
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China ZhongDi Dairy Holdings Company Limited**, you should at once hand this circular together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED

中國中地乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1492)

CONTINUING CONNECTED TRANSACTIONS

- (1) RAW FRESH MILK SUPPLY FRAMEWORK AGREEMENT**
- (2) MATERIALS PROCUREMENT FRAMEWORK AGREEMENT**
- (3) FINANCIAL AND FACTORING SERVICES FRAMEWORK AGREEMENT**
- AND**
- (4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Independent Financial Adviser

to the Independent Board Committee and the Independent Shareholders



A letter from the Board is set out on pages 4 to 26 of this circular. A letter from the Independent Board Committee including its advice to the independent Shareholders is set out on pages 27 to 28 of this circular. A letter from Opus Capital, including its advice to the Independent Board Committee and the independent Shareholders in respect of the Framework Agreements and the transactions contemplated thereunder is set out on pages 29 to 65 of this circular.

A notice convening the EGM to be held at the Conference Room, 10th Floor, Block A, Times Fortune Compound, No. A6 Shuguang Xili, Chaoyang District, Beijing, the People's Republic of China on Wednesday, 4 November 2020 at 10:30 a.m. is set out on pages 73 to 75 of this circular. A form of proxy for use at the EGM is also enclosed herewith. Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM:

- (1) Compulsory body temperature screening/checks
- (2) Wearing of surgical face mask
- (3) No provision of refreshments or drinks

Attendees who do not comply with the precautionary measures referred to in (1) to (2) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

15 October 2020

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Articles of Association”	the memorandum and articles of association of the Company as amended, revised or supplemented from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China ZhongDi Dairy Holdings Company Limited (中國中地乳業控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 24 April 2014, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held on 4 November 2020 and any adjournment, for the purpose of approving, if thought fit, the Framework Agreements, the transaction contemplated thereunder and the proposed annual caps
“Existing Financial and Factoring Services Agreements”	existing agreements between the Group and the Yili Group in relation to the provision of financial and factoring services by Yili Group to the Group prior to Yili Industrial became the connected person of the Company
“Existing Materials Procurement Agreements”	existing agreements between the Group and the Youran Dairy Group in relation to the purchase of materials from the Youran Dairy Group by the Group prior to Yili Industrial became the connected person of the Company
“Existing Sales Agreements”	existing agreements between the Group and the Yili Group in relation to the sale of raw fresh milk prior to Yili Industrial became the connected person of the Company
“Financial and Factoring Services Framework Agreement”	the financial and factoring services framework agreement entered into by the Company and Yili Industrial on 4 September 2020 in relation to the provision of financial and factoring services by the Yili Group to the Group

DEFINITIONS

“Framework Agreements”	collectively, the Raw Fresh Milk Supply Framework Agreement, Materials Procurement Framework Agreement and Financial and Factoring Services Framework Agreement
“Group”	the Company and its subsidiaries and associate(s)
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all independent non-executive Directors, to advise the independent Shareholders on the Framework Agreements, the transaction contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022
“Independent Financial Adviser” or “Opus Capital”	Opus Capital Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser to the Independent Board Committee and the independent Shareholders in respect of the Framework Agreements, the transactions contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Latest Practicable Date”	9 October 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Materials Procurement Framework Agreement”	the materials procurement framework agreement entered into by the Company and Youran Dairy on 4 September 2020 in relation to the purchase of materials from the Youran Dairy Group by the Group
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“Raw Fresh Milk Supply Framework Agreement”	the raw fresh milk supply framework agreement entered into by the Company and Yili Industrial on 4 September 2020 in relation to the sale of raw fresh milk to the Yili Group by the Group
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) with par value of US\$0.00001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yili Group”	Yili Industrial and its subsidiaries and associate(s)
“Yili Industrial”	Inner Mongolia Yili Industrial Group Co., Ltd., a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600887)
“Youran Dairy”	<p>Inner Mongolia Youran Dairy Co., Ltd., a company incorporated in the PRC with limited liability, an aggregate of 40% of its equity interest are indirectly owned by Yili Industrial and the remaining 60% is held by PAGAC Yogurt Holding I Limited as to 41% and Pasture Holding Limited as to 19%, both of which act as independent alternative investment managers and are not involved in the daily operations of Youran Dairy</p> <p>PAGAC Yogurt Holding I Limited is a wholly-owned subsidiary of funds managed by PAG. Founded in 2002, PAG is today one of Asia’s largest independent alternative investment managers, focusing on private equity, real estate and absolute returns, with over US\$35 billion under management as of December 31, 2019</p> <p>Pasture Holding Limited is held by certain directors of Youran Dairy Group, none of which are individually interested in more than 0.75% shareholding interest in Pasture Holding Limited, as well as other employees or members of senior management of the Yili Group and the Youran Dairy Group. To the best knowledge of the Board, both PAGAC Yogurt Holding I Limited and Pasture Holding Limited are independent third parties to the Company</p>
“Youran Dairy Group”	Youran Dairy and its subsidiaries and associate(s)
“%”	per cent

LETTER FROM THE BOARD



CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED

中國中地乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1492)

Executive Directors:

Mr. Zhang Jianshe
(Chairman and Chief Executive Officer)
Mr. Zhang Kaizhan

Registered office in the Cayman Islands:

PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Non-executive Directors:

Mr. Liu Dai
Mr. Du Yuchen
Mr. Li Jian
Ms. Yu Tianhua

*Headquarters and Principal place of
business in the PRC:*

10th Floor
Block A, Time Fortune Compound
No. A6, Shuguang Xili
Chaoyang District
Beijing
the PRC

Independent non-executive Directors:

Prof. Li Shengli
Dr. Zhang Shengli
Mr. Zhang Juying Jerry

Place of business in Hong Kong:
20/F, 238 Des Voeux Road Central
Hong Kong

15 October 2020

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

- (1) RAW FRESH MILK SUPPLY FRAMEWORK AGREEMENT
- (2) MATERIALS PROCUREMENT FRAMEWORK AGREEMENT
- (3) FINANCIAL AND FACTORING SERVICES FRAMEWORK AGREEMENT
AND
- (4) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 4 September 2020 in relation to, among other things, the Raw Fresh Milk Supply Framework Agreement, the Materials Procurement Framework Agreement and Financial and Factoring Services Framework Agreement, the transactions contemplated under such agreements and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022.

LETTER FROM THE BOARD

An Independent Board Committee, comprising Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry, all of whom are independent non-executive Directors, has been formed to advise the independent Shareholders as to the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps. The letter from the Independent Board Committee setting out its advice and recommendations to the independent Shareholders on the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps is set on pages 27 to 28 of this circular.

Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in respect of the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps. The letter from Opus Capital to the Independent Board Committee and the independent Shareholders on the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps is set out on pages 29 to 65 of this circular.

The purpose of this circular is to provide Shareholders in relation to, among other things, (1) further details of the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps; (2) a letter from the Independent Board Committee to the independent Shareholders, setting out its recommendations in connection with the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps; and (3) a letter from Opus Capital containing its advice to the Independent Board Committee and the independent Shareholders in connection with the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps.

THE FRAMEWORK AGREEMENTS

Raw Fresh Milk Supply Framework Agreement

The principal terms of the Raw Fresh Milk Supply Framework Agreement are summarised as follows:

Date:	4 September 2020 (after trading hours)
Parties:	(1) the Company; and (2) Yili Industrial
Term:	From the date of its consideration and approval at the EGM by the independent Shareholders to 31 December 2022

LETTER FROM THE BOARD

Subject matter: Pursuant to the terms and conditions of the Raw Fresh Milk Supply Framework Agreement, the Company agreed to supply and procure each member of the Group to supply raw fresh milk to members of the Yili Group, and the Yili Group shall be entitled to purchase and procure each member of the Yili Group to purchase raw fresh milk from the Group.

Subject to the terms and conditions of the Raw Fresh Milk Supply Framework Agreement, the Group and the Yili Group shall enter into further raw fresh milk purchase and sale agreements in respect of specific transaction terms (including but not limited to the quality, pricing, packaging, ordering and payment method of raw fresh milk) of the supply of raw fresh milk, respectively. In this regard, the Group and the relevant members of the Yili Group shall enter into raw fresh milk purchase and sale agreements for the next year during the period from October to December each year.

The form and substance of such raw fresh milk purchase and sale agreements shall be acceptable to both parties, and shall be in accordance with and in compliance with the principles, terms and conditions of the Raw Fresh Milk Supply Framework Agreement and the relevant laws (including but not limited to the Listing Rules and the laws applicable to each of the parties' places of business).

The terms and conditions (including but not limited to the price) for the purchase of raw fresh milk by the Yili Group from the Group under the Raw Fresh Milk Supply Framework Agreement shall be fair and reasonable and on normal commercial terms, and shall be negotiated on an arm's length basis. The quality of raw fresh milk provided by the Group shall meet the requirements agreed by both parties and the price payable by the Yili Group shall also be fair and reasonable.

If the terms and conditions of the Existing Sales Agreements are differ from the terms and conditions of the Raw Fresh Milk Supply Framework Agreement, the terms and conditions of the Raw Fresh Milk Supply Framework Agreement shall prevail.

LETTER FROM THE BOARD

Pricing principles:

1. Based on the type and quality of raw fresh milk, reference to market price (including comparable local, domestic or international market price) is made. The business department of the Group will refer to the prevailing market prices of the industry through independent third parties such as industry associations; or
2. In the event that none of the above prices is applicable or where it is not practicable to apply the above pricing policies, the Group will compare the quotations of similar raw fresh milk supplied by at least two independent third party suppliers to leading independent third party dairy enterprises in the PRC to ascertain the prevailing market price and negotiate with the Yili Group on an arm's length basis, taking into account the costs, technology, quality and procurement volume of raw fresh milk and the historical transaction prices of the relevant raw fresh milk, and determine the price on an arm's length basis and on terms no less favourable than those offered by the Group to leading independent third party dairy enterprises in the PRC for the supply of similar raw fresh milk;
3. The purchase price of raw fresh milk shall be determined and adjusted based on market conditions and seasonal factors. After negotiations between the Group and the Yili Group, the final purchase price of raw fresh milk will vary depending on the quality level. The quality of raw fresh milk supplied by the Group shall meet the standards set by the government and the requirements of the Yili Group. Both the price and terms offered by the Company to the Yili Group and the price and terms offered by the Company to other independent third parties customers are substantially similar, the sale price was determined with reference to: (i) the market conditions; (ii) the seasonal factors; and (iii) the quality indicators, including protein, fat, freezing point, color, odor, texture, temperature, micro-organism and somatic cells figures tested by qualified laboratories. Hence, the Company is of the view that the terms of the transactions are fair and reasonable and no less favourable to the Company.

LETTER FROM THE BOARD

4. As a result of the foregoing, the Board considers that the pricing methods and procedures for the Raw Fresh Milk Supply Framework Agreement can ensure that the transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. The sales department of the Company would communicate with relevant contacts involved in the sales of raw milk of at least two peer large-scale animal husbandry companies through telephone or face-to-face meetings to discover the sales price of raw fresh milk for the next year every fourth quarter of each year, then the persons in charge of the sales department would brief the communication results to the executive Director responsible for raw fresh milk sales of the Company. Negotiations would be made to make sure the terms and conditions with each counter party are fair and reasonable with all relevant factors considered. If both parties could reach a preliminary consensus, the executive Director would then report to and obtain approval from the chief executive officer of the Company and due process of entering into contracts will be followed afterwards. Given the above mentioned pricing method and procedures, the Company is of the view that the transactions will be conducted on a fair and reasonable basis. If the parties cannot agree on the detailed terms of the supply agreements pursuant to the Raw Fresh Milk Supply Framework Agreement, the Group will not enter such supply agreements with the Yili Group in the future.

Payment method: Payment shall be made pursuant to the raw fresh milk purchase and sale agreements to be further entered into between Yili Industrial (or members of the Yili Group) and the Company (or members of the Group) pursuant to the Raw Fresh Milk Supply Framework Agreement.

Internal control procedures in relation to the sale of raw fresh milk

The Group has established an internal guideline of the sale of raw fresh milk, and the farm products sales department of the Group (the “**Sales Department**”) is in charge of the overall sales management of raw fresh milk. The Sales Department formulates monthly sales plan by collecting, consolidating and analysing sales data and taking into account the volume required by the purchasers and the production capacity of the Group. Beijing Sinofarm Stud Livestock Co., Ltd. (“**Sinofarm Stud Livestock**”), a wholly owned subsidiary of the Group who is responsible for farm operation will prepare the monthly and annual supply plans. The annual supply plans require the approvals from the responsible officer of the farm and Sinofarm Stud

LETTER FROM THE BOARD

Livestock and the monthly supply plans require the approval from the responsible officer of the farm. If there are any contingency events which affect the production capacity to significantly deviate from the monthly supply plan, Sinofarm Stud Livestock will notify the Sales Department and the Sales Department will communicate with purchasers. Sinofarm Stud Livestock is also responsible for the accuracy of the monthly supply plan. The responsible officer of the Group shall review all the quotations, determine and the pricing of the raw fresh milk and the Sales Department will then communicate with purchasers regarding the final unit price.

Reasons for and benefits of entering into the Raw Fresh Milk Supply Framework Agreement

The Company has a long history of cooperation with the Yili Group on the sale and purchase of raw fresh milk. It first entered into raw fresh milk supply contracts with the Yili Group back in 2011 and over the years, expanded the cooperation to a strategic level in 2014. Such cooperation has been conducted smoothly. As one of the major suppliers of raw fresh milk in the PRC, the Group owns several 10,000-head dairy farms in the PRC's golden milk source belt. Through scientific management and large-scale operations, it can provide downstream processors with high-quality, large-scale and stable supply of raw fresh milk. Being the largest dairy product manufacturer in the PRC, the Yili Group is mainly engaged in the processing, manufacturing and sales of various dairy products and healthy drinks. To meet the demand for its dairy production, the Yili Group also requires a stable and high-quality source of raw fresh milk supply. The Company is not required to supply a guaranteed or minimum amounts of raw fresh milk to the Yili Group pursuant to the Raw Fresh Milk Supply Framework Agreement and there is no preferential supply arrangements committed to the Yili Group as compared to other customers.

