



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

## **PROPOSED DISPOSAL OF MINORITY STAKE IN DAIRY SUBSIDIARY**

### **1. Introduction**

The Board of Directors (“**Directors**”) of Japfa Ltd (“**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the Company has today entered into a conditional Sale and Purchase Agreement (“**SPA**”) with Meiji Co., Ltd (“**Meiji**”) for the sale of shares (the “**Proposed Transaction**”) representing a 25% shareholding in the capital of its subsidiary, AustAsia Investment Holdings Pte Ltd. (“**AIH**”) to Meiji.

In connection with the Proposed Transaction, (i) the Company and Meiji have entered into a Shareholders’ Agreement (“**SHA**”) in respect of AIH that is conditional upon completion of the Proposed Transaction; and (ii) AIH and Meiji will enter into a contract to provide for the supply of raw milk to Meiji on a 5-year rolling basis, renewable annually (“**Milk Supply Agreement**”).

As announced by the Company on 2 April 2020, AIH will be the holding company of the Group’s dairy farming and beef feedlot operations in China (“**AustAsia Group**”) following the Group’s internal restructuring exercise (“**Dairy Restructuring**”). The Dairy Restructuring supports the Company’s plans to grow the AustAsia Group into the largest independent raw milk producer in China.

### **2. Rationale for the Proposed Transaction**

The Company believes that the Proposed Transaction is in the best interest of the Company and its shareholders.

- The Proposed Transaction will build a strategic and synergistic partnership with one of the Group’s growing dairy customers that will enable the Company to build AustAsia Group to become the largest independent raw milk producer in China.
- The Milk Supply Agreement will provide a stable revenue stream for the AustAsia Group, as it provides for the supply of certain quantity of milk to Meiji at market price.
- The Proposed Transaction will also improve the Group’s consolidated leverage ratio and strengthen its balance sheet as the Company will apply the proceeds of the Proposed Transaction towards the repayment of the Company’s US\$253 million term loan facility<sup>1</sup> (“**Term Loan**”).

### **3. Principal terms of the Proposed Transaction**

#### Consideration

The consideration for the Proposed Transaction is a cash amount of US\$254.4 million which was arrived at on a willing-buyer, willing-seller basis. The full consideration will be paid by Meiji upon completion of the Proposed Transaction.

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<sup>1</sup> This term loan was obtained as part of the Company’s US\$303 million syndicated loan facility entered into on 30 January 2018.

### Conditions Precedent

The Proposed Transaction is conditional upon inter alia the fulfilment or waiver of the following conditions:

- (a) the Dairy Restructuring having been completed;
- (b) completion of a satisfactory site visit by Meiji to AustAsia Group's farms and joint venture dairy factory in China;
- (c) approval of the shareholders' of the Company; and
- (d) there being no material breach of obligations or of warranties given by the Company.

Subject to the fulfilment or waiver of the Conditions Precedent, completion of the SPA is expected to take place in July 2020.

### **4. Certain Key Terms of the SHA**

Pursuant to the SHA:

- (a) Japfa has the right to appoint a majority of the AIH board seats and will retain these rights for so long as it remains the single largest shareholder of AIH;
- (b) Meiji has the right to appoint a Director to the board of AIH for so long as it holds at least 15% of the capital of AIH on a fully diluted basis. Meiji has a right to maintain its shareholding at, at least 15%;
- (c) Japfa has covenanted to retain a majority stake in AIH for the first 5 years from the date of completion of the Proposed Transaction; and
- (d) Japfa will continue to control and manage the AustAsia Group for so long as it remains the single largest shareholder. However, Meiji will have certain protective minority rights in non-operational matters and consultation rights in major decisions of the Company.

### **5. Book Value and Net Tangible Asset Value of the shares in AIH being disposed**

As at 31 December 2019, the book value and net tangible asset value of the shares in AIH being disposed was US\$127 million<sup>2</sup> and US\$127 million<sup>2</sup> respectively. No independent valuation was conducted for the Proposed Transaction.

The Company is expected to recognise a gain of US\$37 million<sup>3</sup> from the Proposed Transaction.

The Company intends to use the proceeds of the Proposed Transaction to repay the Term Loan.

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<sup>2</sup> Computed based on 25.0% of the unaudited *pro forma* book value and net tangible asset value of AIH, which as at 31 December 2019, was US\$508 million and US\$507 million respectively. The *pro forma* book value of AIH assumes:

- (i) the Dairy Restructuring was completed on 31 December 2019; and
- (ii) no other costs (such as tax and other transaction costs) arising from the Proposed Transaction or from the Dairy Restructuring.

<sup>3</sup> Computed based on 25.0% of the unaudited *pro forma* cost of investment in AIH, which was US\$868 million as at 31 December 2019. The *pro forma* cost of investment in AIH assumes:

- (i) the Dairy Restructuring was completed on 31 December 2019; and
- (ii) no other costs (such as tax and other transaction costs) arising from the Proposed Transaction or from the Dairy Restructuring.

