Opus Capital Limited
創富融資有限公司

18 January 2021

To: The Independent Board Committee of China ZhongDi Dairy Holdings Company Limited

Dear Sirs,

**MANDATORY CONDITIONAL CASH OFFER BY
CLSA LIMITED
FOR AND ON BEHALF OF WHOLESOME HARVEST LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED
(OTHER THAN THOSE ALREADY OWNED
BY WHOLESOME HARVEST LIMITED)**

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee in connection with the Offer. Details of the Offer are set out in the Composite Document dated 18 January 2021, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

Reference is made to the Rule 3.5 Announcement. On 27 September 2020, the Offeror and the Subscribers entered into the Share Subscription Agreement, pursuant to which Jingang Trade conditionally agreed to (i) transfer 432,641,522 Shares legally and beneficially held by it; and (ii) contribute a capital injection of HK$1,659,738,400 to the Offeror, which is equal to the total value of 1,466,200,000 Shares subject to the Offer (representing approximately 56.25% of the total issued share capital of the Company as at the Latest Practicable Date) calculated based on the Offer Price of HK$1.132, in exchange for 1,898,841,522 ordinary shares issued by the Offeror. Zhang Group conditionally agreed to transfer 707,878,000 Shares beneficially held by Zhang Group, comprising (i) 392,088,000 Shares directly owned by YeGu Investment and (ii) 315,790,000 Shares directly owned by Green Farmlands, to the Offeror in exchange for 707,878,000 ordinary shares issued by the Offeror to YeGu Investment. The transfer and subscription price per share of the Offeror was HK$1.132 per share, equivalent to the Offer Price. According to the announcement of the Company dated 11 January 2021, Completion took place on 11 January 2021.

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Immediately prior to Completion, the Offeror was not interested in any Shares and the sole shareholder of the Offeror, being Jingang Trade, held 432,641,522 Shares, representing approximately 16.6% of the total issued share capital of the Company. As Completion has taken place, as at the Latest Practicable Date, the Offeror owned an aggregate of 1,140,519,522 Shares, representing approximately 43.75% of the issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory conditional cash offer for all the issued Shares (other than those already owned by the Offeror).

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the non-executive Directors, namely Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua, and all the independent non-executive Directors, namely Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry, who have no direct or indirect interest in the Offer, has been established in accordance with Rules 2.1 and 2.8 of the Takeovers Code to make recommendations on whether the terms of the Offer and the Share Subscription as the Special Deal are fair and reasonable and as to the acceptance of the Offer. We have been appointed by the Company to advise the Independent Board Committee in the same regard.

OUR INDEPENDENCE

We were appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company on certain continuing connected transactions (including the relevant annual caps) (the "**CCT IFA Appointment**"), details of the continuing connected transactions under the CCT IFA Appointment are set out in the circular of the Company dated 15 October 2020. The relevant continuing connected transactions under the CCT IFA Appointment are independent of the Offer. In addition, and as a pre-condition to the Offer, we were appointed as the Independent Financial Adviser to advise the Independent Board Committee on the Share Subscription as the Special Deal, with details set out in the circular of the Company dated 11 November 2020.

As at the Latest Practicable Date, we did not have any connection, financial or otherwise with the Group, the Offeror Concert Group, Zhang Group, the Subscribers or any of their respective controlling shareholders, or any party acting, or presumed to be acting in concert with, or have control over any of them, which would create or likely to create the perception of a conflict of interest or reasonably likely to affect the objectivity of our advice. During the past two years, except the normal independent financial advisory fees paid or payable to us in connection with the CCT IFA Appointment and this appointment regarding the Offer and the Share Subscription as the Special Deal, no arrangements exist whereby we had received or will receive any fees or benefits from the Group, the Offeror Concert Group, Zhang Group, the Subscribers or any of their respective controlling shareholders, or any party acting, or presumed to be acting in concert with, or have control over any of them that could reasonably be regarded as relevant to our independence. We therefore consider ourselves suitable to give independent advice to the Independent Board Committee in respect of the Offer and the Share Subscription as the Special Deal pursuant to Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

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

(i) the Rule 3.5 Announcement;

(ii) the announcement (the "**Yili Subscription Announcement**") of the Company dated 31 July 2020 in relation to a subscription agreement (the "**Yili Subscription Agreement**") dated 31 July 2020 entered into by and between the Company as issuer and Jingang Trade as subscriber for the subscription (the "**Yili Subscription**") of 432,641,522 new Shares at the subscription price of HK$0.47 per Share (the "**Yili Subscription Price**");

(iii) the Company's interim report for the six months ended 30 June ("**1H**") 2020 (the "**2020 Interim Report**");

(iv) the Company's annual reports for the two years ended 31 December ("**FY**") 2018 (the "**2018 Annual Report**") and 2019 (the "**2019 Annual Report**");

(v) a summary of the property valuation report issued by JLL to value the properties owned by the Group as at 31 October 2020 (the "**Valuation Summary**") with the text of the relevant property valuation report enclosed in Appendix III to the Composite Document; and

(vi) other information as set out in the Composite Document.

We have also discussed with and reviewed the information provided to us by the Company, the Directors and the management of the Group (collectively, the "**Management**") regarding the business and outlook of the Group.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations made to us by the Management. We have assumed that all information and representations contained or referred to in the Composite Document and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date pursuant to Rule 9.1 of the Takeovers Code.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Composite Document were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any such statement contained in the Composite Document misleading. We have no reason to suspect that any relevant information has 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 Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee solely in connection with and for their consideration of the Offer, and except for its inclusion in the Composite Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

We have not considered the tax and regulatory implications on the Independent Shareholders of acceptance or non-acceptance of the Offer since these depend on their individual circumstances. In particular, the Independent Shareholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFER

1. The Offer

CLSA Limited is making the Offer for and on behalf of the Offeror in compliance with the Takeovers Code to acquire the Offer Shares on the following basis:

For each Offer Share . . . . HK$1.132 in cash

The Offer Price of HK$1.132 per Offer Share is equal to the consideration for each Exchange Share under the Share Subscription Agreement. The Offer Shares to be acquired under the Offer shall be fully paid and free and clear of any Encumbrance 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 of the Composite Document. The Company confirms that it does not intend to declare any dividends during the Offer Period.

2. Condition of the Offer

The Offer is conditional on valid acceptance of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the First Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares already owned by the Offeror Concert Group and acquired before or during the Offer, will result in the Offeror Concert Group holding more than 50% of the voting rights of the Company.

Pursuant to the Irrevocable Undertakings, the IU Shareholders will accept, or procure the acceptance of the Offer, no later than 3:00 p.m. on the seventh (7th) day after the date of the Composite Document in accordance with the terms of the Offer and their obligations under the Irrevocable Undertakings.

The percentage of the share capital of the Company made up by all of the IU Shares (excluding the IU Shares owned by SiYuan Investment) (i.e. approximately 50.5%) and the Shares owned by the Offeror Concert Group (including the Shares owned by SiYuan Investment) (i.e. approximately 46.1%) is over 50% (i.e. approximately 96.6%). Therefore, once the IU Shareholders tender their acceptance of the Offer in respect of the IU Shares under the Irrevocable Undertakings, the acceptance condition of the Offer would have been met. Accordingly, the Offer is expected to become unconditional on or prior to the seventh (7th) day after the date of the Composite Document.

Pursuant to Rule 15.3 of the Takeovers Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptances for not less than 14 days thereafter. Accordingly, if the Offer becomes or is declared unconditional in all respects on or before the seventh (7th) day after the posting of the Composite Document, then the Closing Date would be on (but no earlier than) the First Closing Date. If the Offer becomes or is declared unconditional in all respects later than the seventh (7th) day after the posting of the Composite Document, then the Closing Date would be at least 14 days after the date of such declaration.

The Offer Price shall be payable in cash. The Offeror will not increase the Offer Price as set out above. Shareholders and potential investors of the Company should be aware that the Offeror will not be allowed to increase the Offer Price and the Offeror does not reserve the right to increase the Offer Price.

3. Value of the Offer

As at the Latest Practicable Date, there were 2,606,719,522 Shares in issue. On the basis of the Offer Price of HK$1.132 per Offer Share, the total issued share capital of the Company would be valued at approximately HK$2,950,806,498.9.

Excluding the Exchange Shares and assuming no other change in the issued share capital of the Company from the date of the Composite Document up to the Closing Date, 1,466,200,000 Shares (i.e. the Offer Shares) will be subject to the Offer. On the basis of full acceptance of the Offer, the maximum cash consideration payable by the Offeror under the Offer would be HK$1,659,738,400 based on the Offer Price.

4. Irrevocable Undertakings

We note that there has been strong support for the Offer as evidenced by the fact that the Offeror has received the Irrevocable Undertakings from the IU Shareholders. The IU Shareholders entered into the Irrevocable Undertakings in favor of the Offeror, pursuant to which, they have undertaken, among other things, to accept, or procure the acceptance of the Offer no later than 3:00 p.m. on the seventh (7th) day after the date of the Composite Document, in respect of all IU Shares.

The IU Shareholders have further undertaken that they would and would procure the holders of the IU Shares (i.e. licensed securities dealer/registered institution in securities/custodian bank which hold, through CCASS, the IU Shares on behalf of the IU Shareholders) (where applicable) that, among others, (i) except pursuant to the Offer, not to dispose of, charge, pledge or otherwise encumber or grant any option or other right over or otherwise deal in any of the IU Shares or any interest in them (whether conditionally or unconditionally) or enter into any transaction having a similar economic effect; and (ii) except for SiYuan Investment, which is a concert party of the Offeror, exercise (or, where relevant, procure the exercise of) all voting rights attaching to the IU Shares to vote in favor of the Special Deal, and otherwise in such manner as to enable the Offer to be made and become or be declared unconditional.