The Group has been maintaining a continuous and good business relationship with the Yili Group in the supply of raw fresh milk. Upon Yili Industrial became a substantial Shareholder, strengthening such existing relationship can help further exploit potential mutual benefits along the value chain. This arrangement can provide a stable sales channel for the Group, smoothen the volatility of market sales and revenue, and enhance the Group's ability to resist financing and other operating risks at the same time, contributing to the Group's sustained competitiveness in the supply of high-quality raw fresh milk, and enhancing the shareholders' value as well.

Historical transaction amount

The transaction amount for the sale of raw fresh milk by the Group to the Yili Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were RMB439.6 million, RMB668.8 million, RMB1,363.1 million and RMB677.0 million, respectively.

The percentage of revenue generated from sales to the Yili Group to the total revenue of the Group for each of the financial years/period since the Company's listing in 2015 and the six months ended 30 June 2020 were 42.9%, 33.2%, 38.8%, 46.9%, 90.9% and 77.5%, respectively.

LETTER FROM THE BOARD

The Group's current third party customers (other than the Yili Group) for raw fresh milk as of the end of June 2020 are Customer A, being one of the leading dairy products manufacturers in the PRC, Customer B, being one of the leading dairy products manufacturers in the PRC and others, representing 15.6%, 3.9% and 3.0% of the sales of raw fresh milk of the Group, respectively. The Company would continue to offer raw fresh milk to the said leading independent third party dairy enterprises in the PRC.

For the avoidance of doubt, the historical transaction amount for the six months ended 30 June 2020 of RMB677.0 million is not included under the year ending 31 December 2020 of RMB573.0 million.

Mutual and complementary relationship between the Company and the Yili Group

The concentration of China's dairy industry is relatively high. The Yili Group is the largest dairy product manufacturer in China, and ranked fifth in the world among the "2020 Global Dairy Top 20" announced by Rabobank. According to data disclosed by Euromonitor International and Chuancai Securities Research Institute (川財證券研究所), the Yili Group accounted for approximately one-quarter of the market share of all dairy products in the Chinese market in 2019, even greater than the aggregated market share of the dairy companies which ranked second and third combined.

As one of the major raw milk producers in China, the Group produces an average of more than 1,000 tonnes of raw milk per day. Taking into account the quality characteristics and quantity of fresh agricultural products, it is necessary to ensure that the milk produced each day has sizeable and stable procurement channels so as to reduce the uncertainty of sales as well as the operation and marketing risks of the Group.

Similar to the Group, it is a common practice in the raw milk producers in China to take one major dairy product manufacturer as the main customer while regarding other companies of the same type as supplementing and adjusting sales channels.

The Company is of the view that upstream companies and downstream companies in the dairy industry chain have an interdependent relationship. The Group is engaged in the upstream of the dairy industry and needs to secure sizeable and stable sales channels for its major product (i.e. raw fresh milk), while the Yili Group is in the downstream of the industry and required to obtain high quality, sizeable and stable supply of raw materials (i.e., raw fresh milk) for its production of final dairy products. In addition to the proposed purchase and sale of raw fresh milk under the Raw Fresh Milk Framework Agreement, the Group and the Yili Group are also seeking to establish various other mutual and complementary arrangements under the Materials Procurement Framework Agreement and the Financial and Factoring Services Framework Agreement in terms of materials procurement and credit financings.

As such, the Board considers that the two parties' deepening co-operation under the Framework Agreements, when viewed in totality, is beneficial to both parties' long-term strategic interests and would foster a mutually beneficial and win-win business relationship in the long-term.

LETTER FROM THE BOARD

The Company believes that its dependence on the Yili Group is controllable and can be effectively mitigated, with main reasons as follows:

1.1 Market Landscape

Due to fierce competition in China's dairy industry and limitations in respect of the distribution of milk sources, product logistics and storage conditions, the downstream dairy industry currently presents a competition landscape in which a handful of large-sized national companies co-exist with many local companies.

Since 2018, with the withdrawal of dairy farms with low production efficiency and of small scale from the market, the number of dairy cows in China has been on a downward trend. As such, standardised and large-scale dairy farms like the Group which can provide raw milk supply of high quality and ensured quantity have become a scarce resource.

Due to the changing market consumption preference and the increasing consumption capacity, the consumption of low-temperature milk markets such as pasteurised milk and dry dairy products such as cheese will become the future development direction of the dairy industry. As downstream dairy companies' demand for raw fresh milk as raw materials is increasing, there is an imbalance between the supply capacity of raw milk on the upstream side and the level of demand for dairy companies on the downstream side. Market demand on raw fresh milk continues to strengthen.

The Group has always maintained good relationship with other major dairy companies in the market and has been actively explored and expanded new sales channels.

Based on the aforesaid landscape of China's dairy industry, although most of the Group's raw fresh milk is to be supplied to the Yili Group, if there is a change in the market environments or the relationship between the two parties, given the significant demand for raw fresh milk in the market, the Group will be able to readily sell its raw fresh milk to other dairy companies at comparable market terms, which therefore will not have a material adverse effect on the operations and financial conditions of the Company.

1.2 Increasing Production Capacity of the Group

Expansion of the Group's scale of dairy farms: Two of the Group's new dairy farms in Yinan County, Shandong Province and Ulanqab City, Inner Mongolia, each of which can accommodate more than 10,000 dairy cows, are currently under construction. Specifically, Yinan dairy farm is expected to commence production this year, and Ulanqab dairy farm is expected to be put into production at the end of 2021 or 2022. In addition, the dairy farm located in Langfang City, Hebei Province has not yet reached its designed capacity, and the total cattle herd will see an increase of approximately 5,000 heads during 2021-2022.

LETTER FROM THE BOARD

Increasing production volume: The yield per dairy cow has continuously increased through management improvement and scientific operation. In the first half of 2020, the average annual milk yield of each lactation cow of the Group amounted to approximately 13.5 tons, representing a significant increase of approximately 10.7% compared with that of the corresponding period of last year.

Following the Group's expansion of production capacity, in addition to the part which has been agreed to be sold to the Yili Group, the remaining increased production may also be sold to other customers according to market conditions so as to reduce the production-sales rate in respect of its sales to the Yili Group.

1.3 Market Selling Price

Taking into account the overall supply and demand status of the raw fresh milk market, the market selling price of high-quality raw fresh milk is expected to further increase in the future, generating additional revenue to the Group.

1.4 Future Development Directions of the Group

In 2018, the Ministry of Agriculture and Rural Affairs (農業農村部), the National Development and Reform Commission (國家發改委) and other government ministries and commissions in China issued "Certain Opinions on Further Promoting Prosperous Development of the Dairy Industry" (《關於進一步促進奶業振興的若干意見》) to support dairy farmers to develop the dairy product processing business and promote the integrated development of primary, secondary and tertiary industries. The Board intends to capitalise on the supportive policies of the PRC Government by establishing a yogurt dairy product development platform to actively develop yogurt processing business, and plans to launch infant formula milk powder construction projects.

After entering the downstream sector, the Group will use some of its self-produced raw milk for product processing, which will reduce its dependence on existing customers such as the Yili Group and help to expand the Group's product development platform, thereby ushering in new opportunities for corporate development.

If the resolution to approve the Raw Fresh Milk Supply Framework Agreement, the transactions contemplated under such agreement and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022 is voted down by the Independent Shareholders, the Group will not be able to sell raw fresh milk to the Yili Group to the extent not in compliance with the Listing Rules and therefore the Company may be in breach of the Existing Sales Agreements which the Group undertook to provide a certain quota of raw fresh milk to the Yili Group. However, the Group will sell the raw fresh milk to other customers. The Company will continue to expand its customer base and sell the raw fresh milk produced by the Group to a wider group of customers with the best possible price and sales terms.

LETTER FROM THE BOARD

Proposed annual caps

The Directors propose that the annual caps for the sale of raw fresh milk by the Group to the Yili Group under the Raw Fresh Milk Supply Framework Agreement for the three years ending 31 December 2020, 2021, and 2022 and the basis of determination are as follows:

	From the date of approval of the EGM to the year ending 31 December 2020 (RMB)	For the year ending 31 December 2021 (RMB)	For the year ending 31 December 2022 (RMB)
Maximum aggregate transaction amount for the year	573,000,000	2,140,000,000	2,440,000,000

Note: For the avoidance of doubt, the historical transaction amount for the six months ended 30 June 2020 of RMB677.0 million is not included under the year ending 31 December 2020 of RMB573.0 million.

The estimated revenue to be generated from sales of raw fresh milk to the Yili Group is approximately RMB1,512 million, RMB2,140.0 million and RMB2,440.0 million for the three years ending 31 December 2020, 2021, and 2022 respectively. For the eight months from January to August 2020, approximately 79.2% of total revenue was generated from the sales of raw fresh milk to the Yili Group. It is estimated that up to approximately 85%, 90% and 90% of the raw fresh milk to be produced by the Group would be sold to the Yili Group for the next four months of 2020 and the two years ending 31 December 2021 and 2022 respectively.

In determining such annual caps, the Directors have considered the following factors:

- (1) the expected increase in sales volume of raw fresh milk to the Yili Group and the expected total value of the raw fresh milk to be produced by the Group for each of the three years ending 31 December 2020, 2021, and 2022;
- (2) the potential increase in the price of dairy products in the PRC;
- (3) the historical and prevailing purchase price for raw fresh milk paid by the Yili Group;
- (4) the historical transaction amount and percentage of raw fresh milk sold by the Group to the Yili Group over the total revenue from sales of raw fresh milk of the Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively representing approximately 42.6%, 50.1%, 91.0% and 79.7% of the total revenue from sales of raw fresh milk of the Group for the corresponding year or period respectively, as stated above; and

LETTER FROM THE BOARD

- (5) the future market trends forecasted by the Company considering the rising portion of sales of raw fresh milk to the Yili Group due to the increased co-operation between the Group and the Yili Group.

The expected total value of the raw fresh milk to be produced by the Group for the year ending 31 December 2020 would be approximately RMB1,859 million, of which approximately RMB674 million expects to be the value to be generated for the period from September 2020 to December 2020. The total value of the raw fresh milk to be produced would be approximately RMB2,372 million and RMB2,709 million respectively for each of the two years ending 31 December 2022.

The basis and assumptions are as follows:

- (1) the expected increase in the supply of the anticipated volume of raw fresh milk. Such increase is mainly influenced by, among others, (i) the total number of cows is expected to increase; (ii) the number of milkable cows for the production of raw fresh milk is expected to increase; (iii) the annual production of raw fresh milk by each milkable cow will have a mild year-on-year growth; (iv) a new farm of the Group in Shandong Province is undergoing construction and is expected to complete and start operation by the end of 2020; (v) a new farm of the Group in Inner Mongolia is undergoing construction and is expected to complete by the end of 2021 and will be in operation in the beginning of 2022; and (vi) the Group has planned to significantly increase the number of cows for one of its underutilised existing farm in Hebei Province by importing cows from Australia; and
- (2) the potential increase in the price of dairy products in the PRC which was indicated by the fact that the average selling price of the raw fresh milk of the Group having increased gradually since 2017 and the aforesaid trend in rising average selling price is anticipated to continue for each of the three years ending 31 December 2022.

Materials Procurement Framework Agreement

The principal terms of the Materials Procurement Framework Agreement are summarised as follows:

- Date: 4 September 2020 (after trading hours)
- Parties: (1) the Company; and
(2) Youran Dairy
- Term: From the date of its consideration and approval at the EGM by the independent Shareholders to 31 December 2022

LETTER FROM THE BOARD

Subject matter: The Company agreed to purchase and procure each member of the Group to purchase the materials (including but not limited to feed, veterinary drugs and bath fluid) from members of the Youran Dairy Group pursuant to the terms and conditions of the Materials Procurement Framework Agreement. The Youran Dairy Group shall be entitled to provide and procure each member of the Youran Dairy Group to provide the materials to the Group pursuant to the terms and conditions of the Materials Procurement Framework Agreement.

Subject to the terms and conditions of the Materials Procurement Framework Agreement, the Youran Dairy Group and the Group shall further enter into specific agreements in respect of the purchase of each type of the materials so as to agree the specific transaction terms thereof.

The form and substance of such specific agreements must be acceptable to both parties, and must be in accordance with and in compliance with the principles, terms and conditions of the Materials Procurement Framework Agreement and the relevant laws (including but not limited to the Listing Rules and the laws applicable to each of the parties' places of business).

The terms and conditions (including but not limited to the price) for the purchase of materials by the Group from the Youran Dairy Group under the Materials Procurement Framework Agreement shall be fair and reasonable, determined on normal commercial terms and negotiated on an arm's length basis. The quality of the materials provided by the Youran Dairy Group shall meet the requirements agreed by both parties and the price payable by the Group shall be fair and reasonable.

