JAPFA LTD
(Company Registration Number: 200819599W)
(Incorporated in Singapore on 8 October 2008)

PROPOSED ACQUISITION OF CHINA DAIRY FARMS

1. Introduction

The Board of Directors ("**Directors**") of Japfa Ltd ("**Company**" and together with its subsidiaries, the "**Group**") wishes to announce that its 75% owned, principal subsidiary, AustAsia Investment Holdings Pte Ltd ("AustAsia"), has on 27 June 2021 entered into a Share Purchase Agreement ("**SPA**") with (i) Fonterra Tangshan Dairy Farm (HK) Limited; (ii) Abbott Overseas Luxembourg S.A.R.L., ((i) and (ii) being together the "Sellers"); and (iii) New Zealand Milk (International) Limited (being Fonterra's Guarantor), to acquire ("**Proposed Transaction**") the entire issued capital of Falcon Dairy Holdings Limited ("**Falcon**").

Falcon is a Hong Kong joint venture between the Sellers and holds 100% of the registered capital of Pure Source Dairy Farm Company Limited ("**Pure Source**") which owned two dairy farms in Shandong, China ("**Pure Source Farms**", Falcon and Pure Source being together the "**Falcon Group**").

2. Rationale for the proposed Transaction

The Directors are of the view that the Proposed Transaction is in the best interest of the Company and its Shareholders.

The purchase of two state-of-the-art dairy farms, with a total capacity of approximately 16,000 heads of cattle, provides AustAsia with further production capacity of quality raw milk in a significantly shorter time compared with building new farms from scratch. This acquisition will enable AustAsia to accelerate its expansion in the dynamic Chinese dairy market, where the demand for quality and healthy dairy products is expected to increase, and take advantage of the favourable raw milk price environment due to the current supply shortage in the market.

Pure Source farms are a good fit to AustAsia as:

- their design and construction are similar to AustAsia's standard;
- they are strategically located in Shandong Province, which places them in close proximity with AustAsia's Hub 1 farms, with benefits from operational synergies and the sharing of infrastructure.

Expansion in Shandong Province, which is one of the most suitable Chinese provinces for dairy production, is becoming more difficult due to increasing lack of available space. In addition to the two established dairy farms, this transaction also includes two additional sites of land in Shandong that potentially can be further developed.

3. Principal terms of the Proposed Transaction

Consideration

The consideration for the Proposed Transaction is US$115.5 million adjusted for (i) actual cash at closing; (ii) a minimum cattle head counts as at closing; and (iii) agreed transactional cost. The consideration will be paid in cash at closing based on the Sellers' estimate of US$123.4 million and adjusted against actual numbers thereafter.

The consideration was arrived at based on by-invitation auction. No independent valuation was conducted for the Proposed Transaction.

AustAsia will fund the Consideration through bank financing. This transaction is not expected to have a material effect on the net tangible assets per share and earnings per share of the Group for the current financial year.

Completion

Completion of the Proposed Transaction is expected to take place on or about 30 June 2021.

4. Book Value and Net Tangible Asset Value of Falcon Group

As at 31 March 2021, the book value and net tangible asset value of the shares in Falcon Group being acquired were US$65.4 million[1,2] and US$65.4 million[1,2] respectively, computed based on 100% of the unaudited book value and net tangible asset value of the Falcon Group as at 31 March 2021.

5. Bank Financing[3]

AustAsia entered into a facility agreement ("Facility Agreement") for an up to US$130m facility with DBS Bank on 23 June 2021.

The Facility Agreement includes a covenant against the change of majority shareholding (directly or indirectly) and management control in AustAsia tied to the Company and/or its affiliates (including the Santosa family) and/or key management.

6. Relative Figures Under Rule 1006 of the Listing Manual of the SGX-ST ("Listing Manual")

The relative figures for the Proposed Transaction as computed on the bases set out in Rule 1006 of the Listing Manual and the latest announced consolidated financial statements of the Group for the 3 months period ended 31 March 2021 are as follows:

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[1] The book value and net tangible asset value of the Falcon Group as at 31 March 2021 assumes the shareholder loan of US$85.9 million due from Falcon and which was capitalised on 11 June 2021, was capitalised on 31 March 2021.

[2] The book value and net tangible asset value of the Falcon Group was reduced by an impairment of property, plant and equipment of US$76.0 million which was recorded in the 2019 audited financial statements. The cost of property, plant and equipment as at 31 March 2021 was US$119.9 million.

[3] Following completion, it is expected that the Group will secure onshore financing facilities in RMB for Pure Source inter alia to repay the existing shareholder loans. These loans are expected to include similar change of control provisions.

Rule 1006	Basis	Relative figure computed in accordance with the bases set out in Rule 1006
(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value.	Not applicable
(b)	The net profit[(1)] attributable to the assets acquired of, compared with the Group's consolidated net profits.	-4.4%[(2)]
(c)	The aggregate value of the consideration given, compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares.	9.7%[(3)]
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable[(4)]

Notes:

(1) "net profits" means profit before income tax, minority interests and extraordinary items.