The Irrevocable Undertakings, except for the Irrevocable Undertaking provided by Fortune Hero Investments Limited, shall terminate immediately only if the Offer is not made in accordance with the requirements under the Takeovers Code in all material respects or the Offer closes, lapses or is withdrawn. In the event of the termination, the Irrevocable Undertakings shall terminate in all respects with immediate effect, and no party shall have any obligations and liabilities thereunder or any claim under the Irrevocable Undertakings against any other party, save that (i) the provisions regarding announcements, publicity, termination, notices and process agent (if applicable) shall continue to apply in full force and effect thereafter; and (ii) such termination shall be without prejudice to a party's accrued rights, remedies, obligations and liabilities under the Irrevocable Undertakings as at the date of such termination. The Irrevocable Undertaking entered into by Fortune Hero Investments Limited does not contain any event of termination.

As at the Latest Practicable Date, there were 1,377,008,000 IU Shares, representing (i) approximately 52.8% of the total issued share capital of the Company; (ii) approximately 93.9% of the Offer Shares, which is over 90%; and (iii) when excluding those 61,460,000 IU Shares associated with the Irrevocable Undertaking provided by SiYuan Investment, approximately 93.7% of the Disinterested Shares, which is over 90%.

The Independent Shareholders are urged to read the relevant sections in the Composite Document and its appendices in full. The latest time and date for the Offer remaining open to acceptance is 4:00 p.m. (Hong Kong time) on 8 February 2021 (i.e. the final Closing Date), assuming the Offer becomes or is declared unconditional in all respects on or before the seventh (7th) day (i.e. 25 January 2021) after the posting of the Composite Document, unless extended or revised in accordance with the Takeovers Code.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Offer, we have taken into account the following principal factors and reasons:

1. Business information, financial performance and prospects of the Group

A. Business of the Group

The Company was incorporated in the Cayman Islands with limited liability and its issued Shares have been listed on the Main Board of the Stock Exchange since December 2015. The Company is a modern agricultural and animal husbandry enterprise which is mainly engaged in dairy farming in the PRC. The Group's business models cover participating in multiple stages of the dairy farming industry value chain, including raising dairy cows, breeding dairy cows, producing and selling premium raw fresh milk, importing and selling dairy cows of quality breeds and breeding stock, as well as import-trading business in alfalfa hay and other animal husbandry-related products. As set out in the 2020 Interim Report, the Group's dairy farming business had eight modern dairy farms in operation in the PRC and a total of 66,065 dairy cows as at 30 June 2020.

B. Financial information of the Group

Set forth below is a summary of the: (i) audited consolidated financial information of the Group for FY2017, FY2018 and FY2019 as extracted from the 2018 Annual Report and the 2019 Annual Report; and (ii) unaudited consolidated financial information for 1H2019 and 1H2020 as extracted from the 2020 Interim Report. Further details of the financial information of the Group are set out in Appendix II to the Composite Document.

Table 1: Consolidated financial results of the Group*Note 1*

	1H2020 (Unaudited) *RMB'000*	**1H2019 (Unaudited)** *RMB'000*	**FY2019 (Audited)** *RMB'000*	**FY2018 (Audited)** *RMB'000*	**FY2017 (Audited)** *RMB'000*
Revenue					
– *Dairy farming business*	*849,038*	*705,635*	*1,498,727*	*1,335,839*	*1,033,286*
– *Import trading business*	*24,182*	*80*	*654*	*89,147*	*100,996*
	873,220	**705,715**	**1,499,381**	**1,424,986**	**1,134,282**
Cost of sales	(838,921)	(678,753)	(1,435,124)	(1,367,932)	(1,091,426)

	1H2020 (Unaudited) *RMB'000*	1H2019 (Unaudited) *RMB'000*	FY2019 (Audited) *RMB'000*	FY2018 (Audited) *RMB'000*	FY2017 (Audited) *RMB'000*
Gross profit	**34,299**	**26,962**	**64,257**	**57,054**	**42,856**
Gross profit margin (%)	*3.9*	*3.8*	*4.3*	*4.0*	*3.8*
Loss arising from changes in fair values less costs to sell of biological assets	(40,344)	(59,844)	(135,055)	(173,691)	(176,016)
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	262,385	230,323	486,353	415,969	346,127
Other income	9,828	6,933	15,424	34,661	34,975
Other gain and losses	704	4,419	8,179	(1,495)	(12,300)
Distribution costs	(38,302)	(29,303)	(65,272)	(59,716)	(46,916)
Administrative expenses	(59,972)	(46,781)	(109,877)	(93,953)	(71,473)
Other expenses	(726)	(554)	(1,006)	(1,110)	(394)
Finance costs	(64,260)	(82,054)	(160,748)	(114,543)	(103,482)
Share of profits and losses of associates	(60)	(26)	118	14	–
Profit before tax	**103,552**	**50,075**	**102,373**	**63,190**	**13,377**
Income tax expenses[Note 2]	–	–	–	–	–
Profit attributable to the Shareholders	**104,910**	**50,075**	**104,335**	**63,190**	**13,377**

Sources: 2018 Annual Report, 2019 Annual Report and 2020 Interim Report

Note:

1. *The figures presented are after the application of biological fair value adjustments.*

2. *Pursuant to the prevailing tax rules and regulation in the PRC, certain subsidiaries of the Group engaged in agricultural business are exempted from enterprise income tax for taxable profit form the operation of agricultural business in the PRC*

FY2018

The Group recorded a total revenue of approximately RMB1,425.0 million in FY2018, representing an increase of approximately RMB290.7 million or approximately 25.6% as compared to the total revenue of approximately RMB1,134.3 million in FY2017 which was mainly attributable to the increase in revenue generated from the dairy farming business. In FY2018, the revenue was primarily generated from two major business lines: (i) dairy farming business which included production and sale of premium raw fresh milk and the feeding, breeding and sale of dairy cows, etc.; and (ii) import-trading business which mainly included the import and sales of quality dairy cows and breeding of livestock as well as import-trading business in alfalfa hay and other animal husbandry related products. In FY2018, the revenue generated from the dairy farming business accounted for more than 90% of the total revenue of the Group which amounted to approximately RMB1,335.8 million, representing a year-on-year increase of approximately 29.3% as compared to approximately RMB1,033.3 million in FY2017. The increase in revenue from the dairy farming business was attributable to: (i) the expansion of the scale of milkable cows which increased from 33,797 heads as at 31 December 2017 to 36,068 heads as at 31 December 2018, representing an increase of approximately 6.7%; (ii) an increase in the sales of raw milk which increased from 278,406 tonnes in FY2017 to 354,141 tonnes in FY2018, representing an increase of approximately 27.2%; and (iii) increase in the average selling price of raw milk which increased from RMB3,711 per tonne in FY2017 to RMB3,772 per tonne in FY2018, representing a slight increase of approximately 1.6%.

The profit attributable to the Shareholders increased from approximately RMB13.4 million in FY2017 to approximately RMB63.2 million in FY2018, representing a significant increase of more than 370% as compared that for FY2017. It resulted from the aforementioned increase in gross profit and the increase in the gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest which increased from approximately RMB346.1 million in FY2017 to approximately RMB416.0 million, representing an increase of approximately RMB69.9 million which primarily reflected an increase in the sales volume of the Group's raw milk.

FY2019

For FY2019, the revenue was generated from two major business lines: (i) dairy farming business which included production and sale of premium raw fresh milk and the feeding, breeding and sale of dairy cows, etc.; and (ii) import-trading business which mainly included the import and sales of quality dairy cows and breeding of livestock as well as import-trading business in alfalfa hay and other animal husbandry related products. During FY2019, the revenue of the Group amounted to approximately RMB1,499.4 million, representing an increase of approximately RMB74.4 million or 5.2% from approximately RMB1,425.0 million for FY2018. Such increase was mainly attributable to the increase in revenue from dairy farming business of selling raw fresh milk amounted to approximately RMB1,498.7 million, representing an increase of approximately RMB162.9 million or 12.2% as compared to approximately RMB1,335.8 million in FY2018. The increase in the sale of raw fresh milk was due to the increase in both: (i) the volume of raw fresh milk sold, which increased from 354,141 tonnes for FY2018 to 373,713 tonnes for FY2019, representing an increase of approximately 5.5%; and (ii) the average unit selling prices of the raw fresh milk, which increased from approximately RMB3,772 per tonne in FY2018 to approximately RMB4,010 per tonne in FY2019, representing an increase of approximately 6.3%. The revenue of the sale of raw milk accounted for over 99.9% of the Group's total revenue in FY2019.

For FY2019, the revenue generated from import-trading business amounted to approximately RMB0.7 million, representing a decrease of approximately 99.2% as compared to approximately RMB89.1 million for FY2018, the decrease was mainly attributed to a decline in the total import-trading volume in FY2019.

The profit attributable to the Shareholders for FY2019 increased significantly by approximately RMB41.1 million or 65.0%, from approximately RMB63.2 million for FY2018 to approximately RMB104.3 million for FY2019, mainly due to: (i) an increase in both the unit selling price and sales volume of raw fresh milk as mentioned above; and (ii) the increase in the gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest of the Group of approximately RMB70.4 million or 16.9% from RMB416.0 million for FY2018 to approximately RMB486.4 million for FY2019 which reflected an increase in the unit selling price of the Group's raw fresh milk.

1H2020

In the first half of 2020, the PRC's economic activities once grounded to a halt and contracted sharply due to the outbreak of novel coronavirus ("**COVID-19**"). Despite the great challenges from the external economic environment, the dairy industry weathered through the adverse impact of the pandemic. During 1H2020, the revenue of the Group amounted to approximately RMB873.2 million, representing an increase of approximately RMB167.5 million or 23.7% from approximately RMB705.7 million for 1H2019 which was mainly attributable to the increase in revenue from dairy farming business of selling raw fresh milk amounted to approximately RMB849.0 million, representing an increase of approximately RMB143.4 million or 20.3% from approximately RMB705.6 million in 1H2019. The increase in revenue from dairy farming business was mainly attributable to: (i) the increase in sales volume of raw milk which increased from 184,588 tonnes in 1H2019 to 219,290 tonnes in 1H2020, representing an increase of approximately 18.8%; (ii) the average unit selling price of the raw milk, that increased from approximately RMB3,823 per tonne in 1H2019 to approximately RMB3,872 per tonne in 1H2020, representing a slight increase of approximately 1.3%; and (iii) the proactive arrangements adopted by the Group to cope with COVID-19 to prevent the Group from sluggish sales as mentioned in the 2020 Interim Report. The revenue of the sale of raw milk accounted for approximately 97.2% of the Group's total revenue for 1H2020.