LETTER FROM THE BOARD

Pricing principles:

1. If tender process is required (the scope of tendering includes: main raw materials, large mechanical equipment, project construction, etc.), the tender price shall prevail. The procedures of the tender would involve: (i) draft tender documents based on the procurement requirement plans of various business departments of the Group; (ii) establish a tendering committee to hold the tendering kick-off meeting upon receiving the bidding documents from suppliers; (iii) the tendering committee selects bids by comprehensively considering factors such as price, product and service quality, and alignment to the Group's requirements, and then submits the bid selection results to the Company for approval; and (iv) after announcing the entity who wins the bid, the relevant business department of the Group will enter into an official agreement with the bid winning entity;
2. If there is no tender process, reference shall be made to the market price (including comparable local, domestic or international market prices) based on the type and quality of the materials. The business department of the Group and the Youran Dairy Group shall refer to the industry market prices through independent third parties such as industry associations, for example, for forage grass that is not subject to tendering, the Company will conduct price inquiry and comparison, and compare prices with reference to authoritative price information platforms in the industry such as www.cofeed.com and other websites; or
3. In the event that none of the above prices is applicable or it is not practicable to apply the above pricing policies, the Group will compare the quotations for similar materials by at least two independent third party suppliers and negotiate with the Youran Dairy Group on an arm's length basis after taking into account the cost, technology, quality and procurement volume of the materials and the historical transaction prices of the relevant materials, and determine the price on an arm's length basis and on terms no less favourable than those purchased by the Group from independent third parties for similar materials.

LETTER FROM THE BOARD

4. As a result of the foregoing, the Board considers that the pricing methods and procedures for the Materials Procurement Framework Agreement can ensure that the transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. If the parties cannot agree on the detailed terms of the procurement agreements pursuant to the Materials Procurement Framework Agreement, the Group will not enter such procurement agreements with the Youran Dairy Group in the future. The Group is able to obtain the quotations for similar materials by at least two independent third party suppliers as there are various suppliers in the market and the Group does not have the intention to procure all materials from the Youran Dairy Group.

Packaging and transportation:

The Youran Dairy Group shall be responsible for providing proper packaging for the materials and transporting the materials to the designated locations of the Group.

Payment method:

Payment shall be made pursuant to the specific agreements to be further entered into between Youran Dairy (or members of the Youran Dairy Group) and the Company (or members of the Group) pursuant to the Materials Procurement Framework Agreement.

Internal control procedures in relation to procurement

The Group has established an internal guideline for procurement to monitor the procurement procedure:

- (i) the responsible officer of each farm will formulate the monthly and annual procurement plans for different types of materials and will then make the procurement application accordingly for approval;
- (ii) the procurement management department of the Group (the “**Procurement Department**”) will obtain and compare at least two quotations from independent suppliers and obtain the approvals from the head of Procurement Department and finance department (the “**Finance Department**”) of the Group for executing the procurement and arranging the required funding respectively;
- (iii) the legal department of the Group is responsible for reviewing the terms of the relevant legal documents and procurement contracts.

LETTER FROM THE BOARD

Reasons for and benefits of entering into the Materials Procurement Framework Agreement

The Company began to procure forage grass from Youran Dairy in 2015. Since then, the types and quantity of products procured increased. In recent years, the two parties entered into framework agreements on a year-by-year basis. The Company set forth in the agreements the types and quality standards of forage grass procured from Youran Dairy, and entered into separate purchase orders when procured by batches. In view of the continuous demand for feed and materials for farm operation, the Group believes that through the long-term business relationship established with the Youran Dairy Group, it can ensure the quality of the products provided by the other party and meet business needs. This continuing relationship is expected to be mutually beneficial to both parties.

The Company believes that there is no substantial dependence on the Youran Dairy Group with main reasons as follows: (i) the Group has always maintained good relationship with other major suppliers in the market and has been actively explored and expanded new purchase channels; (ii) the Group will be able to readily purchase materials from other suppliers at comparable market terms; and (iii) the pricing methods and procedures for the Materials Procurement Framework Agreement can ensure that the transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. If the parties cannot agree on the detailed terms of the procurement agreements pursuant to the Materials Procurement Framework Agreement, the Group will not enter such procurement agreements with the Youran Dairy Group.

If the resolution to approve the Materials Procurement Framework Agreement, the transactions contemplated under such agreement and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022 is voted down by the Independent Shareholders, the Group will not be able to purchase materials from the Youran Dairy Group to the extent not in compliance with the Listing Rules. The Group would arrange to purchase the materials from other independent third party suppliers with the best possible price and purchase terms.

Historical transaction amount

The transaction amount of materials purchased by the Group from the Youran Dairy Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were RMB77.9 million, RMB134.7 million, RMB218.1 million and RMB93.2 million, respectively.

LETTER FROM THE BOARD

Proposed annual caps

The Directors propose that the annual caps for the Group to purchase materials from the Youran Dairy Group under the Materials Procurement Framework Agreement for the three years ending 31 December 2020, 2021, and 2022 and the basis of determination are as follows:

	From the date of approval of the EGM to the year ending 31 December 2020 (RMB)	For the year ending 31 December 2021 (RMB)	For the year ending 31 December 2022 (RMB)
Maximum aggregate transaction amount for the year	100,000,000	300,000,000	350,000,000

In determining such annual caps, the Directors have considered the following factors:

- (1) the respective historical transaction amount of materials purchased by the Group from the Youran Dairy Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (as mentioned above); and
- (2) the forecast of the future market trends.

Financial and Factoring Services Framework Agreement

The principal terms of the Financial and Factoring Services Framework Agreement are summarized as follows:

Date:	4 September 2020 (after trading hours)
Parties:	(1) The Company; and (2) Yili Industrial
Term:	From the date of its consideration and approval at the EGM by the independent Shareholders to 31 December 2022

LETTER FROM THE BOARD

Subject matter: The parties have agreed that, pursuant to the terms and conditions of the Financial and Factoring Services Framework Agreement, the members of the Yili Group shall provide financial and factoring services to the members of the Group. When the Group sells goods or provides services to a buyer (as the debtor), the Group can apply for factoring facility services from the Yili Group base on receivables from the transactions with such buyer (as the debtor).

Subject to the compliance of terms and conditions of the Financial and Factoring Services Framework Agreement, each of the Yili Group and the Group shall further enter into specific contracts in relation to the provision of financial and factoring services (including but not limited to principal, interest rate, term and guarantee type, etc.), so as to agree the specific transaction terms thereof.

The format and substance of such specific contracts shall be acceptable by both parties, and shall be in accordance with and in compliance with the principles, terms and conditions under the Financial and Factoring Services Framework Agreement and the relevant laws (including but not limited to, the Listing Rules and the requirements under the laws applicable to each of the parties' places of business).

The terms and conditions of the provision of financial and factoring services by the Yili Group to the Group under the Financial and Factoring Services Framework Agreement shall be fair and reasonable and determined on normal commercial terms and negotiated on an arm's length basis. The financial and factoring services provided by the Yili Group shall comply with the requirements agreed by both parties, and the price payable by the Group shall also be fair and reasonable.

LETTER FROM THE BOARD

Pricing principles: To determine the market price, the Group will compare the quotes from at least two independent third party banks or financial institutions in relation to similar financial service and compare them with Loan Prime Rate issued by National Interbank Funding Center. The Group will negotiate with the Yili Group on arm's length basis after considering factors such as the financial requirement from the Group, the financial position of the Group and the settlement schedule and calculate the price on a fair basis, and shall be determined on the terms that is no less favourable than those of similar financial services offered by independent third parties to the Group (including but not limited to principal, interest rate, term and guarantee type).

As a result of the foregoing, the Board considers that the pricing methods and procedures for the Financial and Factoring Services Framework Agreement can ensure that the transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. If the parties cannot agree on the detailed terms of the financial and factoring services agreements pursuant to the Financial and Factoring Services Framework Agreement, the Group will not enter such financial and factoring services agreements with the Yili Group in the future. The Group can then continue to obtain financial and factoring services from independent banks and/or financial institutions same as the Group which previously also entered into a financial factoring contract with an independent third party.

Payment method: Payment shall be made pursuant to the specific agreements to be further entered into between Yili Industrial (or members of the Yili Group) and the Company (or members of the Group) under the Financial and Factoring Services Framework Agreement.

LETTER FROM THE BOARD

Internal control procedures in relation to obtaining financial and factoring services

The Group has established an internal guideline for obtaining financing. The investment management department of the Group (the “**Investment Management Department**”) is responsible for the overall management of equity financing, the Finance Department of the Group is responsible for the overall management of debt financing which include the formulation of the annual expenditure budget to facilitate the financing planning for the Group which will then be reviewed and approved by Chief Financial Officer and General Manager of Finance Department. After the Finance Department has communicated with potential financial services providers regarding the financing intention, formulated the financing plan, the legal department of the Group is responsible for reviewing and approving the terms of the relevant legal documents and contracts. The administration department of the Group is responsible for any required registration arrangements. After obtaining the financial services, the Finance Department is responsible for recording, monitoring and approving the principal repayment and interest payment on a continuing basis. The Finance Department is also responsible for conducting risk assessment for debt financing which include: (i) the cost of debt; (ii) the level of debt for the Group in terms of an optimal debt ratio; (iii) term of outstanding debt; (iv) the debt repayment ability of the Group; and (v) the latest development of the relevant government policies. The Finance Department will then report the risk assessment to the management of the Group.

If the resolution to approve the Financial and Factoring Services Framework Agreement, the transactions contemplated under such agreement and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022 is voted down by the Independent Shareholders, the Group will not be able to get financial and factoring services from the Yili Group to the extent not in compliance with the Listing Rules and therefore the Company may be in breach of the Existing Financial and Factoring Services Agreements. The Group would arrange early repayment of the Existing Financial and Factoring Services Agreements.

Reasons for and benefits of entering into the Financial and Factoring Services Framework Agreement

Being a substantial Shareholder and important business partner of the Group, Yili Industrial has a large capital base and strong financing capabilities. In 2018, the Company entered into a factoring business cooperation agreement with a wholly owned subsidiary of Yili Industrial for a total borrowing amount of RMB500 million. The financial and factoring services provided by the Yili Group will help the Group expand its financing channels, and provide financial support for farm operation and construction of new farms. This is beneficial to the long term growth of the Group and the interest of the Shareholders as a whole.

LETTER FROM THE BOARD

Historical transaction amounts

The maximum daily balance from the factoring services provided to the Group by the Yili Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 amounted to RMB0, RMB502.0 million, RMB533.3 million and RMB516.3 million, respectively.

Proposed annual caps

The Directors propose that the maximum daily balance for the provision of financial and factoring services to the Group by the Yili Group under the Financial and Factoring Services Framework Agreement for the three years ended 31 December 2020, 2021, and 2022 and the basis of determination are as follows:

	From the date of approval of the EGM to the year ending 31 December 2020 (RMB)	For the year ending 31 December 2021 (RMB)	For the year ending 31 December 2022 (RMB)
Maximum daily balance (<i>Note</i>)	800,000,000	800,000,000	800,000,000

Note: For the avoidance of doubt, the maximum daily balance include interest.

In determining such annual caps, the Directors have considered the following factors:

- (1) the historical transaction amount of factoring services provided to the Group by the Yili Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020; and
- (2) the financing demand of the Group.

INFORMATION ON THE PARTIES

The Group

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.

LETTER FROM THE BOARD

Youran Dairy

Youran Dairy is a limited liability company incorporated in the PRC, and is principally engaged in dairy cow breeding, quality breed breeding, feed research and development, forage planting, purchase and sales, agricultural technology training and other businesses.

Yili Industrial

Yili Industrial is a limited liability company incorporated in the PRC. Its shares are listed on the Shanghai Stock Exchange in the PRC (stock code: 600887). Yili Industrial is a dairy product enterprise with the largest scale and most comprehensive product categories in the PRC. It is principally engaged in the processing, manufacturing and sales of various dairy products and healthy beverages. It has several major product series, comprising of liquid milk, milk beverages, milk powder, yogurt, frozen beverages, cheese, milk fat and packaged drinking water.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Yili Industrial held 432,641,522 Shares through its wholly-owned subsidiary, Hongkong Jingang Trade Holding Co., Limited, representing approximately 16.6% of the issued share capital of the Company. Yili Industrial is a substantial Shareholder of the Company. An aggregate of 40% of equity interest of Youran Dairy are indirectly owned by Yili Industrial, thus Youran Dairy and its subsidiaries are associates of Yili Industrial under Chapter 14A of the Listing Rules. Therefore, Yili Industrial and Youran Dairy are connected persons of the Company, and the entering into of each of the Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual caps under each of the Framework Agreements exceed 5%, the entering into of each of the Framework Agreements and the transactions contemplated thereunder are therefore subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Other than the transactions disclosed in the announcement of the Company dated 24 September 2020, the Group will have Finance Department to control and monitor the actual connected transaction amounts between the Company and the relevant connected persons so as not to continue transactions with the Yili Group and the Youran Dairy Group to the extent not in compliance with the Listing Rules.

DIRECTORS' CONFIRMATIONS

No Director is materially interested in the transactions contemplated under each of the Framework Agreements and is required to abstain from voting on the Board resolutions approving each of the Framework Agreements and the transactions contemplated thereunder.

LETTER FROM THE BOARD

THE EGM AND SHAREHOLDERS' APPROVAL

The EGM will be held at the Conference Room, 10th Floor, Block A, Times Fortune Compound, No. A6 Shuguang Xili, Chaoyang District, Beijing, the People's Republic of China on Wednesday, 4 November 2020 at 10:30 a.m. for the independent Shareholders, to consider and, if thought fit, to pass the ordinary resolutions to approve the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps for the three years ending 31 December 2020, 2021, and 2022. A notice to convene the EGM is set out on pages 73 to 75 of this circular.

As at the Latest Practicable Date, Yili Industrial is a substantial Shareholder of the Company and has material interest in the continuing connected transactions, thus Yili Industrial and its associate(s) shall abstain from voting on these resolutions.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, none of the Shareholders has any material interest in the matters to be approved at the EGM and accordingly, none of the Shareholders is required to abstain from voting on the resolutions to be proposed at the EGM.

A form of proxy for use at the EGM has been sent together with a notice convening the EGM dated 15 October 2020. Whether or not the Shareholders intend to be present at the EGM, they are requested to complete the form of proxy and return it to the office of the branch registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding of the EGM or any adjourned meeting (as the case may be).

Completion and delivery of the form of proxy will not prevent the Shareholders from attending and voting at the EGM or adjourned meeting (as the case may be) if they so wish.

