Haochen (彭浩宸) ("Mr. Peng"), who is the assistant to Mr. Wu and the sole director of Eternal Myriad Limited.

Mr. Wu, age 59, has approximately 20 years of experience in the areas of chemical industry, financial services and media industry in the PRC.



Mr. Wu is the controlling shareholder and the chairman of the board of directors of Shanxi Light Industry Plastic Company Limited* (山西輕工塑膠有限公司) since 2001 whose principally engages in the distribution of plastic chemical products, plastic chemical raw materials and metal materials. He is also a director of Shanxi Radio, Film and Television New Media Company Limited* (山西廣電新媒體有限公司) since 2011 whose principally engages in providing services in internet protocol television, digital terrestrial television, mobile television and internet audio-visual programming.

Being an investor in different industries, Mr. Wu always looks for any potential investment opportunity in the market. He realised that the living pace of the people in PRC is fast. Instead of spending time in consuming food in the wet market, people would buy processed and/or frozen food in supermarket which are safe and nutritious. Mr. Wu is of the view that the growth of the market of the processed and/or frozen food products is substantial as long as people in PRC have a busy city life nowadays. Having considered the above reasons, Mr. Wu is of the view that the acquisition of the Sale Shares would allow him to enter into the market of consumable food products with the production plant and distribution channel readily available for the development of the processed and/or frozen food market. As Mr. Wu is aware that he may not have relevant experience in the processed and/or frozen food market, he intends to retain the Directors except Mr. Wang Yuan, an executive Director, who intended to resign despite Mr. Wu's intention, the management and experienced staff of the Group to leverage on their expertise in food processing industry to support the operation of the Group upon Completion.

Intention of the Offeror

It is the intention of the Offeror that the Group will continue with its existing principal businesses after the close of the Offer and will maintain the listing status of the Company on the Stock Exchange and the Singapore Stock Exchange. The Offeror will conduct a review on the existing principal businesses (i.e. being production and trading of food products, breeding and sale of livestock, poultry and rabbits) and the financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. In this regard, the Offeror may look into business opportunities and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Company. As at the Latest Practicable Date, the Offeror had not identified any new business opportunities.

Save for the Offeror's intention regarding the Group as set out above, the Offeror has no intention to (i) discontinue the employment of any employees of the Group (save for proposed change in the composition of the Board as set out in the Composite Document); or (ii) re-deploy the fixed assets of the Group other than those in its ordinary and usual course of business.

Having considered that (i) unsatisfactory financial performance of the Group for the past three financial years; (ii) the net current liabilities positions of the Group for the past three financial years and the auditors of the Company was of the view that there were material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern; (iii) the development of the food industry will continue to face challenges with low growth and intense competition as stated in the 2018 Annual Report; and (iv) notwithstanding the change in control of the Company, it is expected that the management of the operations of the Group may remain unchanged, we are of the view that there is an uncertainty on whether the Group can generate higher return for the Shareholders under the proposed strategy to be adopted by the existing management of the Group upon the Completion.

Based on the above, we are of the view that there is an uncertainty of the Group's prospect and the Offer may provide a good opportunity to the Independent Shareholders who wish to realise their investments in the Company.

3. Principal terms of the Share Offer

FC Securities, on behalf of the Offeror and in compliance with the Takeovers Code, is making the Offer on the terms to be set out in the Composite Document to be issued in accordance with the Takeovers Code on the following basis:

The Offer

For each Offer Share HK\$0.80 in cash

The Offer is unconditional in all respects.

The Offer Price of HK\$0.8 per Offer Share is equal to the purchase price per Sale Share payable by the Offeror under the Share Purchase Agreement. The purchase price per Sale Share was arrived at after arm's length negotiations between the Vendor and the Offeror with reference to the recent prices of the Shares traded on the Stock Exchange, the financial conditions of the Group and the current market conditions. The Offer Shares to be acquired under the Offer shall be fully paid, free from all Encumbrances and together with all rights attaching to them, including all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the Composite Document.