For 1H2020, the revenue generated from import-trading business amounted approximately RMB24.2 million as compared to approximately RMB0.08 million for 1H2019, representing a significant increase of 300 times. Such an increase was mainly attributed to the increase in the total import-trading volume in 1H2020.

The profit attributable to the Shareholders for 1H2020 increased significantly by approximately RMB54.8 million or 109.4%, from approximately RMB50.1 million for 1H2019 to approximately RMB104.9 million for 1H2020 which was mainly due to (i) an increase in both the selling price and sales volume of raw fresh milk as mentioned above; (ii) an increase in gains arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest of the Group of approximately RMB32.1 million or 13.9% from approximately RMB230.3 million in 1H2019 to approximately RMB262.4 million in 1H2020 which reflected an increase in the sales volume of the Group's raw fresh milk; and (iii) a decrease of financing costs by approximately RMB17.8 million or 21.7%, from approximately RMB82.1 million for 1H2019 to approximately RMB64.3 million for 1H2020 which was primary due to the acquisition of low-cost financing loans as a result of the pandemic and the increased interval time of renewal of other borrowings during 1H2020.

Table 2: Consolidated financial position of the Group

	As at 30 June 2020 (Unaudited) *RMB'000*	**As at 31 December 2019 (Audited)** *RMB'000*
Non-current assets		
Property, plant and equipment	1,973,193	1,905,714
Prepayments	90,055	71,564
Right-of-use assets	520,320	545,638
Pledged deposits	52,802	32,590
Prepaid land lease payments	–	–
Biological assets	1,766,514	1,693,560
Investments in an associate	10,341	10,401
Total non-current assets	**4,413,225**	**4,259,467**
Current assets		
Inventories	386,566	465,326
Trade and other receivables	190,055	184,100
Prepaid land lease payments	–	–
Biological assets	428	–
Pledged bank deposits	47,948	23,852
Cash and bank balances	400,377	390,765
Total current assets	**1,025,374**	**1,064,043**

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
	RMB'000	*RMB'000*
Current liabilities		
Trade and other payables	430,841	783,997
Contract liabilities	49,286	6,405
Interest-bearing bank and other borrowings	1,206,303	1,146,449
Total current liabilities	**1,686,430**	**1,936,851**
Net current liabilities	**(661,056)**	**(872,808)**
Total assets less current liabilities	**3,752,169**	**3,386,659**
Non-current liabilities		
Interest-bearing bank and other borrowings	1,349,922	1,087,959
Deferred income	34,359	34,364
Total non-current liabilities	**1,384,281**	**1,122,323**
Net assets	**2,367,888**	**2,264,336**
Equity		
Equity attributable to the Shareholders		
Share capital	135	135
Share premium and reserves	2,311,073	2,206,163
	2,311,208	**2,206,298**
Non-controlling interests	56,680	58,038
Total equity	**2,367,888**	**2,264,336**

Source: 2020 Interim Report

Property, plant and equipment

The property, plant and equipment of the Group ("**PPE**") includes principally buildings, motor vehicles, plant and equipment and construction in progress accounted for approximately 36.3% and 35.8% of the total assets of the Group as at 30 June 2020 and 31 December 2019 respectively which was the most significant portion of the total assets of the Group. As at 31 December 2019, the net carrying amount of the buildings of the Group of approximately RMB1,577.9 million accounted for approximately 82.8% of PPE. PPE increased slightly by approximately RMB67.5 million or 3.5% during 1H2020, from approximately RMB1,905.7 million as at 31 December 2019 to approximately RMB1,973.2 million as at 30 June 2020. As disclosed in the 2020 Interim Report, PPE with an aggregate carrying amount of approximately RMB466.0 million and RMB287.7 million were pledged to secure interest-bearing bank and other borrowings to the Group as at 30 June 2020 and 31 December 2019 respectively.

Biological assets

As set out in the 2020 Interim Report, the biological assets of the Group are: (i) dairy cows held to produce raw milk such as milkable cows, heifers and calves; and (ii) cows held for sale. Dairy cows held to produce raw milk are categorized as bearer biological assets and cows held for sale are categorized as consumable biological assets. The biological assets also accounted for a significant portion of the total assets of the Group which accounted for approximately 32.5% and 31.8% of the total assets of the Group as at 30 June 2020 and 31 December 2019 respectively. As at 30 June 2020, the biological assets of the Group amounted to approximately RMB1,766.9 million, representing an increase of approximately 4.3% as compared to that as at 31 December 2019. The total quantity of cows increased slightly from 65,429 heads as at 31 December 2019 to 66,065 heads as at 30 June 2020. The Group held 38,331 heads of milkable cows, 27,708 heads of heifers and calves and 26 heads of cows held for sale as at 30 June 2020. Cows held for sale, which are classified as current assets, comprise heifers imported and held in quarantine farms and heifers/calves reproduced by the Group for sale to external customers. Milkable cows, heifers and calves are dairy cows of the Group for the purpose of production of raw milk and are classified as non-current assets. As at 30 June 2020, the biological assets classified as current assets amounted to approximately RMB428,000 while those classified as non-current assets amounted to approximately RMB1,766.5 million.

Right-of-use assets

As at 31 December 2019, the right-of use assets of the Group was approximately RMB545.6 million, mainly comprising of the lease of land parcels and land use rights with lease terms ranged from 1 to 50 years amounted to approximately RMB440.8 million and RMB95.7 million respectively. The Group also leased office buildings with lease terms ranged from three to five years amounted to approximately RMB9.1 million. During 1H2020, the right-of-use assets slightly decreased by approximately RMB25.3 million, to approximately RMB520.3 million as at 30 June 2020.

Interest-bearing bank and other borrowings and gearing ratio

The interest-bearing bank and other borrowings of the Group (the "**Borrowings**") amounted to approximately RMB2,556.2 million represented approximately 83.3% of the total liabilities of the Group as at 30 June 2020 which increased from approximately RMB2,234.4 million as at 31 December 2019, representing an increment of approximately 14.4%. As at 30 June 2020, the Borrowings of the Group repayable within one year amounted to approximately RMB1,206.3 million, representing approximately 47.2% of the Borrowings. Over half of the Borrowings were fixed-rate borrowings and also more than half of the Borrowings were unsecured. The secured Borrowings were primarily secured by the dairy cows, bank deposits, prepayment assets, long-term pledged assets, PPE and trade receivables. The gearing ratio of the Company was approximately 56.5% as at 30 June 2020, representing a slight decline of approximately 1.0% from approximately 57.5% as at 31 December 2020.

Pledged bank deposits, cash and bank balances

As at 30 June 2020, the pledged bank deposits amounted to approximately RMB47.9 million, representing an increase of approximately RMB24.1 million or 101.0% as compared to that as at 31 December 2019. The cash and bank balance of the Group was approximately RMB400.4 million as at 30 June 2020, represented a slight increase of approximately RMB9.6 million or 2.5% as compared to that as at 31 December 2019. Most of the Group's pledged bank deposits and cash and bank balance were denominated in RMB.

NAV attributable to the Shareholders

The net asset value ("**NAV**") attributable to the Shareholders increased slightly by approximately RMB104.9 million or 4.8% as at 30 June 2020, from approximately RMB2,206.3 million as at 31 December 2019 to approximately RMB2,311.2 million as at 30 June 2020.

Subscription of new shares under general mandate

As disclosed in the Yili Subscription Announcement, the Company, as the issuer, entered into the Yili Subscription Agreement dated 31 July 2020 with Jingang Trade, as the subscriber, for the subscription of 432,641,522 (representing approximately 16.6% of the total issued share capital of the Company as at the Latest Practicable Date) new Shares at the Yili Subscription Price of HK$0.47 per Share under general mandate (i.e. the Yili Subscription). The Yili Subscription was completed on 12 August 2020 and the net proceeds from the Yili Subscription (after deducting expenses arising from the Yili Subscription) were approximately HK$201.8 million. The Company intended to use approximately 70% of the net proceeds from the Yili Subscription to supplement the general working capital, mainly for the purchase of production materials such as feeds and veterinary drugs necessary for farm operations, approximately 30% for repayment of bank loans that were falling due to support the operation of the Company's existing business. As a result of the Yili Subscription, the cash and bank balance and the NAV attributable to the Shareholders as at 30 June 2020 would have increased by approximately HK$201.8 million (equivalent to approximately RMB184.3 million at the exchange rate of HK$1.09476 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2020) (the "**Yili Subscription Proceeds**") upon completion of the Yili Subscription to approximately RMB584.7 million and RMB2,495.5 million respectively.

Valuation Summary

According to our review of the Valuation Summary, we note that the carrying amount of the property interests owned by the Group was approximately RMB2,122.5 million as at 31 October 2020 while the market value of the property interests owned by the Group amounted to approximately RMB2,298.6 million as at 31 October 2020, represented a revaluation surplus of approximately RMB176.1 million (the "**Property Revaluation Surplus**"). Taking into account the Yili Subscription Proceeds of approximately HK$201.8 million (equivalent to approximately RMB184.3 million at the exchange rate of HK$1.09476 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2020) and the Property Revaluation Surplus of approximately RMB176.1 million, the NAV attributable to the Shareholders as at 30 June 2020 would have increased to approximately RMB2,671.6 million (the "**Adjusted NAV**").