In accordance with the requirements of the Listing Rules, the resolution to be put forward at the EGM will be voted on by the independent Shareholders by way of poll.

In order to determine the list of Shareholders who are entitled to attend and vote at the EGM, the register of the Shareholders of the Company will be closed from Friday, 30 October 2020 to Wednesday, 4 November 2020 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of the Shareholders of the Company on Thursday, 29 October 2020 will be entitled to attend and vote at the EGM.

RECOMMENDATIONS

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps.

LETTER FROM THE BOARD

In addition, the Company has appointed Opus Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Having considered the advice from Opus Capital in relation to the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps, which is set out on pages 29 to 65 of this circular, the Independent Board Committee is of the opinion that the Framework Agreements and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM.

Having considered the reasons set out herein, the Directors are of the opinion that the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in Appendix to this circular and the notice of the Extraordinary General Meeting.

Yours faithfully,
For and On behalf of the Board
China ZhongDi Dairy Holdings Company Limited
Zhang Jianshe
Chairman



CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED

中國中地乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1492)

15 October 2020

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

(1) RAW FRESH MILK SUPPLY FRAMEWORK AGREEMENT

(2) MATERIALS PROCUREMENT FRAMEWORK AGREEMENT

AND

(3) FINANCIAL AND FACTORING SERVICES FRAMEWORK AGREEMENT

We refer to the circular of the Company (the “**Circular**”) dated 15 October 2020 which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps, the details of which are set out in the “Letter from the Board” on pages 4 to 26 of the Circular. Opus Capital has been appointed to advise the independent Shareholders and the Independent Board Committee in this regard.

Details of the advice and the principal factors and reasons that Opus Capital has taken into consideration in rendering its advice are set out in the “Letter from Opus Capital” on pages 29 to 65 of the Circular. Your attention is also drawn to the additional information set out in the Circular.

Having taken into account the terms of the Framework Agreements, the transactions contemplated thereunder (including the proposed annual caps) and the advice of Opus Capital, we are of the opinion that (i) the transactions contemplated under the Framework Agreements are conducted in the ordinary course of business of the Group; and (ii) the terms of the Framework Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, therefore, recommend that you vote in favour of the resolutions to be proposed at the EGM to approve the Framework Agreements, the transactions contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022.

Yours faithfully,

For and on behalf of the Independent Board Committee

China ZhongDi Dairy Holdings Company Limited

Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry

Independent non-executive Directors

LETTER FROM OPUS CAPITAL

Set out below is the text of a letter received from Opus Capital, the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders in respect of the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps for the purpose of inclusion in this circular.



18th Floor, Fung House
19-20 Connaught Road Central
Central, Hong Kong

15 October 2020

*To: the Independent Board Committee and the independent
Shareholders of China ZhongDi Dairy Holdings Company Limited*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

- (1) RAW FRESH MILK SUPPLY FRAMEWORK AGREEMENT
- (2) MATERIALS PROCUREMENT FRAMEWORK AGREEMENT
- AND
- (3) FINANCIAL AND FACTORING SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the independent Shareholders in respect of the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps for the three years ending 31 December 2020, 2021, and 2022 (the “**Annual Caps**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 15 October 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

THE FRAMEWORK AGREEMENTS

As stated in the Letter from the Board, on 4 September 2020 (after trading hours), (i) the Company and Yili Industrial entered into the Raw Fresh Milk Supply Framework Agreement; (ii) the Company and Youran Dairy entered into the Materials Procurement Framework Agreement; and (iii) the Company and Yili Industrial entered into the Financial and Factoring Services Framework Agreement.

As at the Latest Practicable Date, Yili Industrial held 432,641,522 Shares through its wholly-owned subsidiary, Hongkong Jingang Trade Holding Co., Limited, representing approximately 16.6% of the issued share capital of the Company. Yili Industrial is a substantial

LETTER FROM OPUS CAPITAL

Shareholder. An aggregate of 40% of the equity interest of Youran Dairy are indirectly owned by Yili Industrial, thus Youran Dairy and its subsidiaries are associates of Yili Industrial under Chapter 14A of the Listing Rules. Therefore, Yili Industrial and Youran Dairy are connected persons of the Company, and the entering into of each of the Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios under the Listing Rules in respect of the highest Annual Caps under each of the Framework Agreements exceed 5%, the entering into of each of the Framework Agreements and the transactions contemplated thereunder (including the Annual Caps) are therefore subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Other than the transactions disclosed in the announcement of the Company dated 24 September 2020, the Group will have Finance Department to control and monitor the actual connected transaction amounts between the Company and the relevant connected persons so as not to continue transactions with the Yili Group and the Youran Dairy Group to the extent not in compliance with the Listing Rules.

No Director is materially interested in the transactions contemplated under each of the Framework Agreements and is required to abstain from voting on the Board resolutions approving each of the Framework Agreements and the transactions contemplated thereunder (including the Annual Caps).

The EGM will be held for the independent Shareholders, to consider and, if thought fit, to pass the ordinary resolutions to approve the Framework Agreements and the transactions contemplated thereunder (including the Annual Caps). As at the Latest Practicable Date, Yili Industrial is a substantial Shareholder and has material interest in the continuing connected transactions, thus Yili Industrial and its associate(s) shall abstain from voting on these resolutions.

Save as disclosed above, to the best of the knowledge, information, and belief of the Directors and having made all reasonable enquiries, none of the Shareholders has any material interest in the matters to be approved at the EGM and accordingly, none of the Shareholders is required to abstain from voting on the resolutions to be proposed at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry, all of whom are independent non-executive Directors, has been formed to advise the independent Shareholders as to whether the transactions contemplated under the Framework Agreements (including the Annual Caps) are conducted in the ordinary and usual course of business of the Group, on normal commercial terms, in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the independent Shareholders are concerned, and how to vote on the relevant resolutions to be proposed at the

LETTER FROM OPUS CAPITAL

EGM to approve the Framework Agreements and the transactions contemplated thereunder (including the Annual Caps). We have been appointed by the Company to advise the Independent Board Committee and the independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we do not have any relationship with, or interest in, the Group, the Yili Group, the Youran Dairy Group or any other parties that could reasonably be regarded as relevant to our independence. During the two years immediately prior to this letter, we have not acted as an independent financial adviser to the Company. Apart from normal independent financial advisory fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Group, the Yili Group, the Youran Dairy Group or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

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

- (i) the Framework Agreements;
- (ii) the Company's annual report for the year ended 31 December ("FY") 2018 (the "**2018 Annual Report**");
- (iii) the Company's annual report for FY2019 (the "**2019 Annual Report**");
- (iv) the Company's interim report for the six months ended ("HY") 2020 (the "**2020 Interim Report**"); and
- (v) other information as set out in the Circular.

We have relied on the truth, accuracy, and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Group (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular 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 and up to and including the date of the EGM.

LETTER FROM OPUS CAPITAL

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular 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 Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We considered 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. We also have not considered the taxation implications on the Group as a result of the Framework Agreements and the transactions contemplated thereunder.

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 and the independent Shareholders solely in connection for their consideration of the Framework Agreements and transactions contemplated thereunder (including the Annual Caps), and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information on 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.

LETTER FROM OPUS CAPITAL

(b) Financial results of the Group

Set out below is the financial results of the Group for FY2018 and FY2019 as well as HY2019 and HY2020.

Table 1: Summary of the financial results of the Group

	HY2020 <i>(Unaudited)</i> <i>RMB'000</i>	HY2019 <i>(Unaudited)</i> <i>RMB'000</i>	FY2019 <i>(Audited)</i> <i>RMB'000</i>	FY2018 <i>(Audited)</i> <i>RMB'000</i>
Revenue				
<i>Dairy farming business</i>	849,038	705,635	1,498,727	1,335,839
<i>Import-trading business</i>	24,182	80	654	89,147
	873,220	705,715	1,499,381	1,424,986
Cost of sales	(838,921)	(678,753)	(1,435,124)	(1,367,932)
Gross profit	34,299	26,962	64,257	57,054
Losses arising from changes in fair value less costs to sell of biological assets	(40,344)	(59,844)	(135,055)	(173,691)
Gains 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
Other income	9,828	6,933	15,424	34,661
Other gains and losses	704	4,419	8,179	(1,495)
Distribution costs	(38,302)	(29,303)	(65,272)	(59,716)
Administrative expenses	(59,972)	(46,781)	(109,877)	(93,953)
Other expenses	(726)	(554)	(1,006)	(1,110)
Finance costs	(64,260)	(82,054)	(160,748)	(114,543)
Share of profits and losses of an associate	(60)	(26)	118	14
Profit before tax	103,552	50,075	102,373	63,190
Income tax expenses ^(Note)	–	–	–	–
Profit for the year/period attributable to the Shareholders	104,910	50,075	104,335	63,190

Sources: the 2019 Annual Report and the 2020 Interim Report

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

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Financial performance for 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 significantly increased 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.

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Financial performance for HY2020

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 HY2020, 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 HY2019 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 HY2019. 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 HY2019 to 219,290 tonnes in HY2020, 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 HY2019 to approximately RMB3,872 per tonne in HY2020, 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 HY2020.

For HY2020, the revenue generated from import-trading business amounted approximately RMB24.2 million as compared to approximately RMB0.08 million for HY2019, representing a significant increase of 300 times. Such an increase was mainly attributed to the increase in the total import-trading volume in HY2020.

The profit attributable to the Shareholders for HY2020 significantly increased by approximately RMB54.8 million or 109.4%, from approximately RMB50.1 million for HY2019 to approximately RMB104.9 million for HY2020 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 HY2019 to approximately RMB262.4 million in HY2020 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 HY2019 to approximately RMB64.3 million for HY2020 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 HY2020.

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(c) Financial position of the Group

Set out below is the financial position of the Group as at 30 June 2020 and 31 December 2019.

Table 2: Summary of the financial position of the Group

	As at 30 June 2020	As at 31 December 2019
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
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
Biological assets	1,766,514	1,693,560
Investments in an associate	10,341	10,401
	4,413,225	4,259,467
Current assets		
Inventories	386,566	465,326
Trade and other receivables	190,055	184,100
Biological assets	428	–
Pledged bank deposits	47,948	23,852
Cash and bank balances	400,377	390,765
	1,025,374	1,064,043
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
	1,686,430	1,936,851
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

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	As at 30 June 2020	As at 31 December 2019
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities		
Interest-bearing bank and other borrowings	1,349,922	1,087,959
Deferred income	34,359	34,364
	1,384,281	1,122,323
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: the 2020 Interim Report

As disclosed in the 2020 Interim Report, the non-current assets of the Group as at 30 June 2020 mainly consisted of property, plant and equipment and biological assets which consisted of dairy cows held to produce raw fresh milk (i.e., milkable cows, heifers and calves). As at 30 June 2020, the Group recorded a slight increase in: (i) property, plant and equipment from approximately RMB1,905.7 million as at 31 December 2019 to approximately RMB1,973.2 million as at 30 June 2020, representing an increase of approximately 3.5%; and (ii) a biological assets from approximately RMB1,693.6 million as at 31 December 2019 to approximately RMB1,766.5 million as at 30 June 2020, representing an increase of approximately 4.3%.

The current assets of the Group as at 30 June 2020 mainly consisted of cash and bank balances and inventories. The cash and bank balances slightly increase from approximately RMB390.8 million as at 31 December 2019 to approximately RMB400.4 million as at 30 June 2020, representing an increase of approximately 2.5% while the inventories decreased from approximately RMB465.3 million as at 31 December 2019 to approximately RMB386.6 million as at 30 June 2020, representing a decrease of approximately 16.9%.

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Both of the non-current liabilities and current liabilities mainly consisted of interest-bearing bank and other borrowings as the Group's working capital was mainly derived from cash inflow generated from daily operating activities, bank and other borrowings. As at 30 June 2020, the Group had interest-bearing bank and other borrowings of approximately RMB2,556.2 million, of which approximately RMB1,731.1 million was borrowings secured by the dairy cows, the property, plant and equipment and the trade receivables and/or guaranteed by Mr. Zhang Jianshe (executive Director), Ms. Li Jingtao (spouse of Mr. Zhang Jianshe) and an independent third party. The gearing ratio, being the total liabilities divided by the total assets, was approximately 56.5% as at 30 June 2020 which was slightly improved from approximately 57.5% as at 31 December 2019. As at 30 June 2020, a substantial amount of interest-bearing bank and other borrowings amounted to approximately RMB1,206.3 million or 47.2% of the total interest-bearing bank and other borrowings were due within one year and the Group was in net current liability position of approximately RMB661.1 million.

2. Information on the parties

Youran Dairy

Youran Dairy is a limited liability company incorporated in the PRC, and is principally engaged in dairy cow breeding, quality breed breeding, feed research and development, forage planting, purchase and sales, agricultural technology training and other businesses.

Yili Industrial

Yili Industrial is a limited liability company incorporated in the PRC. Its shares are listed on the Shanghai Stock Exchange in the PRC (stock code: 600887). Yili Industrial is a dairy product enterprise with the largest scale and most comprehensive product categories in the PRC. It is principally engaged in the processing, manufacturing, and sale of various dairy products and healthy beverages. It has several major product series, comprising of liquid milk, milk beverages, milk powder, yogurt, frozen beverages, cheese, milk fat, and packaged drinking water. Based on its annual reports, Yili Industrial recorded revenue and net profit of approximately RMB90,233.1 million and RMB6,950.7 million, respectively for FY2019 and had net asset value and cash and bank balances of approximately RMB26,274.1 million and RM11,325.3, respectively, as at 31 December 2019. In addition, Yili Industrial had a total market capitalisation of approximately RMB245.2 billion as at the Latest Practicable Date.

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3. Reasons for and benefits of the entering into of the Framework Agreements

Set out below is a summary of the reasons for and benefits of the entering into of each of the Framework Agreements, further details of which are set out in the Letter from the Board.