The Offer Price

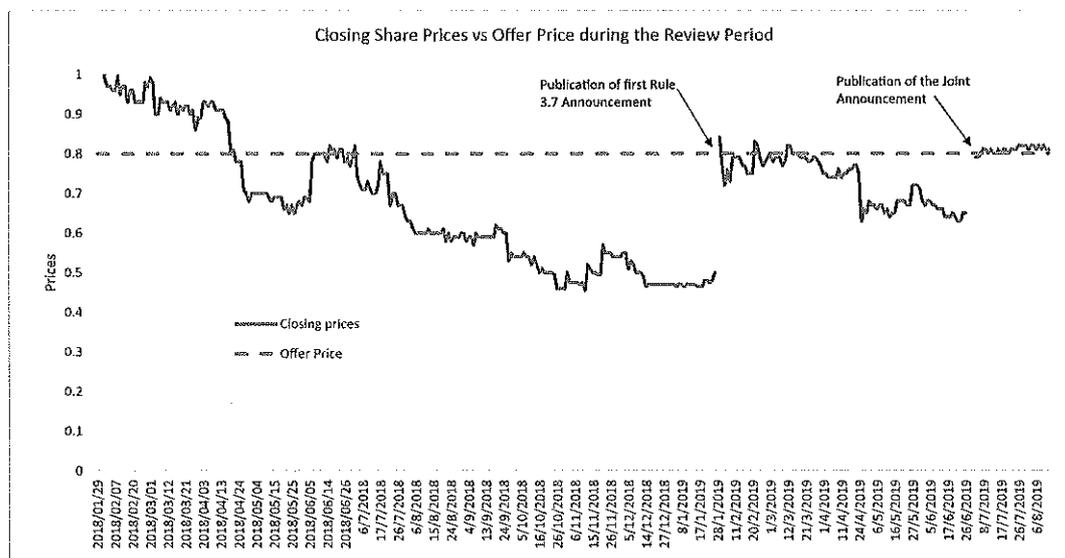
The Offer Price of HK\$0.8 per Offer Share represents:

- (i) a premium of approximately 60.00% over the closing price of HK\$0.50 per Share as quoted on the Stock Exchange on the last trading day immediately prior to the commencement of the Offer Period;
- (ii) a premium of approximately 23.08% to the closing price of HK\$0.650 per Share as quoted on the Stock Exchange on 26 June 2019, being the Last Trading Day;
- (iii) a premium of approximately 25.00% to the average closing price of approximately HK\$0.640 per Share as quoted on the Stock Exchange for the 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 24.42% to the average closing price of approximately HK\$0.643 per Share as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 19.76% to the average closing price of approximately HK\$0.668 per Share as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 15.52% to the average closing price of approximately HK\$0.693 per Share as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Day;
- (vii) a premium of approximately 10.48% to the average closing price of approximately HK\$0.724 per Share as quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to and including the Last Trading Day;
- (viii) a discount of approximately 1.23% to the closing price of HK\$0.81 per Share as quoted on the Stock Exchange on 13 August 2019, being the Latest Practicable Date; and
- (ix) a discount of approximately 52.04% to the audited consolidated net asset value attributable to the Company's owners as at 31 December 2018 of approximately HK\$1.668 per Share (which was calculated by dividing the sum of the audited consolidated net asset value attributable to the Company's owners as at 31 December 2018 (being the date to which the latest audited financial statements of the Company were made up) of approximately RMB639.1 million (equivalent to approximately HK\$722.2 million) by 432,948,000 Shares in issue as at the date of the Latest Practicable Date).

4. Historical performance of the Share

4.1 Share Price during the Review Period vs the Offer Price

In considering the fairness and reasonableness of the Offer Price, we have reviewed the movements in the closing price of the Shares for the period commencing from 29 January 2018, being 12 calendar months before the commencement of the Offer Period and publication of the first announcement pursuant to Rule 3.7 of the Takeovers Code dated 29 January 2019 (the “**First Rule 3.7 Announcement**”) and up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the length of the Review Period to be reasonably long enough to illustrate the relationship between the historical trend of the closing price of the Shares and the Offer Price. The chart below represents the daily movement in the closing prices of the Shares against the Offer Price during the Review Period and is as follows:



Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

As shown in the chart above, the Offer Price is generally higher than the closing price of the Shares during the Review Period. The highest and lowest closing prices of the Shares during the Review Period were HK\$1.13 per Share on 29 January 2018 and HK\$0.455 per Share on 12 November 2018 respectively. The Offer Price therefore represents a discount of approximately 29.2% to the highest closing price of the Shares and a premium of approximately 75.8% over the lowest closing price of the Shares during the Review Period.