C. Industry overview

The raw milk production industry in China experienced substantial growth in the early 2000's. According to "The ongoing modernization of China's dairy sector" published by PricewaterhouseCoopers in 2019 (the "**PwC Report**"), China's raw milk production increased by more than 20 times from approximately 1.4 million tonnes to over 30 million tonnes between 1980 and 2006. Such growth has stagnated since 2008 and the production peaked at approximately 33 million tonnes in 2012. However, Chinese dairy consumption has continued to increase. More than 30% of China's dairy products (measured in raw milk equivalents) come from imports now, compared to approximately 5% in 2007. The PRC Government has been issuing new plans, policies and regulations to modernize production, improve food safety and quality and reduce dependence on imports. Dairy manufacturers are encouraged to build or acquire controlling stakes in dairy farms and government policies actively encouraged the establishment of strong domestic brands and increased consumption of pasteurized milk and dry products. There are still a number of key challenges for the raw milk production industry in China to continue to grow, to name just a few:

(i) The increasingly strict government policies and regulations, in particular, on food safety and quality

According to the PwC Report, ever since the melamine milk scandal in 2008, dairy products are among the most strictly regulated and monitored products of all food and beverage products in China and regulations have continuously become more demanding every year, especially in the environmental, food safety and biosecurity requirements of dairy products.

(ii) The high cost of domestic production

According to PwC Report, the labour cost per unit of milk of large-scale farms is much lower than that of backyard and small-scale farms due to the improvement of labour productivity and average production per dairy cow. However, such savings from labour cost are offset by the increasing cost of feed concentrates, commercial fodder, electricity, veterinary services and management fees. As a consequence of limited production of domestic forage and feed crops, the large-scale farms have to depend on the imported alfalfa and soy, a key ingredient in feed concentrate, to feed dairy cows which contributes to the high cost of domestic raw milk production and drives a more significant cost difference between the imported dairy products and domestic products. As set out in the PwC Report, the raw milk production cost in China is 46% and 53% higher than that in New Zealand and the global average, respectively, in 2018.

(iii) A substitute of raw milk

As stated in reports named "2019 Dairy and Production Semi-Annual" and "2020 Dairy and Production Semi-Annual" containing analysis on the Chinese dairy industry, as published by the United States Department of Agriculture, the total import of whole milk power of the PRC increased from approximately 470,000 tons in 2017 to approximately 671,000 tons in 2019, representing an increase of approximately 42.8%. In 2020, New Zealand remains the single largest supplier of whole milk powder for the PRC which accounted for more than 90% market share. Furthermore, importing whole milk powder from New Zealand enjoyed zero tariffs in the PRC since 2019 and as a result, the PRC's imports of milk powder from New Zealand is expected to continue to rise in the foreseeable future. Milk powder is the most common dairy product for international trade due to its relatively low shipping costs and long shelf life. As such, milk powder has increasingly become a substitute for raw milk.

D. Business prospects of the Group

As set out in the 2020 Interim Report, COVID-19 posed severe challenges to the China economy and the dairy industry on dairy demand and logistics-based supply chain. Due to the worldwide impact of the pandemic, global economic growth forecast has been cut. In the World Economic Outlook released by the International Monetary Fund in late June 2020, the global economy is projected to decline by approximately 4.9%, while China's economy is forecast to grow at approximately 1%, making it the only country that can achieve positive growth in 2020 among major economies. However, China's overall economic growth is still in a downward cycle, and the uncertainties resulting from changes in the international political and economic landscape and trade wars persist. The Group actively coped with the threat of COVID-19 to the normal operations of the Company from the aspects of safe production, operation assurance and sales promotion. The Group coordinated resources to prevent and control the virus in order to minimize the impact of the pandemic. In 1H2020, all the raw milk produced by the Group was sold normally without sluggish sales or powder spraying, and the arrangement for materials supply and epidemic prevention were carried out in an orderly manner and the health of employees was effectively protected.

Although COVID-19 brought short term challenges to the dairy industry, it has raised the concern of consumers in relation to nutrition, health, immunity enhancement and the quality of products. The National Health Commission of the PRC issued the "Nutrition and Dietary Advice on Prevention and Recovery from Novel Coronavirus Infected Pneumonia" on 8 February 2020 which recommended that "moderate or recovering patients should consume 300g of milk and dairy products per day". Further, the National Association of Health Industry and Enterprise Management, the Chinese Nutrition Society, the Dairy Association of China and the China Dairy Industry Association jointly published the "Guidelines on Consumption of Milk and Dairy Products for Chinese Citizens" on 26 February 2020 which recommended the public to consume 300g of liquid milk or other dairy products with protein content equivalent to 300g of liquid milk to promote a healthy diet.

The Company gave a mixed view of the Group's prospects in the 2020 Interim Report. On one hand, it recognized the release of the aforementioned guidelines has attracted greater consumer attention to high-protein foods such as milk. On the other hand, it also realized the full recovery of the dairy industry also faces cost challenges. As further set out in the 2020 Interim Report, epidemic prevention measures still cannot be relaxed given the frequent occurrence of cases in various places although COVID-19 has been generally under control in China. As a result, the preventive disinfection of dairy farms, labour protection of employees, and epidemic prevention for dairy cows push up operating expenses. Furthermore, the severity of the pandemic in foreign countries resulted in the increase in the prices of feed including corn, alfalfa, and soybean meal. The depreciation of RMB in 1H2020 further increased the purchase cost of imported feed. In this connection, the Group would explore full industry chain development with the ongoing effort to enhance its ability to resist risks. In our view, the introduction of Yili Industrial as the substantial shareholder of the Company through the Yili Subscription can be seen as one way of achieving full industry chain development. As set out in the Yili Subscription Announcement, the Directors are of the view that, as Yili Industrial is the largest dairy company with the most complete product categories in the PRC, engaged in the processing, manufacturing and sales of various dairy products and health drinks, it can enable the Company to strengthen coordination and cooperation with downstream companies in the industrial chain to build up momentum for future development.

2. Principal terms of the Offer

The Offer Price of HK$1.132 per Offer Share represents:

(i) a premium of approximately 11.0% over the closing price of HK$1.020 per Share as quoted on the Stock Exchange on 25 September 2020, being the Last Trading Day;

(ii) a premium of approximately 16.9% over the average closing price of approximately HK$0.968 per Share based on the daily closing prices as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;

(iii) a premium of approximately 20.0% over the average closing price of approximately HK$0.943 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;

(iv) a premium of approximately 22.8% over the average closing price of approximately HK$0.922 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;

(v) a premium of approximately 44.9% over the average closing price of approximately HK$0.781 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Day;

(vi) a premium of approximately 77.6% over the average closing price of approximately HK$0.638 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 consecutive trading days immediately prior to and including the Last Trading Day;

(vii) a discount of approximately 0.7% to the closing price of HK$1.14 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(viii) a premium of approximately 19.8% over the audited consolidated NAV attributable to the Shareholders of approximately RMB0.85 (equivalent to approximately HK$0.94 at the exchange rate of HK$1.11635 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 31 December 2019) per Share as at 31 December 2019, calculated by dividing the Group's audited consolidated NAV attributable to the Shareholders of approximately RMB2,206.3 million as at 31 December 2019 by 2,606,719,522 Shares in issue as at the Latest Practicable Date;

(ix) a premium of approximately 16.6% over the unaudited consolidated NAV attributable to the Shareholders of approximately RMB0.89 (equivalent to approximately HK$0.97 at the exchange rate of HK$1.09476 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2020) per Share as at 30 June 2020, calculated by dividing the Group's unaudited consolidated NAV attributable to the Shareholders of approximately RMB2,311.2 million as at 30 June 2020 by 2,606,719,522 Shares in issue as at the Latest Practicable Date;

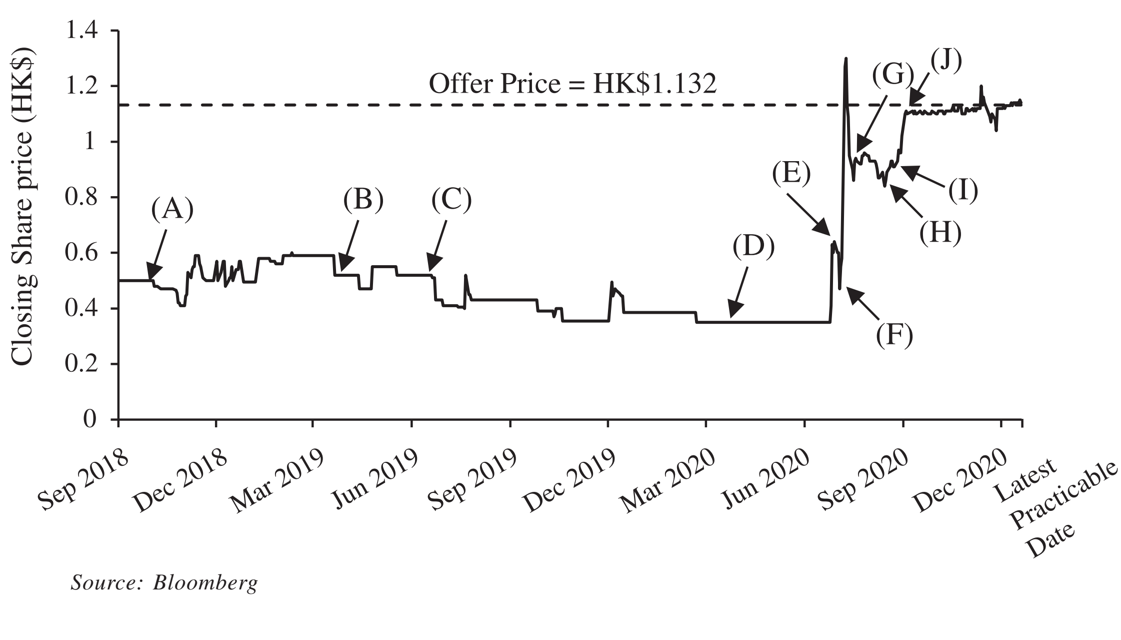
(x) a premium of approximately 1.1% over the Adjusted NAV per Share of approximately RMB1.025 (equivalent to approximately HK$1.12 at the exchange rate of HK$1.09476 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2020), as at 30 June 2020, calculated by dividing the Adjusted NAV of approximately RMB2,671.6 million by 2,606,719,522 Shares in issue as at the Latest Practicable Date; and

(xi) a premium of approximately 140.9% over the Yili Subscription Price of HK$0.47 per Share.