Raw Fresh Milk Supply Framework Agreement

The Company has a long history of cooperation with the Yili Group on the sales and purchase of raw fresh milk. It first entered into raw fresh milk supply contracts with the Yili Group back in 2011. Such cooperation has been conducted smoothly over the years and ascended to a strategic level in 2014. As one of the major suppliers of raw fresh milk in the PRC, the Group owns several 10,000-head dairy farms in the PRC's golden milk source belt. Through scientific management and large-scale operations, it can provide downstream processors with high-quality, large-scale and stable supply of raw fresh milk. Being the largest dairy product manufacturer in the PRC, the Yili Group is mainly engaged in the processing, manufacturing, and sale of various dairy products and healthy drinks. To meet the demand for its dairy production, the Yili Group also requires a stable and high-quality source of raw fresh milk supply. The Company is not required to supply a guaranteed or minimum amounts of raw fresh milk to the Yili Group pursuant to the Raw Fresh Milk Supply Framework Agreement and there is no preferential supply arrangements committed to the Yili Group as compared to other customers.

The Group has been maintaining a continuous and good business relationship with the Yili Group in the supply of raw fresh milk. Upon Yili Industrial became a substantial Shareholder, strengthening such relationship can help further exploit potential mutual benefits along the value chain. This arrangement can provide a stable sales channel for the Group, smoothen the volatility of market sales and revenue, and enhance the Group's ability to resist financing and other operating risks at the same time, contributing to the Group's sustained competitiveness in the supply of high-quality raw fresh milk, and enhancing shareholders value as well.

Materials Procurement Framework Agreement

The Company began to procure forage grass from Youran Dairy in 2015. Since then, the types and quantity of products procured increased. In recent years, the two parties entered into framework agreements on a year-by-year basis. The Company set forth in the agreements the types and quality standards of forage grass procured from Youran Dairy, and entered into separate purchase orders when procured by batches. In view of the continuous demand for feed and materials for farm operation, the Group believes that through the long-term business relationship established with the Youran Dairy Group, it can ensure the quality of the products provided by the other party and meet business needs. This continuing relationship is expected to be mutually beneficial to both parties.

The Company believes that there is no substantial dependence on the Youran Dairy Group with main reasons as follows: (i) the Group has always maintained good relationship with other major suppliers in the market and has been actively explored and expanded new purchase channels; (ii) the Group will be able to readily purchase materials from other suppliers at comparable market terms; and (iii) the pricing methods and procedures for the Materials

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Procurement Framework Agreement can ensure that the transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. If the parties cannot agree on the detailed terms of the procurement agreements pursuant to the Materials Procurement Framework Agreement, the Group will not enter such procurement agreements with the Youran Dairy Group.

Financial and Factoring Services Framework Agreement

Being a substantial Shareholder and important business partner of the Group, Yili Industrial has a large capital base and strong financing capabilities. In 2018, the Company entered into a factoring business cooperation agreement with a wholly owned subsidiary of Yili Industrial for a total borrowing amount of RMB500 million. The financial and factoring services provided by the Yili Group will help the Group expand its financing channels, and provide financial support for operation and construction of new farms. This is beneficial to the long-term growth of the Group and the interest of the Shareholders as a whole.

As stated in the announcement of the Company dated 24 September 2020, the Yili Group has entered into certain agreements with the Group in relation to the supply of raw fresh milk to the Yili Group by the Group and the provision of factoring services by the Yili Group to the Group before the Yili Group became a connected person of the Company. As such, the Group has been conducting transactions with the Yili Group as those contemplated under the Framework Agreements.

Having considered the price of: (i) raw fresh milk to be sold to the Yili Group is no less favourable to the Group than the price offered to independent third parties, which is considered to be beneficial to the Company; (ii) materials to be procured from the Youran Dairy Group is no less favourable than the price offered from independent third parties and the entering into of the Materials Procurement Framework Agreement will enable the Group to secure a stable supply of materials for farm operations; and (iii) obtaining financial and factoring services from the Yili Group is no less favourable than the terms offered from independent third parties and the entering into of the Financial and Factoring Services Framework Agreement enables the Group to obtain reliable financial support from an important business partner with a strong capital base, the above and the business activities and strategy of the Group as well as the aforesaid benefits to the Company, we are of the view that the entering into of the Framework Agreements is in line with the Group's stated strategy, which is conducted in the Group's ordinary and usual course of business and is in the interest of the Company and the Shareholders as a whole.

4. The Raw Fresh Milk Supply Framework Agreement

(a) Principal terms of the Raw Fresh Milk Supply Framework Agreement

Date

4 September 2020 (after trading hours)

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Parties

- (1) the Company; and
- (2) Yili Industrial

Term

From the date of its consideration and approval at the EGM by the independent Shareholders to 31 December 2022

Subject matter

Pursuant to the terms and conditions of the Raw Fresh Milk Supply Framework Agreement, the Company agreed to supply and procure each member of the Group to supply raw fresh milk to members of the Yili Group, and the Yili Group shall be entitled to purchase and procure each member of the Yili Group to purchase raw fresh milk from the Group.

Subject to the terms and conditions of the Raw Fresh Milk Supply Framework Agreement, the Group and the Yili Group shall enter into further raw fresh milk purchase and sales agreements in respect of specific transaction terms (including but not limited to the quality, pricing, packaging, ordering and payment method of the raw fresh milk) of the supply of raw fresh milk, respectively. In this regard, the Group and the relevant members of the Yili Group shall enter into raw fresh milk purchase and sales agreements for the next year during the period from October to December each year.

The form and substance of such raw fresh milk purchase and sales agreements shall be acceptable to both parties, and shall be in accordance with and in compliance with the principles, terms, and conditions of the Raw Fresh Milk Supply Framework Agreement and the relevant laws (including but not limited to the Listing Rules and the laws applicable to each of the parties' places of business).

The terms and conditions (including but not limited to the price) for the purchase of raw fresh milk by the Yili Group from the Group under the Raw Fresh Milk Supply Framework Agreement shall be fair and reasonable, determined on normal commercial terms and shall be negotiated on an arm's length basis. The quality of raw fresh milk provided by the Group shall meet the requirements agreed by both parties and the price payable by the Yili Group shall also be fair and reasonable.

If the terms and conditions of the Existing Sales Agreements are different from the terms and conditions of the Raw Fresh Milk Supply Framework Agreement, the terms and conditions of the Raw Fresh Milk Supply Framework Agreement shall prevail.

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Pricing principles

- (i) Based on the type and quality of raw fresh milk, reference to market price (including comparable local, domestic or international market price) is made. The business department of the Group will refer to the prevailing market prices of the industry through independent third parties such as industry associations; or
- (ii) In the event that none of the above prices is applicable or where it is not practicable to apply the above pricing policies, the Group will compare the quotations of similar raw fresh milk supplied by at least two other third party suppliers to leading independent third party dairy enterprises in the PRC to ascertain the prevailing market price and negotiate with the Yili Group on an arm's length basis, taking into account the costs, technology, quality and procurement volume of raw fresh milk and the historical transaction prices of the relevant raw fresh milk, and determine the price on an arm's length basis and on terms no less favourable than those offered by the Group to leading independent third party dairy enterprises in the PRC for the supply of similar raw fresh milk;
- (iii) The purchase price of raw fresh milk shall be determined and adjusted based on market conditions and seasonal factors. After negotiations between the Group and the Yili Group, the final purchase price of raw fresh milk will vary depending on the quality level. The quality of raw fresh milk supplied by the Group shall meet the standards set by the government and the requirements of the Yili Group. Both the price and terms offered by the Company to the Yili Group and the price and terms offered by the Company to other independent third parties customers are substantially similar, the sales price was determined with reference to: (i) the market conditions; (ii) the seasonal factors; and (iii) the quality indicators, including protein, fat, freezing point, color, odor, texture, temperature, micro-organism and somatic cells figures tested by qualified laboratories. Hence, the Company is of the view that the terms of the transactions are fair and reasonable and no less favourable to the Company;
- (iv) As a result of the foregoing, the Board considers that the pricing methods and procedures for the Raw Fresh Milk Supply Framework Agreement can ensure that the transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. The sales department of the Company would communicate with relevant contacts involved in the sale of raw milk of at least two peer large-scale animal husbandry companies through telephone or face-to-face meetings to discover the sales price of raw fresh milk for the next year every fourth quarter of each year, then the persons in charge of the sales department would brief the communication results to the executive Director responsible for raw fresh milk sales of the Company. Negotiations would be made to make sure the terms and conditions with each counter party are fair and reasonable with all factors considered. If both parties could reach a preliminary consensus, the executive Director would then report to and obtain approval from the chief executive officer of the Company and due process of entering into contracts will be followed afterwards. Given the above mentioned pricing method and procedures, the Company is of the view that the transactions will be conducted on a fair and reasonable basis. If the parties cannot agree on the detailed terms of the supply agreements pursuant to the Raw Fresh Milk Supply Framework Agreement, the Group will not enter such supply agreements with the Yili Group in the future.

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We have randomly selected, obtained, and reviewed more than 10 historical raw fresh milk supply agreements entered into between the Group and each of (i) the Yili Group (the “**Yili Milk Sample Contracts**”); and (ii) the independent third parties (“**I3P Milk Sample Contracts**”) for FY2017, FY2018, FY2019, and HY2020 (collectively, the “**Review Period**”), respectively. From the Yili milk Sample Contracts, we noted that the sale price was determined with reference to: (i) the market conditions; (ii) the seasonal factors; and (iii) the quality indicators, including protein, fat, freezing point, color, odor, texture, temperature, micro-organism and somatic cells figures tested by qualified laboratories (the “**Quality Indicators**”). From the I3P Milk Sample Contracts, it is also noted that the sale price was determined with reference to: (i) the seasonal factors; (ii) the Quality Indicators; and (iii) the transportation cost. Further, there are quotations comparison and internal approval procedures of obtaining approval from the chief executive officer of the Company as mentioned above. Having considered the existence of similar terms in the Yili Milk Sample Contracts and the I3P Milk Sample Contracts, and the aforementioned quotations comparison and approval procedures in place, we concur with the view of the Board that such terms are on normal commercial terms.

The internal control procedures of the Group in determining the selling price of raw fresh milk and our analysis thereon are set out in the section below headed “*Internal control procedures in relation to the sale of raw fresh milk*”.

Quality of milk

The quality of milk supplied by the Group shall comply with the standards set by the government and the requirements of the Yili Group. We have reviewed the Yili Milk Sample Contracts and the I3P Milk Sample Contracts and noted that similar quality requirements were in place in those raw fresh milk supply agreements.

During the contract period of the Raw Fresh Milk Supply Framework Agreement, if the quality of the raw fresh milk to be supplied by the Group does not meet or exceed the requirements of relevant Quality Indicators, the purchase price shall be adjusted accordingly. We noted that such adjustment of the purchase price based on the quality grade of the raw fresh milk supplied from the Group was also adopted in both the Yili Milk Sample Contracts and the I3P Milk Sample Contracts.

Payment method

Payment shall be made pursuant to the raw fresh milk purchase and sales agreements to be further entered into between Yili Industrial (or members of the Yili Group) and the Company (or members of the Group) pursuant to the Raw Fresh Milk Supply Framework Agreement.

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As set out in the Letter from the Board, the Company is not required to supply a guaranteed or minimum annual amount of raw fresh milk to the Yili Group. Further, if the parties cannot agree on the detailed terms of the supply agreements pursuant to the Raw Fresh Milk Supply Framework Agreement, the Group will not enter such supply agreements with the Yili Group in the future and the Group or the Yili Group is entitled to terminate any supply agreements entered into pursuant to the Raw Fresh Milk Supply Framework Agreement by providing written notice to the other party three months in advance. The Group can then continue to supply the raw fresh milk to independent third party dairy enterprises in the PRC.

(b) Internal control procedures in relation to the sale of raw fresh milk

As set out in the Letter from the Board, the Group has established an internal guideline of the sale of raw fresh milk, and the farm products sales department of the Group (the “**Sales Department**”) is in charge of the overall sales management of raw fresh milk. The Sales Department formulates monthly sales plan by collecting, consolidating and analysing sales data and taking into account the volume required by the purchasers and the production capacity of the Group. Beijing Sinofarm Stud Livestock Co., Ltd. (“**Sinofarm Stud Livestock**”), a wholly owned subsidiary of the Group who is responsible for farm operation, will prepare the monthly and annual supply plans. The annual supply plans require the approvals from the responsible officer of the farm and Sinofarm Stud Livestock and the monthly supply plans require the approval from the responsible officer of the farm. If there are any contingency events which affect the production capacity to significantly deviate from the monthly supply plan, Sinofarm Stud Livestock will notify the Sales Department and the Sales Department will communicate with purchasers. Sinofarm Stud Livestock is also responsible for the accuracy of the monthly supply plan. The responsible officer of the Group shall review all the quotations, determine and the pricing of the raw fresh milk and the Sales Department will then communicate with purchasers regarding the final unit price.

We understand from the Management that there are two different pricing mechanisms for sales of its raw fresh milk based on the sales volume. For the raw fresh milk supplied to independent third parties, the volume is relatively lower than that supplied to the Yili Group and the raw fresh milk supplied to some independent third parties is subject to a fixed unit price which is negotiated with reference to the cost of production, purchase prices of raw fresh milk adopted by the major market leaders in the dairy processing industry and the price of raw fresh milk sold to other companies in the nearby region. The transportation cost will also be considered. As advised by the Management, the unit price will be subject to annual review by the Management and re-negotiated between the Group and the independent third parties during the fourth quarter of the year if the market price materially deviates from the agreed unit price. There is a number of Quality Indicators to ensure the quality of the raw fresh milk supplied. The Group may not supply and the independent third parties may not accept the raw fresh milk if it does not meet the standards set by the government and certain Quality Indicators.