The average closing price of the Share during the Review Period was approximately HK\$0.70 per Share, and the Offer Price represents a premium of approximately 14.2% over it. Among a total of 373 trading days during the Review Period, the closing prices of the Shares in a total of 270 trading days, or approximately 72.4% were below the Offer Price.

Trading period from 29 January 2018 to 25 January 2019 (the “Pre-Rule 3.7 Announcement Period”)

During the Pre-Rule 3.7 Announcement Period, the Share price maintained a general decreasing trend. The lowest closing price of the Shares was HK\$0.455 per Share on 12 November 2018, while the highest closing price of the Shares was HK\$1.13 per Share on 29 January 2018. The Offer Price is within the range of the lowest closing price and the highest closing price during the Pre-Rule 3.7 Announcement Period. In addition, we also noted that among a total of 245 trading days during the Pre-Rule 3.7 Announcement Period, the closing prices of the Shares in a total of 185 trading days were below or equal to the Offer Price.

Trading period from 29 January 2019 to the Last Trading Day (the “Post-Rule 3.7 Announcement Period”)

On 28 January 2019, the Company announced to suspend its trading on the Stock Exchange and Singapore Stock Exchange, pending for the release of an announcement pursuant to the Takeovers Code, which contains inside information. After publication of the First Rule 3.7 Announcement on 29 January 2019, the Share price increased significantly to HK\$0.84 per Share. As discussed with the management of the Company and as far as we aware from the publicly available information, we are of the view that the sharp surge in the Share price may be likely due to the market speculation on the possible mandatory cash offer upon the publication of the First Rule 3.7 Announcement. Subsequent to the publication of the First Rule 3.7 Announcement, the Share price then maintained relatively stable until 25 April 2019, the Share price of which dropped approximately 16% to HK\$0.63 per Share. As discussed with the management of the Company and as far as we aware from the publicly available information, we are not aware of any specific reason for the drop in the Share price on 25 April 2019. The Share price then maintained a stable trend in general until the Last Trading Day which closed at HK\$0.65 per Share. We noted that among a total of 98 trading days during the Post-Rule 3.7 Announcement Period, the closing prices of the Shares in a total of 89 trading days were below the Offer Price.

Trading period from 3 July 2019 to the Latest Practicable Date (the “Post-Joint Announcement Period”)

On 27 June 2019, the Company announced to suspend its trading on the Stock Exchange and Singapore Stock Exchange, pending for the release of an announcement pursuant to the Takeovers Code, which contains inside information. After publication of the Joint Announcement dated 2 July 2019, the Share price increased significantly to HK\$0.79 per Share on 3 July 2019. As discussed with the management of the Company and as far as we aware from the publicly available information, we are of the view that the sharp surge in the Share price may be likely due to the market speculation on the possible mandatory cash offer upon the publication of the Joint Announcement. The Share price then maintained an overall stable trend until the Latest Practicable Date.

Conclusion

Based on the above, we noted that (i) the closing prices of the Share in approximately 72.4% of the total trading days during the Review Period were below the Offer Price; (ii) subsequent to the publication of the First Rule 3.7 Announcement, the Share price surged significantly but the Share prices could not maintain a higher level and experienced a general decreasing trend until the Last Trading Day; (iii) subsequent to the publication of the Joint Announcement, the Share price surged significantly and maintained around the Offer Price until the Latest Practicable Date; (iv) the Offer Price is at premium over average closing price of the Share during the Review Period; (v) the unsatisfactory financial performance of the Group as discussed in paragraph headed “1. Background information of the Group” above and (vi) the uncertainty of the Group’s prospect as discussed in paragraph headed “2. Prospect of the Group” above, we are of the view that the determination of the Offer Price is justifiable and is fair and reasonable so far as the Independent Shareholders are concerned.

As at the Latest Practicable Date, the Share price was closed at HK\$0.81 and was at slight discount over the Offer Price. Independent Shareholders should note that there is no guarantee that the trading price of the Shares will sustain or be higher than the Offer Price during and after the Offer Period. Independent Shareholders, in particular those who may wish to realise their investments in the Shares, are thus reminded to closely monitor the market price of the Shares during the Offer Period for acceptance. Independent Shareholders who wish to dispose of their Shares may consider selling their Shares in the stock market rather than accepting the Offer if the net proceeds from a sale of their Shares in the stock market would, after deducting all transaction costs, yield a higher consideration than the net amount to be received under the Offer.