A. Historical price performance of the Shares

Set out below is the chart showing the daily closing Share prices as quoted on the Stock Exchange during the period commencing from 27 September 2018, being the 24-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the "**Review Period**"):

Chart 1: Closing Share prices during the Review Period



Source: Bloomberg

Item	Date	Announcement
(A)	8 October 2018	Major transaction in relation to finance lease arrangements
(B)	29 March 2019	Annual results of the Company for FY2018
(C)	28 June 2019	Resignation of deputy general manager of the Company
(D)	27 March 2020	Annual results of the Company for FY2019
(E)	22 July 2020	Certain updates of the concert parties arrangement concerning Mr. Zhang Jianshe and Mr. Zhang Kaizhan
(F)	31 July 2020	Yili Subscription
(G)	7 August 2020	Discloseable transactions – Formation of a limited partnership and deemed disposal of equity interest in a non-wholly owned subsidiary
(H)	4 September 2020	Continuing connected transactions – (1) raw fresh milk supply framework agreement (2) materials procurement framework agreement and (3) financial and factoring services framework agreement (the "**CCTs**")
(I)	18 September 2020	Resignation of chief financial officer
(J)	27 September 2020	Rule 3.5 Announcement

During the Review Period prior to 21 July 2020, the closing Share price exhibited a decreasing trend, which ranged from the lowest of HK$0.35 per Share on 18 March 2020 to the highest of HK$0.60 per Share on 7 March 2019 with an average closing Share price of approximately HK$0.45 per Share, and remained static at HK$0.35 per Share from 18 March 2020 to 20 July 2020. The Offer Price of HK$1.132 per Offer Share has consistently been significantly higher than the closing Share prices during the aforementioned period. We have reviewed the Share price movement during the aforesaid period and noted the following notable events: (i) the release of an announcement on 8 October 2018 regarding a major transaction in relation to finance lease arrangements; (ii) the release of the annual results announcement of the Company for FY2018 on 29 March

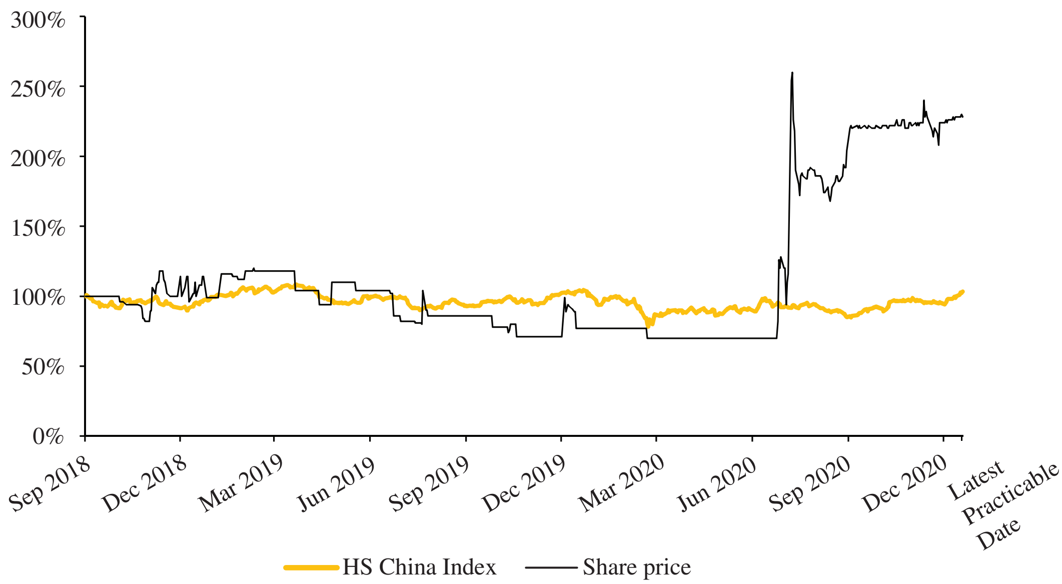
2019; (iii) the release of an announcement on 28 June 2019 regarding resignation of deputy general manager of the Company; and (iv) the release of the annual results announcement of the Company for FY2019 on 27 March 2020.

On 21 July 2020, the closing Share price increased from HK$0.35 per Share on 20 July 2020 to HK$0.41 per Share, representing a one-day increase of approximately 17.1%. At the request of the Company, trading in the Shares was suspended in the afternoon session on 22 July 2020 and the closing Share price on this date was HK$0.63, representing another one-day increase, this time at a rate of approximately 53.7%. The Company released an announcement in relation to certain updates of the concert parties arrangement concerning Mr. Zhang Jianshe and Mr. Zhang Kaizhan in the evening of 22 July 2020. Upon resumption of trading in the Shares on 23 July 2020, the closing Share price closed in a range of HK$0.47 and HK$0.64 between 23 July 2020 and 31 July 2020. After trading hours on 31 July 2020, the Company announced the Yili Subscription, the Share price took a significant jump and peaked at HK$1.30 per Share on 4 August 2020. The closing Share price then oscillated between HK$0.84 and HK$1.30 per Share until the Last Trading Day.

We have reviewed the Share price movement during this period and noted the following notable events: (i) the release of an announcement on 22 July 2020 concerning the concert parties arrangement and resumption of trading; (ii) the release of the Yili Subscription Announcement on 31 July 2020; (iii) the release of an announcement on 7 August 2020 regarding discloseable transactions in relation to the formation of a limited partnership and deemed disposal of equity interest in a non-wholly owned subsidiary of the Company; (iv) the release of an announcement on 4 September 2020 in relation to the CCTs; (v) the release of an announcement on 18 September 2020 in relation to the resignation of chief financial officer of the Company; and (vi) the release of the Rule 3.5 Announcement. We note that, upon the release of the Yili Subscription Announcement, the closing Share price surged by approximately 119.0% on 3 August 2020, being the next trading day after the Yili Subscription Announcement, it is reasonable to believe such sharp increase in the Share price was attributable to the market's positive interpretation on the Yili Subscription. The increasing trend in the closing Share price movement from 28 September 2020 to 30 September 2020 would have been due to market initial reaction to the Offer. The closing Share price remained relatively stable which traded at an average of around HK$1.12 from 5 October 2020 up to the Latest Practicable Date. We however note that, during the period between the next day after the release of the Rule 3.5 Announcement (i.e. 28 September 2020) and the Latest Practicable Date, there had been 12 trading days where the closing Share prices closed above the Offer Price, which were HK$1.20 on 8 December 2020, HK$1.14 on 9 December 2020, HK$1.16 on 10 December 2020 and HK$1.14 on 11 December 2020.

Set out below is the chart showing the comparison of performance of, during the Review Period, (i) the closing Share prices; and (ii) the Hang Seng China Enterprises Index (the "**HS China Index**"), a benchmark that tracks the performance of Mainland securities listed on the Stock Exchange:

Chart 2: Comparison of performance of the closing Share prices and the HS China Index



Source: Bloomberg

Chart 2 above illustrates the performance of the closing Share prices compared to that of the HS China Index. The Share prices outperformed the HS China Index slightly during the first year period of the Review Period. The Share price, in general, underperformed the HS China Index during the majority of the Review Period until the release of the Yili Subscription Announcement on 31 July 2020.

The closing Share price traded below the Offer Price in most of the time during the Review Period. Out of 568 trading days in the Review Period, the closing Share price traded below the Offer Price for 554 trading days.

We further note that the Offer Price is higher than the closing Share price on the Last Trading Day, and represents a premium of approximately 11.0%, 0.7%, 16.6% and 1.1% over the closing Share price on the Last Trading Day, the closing Share price as at the Latest Practicable Date, the NAV attributable to the Shareholders per Share as at 30 June 2020 and the Adjusted NAV per Share.

B. Historical trading volume of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

	Total trading volume *(No. of Shares)*	**No. of trading days**	**Average daily trading volume** *(No. of Shares)*	**Average daily trading volume to the total number of Shares in issue** *(Approximate %)* Note 1	**Average daily trading volume to the number of Shares held by public Shareholders** *(Approximate %)* Note 2
2018					
September (From 27 September)	0	2	0	0.0000	0.0000
October	0	21	0	0.0000	0.0000
November	398,000	22	18,091	0.0008	0.0014
December	2,104,000	19	110,737	0.0051	0.0085
2019					
January	1,054,000	22	47,909	0.0022	0.0037
February	108,000	17	6,353	0.0003	0.0005
March	104,000	21	4,952	0.0002	0.0004
April	6,000	19	316	0.0000	0.0000
May	2,000	21	95	0.0000	0.0000
June	20,000	19	1,053	0.0000	0.0001
July	82,000	22	3,727	0.0002	0.0003
August	284,000	22	12,909	0.0006	0.0010
September	8,000	21	381	0.0000	0.0000
October	60,000	21	2,857	0.0001	0.0002
November	48,000	21	2,286	0.0001	0.0002
December	98,000	20	4,900	0.0002	0.0004
2020					
January	172,000	20	8,600	0.0004	0.0007
February	0	20	0	0.0000	0.0000
March	0	22	0	0.0000	0.0000
April	0	19	0	0.0000	0.0000
May	6,000	20	300	0.0000	0.0000
June	0	21	0	0.0000	0.0000
July	10,596,000	22	481,636	0.0222	0.0343
August	217,037,100	21	10,335,100	0.4597	0.7357
September	39,358,000	22	1,789,000	0.0686	0.1274
October	12,003,000	18	666,833	0.0256	0.0475
November	3,402,000	21	162,000	0.0062	0.0115
December	29,283,860	22	1,331,085	0.0511	0.0948

	Total trading volume *(No. of Shares)*	No. of trading days	Average daily trading volume *(No. of Shares)*	Average daily trading volume to the total number of Shares in issue *(Approximate %)*[Note 1]	Average daily trading volume to the number of Shares held by public Shareholders *(Approximate %)*[Note 2]
2021					
January (up to the Latest Practicable Date)	23,590,000	10	2,359,000	0.0905	0.1679

Source: the Stock Exchange

Notes:

1. *The calculation is based on the average of the daily trading volume of the Shares divided by the total number of Shares in issue in the relevant period.*

2. *The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by the public Shareholders.*

As illustrated in the table above, the average daily trading volume for the respective month/period during the Review Period ranged from nil to approximately 10,335,100 Shares, representing: (i) nil to approximately 0.46% of the total number of issued Shares; and (ii) nil to approximately 0.74% of the number of Shares held by public Shareholders.