## 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 financial year ended 31 December 2019 are as follows:

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.	9.9% <sup>(2)</sup>
(b)	The net profit <sup>(1)</sup> attributable to the assets disposed of, compared with the Group's consolidated net profits.	7.4% <sup>(3)</sup>
(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.	34.4 <sup>(4)</sup>
(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

### Notes:

- (1) "net profits" means profit before income tax, minority interests and extraordinary items.
- (2) Computed based on 25.0% of the unaudited *pro forma* net asset value of AIH, which was US\$508 million as at 31 December 2019. The *pro forma* net asset value of AIH assumes:
  - (i) the Dairy Restructuring was completed on 31 December 2019; and
  - (ii) no other costs (such as tax and other transaction costs) arising from the Proposed Transaction or from the Dairy Restructuring.
- (3) Computed based on 25.0% of the unaudited *pro forma* net profits of AIH, which was US\$73 million for the year ended 31 December 2019. The *pro forma* net profits of AIH assumes:
  - (i) the Dairy Restructuring was completed on 1 January 2019; and
  - (ii) no other costs (such as tax and other transaction costs) arising from the Proposed Transaction or from the Dairy Restructuring.
- (4) Based on the Consideration of US\$254.4 million, and the Company's market capitalisation (without taking into consideration debt at Company level) of approximately US\$739 million. The Company's market capitalisation is determined by multiplying the number of shares in issue of 2,049,084,720 (excluding 18,338,600 treasury shares) by the closing price of S\$0.51 (US\$0.36) per share on Tuesday, 14 April 2020, being the market day preceding the date of this announcement.

## 7. Financial Effects on the Proposed Transaction

The *pro forma* 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 2019 (based on the latest announced consolidated financial statements of the Group for the financial year ended 31 December 2019), assuming completion of the Proposed Transaction had taken place on 31 December 2019, are as follows: -

	Before Proposed Transaction	After Proposed Transaction
Consolidated Net Tangible Asset attributable to shareholders of the Company (US\$ million)	864	991 <sup>(1)(2)(3)</sup>
Number of issued shares as at 31 December 2019 (excluding treasury shares)	1,863,338,291	1,863,338,291
Consolidated Net tangible assets per share (US\$)	0.46	0.53

#### Notes:

- (1) Assumes the consideration transferred in connection with the Proposed Transaction is equivalent to US\$254.4 million.
- (2) Adjusted for the increase in non-controlling interest of US\$127 million as a result of the Proposed Transaction computed based on 25.0% of the unaudited *pro forma* net asset value of AIH as at 31 December 2019 of US\$508 million.
- (3) The *pro forma* net asset value of AIH assumes:
  - (i) the Dairy Restructuring was completed on 31 December 2019; and
  - (ii) no other costs (such as tax and other transaction costs) arising from the Proposed Transaction or from the Dairy Restructuring.

## 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 2019), assuming completion of the Proposed Transaction had taken place on 1 January 2019, are as follows:

	<b>Before Proposed Transaction</b>	<b>After Proposed Transaction</b>
Profit after tax attributable to shareholders of the Company (US\$ million)	120	114 <sup>(1)(2)(3)</sup>
Weighted average number of issued shares as at 31 December 2019 (excluding treasury shares)	1,860,889,138	1,860,889,138
Earnings per share (US\$ cents)	6.45	6.15

### **Notes:**

- (1) Adjusted for the increase in profit after tax attributable to non-controlling interest of the Company of US\$18 million as a result of the Proposed Transaction, computed based on 25.0% of the unaudited *pro forma* profit after tax of AIH for the year ended 31 December 2019 of US\$73 million.
- (2) The *pro forma* profit after tax of AIH assumes:
  - (i) the Dairy Restructuring was completed on 1 January 2019; and
  - (ii) no other costs (such as tax and other transaction costs) arising from the Proposed Transaction or from the Dairy Restructuring.
- (3) Assumes the US\$253 million Term Loan was repaid as at 1 January 2019, using the proceeds of the Proposed Transaction.

## **8. Extraordinary General Meeting and Circular**

Notwithstanding that the Proposed Transaction is in the ordinary course of Group's business, the Company will seek shareholders' approval at an Extraordinary General Meeting ("EGM") to be convened. The Company expects the EGM to be held following the conclusion of the Company's Annual General Meeting on or about 25 June 2020.

A circular setting out, *inter alia*, the details of the Proposed Transaction and such other information as prescribed under Chapter 10 of the Listing Manual, together with a notice of the EGM in connection therewith, will be despatched by the Company to its shareholders in due course.

## **9. Interests of the Directors and Controlling Shareholders**

None of the Directors or controlling shareholders of the Company has any interest, whether direct or indirect, in the Disposal (other than in their capacity as Directors or controlling shareholders of the Company, where applicable).

## **10. Service Agreement**

No person is proposed to be appointed as a director of the Company in connection with the Proposed Transaction. As such, 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.

## **11. Document for Inspection**

Subject to the office premises being open in accordance with applicable laws, a copy of the SPA is available for inspection during normal business hours at the registered office of the Company 391B Orchard Road #18-08 Ngee Ann City, Tower B Singapore 238874 for a period of three (3) months commencing from the date of this announcement.

## **12. Caution in Trading**

Shareholders and potential investors should note that the Proposed Transaction is subject to the fulfilment of the Conditions Precedent set out above, and 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