4.2 Liquidity of the Shares

A table showing the average daily volume of the Shares per month and the respective percentages of the average daily trading volume as compared to (i) the total number of issued Shares during the Review Period and (ii) total number of the Shares held by public shareholders is as follows:

	Minimum daily trading volume during the month (Number of Shares)	Maximum daily trading volume during the month (Number of Shares)	Average daily trading volume during the month (note 1) (Number of Shares)	Percentage of average daily trading volume to total number of Shares in issue at the respective month end %	Percentage of average daily trading volume to total number of Shares held by public shareholders at the respective month end %
2018					
January (note 2)	104,000	3,976,000	1,486,667	0.34	1.12
February	0	564,000	149,672	0.03	0.11
March	0	236,000	71,619	0.02	0.05
April	0	744,000	170,105	0.04	0.13
May	0	596,000	70,095	0.02	0.05
June	0	868,000	208,000	0.05	0.16
July	0	1,056,000	117,714	0.03	0.09
August	0	544,000	79,304	0.02	0.06
September	0	392,000	50,316	0.01	0.04
October	0	72,000	15,619	0.004	0.01
November	0	168,000	17,273	0.004	0.01
December	0	688,000	61,263	0.01	0.05
2019					
January	0	25,936,000	1,837,905	0.42	1.39
February	16,000	5,376,000	933,176	0.22	0.71
March	0	1,120,000	243,238	0.06	0.18
April	40,000	2,836,000	432,000	0.10	0.33
May	0	560,000	157,334	0.04	0.12
June	0	140,000	27,059	0.01	0.04
July	0	302,863,000	15,414,119	3.56	11.66
August (note 3)	12,000	2,660,000	632,444	0.15	0.48

Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading day on which trading in the Shares on the Stock Exchange was suspended for the whole trading day.
2. The Review Period commenced on 29 January 2018
3. The Review Period ended on the Latest Practicable Date



As illustrated from the above table, the average daily trading volume of the Shares during the Review Period ranged from 15,619 Shares to 15,414,119 Shares, representing (i) 0.004% and approximately 3.56% of the total number of Shares in issue as at the corresponding month respectively; and (ii) 0.01% and approximately 11.66% of the total number of Shares held by public Shareholders as at the corresponding month. The average daily trading volume throughout the Review Period was approximately 1,140,967 Shares, representing merely 0.26% of the total number of Shares in issue as at the Latest Practicable Date and approximately 0.86% of the total number of Shares held by public Shareholders as at the Latest Practicable Date. We consider that the trading volume was thin during the Review Period.

During the Pre-Rule 3.7 Announcement Period, the shares were illiquid and the daily trading volume of the Shares during that period ranged from nil to 3,976,000 Shares in January 2018, representing (i) nil and approximately 0.92% of the total number of Shares in issue as at the corresponding month respectively and (ii) nil and approximately 3.01% of the total number of Shares held by public Shareholders as at the corresponding month. Subsequent to the publication of the First Rule 3.7 Announcement, the trading volume increased significantly on 29 January 2019 to 25,936,000 Shares and was in line with the significant increase in the Share price which may be likely due to market speculation on the possible mandatory cash offer. Despite the increased trading volume on 29 January 2019, the higher level of trading volume could not persist and experienced a decreasing trend during the Post-Rule 3.7 Announcement Period.

Subsequent to the publication of the Joint Announcement on 2 July 2019, the trading volume increased to 11,420,000 Shares on 3 July 2019 and was in line with the increase in Share price, which may be likely due to market speculation on the possible mandatory cash offer. We noted that the trading volume substantial increased to 302,863,000 Shares on 4 July 2019. As discussed with the management of the Company and as far as we aware from the publicly available information, we note that the increase in trading volume was due to the transfer of 299,515,000 Shares from the Vendor to the Offeror. Excluding the aforesaid transfer, the trading volume of the Share on 4 July 2019 only amounted to 3,348,000 Shares, representing approximately 0.8% of the total number of Shares in issue as at the Latest Practicable Date. Other than the increased trading volume on 3 July 2019 and 4 July 2019, the higher level of trading volume could not sustain and experienced a decreasing trend during the Post-Joint Announcement Period.