The average daily trading volume for the Review Period prior to July 2020 (from 27 September 2018 to 30 June 2020) was approximately 10,542 Shares. The average daily trading volume for the period from 1 July 2020 to the Last Trading Day was approximately 4,037,985 Shares, representing approximately 383 times of that of the Review Period prior to 1 July 2020. The average daily trading volume was approximately 10.3 million Shares in August 2020. The highest daily trading volume was recorded on 3 August 2020, the trading volume reached approximately 65.9 million Shares. The trading volume surged after the release of the Yili Subscription Announcement. Such significant increase in trading volume of Shares and Share prices would have been due to the positive market reaction to the Yili Subscription.

On the first trading day after the release of the Rule 3.5 Announcement (i.e. 28 September 2020), the daily trading volume of the Shares increased to approximately 12.1 million Shares from 4.9 million Shares as recorded on the Last Trading Day, representing approximately 0.86% of the number of Shares held by public Shareholders. Such increase in trading volume of the Shares would have been the initial market reaction to the Rule 3.5 Announcement. Although the trading volume of the Shares was active on 28 September 2020, the average daily trading volume reduced to approximately 666,833

Shares and 162,000 Shares in October and November respectively, representing: (i) approximately 0.01% to approximately 0.03% of the total number of issued Shares; and (ii) approximately 0.01% to approximately 0.05% of the number of Shares held by public Shareholders.

Given that: (i) there was no liquidity for several months; and (ii) the generally very thin liquidity of the Shares during the Review Period, it is uncertain whether there would be sufficient liquidity in the trading of the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. We therefore consider that the Offer provides the Independent Shareholders, particularly those who hold a large number of Shares, with an assured exit to dispose of part or all of their Shares at the Offer Price if they wish to.

C. Industry Comparables

As mentioned under the section headed "1. Business information, financial performance and prospects of the Group", the Group generated most of its revenue from the dairy farming business which included the raising and breeding dairy cows, producing and selling premium raw milk. In assessing the fairness and reasonableness of the Offer Price, we have identified comparable companies (the "**Industry Comparables**") which are principally engaged in similar principal business activities as those of the Group (i.e. dairy farming business) with the following selection criteria:

(i) listed on the Stock Exchange;

(ii) with over 90% of the latest reported annual revenue was generated from the dairy farming business which included the production and sales of raw milk; and

(iii) the trading of shares has not been suspended for more than three months.

We adopted the above criteria because we note that the revenue attributable to the dairy farming business accounted for more than 92% of the Group's revenue for FY2018, FY2019 and 1H2020. As such, the Industry Comparables do bear significant resemblance with the principal business of the Company. Based on the above selection criteria, we have exhaustively identified three Industry Comparables. In view of the high concentration of revenue attributable to the dairy farming business of the Group, although the number of industry participants listed on the Stock Exchange that meet the aforesaid selection criteria is relatively limited, they are still fully representative of the dairy farming market. As such, we consider that the three Industry Comparables identified by us, though not a big sample and may have different size of market capitalization, to be an exhaustive, appropriate and representative sample for the purpose of arriving at a meaningful comparison to the Offer Price.

For the selection of the valuation multiple, we have given regard to price-to-sales multiple(s) ("**P/S Multiple(s)**"), price-to-earnings multiple(s) ("**P/E Multiple(s)**") and price-to-book multiple(s) ("**P/B Multiple(s)**"). We understand that P/S Multiple captures the business scale of the subject company but it is not adopted in our analysis due to its deficiency in capturing the cost structure of the Industry Comparables. We note that all the three Industry Comparables were profit-making on a trailing twelve months ("**TTM**") basis. As such, P/E Multiple was adopted in our analysis. In addition, P/B Multiple is also effective in conducting valuation for dairy farming companies, where biological assets and PPE: (i) are crucial for the production of milk to generate revenue for a company; and (ii) account for a significant portion of the total assets of the Company. Based on the above, we consider P/E Multiple and P/B Multiple to be appropriate valuation multiples. Set out below are three Industry Comparables together with the relevant P/E Multiples and P/B Multiples for the purpose of our analysis:

Table 3: List of Industry Comparables

No.	**Company (stock code)**	**Company descriptions**	**Market capitalization**	**P/E Multiple**	**P/B Multiple**
			(HK$' Million)[Note 1]	*(times)*[Note 2]	*(times)*[Note 3]
1	China Modern Dairy Holdings Limited (1117)	The company is mainly engaged in dairy farming business which included the production and sales of raw milk.	6,652.3	13.7	0.8
2	YuanShengTai Dairy Farm Limited (1431)	The company is mainly engaged in dairy farming business which included the production and sales of raw milk.	2,861.2	8.2	0.6
3	China Shengmu Organic Milk Limited (1432)	The company is mainly engaged in dairy farming business which included: (i) production and sales of raw milk to customers for processing into dairy products; and (ii) production and sales of liquid milk products.	4,777.3	17.6	1.7
		Maximum		17.6	1.7
		Minimum		8.2	0.6
		Average		13.2	1.0
		Median		13.7	0.8

No.	Company (stock code)	Company descriptions	Market capitalization	P/E Multiple	P/B Multiple
			(HK$' Million)[Note 1]	*(times)*[Note 2]	*(times)*[Note 3]
	The Offer	The Company is principally engaged in business operations including raising and breeding dairy cows, producing and selling premium raw milk, importing and selling dairy cows of quality breeds and breeding stock, and import trading business in cows, alfalfa hay and other animal husbandry-related products in the PRC.	2,950.8[Note 4]	16.7[Note 5]	1.2[Note 6 7]

Sources: Bloomberg and the website of the Stock Exchange

Notes:

1. *The market capitalizations as at the Last Trading Day.*

2. *P/E Multiples of the Industry Comparables are calculated by dividing the respective market capitalization of the Industry Comparable as at Latest Practicable Date, by the net profits attributable to the shareholders of the Industry Comparables on a TTM basis. For the above calculations, the figures of the net profits attributable to the shareholders reported in RMB were converted into HK$ at the exchange rate of HK$1.10907 to RMB1, being the average of the exchange rates as quoted by the China Foreign Exchange Trade System from 1 January 2020 to the date of the Rule 3.5 Announcement.*

3. *P/B Multiples of the Industry Comparables are calculated by dividing the respective market capitalization of the Industry Comparable as at Latest Practicable Date, by the most recently published NAV attributable to the shareholders of the Industry Comparables. For the above calculations, the NAV figures reported in RMB were converted into HK$ at the exchange rate of HK$1.09476 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2020.*

4. *The implied market capitalization of the Company (the "**Implied Market Value**") under the Offer of approximately HK$2,950.8 million is calculated by multiplying the Offer Price and the number of issued Shares of 2,606,719,522 Shares as at the Latest Practicable Date.*

5. *The implied P/E Multiple of the Company under the Offer (the "**Implied P/E Multiple**") of approximately 16.7 time is calculated by dividing the aforesaid Implied Market Value of approximately HK$2,950.8 million by the net profits attributable to the Shareholders on a TTM basis of approximately RMB159.2 million (equivalent to approximately HK$176.6 million at the exchange rate of HK$1.10907 to RMB1, being the average of the exchange rates as quoted by the China Foreign Exchange Trade System from 1 January 2020 to the date of the Rule 3.5 Announcement.*

6. *The implied P/B Multiple of the Company under the Offer (the "**Implied P/B Multiple**") of approximately 1.2 times is calculated by dividing the aforesaid Implied Market Value of approximately HK$2,950.8 million by the unaudited consolidated NAV attributable to the Shareholders of as at 30 June 2020 of approximately RMB2,311.2 million (equivalent to approximately HK$2,530.2 million at the exchange rate of HK$1.09476 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2020).*

As shown in the table above, P/E Multiples of the Industry Comparable ranged from approximately 8.2 times to approximately 17.6 times, with an average P/E Multiple of approximately 13.2 times and a median P/E Multiple of approximately 13.7 times. We note that the Implied P/E Multiple of approximately 16.7 times falls within the range of P/E Multiples of the Industry Comparables and is higher than both the average P/E Multiple and the median P/E Multiple of the Industry Comparables.

As shown in the table above, P/B Multiples of the Industry Comparables ranged from approximately 0.6 time to approximately 1.7 times, with an average P/B Multiple of approximately 1.0 time and a median P/B Multiple of approximately 0.8 time. We note that the Implied P/B Multiple of approximately 1.2 times falls within the range of P/B Multiples of the Industry Comparable and is higher than both the average P/B Multiple and the median P/B Multiple of the Industry Comparables.

Taking into account the fact that: (i) both the Implied P/E Multiple and the Implied P/B Multiple of approximately 16.7 times and 1.2 times, respectively, are within the range of both P/E Multiples and P/B Multiples of the Industry Comparables; (ii) the Implied P/B Multiple is higher than both the average P/B Multiple and the median P/B Multiple of the Industry Comparables; and (iii) the Implied P/E Multiple is higher than both the average P/E Multiple and the median P/E Multiple of the Industry Comparables, we consider the Implied P/E Multiple and the Implied P/B Multiple compare favourably against those of the GO Industry Comparables.

D. GO Transaction Comparables

To further assess the fairness and reasonableness of the Offer Price, we have also identified comparable transactions (the "**GO Transaction Comparables**") which involved the acquisition, by way of general offers, of target companies principally engaged in similar principal business activities as those of the Group (i.e. dairy farming business) with the following selection criteria:

(i) the transaction was announced and on-going or completed in the five years preceding the date of the Rule 3.5 Announcement;

(ii) the shares of either the acquirer, the seller or the target company of the transaction are/were listed on Stock Exchange;

(iii) the transaction involved the acquisition of controlling stake of the target company (being 30% or more of the equity interest as defined in the Listing Rules); and

(iv) with over 90% of the latest reported annual revenue of the target company generated from dairy farming and/or the production and sales of raw milk.