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The volume of raw fresh milk supplied to the Yili Group and some other independent third parties is relatively higher than that supplied to the aforementioned independent third parties and the unit price is not fixed. Instead, the unit price consists of the base part and the adjustment part and is determined on an annual basis. The base part is quoted by the Yili Group based on market conditions and seasonal factors and the price of products with similar grades from dairy farms in the nearby region. The adjustment part is calculated based on each of the Quality Indicators. If the quality of the raw fresh milk supplied exceeds a Quality Indicator, there will be an increment applied to the unit price. If the quality of the raw fresh milk supplied is below a Quality Indicator, there will be a reduction applied to the unit price. There will be negotiation between the Group and the Yili Group on arm's length basis to reach a final sales price. Similar to the raw fresh milk supplied to independent third parties, the Group may not supply and the Yili Group may not accept the raw fresh milk if it does not meet the standards set by the government and certain Quality Indicators.

We have obtained and reviewed the internal guideline of the sale of raw fresh milk (the "**Sale of Milk Guideline**") and noted the relevant internal control procedures as set in the Letter from the Board. We further noted from the Sale of Milk Guideline that the acceptable deviation between the production capacity and the annual and monthly supply plan is 10% and 5%, respectively.

Based on our discussions with the Management, we understand that the responsible officer of the Group (who is independent to the purchasers) will review all the quotations, determine the pricing of the raw fresh milk and the Sales Department will then communicate with purchasers regarding the final unit price. As mentioned above, we have obtained and reviewed the Yili Milk Sample Contracts and the I3P Milk Sample Contracts. We have further randomly obtained and reviewed: (i) eight approval records of entering into raw fresh milk supply contracts with both the Yili Group and independent third parties; (ii) more than 10 approval records of monthly supply plans during the Review Period, and do not note inconsistency with the aforementioned understanding obtained from the discussion with the Management.

Based on the above, we are of the view that there are adequate internal control procedures to ensure the transactions contemplated under the Raw Fresh Milk Supply Framework Agreement to be conducted on normal commercial terms.

(c) *The Supply Annual Caps*

Historical transaction amounts

The transaction amount for the sale of raw fresh milk by the Group to the Yili Group for FY2017, FY2018, FY2019, and HY2020 were approximately RMB439.6 million, RMB668.8 million, RMB1,363.1 million and RMB677.0 million, respectively. The

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percentage of revenue generated from sale to the Yili Group to the total revenue of the Group for each of the financial years/period since the Company's listing in 2015 and the six months ended 30 June 2020 were approximately 42.9%, 33.2%, 38.8%, 46.9%, 90.9% and 77.5%, respectively.

As stated in the Letter from the Board, the Group's current third party customers (other than the Yili Group) for raw fresh milk as of the end of June 2020 are Customer A, being one of the leading dairy products manufacturers in the PRC, Customer B, being one of the leading dairy products manufacturers in the PRC, and others, representing approximately 15.6%, 3.9% and 3.0% of the sale of raw fresh milk of the Group, respectively. The Company would continue to offer raw fresh milk to the said leading independent third party dairy enterprises in the PRC.

For the avoidance of doubt, the historical transaction amount for HY2020 of RMB677.0 million is not included under FY2020 of RMB573.0 million.

Proposed annual caps

The proposed annual caps for the sale of raw fresh milk by the Group to the Yili Group (the "Supply Annual Caps") under the Raw Fresh Milk Supply Framework for FY2020, FY2021 and FY2022 (collectively, the "Cap Period") are set out below:

	From the date of approval of the EGM to the year ending 31 December 2020 (RMB)	FY2021 (RMB)	FY2022 (RMB)
Maximum aggregate transaction amount for the year	573,000,000 ^(Note)	2,140,000,000	2,440,000,000

Note: For the avoidance of doubt, the historical transaction amount for the six months ended 30 June 2020 of RMB677.0 million is not included under the year ending 31 December 2020 of RMB573.0 million.

The estimated revenue to be generated from sale of raw fresh milk to the Yili Group is approximately RMB1,512 million, RMB2,140.0 million and RMB2,440.0 million for FY2020, FY2021 and FY2022, respectively. For the eight months from January to August 2020, approximately 79.2% of total revenue was generated from the sale of raw fresh milk to the Yili Group. It is estimated that up to approximately 85%, 90%, and 90% of the raw fresh milk to be produced by the Group would be sold to the Yili Group for the next four months of 2020, FY2021, and FY2022, respectively.

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As stated in the Letter from the Board, the Supply Annual Caps were determined with reference to a number of factors, particularly:

- (i) the expected increase in sales volume of raw fresh milk to the Yili Group and the expected total value of the raw fresh milk to be produced by the Group for each of FY2020, FY2021 and FY2022;
- (ii) the potential increase in the price of dairy products in the PRC;
- (iii) the historical and prevailing purchase price for raw fresh milk paid by the Yili Group;
- (iv) the historical transaction amounts and percentage of raw fresh milk sold by the Group to the Yili Group over the total revenue from the sale of raw fresh milk of the Group for FY2017, FY2018, FY2019 and HY2020, respectively, representing approximately 42.6%, 50.1%, 91.0% and 79.7% of the total revenue from the sale of raw fresh milk of the Group for the corresponding year or period respectively as stated above; and
- (v) the future market trends forecasted by the Company; considering the rising portion of the sale of raw fresh milk to the Yili Group due to the increased co-operation between the Group and the Yili Group.

The expected total value of the raw fresh milk to be produced by the Group for FY2020 would be approximately RMB1,859 million, of which approximately RMB674 million expects to stand for the value to be generated for the period from September 2020 to December 2020. The total value of the raw fresh milk to be produced would be approximately RMB2,372 million and RMB2,709 million, respectively for each of FY2021 and FY2022.

The basis and assumptions are as follows:

- (i) the expected increase in the supply of the anticipated volume of raw fresh milk. Such increase is mainly influenced by, among others, (a) the total number of cows is expected to increase; (b) the number of milkable cows for the production of raw fresh milk is expected to increase; (c) the annual production of raw fresh milk by each milkable cow will have a mild year-on-year growth; (d) a new farm of the Group in Shandong Province is undergoing construction and is expected to complete and start operation by the end of 2020; (e) a new farm of the Group in Inner Mongolia is undergoing construction and is expected to complete by the end of 2021 and will be in operation in the beginning of 2022; and (f) the Group has planned to significantly increase the number of cows for one of its under-utilised existing farm in Hebei Province by importing cows from Australia; and

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- (ii) the potential increase in the price of dairy products in the PRC which was indicated by the fact that the average selling price of the raw fresh milk of the Group having increased gradually since 2017 and the aforesaid trend in rising average selling price is anticipated to continue for each of FY2020, FY2021 and FY2022.

To assess the estimated annual production of raw milk of the Group during the Cap Period, we have obtained and reviewed the raw milk production forecast for the Cap Period (the “**Milk Production Forecast**”) prepared by the Management which has taken into consideration of the estimated: (i) number of total cows; (ii) number of milkable cows; (iii) annual milk yield per milkable cow; (iv) portion of milk not for sale but reserved for feeding baby cows; (v) the number of cows of each farm of the Group; and (vi) the expansion plans of farms of the Group. We have then reviewed the following factors to assess the fairness and reasonableness of the Supply Annual Caps:

- (i) The expected number of milkable cows and the production of raw fresh milk of the Group

As noted from the Milk Production Forecast, the Group anticipated that: (i) the total number of cows will be approximately 70,000 heads as at 31 December 2020 and is expected to increase to approximately 84,000 heads as at 31 December 2021, representing an increase of 20.0% and is expected to further to approximately 95,000 heads as at 31 December 2022, representing a year-on-year (“**YoY**”) growth of approximately 13.1%; and (ii) the number of milkable cows for the production of raw fresh milk will be approximately 38,000 heads as at 31 December 2020 and is expected to increase to approximately 44,000 heads as at 31 December 2021, representing an increase of approximately 15.8% and is expected to further increase to approximately 49,000 heads as at 31 December 2022, representing a YoY growth of approximately 11.4%.

To assess the estimated portion of milkable cows among the total number of cows adopted in the Milk Production Forecast, we noted from the 2019 Annual Report that there were 65,429 heads of cows in total as at 31 December 2019 and there were 37,880 milkable cows which represented approximately 57.9% of the total number of cows (the “**Historical Milkable Cow Portion**”). For FY2020, FY2021 and FY2022, the estimated number of milkable cows are 38,000 heads, 44,000 heads and 49,000 heads respectively which represent approximately 54.3%, 52.4% and 51.6% of the total number of cows, respectively, the percentages are all align with the Historical Milkable Cow Portion.

To assess the total number of cows, we noted from the estimated number of cows for each farm of the Group in each year of the Cap Period that an annual organic growth of approximately 15% or below in the number of cows are adopted for most of the farms except three farms located in Shandong Province, Inner Mongolia, and Hebei Province. After our enquiry, we understand that: (i) a new farm

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of the Group in Yinan County, Shandong Province is undergoing construction and is expected to complete and start operation by the end of 2020; (ii) a new farm of the Group in Ulanqab City, Inner Mongolia is undergoing construction and is expected to complete by the end of 2021 and will be in operation in the beginning of 2022; and (iii) the Group has planned to significantly increase the number of cows for one of its under-utilised existing farm in Hebei Province by importing cows from Australia. We have obtained and reviewed the estimation of the number of milkable cows expected to be farmed in the aforementioned farm in Shandong Province which has taken into account the reproduction of milkable cows and the acquisition of milkable cows from other parties during the Cap Period and the expansion of farm to satisfy the anticipated rising demand for raw fresh milk which we consider reasonable.

Furthermore, for the purpose of determining the Supply Annual Caps, it is estimated that the annual milk yield per milkable cow for FY2020 will have a YoY growth of approximately 6.5% from the level in 2019 and the YoY growth of the milk yield per milkable cow is approximately 2.6% for each of FY2021 and FY2022. To assess the estimated YoY growth of the milk yield per milkable cow during the Cap Period, we have obtained the milk yield per milkable cow for FY2018 and noted that the YoY growth for FY2019 was approximately 4.9% when compared with that in FY2018 which is comparable to the aforementioned estimated YoY growth of approximately 6.5% and 2.6% during the Cap Period. Further, based on our discussion with the Management, we understood that there has been a portion of milkable cows with relatively low production capacity in the dairy herd of the Group in each year and these milkable cows were phased out in each year. At the same time, the Group will acquire new cows and reproduce cows on a continuing basis to maintain a stable production level of the milkable cows in the Cap Period.

Multiplying the expected number of milkable cows by the expected annual milk yield per milkable cow as discussed above, the Management has arrived at the expected production of raw fresh milk of the Group for FY2020, FY2021 and FY2022 which is sufficient to supply the anticipated volume of raw fresh milk to the Yili Group.

(ii) The rising trend in average unit selling price of raw fresh milk

In the 2019 Annual Report and the 2018 Annual Report, we noted that the average unit selling price of the raw fresh milk of the Group increased gradually from approximately RMB3,711 per tonne in 2017 to approximately RMB3,772 per tonne in 2018 and further increased to approximately RMB4,010 per tonne in 2019. From Yili Milk Sample Contracts signed in 2019 for supplying milk by the Group to the Yili Group in 2020, we noted that all the unit selling prices were RMB4,300 or above, representing an increase of approximately 7.2% to that of 2019. Based on our discussion with the Management, the aforesaid trend in rising average unit selling price is anticipated to continue during the Cap Period. As advised by the

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Management, the average unit selling price is anticipated at RMB4,600 for the four months period ending 31 December 2020, representing an increase of approximately 7.0% which is in line with the aforementioned increase in average unit selling price for contracts signed in 2019. The average unit selling price for FY2021 and FY2022 is anticipated to slightly increase to RMB4,700.

We have obtained and reviewed three invoices issued by the Group to the Yili Group in August 2020 in relation to the supply of raw fresh milk (the “**Yili Sample Milk Invoices**”) and we noted that the unit prices in the Yili Sample Invoices ranged from approximately RMB4,592 to RMB4,882. As such, the average unit selling prices during the Cap Period are in line with the current level as noted from the Yili Sample Milk Invoices. Further, we noted from the industry report issued by Nomura Orient International Securities Co., Ltd., a corporation licensed for providing securities investment consultation services under China Securities Regulatory Commission, on 10 April 2020 for the dairy industry in the PRC, although the average selling price of raw fresh milk slightly dropped in the first quarter of 2020 due to COVID-19, it is anticipated to increase in the remaining months of 2020 and 2021 which is in line with the expectation of the Management.

(iii) The historical transaction amounts and percentage of raw fresh milk sold by the Group to the Yili Group

As set out in the Letter from the Board, the raw fresh milk sold by the Group to the Yili Group for FY2017, FY2018, FY2019 and HY2020 amounted to approximately RMB439.6 million, RMB668.8 million, RMB1,363.1 million and RMB677.0 million respectively, representing approximately 42.6%, 50.1%, 91.0% and 79.7% of the total revenue from the sale of raw fresh milk of the Group for the corresponding year or period respectively.

Based on our discussion with the Management, the rising portion of the sale of raw fresh milk to the Yili Group was mainly due to the increased cooperation between the Group and the Yili Group, in particular after Yili Industrial became a substantial shareholder of the Company upon the completion of the subscription for new shares of the Company as announced by the Company on 12 August 2020. Accordingly, it was anticipated that the rising trend would continue in the Cap Period.