Given that (i) the Shares were generally illiquid during the Review Period; (ii) the surge in the liquidity after the publications of the First Rule 3.7 Announcement and the Joint Announcement, may be likely due to short term market speculation and hence may not be persistent in the future and (iii) the surge in liquidity on 4 July 2019 was mainly due to the transfer of 299,515,000 Shares from Vendor to the Offeror, the Independent Shareholders should note that if they wish to realise their investments in the Company, especially those with bulk quantities of the Shares, they might not be able to dispose the Shares in the market without exerting a downward pressure on the market price of the Shares in short term. As such, we consider that the Offer provides an opportunity to the Independent Shareholders, especially those with bulk quantities of the Shares, to realise their investment in the Company.



4.3 Comparable analysis

In further assessing the fairness and reasonableness of the Offer Price, we have performed a price-to-earnings ratio (“P/E ratio”) and price-to-book ratio (“P/B ratio”) analysis, which are the general practice to apply commonly used benchmarks for evaluating the value of companies.

For comparison purpose, we have selected the comparable companies that are being assigned in the same subsector of the Group, i.e. “Consumer Goods – Agricultural Products – Poultry & Meat” according to the Hang Seng Industry Classification System, a comprehensive industry classification system for the listed companies on the Stock Exchange covering 11 industries, 30 sectors and 86 subsectors issued by Hang Seng Indexes Company Limited. Based on the above selection criteria, 5 comparable companies (the “Comparables”) are identified, which are exhaustive under the abovementioned selection criteria. We consider that the Comparables are fair and representative. The details of the Comparables are listed below:

Company Name	Stock code	Principal business	Market Capitalisation as at the Latest Practicable Date (HK\$'000) (Note 1)	P/E ratio (times) (Note 2)	P/B ratio (times) (Note 3)
China Yurun Food Group Ltd	1068	The company operates (i) the chilled and frozen meat segment which engages in the slaughtering, production and sales of chilled and frozen meat; and (ii) processed meat products segment which engages in the manufacture and distribution of processed meat products.	1,840,983	N/A	0.65
WH Group Limited	288	The company operates its businesses through (i) the production, wholesales and retailing of low temperature and high temperature meat products; (ii) the production, wholesales and retailing of fresh and frozen meat; (iii) hog farming; and (iv) the slaughtering and sales of poultry and the provision of ancillary products and services.	98,848,919	11.02	1.41
COFCO Meat Holdings Ltd	1610	The company mainly operates (i) the sales of live hogs; (ii) sales of fresh chilled and frozen pork products; (iii) sales of processed meat products; and (iv) sales of imported frozen meat products, such as pork, beef, mutton, lamb and poultry.	10,145,196	N/A	1.83



Company Name	Stock code	Principal business	Market Capitalisation as at the Latest Practicable Date (HK\$'000) (Note 1)	P/E ratio (times) (Note 2)	P/B ratio (times) (Note 3)
China Putian Food Holding Limited	1699	Principally engaged in hog farming, hog slaughtering and the sales of pork. The company is also engaged in the the research and development on food production technology.	453,360	N/A	0.63
Hoisheng International Holdings Limited	1340	Principally engaged in the hog breeding, hog slaughtering and sales of pork products. Its pork products mainly include fresh pork, chilled pork, frozen pork, side products and processed pork products	108,343	N/A	0.11
			Min.	11.02	0.11
			Max.	11.02	1.83
			Average	11.02	0.93
The Company	834		346,358 (Note4)	52.26	0.45

Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Note:

1. The market capitalisation of the Comparables is calculated on the basis of their respective closing prices of the shares and the total number of issued shares as at the Latest Practicable Date.
2. The respective P/E ratios of the Comparables are calculated on the basis of their respective market capitalisation and net profits as disclosed in the latest public annual reports. N/A represents that the relevant Comparable was loss making in the latest financial year.
3. The respective P/B ratios of the Comparables are calculated on the basis of their respective market capitalisations and net asset values as disclosed in the latest published annual reports or latest interim results announcement.
4. Being the implied market capitalisation of the Company based on the Offer Price and the total number of issued Shares of 432,948,000 Shares as at the Latest Practicable Date.

Based on the Offer Price of HK\$0.8 per Offer Share and the total number of issued Shares of 432,948,000 Shares as at the Latest Practicable Date, the Company is valued at approximately HK\$346.4 million. The P/E ratio and the P/B ratio of the Company implied by the Offer Price of the Shares are respectively approximately 52.3 times (the “**Implied P/E ratio**”) and approximately 0.5 times (the “**Implied P/B ratio**”), based on the profit attribute to owner of the Company of approximately RMB5.7 million (equivalent to approximately HK\$6.6 million) for the FY2018 and the net assets value of the Group of approximately RMB665.1 million (equivalent to approximately HK\$771.5 million) as at 31 December 2018.