As mentioned above, we note that the revenue attributable to the dairy farming business accounted for more than 92% of the Group's revenue for FY2018, FY2019 and 1H2020. As such, we adopted the above criteria because the target companies in the GO Transaction Comparables are considered highly comparable to the Company. Based on the above selection criteria, we have exhaustively identified two Industry Comparables. In view of: (i) the high concentration of revenue attributable to the dairy farming business of the Group; and (ii) the duration of five years is considered a sufficient period of time, given that there had not been any significant development of market conditions during this period (while the last known significant development of markets conditions was the melamine milk scandal in 2008) based on our review of the PwC Report, although the number of market transactions that meet the aforesaid selection criteria is relatively limited, they are still fully representative of the market transactions which involved the acquisition of companies principally engaged in dairy farming. As such, we consider that the two GO Transaction Comparables identified by us, though not a big sample and may have different size of market capitalization, to be an exhaustive, appropriate and representative sample for the purpose of arriving at a meaningful comparison to the Offer Price.

The first GO Transaction Comparable was jointly announced by China Feihe Limited ("**Feihe**") (stock code: 6186) and YuanShengTai Dairy Farm Limited ("**YST**") (stock code: 1431) on 6 September 2020. Feihe intended to acquire the controlling stake in YST by way of voluntary general offer. The market capitalization of YST is calculated by multiplying the offer price under the voluntary general offer and the number of its issued shares as at 6 September 2020 which was approximately HK$2,955.0 million. The implied P/E Multiple of YST of approximately 8.5 times is calculated by dividing the aforesaid implied market capitalization of approximately HK$2,955.0 million by the net profits attributable to the shareholders of YST on a TTM basis of approximately RMB314.2 million (equivalent to approximately HK$348.5 million at the exchange rate of HK$1.10907 to RMB1, being the average of the exchange rates as quoted by the China Foreign Exchange Trade System from 1 January 2020 to the date of the Rule 3.5 Announcement. The adjusted implied P/B Multiple of YST of approximately 0.55 time is calculated by dividing the aforesaid implied market capitalization of approximately HK$2,955.0 million by the adjusted NAV attributable to the shareholders of YST as at 30 June 2020, being the latest available NAV attributable to the shareholders prior to the date of the announcement of the transaction plus property revaluation surplus (if any), of approximately RMB4,911.3 million (equivalent to approximately HK$5,376.7 million at the exchange rate of HK$1.09476 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2020.

The second GO Transaction Comparable was jointly announced by China Mengniu Dairy Company Limited ("**Mengniu**") (stock code: 2319) and China Modern Dairy Holdings Limited ("**Modern Dairy**") (stock code: 1117) on 4 January 2017. Mengniu intended to acquire the controlling stake in Modern Dairy by way of mandatory general offer. The implied market capitalization of Modern Dairy is calculated by multiplying the offer price under the mandatory general offer and the number of its issued shares as at 4

January 2017 which was approximately HK$10,291.2 million. The implied P/E Multiple of Modern Dairy is not applicable as Modern Dairy incurred net loss attributable to the shareholders of Modern Dairy on a TTM basis. The adjusted implied P/B Multiple of Modern Dairy of approximately 1.22 times is calculated by dividing the aforesaid implied market capitalization of approximately HK$10,291.2 million by the adjusted NAV attributable to the shareholders of Modern Dairy as at 30 June 2016, being the latest available NAV attributable to the shareholders prior to the date of the announcement of the transaction plus property revaluation surplus (if any), of approximately RMB7,228.7 million (equivalent to approximately HK$8,457.9 million at the exchange rate of HK$1.17004 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2016).

Given that, similar to the Offer, both the GO Transaction Comparables required under the Takeovers Code to conduct a property valuation to arrive at the relevant property revaluation surplus, to arrive at a more precise and meaningful comparison of the Implied P/B Multiple of the Offer like-for-like with the adjusted implied P/B Multiples of the GO Transaction Comparables, we have calculated the adjusted implied P/B Multiple of the Offer (the "**Adjusted Implied P/B Multiple**") by dividing the Implied Market Value of approximately HK$2,950.8 million by the Adjusted NAV of approximately RMB2,671.6 million (equivalent to approximately HK$2,924.9 million at the exchange rate of HK$1.09476 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2020). The Adjusted Implied P/B Multiple is 1.0 time.

Taking into account, among others, (i) the first GO Transaction Comparable was announced in the same month as the Offer and with an implied market capitalization of approximately HK$2,955.0 million which is almost at par with the Implied Market Value of approximately HK$2,950.8 million which we consider to be as highly relevant for our analysis; (ii) both the Implied P/E Multiple and the Adjusted Implied P/B Multiple of approximately 16.7 times and 1.0 time, respectively, are significantly higher than both the implied P/E Multiple and the adjusted implied P/B Multiple of the first GO Transaction Comparable, respectively; (iii) the Adjusted Implied P/B Multiple of approximately 1.0 time is only slightly lower than the adjusted implied P/B Multiple of the second GO Transaction Comparable, we consider the Implied P/E Multiple and the Adjusted Implied P/B Multiple compare favourably against those of the GO Transaction Comparables.

E. Privatization Transaction Comparables

We acknowledge that the above GO Transaction Comparables were not privatization cases and the offerors of these two GO Transaction Comparables would maintain the listing status of the relevant offeree companies. Therefore, we have conducted further analysis by identifying comparable privatization transactions (the "**Privatization Transaction Comparables**") to further assess the fairness and reasonableness of the Offer Price under a privatization setting. However, Independent Shareholders should note that, according to our records, there was no privatization cases of dairy farming companies on the Stock Exchange in the last 20 years. After considering the fact that raw fresh milk produced and sold by the Group is food and a kind of edible material, we consider that companies principally engaged in the production and sale of food and edible materials to be the closest industry proximity to compare with the Company. Set out below are the selection criteria as at the Latest Practicable Date:

(i) the privatization transaction was completed in the ten years preceding the Latest Practicable Date;

(ii) the target company is/was principally engaged in the production and sale of food and edible materials; and

(iii) the shares of the target company are/were listed on Stock Exchange.

Based on the above selection criteria, we have exhaustively identified two Privatization Transaction Comparables. In view of: (i) companies engaged in the production and sale of food and edible materials to be the closest industry proximity to compare with the Company as mentioned above; and (ii) the duration of ten years is considered a sufficient period of time to identify Privatization Transaction Comparables, we consider that the two Privatization Transaction Comparables identified by us, though not a large sample and may have different scale of operation, product/market features and capital structures, to be an exhaustive, appropriate and representative sample for the purpose of arriving at a supplemental and meaningful comparison to the Offer Price.

The first Privatization Transaction Comparable was jointly announced by SanXing Trade Co., Ltd. ("**SanXing**") and Changshouhua Food Company Limited ("**Changshouhua**") (stock code: 1006) on 7 September 2020. SanXing proposed to privatize Changshouhua by way of a scheme of arrangement. The market capitalization of Changshouhua is calculated by multiplying the cancellation price under the scheme of arrangement and the number of its issued shares as at 7 September 2020 which was approximately HK$2,403.2 million. The implied P/E Multiple of Changshouhua of approximately 7.2 times is calculated by dividing the aforesaid implied market capitalization of approximately HK$2,403.2 million by the net profits attributable to the shareholders of Changshouhua on a TTM basis of approximately RMB300.1 million (equivalent to approximately HK$332.8 million at the exchange rate of HK$1.10907 to RMB1, being the average of the exchange rates as quoted by the China Foreign Exchange Trade System from 1 January 2020 to the date of the Rule 3.5 Announcement. The adjusted implied P/B Multiple of Changshouhua of approximately 0.64 time is calculated by dividing the aforesaid implied market capitalization of approximately HK$2,403.2 million by the adjusted NAV attributable to the shareholders of Changshouhua as at 30 June 2020, being the latest available NAV attributable to the shareholders prior to the date of the announcement of the transaction plus property revaluation surplus (if any), of approximately RMB3,445.9 million (equivalent to approximately HK$3,772.4 million at the exchange rate of HK$1.09476 to RMB1, being the exchange rate as quoted by the China Foreign Exchange Trade System on 30 June 2020.

The second Privatization Transaction Comparable was jointly announced by COFCO (Hong Kong) Limited ("**COFCO**") and China Agri-Industries Holdings Limited ("**China Agri**") (stock code: 606) on 27 November 2019. COFCO proposed to privatize China Agri by way of scheme of arrangement. The implied market capitalization of China Agri is calculated by multiplying the cancellation price under the scheme of arrangement and the number of its issued shares as at 27 November 2019 which was approximately HK$22,358.0 million. The implied P/E Multiple of China Agri of approximately 21.42 times is calculated by dividing the aforesaid implied market capitalization of approximately HK$22,358.0 million by the net profits attributable to the shareholders of China Agri on a TTM basis of approximately HK$1,043.9 million. The adjusted implied P/B Multiple of China Agri of approximately 0.74 time is calculated by dividing the aforesaid implied market capitalization of approximately HK$22,358.0 million by the adjusted NAV attributable to the shareholders of China Agri as at 30 June 2019, being the latest available NAV attributable to the shareholders prior to the date of the announcement of the transaction plus property revaluation surplus (if any), of approximately HK$30,168.1 million.

Taking into account, among others, (i) the Adjusted Implied P/B Multiple of 1.0 time is higher than the adjusted implied P/B Multiples of both Privatization Transaction Comparables; and (ii) the Implied P/E Multiple of approximately 16.7 times is in between the implied P/E Multiples of the two Privatization Transaction Comparables, we consider the Implied P/E Multiple and the Adjusted Implied P/B Multiple compare favourably against those of the Privatization Transaction Comparables.

3. Information on the Offeror and the intention of the Offeror on the Group

A. Information of the Offeror

As stated in the "Letter from CLSA Limited", the Offeror is an exempted company incorporated in Cayman Islands and set up for the implementation of the Offer on 28 August 2020. Immediately prior to Completion, the Offeror was wholly and beneficially owned by Jingang Trade, and the Offeror did not have any business or asset since incorporation and did not hold any interest in the Company. Immediately after Completion, the Offeror held 1,140,519,522 Shares, representing approximately 43.75% of the total issued share capital of the Company, and Jingang Trade and YeGu Investment legally and beneficially held 1,898,841,522 and 707,878,000 ordinary shares of the Offeror, representing approximately 72.84% and 27.16% of the total issued share capital of the Offeror, respectively. As at the Latest Practicable Date, the sole director of the Offeror was Mr. Wang Xiaogang.