(iv) The expected increase in sales of raw fresh milk to the Yili Group

In determining the Supply Annual Caps, the Management estimated that up to approximately 85%, 90% and 90% of the expected total value of the raw fresh milk to be produced by the Group would be sold to the Yili Group for each of FY2020, FY2021 and FY2022 respectively, which would be equivalent to approximately RMB573.0 million, RMB2,140.0 million and RMB2,440.0 million for FY2020, FY2021 and FY2022 respectively and it is likely for the remaining portion of the

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total value of the raw fresh milk to be produced by the Group (i.e. 15%, 10% and 10% for each of FY2020, FY2021 and FY2022 respectively) will continue to offer to independent third party dairy enterprises in the PRC who are existing customers of the Group such as Customer A and Customer B. As stated in the Letter from the Board, the concentration of China's dairy industry is relatively high. The Yili Group is the largest dairy product manufacturer in China which accounted for approximately one-quarter of the market share of all dairy products in the Chinese market in 2019. The sheer size of the Yili Group indicates its ability to absorb the raw fresh milk produced by the Group in large quantities.

It is noted that the Group supplied raw fresh milk to the Yili Group amounted to approximately RMB1,363.1 million for FY2019. The Supply Annual Caps for FY2020 of RMB573 million is for the period from obtaining approval from the independent Shareholders at the EGM to December 2020 which is approximately four months. From the Yili Milk Sample Contracts, it is noted that the amount of supplying raw fresh milk to the Yili Group from September to December 2020 amounting to approximately RMB452.2 million, representing approximately 78.9% of the Supply Annual Caps of FY2020. As such, the Supply Annual Caps for FY2020 is reasonable. The annualised amount of the Supply Annual Caps of FY2020 is approximately RMB1,719 million. The Supply Annual Caps of FY2021 of RMB2,140 million represents a moderate increase of approximately 24.5% to that of FY2020. Considering the aforementioned expansion plan of farms and a buffer, the increment is considered reasonable. The Supply Annual Caps of FY2022 of RMB2,440 million represents a mild increase of approximately 14.0% to that of FY2021. In view of the organic growth of the operation of the Group and a buffer, the increment is considered reasonable.

Having considered that (a) the expected number of milkable cows and the production of raw fresh milk of the Group is reasonable by making reference to historical information as discussed in paragraph (i) above; (b) the unit selling prices adopted in estimating the Supply Annual Caps are in line with the current level as noted from the Yili Sample Milk Invoices as discussed in paragraph (ii) above; (c) the increasing portion of sales of raw fresh milk sold to the Yili Group by the Group in recent years up to approximately 91.0% and 79.7% for FY2019 and HY2020 respectively as discussed in paragraph (iii) above; (d) the high concentration of China's dairy industry; (e) the Supply Annual Caps for each of FY2020, FY2021 and FY2022 represent a reasonable growth to the year before as discussed in paragraph (iii) above; (f) the estimated demand for raw fresh milk by the Yili Group, as indicated by the Yili Group's commitment to purchase raw fresh milk produced by the Group up to the amounts as represented by the Supply Annual Caps as stipulated in the Raw Fresh Milk Supply Framework Agreement; and (g) the commitment of the Yili Group to the prospect of the Group by subscribing the shares of the Company to become the substantial shareholder of the Company, we are of the view that it is reasonable to have the aforesaid portion (i.e. approximately 85%, 90% and

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90%) of the expected total value of raw fresh milk to be produced by the Group to be sold to the Yili Group for each of FY2020, FY2021 and FY2020 respectively for the purpose of determining the Supply Annual Caps and the Supply Annual Caps are reasonable.

5. The Materials Procurement Framework Agreement

(a) Principal terms of the Materials Procurement Framework Agreement

Date

4 September 2020 (after trading hours)

Parties

- (1) the Company; and
- (2) Youran Dairy

Term

From the date of its consideration and approval at the EGM by the independent Shareholders to 31 December 2022

Subject matter

The Company agreed to purchase and procure each member of the Group to purchase the materials (including but not limited to feed, veterinary drugs and bath fluid) from members of the Youran Dairy Group pursuant to the terms and conditions of the Materials Procurement Framework Agreement. Youran Dairy Group shall be entitled to provide and procure each member of the Youran Dairy Group to provide the materials to the Group pursuant to the terms and conditions of the Materials Procurement Framework Agreement.

Subject to the terms and conditions of the Materials Procurement Framework Agreement, Youran Dairy (or Youran Dairy procuring each member of the Youran Dairy Group) and the Company (or the Company procuring each member of the Group) shall further enter into specific agreements in respect of the purchase of each type of the materials the specific transaction terms for.

The form and substance of such specific agreements must be acceptable to both parties, and must be in accordance with and in compliance with the principles, terms and conditions of the Materials Procurement Framework Agreement and the relevant laws (including but not limited to the Listing Rules and the laws applicable to each of the parties' places of business).

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The terms and conditions (including but not limited to the price) for the purchase of materials by the Group from the Youran Dairy Group under the Materials Procurement Framework Agreement shall be fair and reasonable, determined on normal commercial terms and negotiated on an arm's length basis. The quality of the materials provided by the Youran Dairy Group shall meet the requirements agreed by both parties and the price payable by the Group shall be fair and reasonable.

Pricing principles

- (i) If tender process is required (the scope of tendering includes: main raw materials, large mechanical equipment, project construction, etc.), the tender price shall prevail. The procedures of the tender would involve: (i) draft tender documents based on the procurement requirement plans of various business departments of the Group; (ii) establish a tendering committee to hold the tendering kick-off meeting upon receiving the bidding documents from suppliers; (iii) the tendering committee selects bids by comprehensively considering factors such as price, product and service quality, and alignment to the Group's requirements, and then submits the bid selection results to the Company for approval; and (iv) after announcing the entity who wins the bid, the relevant business department of the Group will enter into an official agreement with the bid winning entity;
- (ii) If there is no process, reference shall be made to the market price (including comparable local, domestic or international market prices) based on the type and quality of the materials. The business department of the Group and the Youran Dairy Group shall refer the industry market prices through independent third parties such as industry associations, for example, for forage grass that is not subject to tendering, the Company will conduct price inquiry and comparison, and compare prices with reference to authoritative price information platforms in the industry such as www.cofeed.com and other websites; or
- (iii) In the event that none of the above prices is applicable or it is not practicable to apply the above pricing policies, the Group will compare the quotations for similar materials by two other third party suppliers and negotiate with the Youran Dairy Group on an arm's length basis after taking into account the cost, technology, quality and procurement volume of the materials and the historical transaction prices of the relevant materials, and determine the price on an arm's length basis and on terms no less favourable than those purchased by the Group to independent third parties for similar materials.
- (iv) As a result of the foregoing, the Board considers that the pricing methods and procedures for the Materials Procurement Framework Agreement can ensure that the transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. If the parties cannot agree on the detailed terms of the procurement agreements pursuant to the Materials Procurement Framework Agreement, the Group will not enter such

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procurement agreements with the Youran Dairy Group in the future. The Group is able to obtain the quotations for similar materials by at least two independent third party suppliers as there are various suppliers in the market and the Group does not have the intention to procure all materials from the Youran Dairy Group.

We have randomly selected, obtained and reviewed: (i) three sets of materials procurement price quotation records for each of FY2019 and FY2020; (ii) one set of purchase order placed by the Group to each of the Youran Dairy Group (the “**Youran Purchase Order**”) and an independent third party (the “**I3P Purchase Order**”) for procuring the same type of material for each of FY2017, FY2018, FY2019 and HY2020 and noted that the unit price in the Youran Purchase Order was at a level no less favourable to the unit price in the I3P Purchase Order; and (iii) more than 10 historical materials procurement contracts entered into between the Group and each of the Youran Dairy Group (the “**Youran Dairy Procurement Sample Contracts**”) and the independent third parties (the “**I3P Procurement Sample Contracts**”) during the Review Period and noted that there were quality requirements for the materials procured in both the Youran Dairy Procurement Sample Contracts and the I3P Procurement Sample Contracts and the unit prices adopted in the Youran Dairy Procurement Sample Contracts were reviewed and negotiated between the Group and the Youran Dairy Group on a regular basis.

Having considered the above, we concur with the view of the Board that such terms are on normal commercial terms.

The internal control procedures of the Group in relation to procurement and our analysis thereon are set out in the section below headed “*Internal control procedures in relation to procurement*”.

Packaging and transportation

The Youran Dairy Group shall be responsible for providing proper packaging for the materials and transporting the materials to the designated locations of the Group.

Payment method

Payment shall be made pursuant to the specific agreements to be further entered into between the Youran Dairy Group (or members of the Youran Dairy Group) and the Company (or members of the Group) pursuant to the Materials Procurement Framework Agreement.

As mentioned above, the terms and conditions (including but not limited to the price) for the purchase of materials by the Group from the Youran Dairy Group under the Materials Procurement Framework Agreement shall be fair and reasonable, determined on normal commercial terms and negotiated on an arm’s length basis. Further, if the parties cannot agree on the detailed terms of the procurement agreements pursuant to the Materials Procurement Framework Agreement, the Group will not enter such procurement

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agreements with the Youran Dairy Group in the future and either the Group or the Youran Group is entitled to terminate any procurement agreements entered into pursuant to the Materials Procurement Framework Agreement by providing written notice to the other party three months in advance. The Group can then continue to procure materials for its farm operation from independent suppliers.

(b) Internal control procedures in relation to procurement

As set out in the Letter from the Board, the Group has established an internal guideline for procurement to monitor the procurement procedure:

- (i) the responsible officer of each farm will formulate the monthly and annual procurement plans for different types of materials and will then make the procurement application accordingly for approval;
- (ii) the procurement department of the Group (the “**Procurement Department**”) will obtain and compare at least two quotations from independent suppliers and obtain the approvals from the head of Procurement Department and finance department (the “**Finance Department**”) of the Group for executing the procurement and arranging the required funding respectively;
- (iii) the legal department of the Group is responsible for reviewing the terms of the relevant legal documents and procurement contracts.

We have obtained and reviewed the internal guideline for procurement (the “**Procurement Guideline**”) and noted the relevant internal control procedures as set in the Letter from the Board.

To assess the effectiveness of the internal control procedures, we have randomly selected, obtained and reviewed:

- (i) six sets of procurement application and approval records during the Review Period; and
- (ii) three procurement quotations for each of FY2019 and HY2020.

From the procurement application and approval records, it is noted the following application and approval procedures were in place:

- (i) the Feeding Management Department in each farm filed the application and obtained the approval from the responsible officer of the corresponding farm for approving the types and quantities of materials required;
- (ii) the Procurement Department then filed application and obtained the approval from the Head of Procurement Department for approving the procurement contract;

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- (iii) the Procurement Department then filed application and obtained the approval from the General Manager of Procurement Department for approving to place procurement orders for the approved materials; and
- (iv) the Procurement Department finally filed application and obtained the approval from chief financial officer for approving the payments for the procurement orders.

From the procurement quotations, it is noted that three quotations for one type of material were obtained for each of FY2019 and HY2020.

Based on the above, we do note inconsistency with the internal control procedures as set in the Procurement Guideline. As such, we are of the view that there are adequate internal control procedures to ensure the transactions contemplated under the Materials Procurement Framework Agreement to be conducted on normal commercial terms.

(c) *The Procurement Annual Caps*

Historical transaction amounts

The transaction amount of materials purchased by the Group from the Youran Dairy Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were approximately RMB77.9 million, RMB134.7 million, RMB218.1 million and RMB93.2 million, respectively.

Proposed annual caps

The proposed annual caps for materials procurement by the Group from the Youran Dairy Group (the “**Procurement Annual Caps**”) under the Materials Procurement Framework Agreement for FY2020, FY2021 and FY2022 are set out below:

	From the date of approval of the EGM to the year ending 31 December 2020 (RMB)	FY2021 (RMB)	FY2022 (RMB)
Maximum aggregate transaction amount for the year	100,000,000	300,000,000	350,000,000

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As set out in the Letter from the Board, the Procurement Annual Caps were determined with reference to: (i) the respective historical transaction amount of materials purchased by the Group from the Youran Dairy Group during the Relevant Period; and (ii) the forecast of the future market trends.

In assessing the fairness and reasonableness of the Procurement Annual Caps, we have obtained and reviewed:

- (i) the historical procurement records with the procurement details such as the type of materials procured, the quantity, unit price and total procured amount of each type of materials procured between the Group and the Youran Dairy Group from FY2016 to HY2020 (the “**Youran Dairy Procurement Record**”);
- (ii) the procurement amount analysis detailing the portion of the aggregate amount of different types of materials procured by the Group from the Youran Dairy Group over the total procurement amount of the Group from FY2016 to HY2020 (the “**Youran Dairy Procurement Analysis**”); and
- (iii) the estimation of the Procurement Annual Caps with details of number of cows, quantity of monthly consumption of materials, portion of total quantity of materials required to be procured from the Youran Dairy Group and the unit procurement price (the “**Procurement Caps Estimation**”).

We have then reviewed the following factors to assess the fairness and reasonableness of the Procurement Annual Caps:

- (i) The estimated number of cows

From the Procurement Caps Estimation, we noted that the number of cows adopted in the calculation is consistent with the number of cows adopted in the Milk Production Forecast.

- (ii) The portion of materials to be procured from the Youran Dairy Group

It is noted from the Procurement Caps Estimation that the aggregate procurement amount of four types of materials account for most of the Procurement Annual Caps which is consistent with our observation from the Youran Dairy Procurement Record. We further noted from the Procurement Caps Estimation that: (a) 30% to 60% of the estimated monthly consumption of three types of materials are planned to procure from the Youran Dairy Group during the Cap Period; and (b) 70% to 80% of the estimated monthly consumption of the remaining type of materials is planned to procure from the Youran Dairy Group during the Cap Period (the “**Material A**”).

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We have made further enquiry to the Management in relation to the relatively high procurement reliance on the Youran Dairy Group for the Material A. As advised by the Management, unlike other types of materials, there is an absence of a sizeable supplier which is able to provide sufficient quantity of Material A to the Group. Instead, there are many small suppliers in the market and each of which is only able to provide small quantity of Material A to the Group. It will be relatively costly for the Group to procure sufficient quantity of Material A from many small suppliers. As further advised by the Management that Youran Dairy is one of the dominant market suppliers of Material A which can offer continuous fulfilment of feed and materials (inclusive of Material A) for the Group's farm operation and can ensure the quality standard of Material A is meeting the business needs of the Group. Further, the well-established collaboration between the Group and the Yili Group is deepened, in particular after Yili became the substantial shareholder of the Company. As such, it will be cost efficient and beneficial for the Group to secure a stable supply of materials, in particular Material A, from Youran Dairy.