As shown in the table above, other than the Group, only one Comparable (i.e. WH Group Limited) was profit making in its latest financial year. As such, although the Implied P/E ratio was far higher than that of the Comparable, we consider that the P/E ratio analysis is not indicative. The P/B Ratio of the Comparables ranges from approximately 0.1 times to approximately 1.8 times with an average of 0.93 times. We noted that the Implied P/B Ratio lies within the range of P/B Ratios of the Comparables.

Despite the fact that the Implied P/B ratio is lower than average of the P/B ratios of the Comparables, having taken into account of (i) the unsatisfactory operating performance of the Group and return to Shareholders; (ii) the financial positions of the Group may cast significant doubt on the Group’s ability to continue as a going concern; (iii) the uncertainty of the Group’s prospect as discussed above; (iv) the closing prices of the Share in approximately 72.4% of the total trading days during the Review Period were below the Offer Price and (v) the thin liquidity of the Shares during the Review Period, we still consider the Offer Price is justifiable and is fair and reasonable so far as the Independent Shareholders are concerned.

5. Maintain listing status of the Company

The Offeror intends to maintain the listing of the Shares on the Main Board of the Stock Exchange and on the Singapore Stock Exchange after the close of the Offer. In the event that the public float of the Company falls below 25% following the close of the Offer, the director of the Offeror will undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares following the close of the Offer.

The Stock Exchange has stated that if, at the close of the Offers, less than 25 per cent. of the Shares are held by the public or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of the Shares; or
- there are insufficient Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend trading in the Shares.

RECOMMENDATION

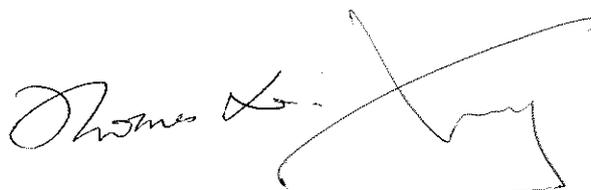
Having considered the abovementioned principal factors and reasons for the Offer, in particular:

- (a) despite the increasing revenue and gross profit, the financial performance of the Group was unsatisfactory for the past three years as other income and other gains was one of the main sources for the net profit of the Group;
- (b) net current liabilities position for the past three years indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern;
- (c) notwithstanding the change in control of the Company upon the Completion, it is expected that the management of the operations of the Group may remain unchanged and there is a uncertainty on whether the Group can generate higher return for the Shareholders under the proposed strategy to be adopted by the existing management which may cast the doubt on the Group's prospect;
- (d) the Offer Price is generally above the closing price of the Shares during the Review Period and is at premium over average closing price of the Share during the Review Period. The closing prices of the Share in approximately 72.4% of the total trading days during the Review Period were below the Offer Price;
- (e) the Shares were generally illiquid during the Review Period and the Independent Shareholders, especially those with bulk quantities of the Shares, might not be able to dispose the Shares in the market without exerting a downward pressure on the market price of the Shares if they wish to realise their investments in the Company; and
- (f) the Implied P/B ratio lies within the range of P/B ratios of the Comparables,

we are of the view that the terms of the Offer are fair and reasonable as far as the Independent Shareholders are concerned and we recommend the Independent Board Committee to advise the Independent Shareholders and we recommend the Independent Shareholders, to accept the Offer.

In view of the recent fluctuations in the price of the Shares, the Independent Shareholders who wish to realise their investment in the Group are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer. In any event, Independent Shareholders should note that there is no certainty that the current trading volume and/or current trading price level of the Shares will be sustainable during or after the Offer Period. Independent Shareholders are strongly advised that the decision to realise or to hold their investments in the Company is subject to individual circumstances and investment objectives and they should consider carefully the terms of the Offer. If in doubt, the Independent Shareholders should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in the Composite Document, the appendices to the Composite Document and the Acceptance Form(s), if they wish to accept the Offer.

Yours faithfully,
For and on behalf of
Messis Capital Limited



Thomas Lai Vincent Cheung
Chief Executive Officer Managing Director

Note: Mr. Thomas Lai is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 20 years of experience in corporate finance industry.

Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.