Jingang Trade is a company incorporated in Hong Kong, primarily engaged in investment and trading businesses. As at the Latest Practicable Date, Jingang Trade was wholly and beneficially owned by Yili Industrial, and the board of Jingang Trade comprised Mr. Pan Gang, Mr. Wang Xiaogang, Ms. Yuan Ping and Ms. Jiang Yuanzi.

Yili Industrial is a company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange of the PRC (stock code: 600887). Yili Industrial is principally engaged in the business of processing and manufacturing dairy products in the PRC. As at the Latest Practicable Date, Yili Industrial did not have any controlling shareholder (as defined in the Listing Rules). As at the Latest Practicable Date, the largest shareholder of Yili Industrial was 呼和浩特投資有限責任公司 (Hohhot Investment Company Limited*) with a shareholding of approximately 8.85%. As at the Latest Practicable Date, the board of Yili Industrial comprised Mr. Pan Gang, Ms. Zhao Chengxia, Mr. Wang Xiaogang, Ms. Zhao Ying, Ms. Wang Aiqing, Mr. Zhang Junping, Mr. Lv Gang, Mr. Peng Heping, Ms. Ji Shao, Mr. Cai Yuanming, and Ms. Shi Fang.

YeGu Investment is an exempted company incorporated in the Cayman Islands and set up for the sole purpose of holding the Shares. As at the Latest Practicable Date, YeGu Investment was wholly and beneficially owned by Mr. Zhang Jianshe, the sole director of YeGu Investment.

Green Farmlands is an exempted company incorporated in the Cayman Islands and set up for the sole purpose of holding the Shares. As at the Latest Practicable Date, Green Farmlands was wholly and beneficially owned by YeGu Investment, and Mr. Zhang Jianshe was the sole director of Green Farmlands.

B. Intention of the Offeror on the Group

As set out in the "Letter from CLSA Limited", it is the intention of the Offeror that the Company will continue to focus on the development of its existing businesses, namely dairy farming in China subject to a continuing review of its operations and the development of a plan to realize efficiencies and synergies with affiliated businesses of Yili Industrial, the ultimate controlling shareholder of the Offeror.

The Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for the proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code or such later time as the Offeror considers to be appropriate) as a result of completion of the Offer. However, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group's business and operations to optimize the value of the Group.

The Offer is expected to become unconditional on or prior to the seventh (7th) day after the posting of the Composite Document, and the Offeror intends not to retain the listing of the Shares on the Stock Exchange.

C. Proposed change to the Board composition of the Company

As at the Latest Practicable Date, the Board comprised Mr. Zhang Jianshe and Mr. Zhang Kaizhan as executive Directors, Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua as the non-executive Directors; and Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry as independent non-executive Directors.

The Offeror intends to nominate new Director(s) with effect from a date which is no earlier than such date as permitted under the Takeovers Code or such later date as the Offeror considers to be appropriate. As at the Latest Practicable Date, the Offeror had not identified any candidates to be appointed as new Director(s). Any changes to the members of the Board will be made in compliance with the Takeovers Codes and/or the Listing Rules and further announcement(s) will be made as and when appropriate.

D. Possible compulsory acquisition and withdrawal of listing

As further set out in the "Letter from CLSA Limited", the Offeror intends (but is not obliged) to exercise any right it may have under section 88 of the Cayman Islands Companies Act to compulsorily acquire those Shares not acquired by the Offeror under the Offer on the condition that the Offeror, within four (4) months of the posting of the Composite Document, has received valid acceptance in respect of not less than 90% of the Offer Shares.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatize the Company by means of the Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Cayman Islands Companies Act, acceptance of the Offer and purchases made by the Offeror and its concert parties during the four months after posting of the Composite Document total 90% or more of the Disinterested Shares.

Pursuant to Rule 15.6 of the Takeovers Code, as the Offeror has stated in the Composite Document its intention to avail itself of its powers of compulsory acquisition, the Offer may not remain open for acceptance for more than four months from the date of the Composite Document, unless the Offeror has, by that time, become entitled to exercise such powers of compulsory acquisition, in which event it must do so without delay.

If the level of acceptances of the Offer reaches the prescribed level under the Cayman Islands Companies Act and the requirements of Rule 2.11 of the Takeovers Code are satisfied and the Offeror exercises its compulsory acquisition right referred to above, the Company will apply to the Stock Exchange for the suspension of trading in the Shares on the Stock Exchange from the next trading day of the Stock Exchange immediately after the Closing Date up to the date of withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

Whilst it is the intention of the Offeror to privatize the Company, the Offeror's ability to exercise rights of compulsory acquisition in respect of the Offer Shares is dependent on the level of acceptances of the Offer reaching the prescribed level under the Cayman Islands Companies Act and on the requirements of Rule 2.11 of the Takeovers Code being satisfied. If the Offer Shares validly tendered for acceptance under the Offer are less than 90% of the Offer Shares or less than 90% of the Disinterested Shares, the Offeror will not become entitled to exercise the power of compulsory acquisition under the Cayman Islands Companies Act and the Takeovers Code and the Company will remain listed on the Stock Exchange.

Pursuant to the Irrevocable Undertakings, the IU Shareholders will upon request, as soon as possible and in any event no later than 3:00 p.m. on the seventh (7th) day (i.e. 25 January 2021) after the date of despatch of this Composite Document, tender their acceptance of the Offer in respect of the IU Shares in accordance with the terms of the Offer and their obligations under the Irrevocable Undertakings, by lodging the duly completed and signed form of acceptance and transfer in respect of the IU Shares in accordance with the instructions printed thereon with the Registrar.

As at the Latest Practicable Date, the percentage of the share capital of the Company made up by all of the IU Shares and the Shares owned by the Offeror Concert Group was over 50%. Therefore, once the IU Shareholders tender their acceptance of the Offer in respect of the IU Shares under the Irrevocable Undertakings, the acceptance condition of the Offer would have been met. Accordingly, the Offer is expected to become unconditional on or prior to the seventh (7th) day after the date of the Composite Document.

As at the Latest Practicable Date, the total number of IU Shares were 1,377,008,000, representing, among others, (i) approximately 93.9% of the Offer Shares, which was over 90%; and (ii) when excluding those 61,460,000 IU Shares associated with the Irrevocable Undertaking provided by SiYuan Investment, approximately 93.7% of the Disinterested Shares, which was over 90%. Therefore, once the relevant IU Shareholders tender their acceptance of the Offer in respect of the IU Shares under the Irrevocable Undertakings, the conditions of the compulsory acquisition under section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code (the "**Compulsory Acquisition Conditions**") would have been met. Accordingly, on completion of such compulsory acquisition, the Company will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

E. Listing status/public float of the company

As stated in the "Letter from CLSA Limited", the Offer is expected to become unconditional on or prior to the seventh (7th) day after the posting of the Composite Document, and the Offeror intends not to retain the listing of the Shares on the Stock Exchange.

As stated in the "Letter from the Board", according to the Listing Rules, if, upon the close of the Offer, the Offeror does not become entitled to exercise the power of compulsory acquisition under the Cayman Islands Companies Law and less than 25% of the issued 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 the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares until appropriate steps have been taken to restore the minimum percentage of the Shares in public hands. In such circumstances, the Offeror will take appropriate steps to restore the sufficient public float of the Shares after the close of the Offer accordingly.

The sole director of the Offeror and any new Directors to be appointed to the Board, once appointed, will jointly and severally undertake, to the Stock Exchange to take appropriate steps to ensure sufficient public float exists in the Shares, if the Offeror is not entitled to exercise the compulsory acquisition rights as referred to in the Composite Document.

We are of the view that the likelihood of the Offeror does not become entitled to exercise the power of compulsory acquisition under the Cayman Islands Companies Law is remote given that the Offeror has secured sufficient Irrevocable Undertakings to ensure that, provided such undertakings are honoured, the Offeror will acquire over 90% of the Disinterested Shares and also the Offer Shares, satisfying the Compulsory Acquisition Conditions. Therefore, in our view, there is no material prospect of the listing status of the Company can be maintained.

OPINION AND RECOMMENDATION

After taking into account the principal factors and reasons considered as discussed in our letter, and based on our analysis set out above, we consider that the terms of the Offer to be fair and reasonable so far as the Independent Shareholders are concerned. We, therefore, recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

The closing Share price on the Latest Practicable Date was HK$1.14 per Share, which was slightly higher than the Offer Price of HK$1.132 per Offer Share. We also note that, during the period between the next day after the release of the Rule 3.5 Announcement (i.e. 28 September 2020) and the Latest Practicable Date, there had been 12 trading days where the closing Share price closed above the Offer Price. Therefore, there remains a possibility that the Share price may trade above the Offer Price. For those Independent Shareholders who intend to accept the Offer (the "**Accepting Shareholders**") are strongly reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period and should consider selling their Shares in the open market between the Latest Practicable Date and the Closing Date, instead of accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net proceeds after deducting all relevant transaction costs as obtained from such Share disposal would be higher than the net proceeds expected to be received under the Offer.

On the other hand, for those Independent Shareholders who intend not to accept the Offer, given that there is no material prospect of the listing status of the Company being maintained at the close of the Offer as discussed in the paragraph headed "E. Listing status/public float of the Company" under the section headed "3. Information on the Offeror and the intention of the Offeror on the Group" above, they should also follow a similar trading strategy as the Accepting Shareholders, between the Latest Practicable Date and the Closing Date, in order to maximize their exit value.

Yours faithfully,
For and on behalf of
Opus Capital Limited

Cheung On Kit Andrew
Executive Director

Mr. Cheung On Kit Andrew is an Executive Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Cheung has over 12 years of corporate finance experience in Asia Pacific and has participated in and completed various financial advisory and independent financial advisory transactions.

* *For identification purpose only*