(2) The net profits attributable to the assets acquired of is a negative figure being US$4.6 million for the 3 months period ended 31 March 2021 as against the Group's net profits of US$104.8 million for the 3 months period ended 31 March 2021. This results in the net loss attributable to the asset to be acquired is less than 5% of the Group's net profits (taking into account only the absolute values).

(3) Based on the Consideration of US$123.4 million, and the Company's market capitalisation (without taking into consideration debt at Company level) of approximately US$1,273.3 million. The Company's market capitalisation is determined by multiplying the number of shares in issue of 2,047,070,320 (excluding 20,353,000 treasury shares) by the closing price of S$0.835 (US$0.622) per share on Friday, 25 June 2021, being the market day preceding the date of this announcement.

(4) The Company is not a mineral, oil or gas company.

Pursuant to Rule 1010 and the guidance provided in Practice Note 10.1 paragraph 4.4, the Proposed Transaction would be considered a disclosable transaction, but does not require shareholders' approval.

7. Financial Effects on the Proposed Transaction

The financial effects of the Proposed Transaction on the Group set out below are purely for illustrative purposes only and are therefore not indicative of the actual future financial position of the Group after the completion of the Proposed Transaction.

Effect on Net Tangible Assets

For illustrative purposes only, the financial effects of the Proposed Transaction on the net tangible assets per share of the issuer as at 31 December 2020 (based on the latest announced consolidated financial statements of the Group for the financial year ended 31 December 2020), assuming completion of the Proposed Transaction had taken place on 31 December 2020, are as follows:

	Before Proposed Transaction	**After Proposed Transaction**
Consolidated Net Tangible Asset attributable to shareholders of the Company (US$ million)	1,405.5	1,351.2 [(1)(2)(3)]
Number of issued shares as at 31 December 2020 (excluding treasury shares)	2,026,084,720	2,026,084,720
Consolidated Net tangible assets per share (US$)	0.69	0.67
Consolidated Net Tangible Assets per share (S$) computed based on the exchange rate of US$1.00 : S$ 1.3221 as at 31 December 2020	0.92	0.88

Notes:

(1) Adjusted for the decrease in net tangible asset of US$123.4 million as a result of the Proposed Transaction. This being the consideration transferred in connection with the Proposed Transaction.

(2) Adjusted for the increase in net tangible asset of US$69.1 million as a result of the Proposed Transaction. This being the net tangible asset value of Falcon Group as at 31 December 2020 acquired in connection with the Proposed Transaction.

(3) The net tangible asset value of Falcon Group as at 31 December 2020 assumes:
   (i) the shareholder loan of US$85.6 million due from Falcon and which was capitalised on 11 June 2021, was capitalised on 31 December 2020; and
   (ii) no other costs (such as tax and other transaction costs) arising from the Proposed Transaction.

Effect on Earnings Per Share

For illustrative purposes only, the financial effects of the Proposed Transaction on the earnings per share of the issuer (based on the latest announced consolidated financial statements of the Group for the financial year ended 31 December 2020), assuming completion of the Proposed Transaction had taken place on 1 January 2020, are as follows:

	Before Proposed Transaction	After Proposed Transaction
Profit after tax attributable to shareholders of the Company (US$ million)	322.0	308.8 (1)(2)
Weighted average number of issued shares as at 31 December 2020 (excluding treasury shares)	2,029,455,016	2,029,455,016
Earnings per share (US$ cents)	15.86	15.21

Notes:

(1) Adjusted for the decrease in profit after tax attributable to shareholders of the Company of US$13.2 million as a result of the Proposed Transaction, computed based on 75.0% of the loss after tax of Falcon Group for the year ended 31 December 2020 of US$17.6 million.

(2) Assumes no other costs (such as tax and other transaction costs) arising from the Proposed Transaction.

8. Interests of the Directors and Controlling Shareholders

Save in respect of their shareholding interests in the Company, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect in the Proposed Transaction.

9. Service Agreement

No person is proposed to be appointed as a director of the Company in connection with the Proposed Transaction. Accordingly, no service agreements will be entered into with the Directors or controlling shareholders of the Company or their respective associates in connection with the Proposed Transaction.

10. Caution in Trading

Shareholders and potential investors should note that there is no certainty or assurance as at the date of this announcement that the Proposed Transaction will be completed. The Company will make the necessary announcements, in compliance with the requirements of the Listing Manual, as and when there are material developments in respect of the Proposed Transaction. Shareholders are advised to read this announcement and any further announcements by the Company carefully and should exercise caution when trading in the shares of the Company. Persons who are in doubt as to the action they should take should consult their legal, financial, tax or other professional advisers.

By Order of the Board

Japfa Ltd
Tan Yong Nang
Executive Director and Chief Executive Officer
Date: Monday, 28 June 2021