Furthermore, the Group allocates mainly four major types of materials out of more than 50 types of materials required for its farm operation to be procured from Youran Dairy during the Cap Period. The Procurement Annual Caps of RMB100 million, RMB300 million and RMB350 million for FY2020, FY2021 and FY2022 respectively is expected to account for less than one-third of the total annual procurement amounts of the Group for each year during the Cap Period. As such, the portion of the total annual procurement amounts of the Group allocated to be procured from Youran Dairy is considered reasonable and the Group is not overly reliant on Youran Dairy.

(iii) The unit procurement price

We noted that the unit procurement prices of the materials adopted in the Procurement Caps Estimation for the Cap Period are comparable to those adopted in previous years as noted from the Youran Dairy Procurement Record. Further, we have conducted a high level research in relation to the unit procurement prices adopted in the Procurement Caps Estimation and obtained information from independent information service providers and noted that the unit procurement prices of the materials adopted in the Procurement Caps Estimation are comparable to market prices.

(iv) The historical transaction amounts of procurement paid by the Group

As set out in the Letter from the Board and noted from the Youran Dairy Procurement Analysis, the procurement amount of materials paid by the Group to the Youran Dairy Group for FY2017, FY2018, FY2019 and HY2020 amounted to approximately RMB77.9 million, RMB134.7 million, RMB218.1 million and RMB93.2 million respectively, representing approximately 6.4%, 13.1%, 17.7% and 17.0% of the total procurement amount of materials of the Group for the corresponding year or period respectively.

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Based on our discussion with the Management, the rising trend of the procurement amount of materials from the Youran Dairy Group was mainly due to the well-established collaboration between the Group and the Yili Group, in particular after Yili became the substantial shareholder of the Company upon the completion of the subscription for new shares of the Company as announced by the Company on 12 August 2020. Accordingly, it was anticipated that the rising trend would continue in the Cap Period.

The annualised amount of the Procurement Annual Caps of FY2020 is approximately RMB300 million which represents a moderate increase of approximately 38.2% to the procurement amount paid to the Youran Dairy Group in FY2019. As advised by the Management, more stock of materials is required for FY2020 to prepare for the operation upon the completion of the expansion of farms as mentioned in previous section. The Supply Annual Caps of FY2021 remains at approximately RMB300 million and slightly increase to RMB350 million for FY2022 which represents a slight increase of approximately 16.7%. In view of the aforementioned expansion plan of farms and a buffer, the estimated growth in the Procurement Annual Caps is considered reasonable.

Haven taking into account of the above, we are of the view that Procurement Annual Caps under the Materials Procurement Framework Agreement are determined to be fair and reasonable so far as the independent Shareholders are concerned.

6. The Financial and Factoring Services Framework Agreement

(a) Principal terms of the Financial and Factoring Services Framework Agreement

Date

4 September 2020 (after trading hours)

Parties

- (1) the Company; and
- (2) Yili Industrial

Term

From the date of its consideration and approval at the EGM by the independent Shareholders to 31 December 2022

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Subject matter

The parties have agreed that, pursuant to the terms and conditions of the Financial and Factoring Services Framework Agreement, the members of the Yili Group shall provide financial and factoring services to the members of the Group. When the Group sell goods or provide services to a buyer (as the debtor), the Group can apply for factoring facility services from the Yili Group base on receivables from the transactions with such buyer (as the debtor).

Subject to the compliance of terms and conditions of the Financial and Factoring Services Framework Agreement, each of the Yili Group and the Group shall further sign specific contracts in relation to the specific terms of the provision of financial and factoring services (including but not limited to principal, interest rate, term and guarantee type).

The format and substance of such specific contracts shall be acceptable by both parties, and shall be in accordance with and in compliance with the principles, terms and conditions under the Financial and Factoring Services Framework Agreement and the relevant laws (including but not limited to the Listing Rules and the requirements under the laws applicable to each of the parties' places of business).

The terms and conditions of the provision of financial and factoring services by the Yili Group to the Group under the Financial and Factoring Services Framework Agreement shall be fair and reasonable and determined on normal commercial terms and negotiated on an arm's length basis. The financial and factoring services provided by the Yili Group shall comply with the requirements agreed by both parties, and the price payable by the Company shall also be fair and reasonable.

Pricing principles

To determine the market price, the Group will compare the quotes from at least two independent third party banks or financial institutions in relation to similar financial service and compare them with Loan Prime Rate issued by National Interbank Funding Center. The Group will negotiate with the Yili Group on arm's length basis after considering factors such as the financial requirement from the Group, the financial position of the Group and the settlement schedule and calculate the price on a fair basis, and shall be determined on the terms that is no less favourable than those of similar financial services offered by independent third parties to the Group (including but not limited to principal, interest rate, term and guarantee type).

As a result of the foregoing, the Board considers that the pricing methods and procedures for the Financial and Factoring Services Framework Agreement can ensure that the transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders. If the parties cannot agree on the detailed terms of the financial and factoring services agreements

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pursuant to the Financial and Factoring Services Framework Agreement, the Group will not enter such financial and factoring services agreements with the Yili Group in the future. The Group can then continue to obtain financial and factoring services from independent banks and/or financial institutions same as the Group which previously also entered into a financial factoring contract with an independent third party.

We understand from the Management that the Group entered into one financial factoring contract with an independent third party (the “**I3P Factoring Sample Contract**”) during the Review Period. We have obtained and reviewed the I3P Factoring Sample Contract and the factoring record of the I3P Factoring Sample Contract extracted from the internet banking. We have also randomly selected, obtained and reviewed two financial factoring agreements entered into between the Group and the Yili Group (the “**Yili Factoring Agreements**”) and more than 10 factoring contracts entered into between the Group and the Yili Group pursuant to the Yili Factoring Agreements (the “**Yili Factoring Sample Contracts**”) during the Review Period.

We noted from the Yili Factoring Sample Contracts and understood from the discussion with the Management that: (i) the Group is able to obtain factoring financing from the Yili Group with the amount higher than the carrying amount of the accounts receivables transferred to the Yili Group which implies a factoring ratio of higher than 100%; and (ii) the only cost to the Group of obtaining factoring financing is interests. From the I3P Factoring Sample Contract and the factoring record, we noted that the factoring ratio for the I3P Factoring Sample Contract is 100% and interest rate and service fee were charged. We have also conducted a research, based on best effort basis, of listed companies which conducted transactions that related to factoring services (the “**Comparable Factoring Transactions**”) during a six months period immediately before the last trading day for the Shares prior to 4 September 2020, being the date of the announcement of the Company in relation to the entering into of the Framework Agreements. We noted that a factoring ratio of less than or equal to 100% was adopted in the Comparable Factoring Transactions. Further, we also noted that, apart from interests, service fee and/or administration fee was applied in the Comparable Factoring Transaction.

Having considered the above of the factoring ratio and the cost of obtaining factoring financing, we concur with the view of the Directors that the terms under the Financial and Factoring Services Framework Agreement are no less favorable than those of similar financial services offered by independent third parties to the Group.

The internal control procedures of the Group in determining the market price and our analysis thereon are set out in the section below headed “*Internal control procedures in relation to obtaining financial and factoring services*”.

LETTER FROM OPUS CAPITAL

Payment method

Payment shall be made pursuant to the specific agreements to be further entered into between Yili Industrial (or members of the Yili Group) and the Company (or members of the Group) under the Financial and Factoring Services Framework Agreement.

As mentioned above, the terms and conditions of the provision of financial and factoring services by the Yili Group to the Group under the Financial and Factoring Services Framework Agreement shall be fair and reasonable, determined on normal commercial terms and negotiated on an arm's length basis. Further, If the parties cannot agree on the detailed terms of the financial and factoring services agreements pursuant to the Financial and Factoring Services Framework Agreement, the Group will not enter such financial and factoring services agreements with the Yili Group in the future and either the Group or the Yili Group is entitled to terminate any financial and factoring services agreements entered into pursuant to the Financial and Factoring Services Framework Agreement by providing written notice to the other party three months in advance. The Group can then continue to obtain financial and factoring services from independent banks and/or financial institutions as the Group also entered into a financial factoring contract with an independent third party during the Review Period as mentioned above.

(b) Internal control procedures in relation to obtaining financial and factoring services

As set out in the Letter from the Board, the Group has established an internal guideline for obtaining financing. The Investment Management Department of the Group is responsible for the overall management of equity financing, the Finance Department of the Group is responsible for the overall management of debt financing which include the formulation of the annual expenditure budget to facilitate the financing planning for the Group which will then be reviewed and approved by the chief financial officer and the general manager of Finance Department. After the Finance Department has communicated with potential financial services providers regarding the financing intention, formulated the financing plan, the legal department of the Group is responsible for reviewing and approving the terms of the relevant legal documents and contracts. The administration department of the Group is responsible for any required registration arrangements. After obtaining the financial services, the Finance Department is responsible for recording, monitoring and approving the principal repayment and interest payment on a continuing basis. The Finance Department is also responsible for conducting risk assessment for debt financing which include: (i) the cost of debt; (ii) the level of debt for the Group in terms of an optimal debt ratio; (iii) term of outstanding debt; (iv) the debt repayment ability of the Group; and (v) the latest development of the relevant government policies. The Finance Department will then report the risk assessment to the management of the Group.

To assess the effectiveness of the internal control procedures, we have obtained and reviewed the Group's internal guideline for obtaining financial assistance (the "**Financing Guideline**") and noted the relevant internal control procedures as set in the Letter from the Board.

LETTER FROM OPUS CAPITAL

We have also obtained and reviewed the annual expenditure budget for the Group formulated by the Finance Department for each of FY2019 and FY2020. It is noted that the approvals from different seniority of management were obtained which included the general manager of Finance Department, the chief financial officer and up to the executive Director, chairman and chief executive officer of the Company. We have also obtained and reviewed more than 10 sets of the approval records of obtaining financing during the Review Period selected on a random basis and it is noted that the approvals from different relevant departments and seniority of management were obtained which included the finance manager, the general manager of Finance Department, the chief financial officer, the legal manager and up to the executive Director, chairman and chief executive officer of the Company. We have also made enquiry with the Management and understand that the responsible officers of the Finance Department made verbal enquiries to obtain at least two quotes from other third party banks or financial institutions in relation to similar financial assistance service.

Based on the above, we do not note inconsistency with the procedures as set out in the Financing Guideline. As such, we are of the view that there are adequate internal control procedures to ensure the transactions contemplated under the Financial and Factoring Services Framework Agreement to be conducted on normal commercial terms.

(c) The Maximum Daily Balance of Financial and Factoring Services

Historical transaction amounts

The maximum daily balance from the financial and factoring services provided to the Group by the Yili Group for FY2017, FY2018, FY2019 and HY2020 amounted to RMB0, approximately RMB502.0 million, RMB533.3 million and RMB516.3 million, respectively.

Proposed annual caps

The proposed maximum daily balance for the provision of financial and factoring services to the Group by the Yili Group (the “**Financial and Factoring Maximum Daily Balance**”) under the Financial and Factoring Services Framework Agreement for FY2020, FY2021 and FY2022 are set out below:

	From the date of approval of the EGM to the year ending 31 December 2020 (RMB)	FY2021 (RMB)	FY2022 (RMB)
Maximum daily balance ^(Note)	800,000,000	800,000,000	800,000,000

Note: For the avoidance of doubt, the maximum daily balance include interest.

LETTER FROM OPUS CAPITAL

As set out in the Letter from the Board, the Financial and Factoring Services Maximum Daily Balance were determined with reference to: (i) the respective historical transaction amount of financial and factoring services provided to the Group by the Yili Group for FY2017, FY2018, FY2019 and HY2020; and (ii) the financing demand of the Group. It is noted that although the Financial and Factoring Services Maximum Daily Balance for FY2020 increased by approximately RMB266.7 million or 50% when compared with the historical transaction amount of financial and factoring services provided to the Group by the Yili Group for FY2019, the Financial and Factoring Services Maximum Daily Balance remains unchanged throughout the remaining Cap Period.

In assessing the fairness and reasonableness of the Financial and Factoring Services Maximum Daily Balance, we have taken into account the following factors:

- (i) the revenue of the Group from selling raw fresh milk increased significantly from approximately RMB301.9 million for FY2014 to approximately RMB1,498.7 million for FY2019, representing an approximately fourfold increase and a compound annual growth rate (“CAGR”) of approximately 37.8%. When the business scale of the Group continues to expand, the financing need of the Group will grow as well. Considering the business growth of the Group at a historical CAGR of approximately 37.8% and a buffer, an approximately 50% increase in the Financial and Factoring Services Maximum Daily Balance during the Cap Period compared with the historical transaction amount of financial and factoring services provided to the Group by the Yili Group for FY2019 is reasonable;
- (ii) the Yili Group has a strong capital base and financing ability and the financial and factoring services to be provided by the Yili Group to the Group shall reduce the overall financial risk exposed to the Group as stated in the Letter from the Board;
- (iii) the financial and factoring services to be provided by the Yili Group provides flexibility to the Group as the Group is able to obtain factoring financing from the Yili Group with a factoring ratio of higher than 100% as discussed in previous section; and
- (iv) the Yili Group, being the substantial shareholder of the Group, is familiar with the operation and business of the Group compared with other independent commercial banks and financial institutes, it will be more time-efficient to obtain financial and factoring services from the Yili Group for risk assessment procedures.

LETTER FROM OPUS CAPITAL

Haven taking into account of the above, we are of the view that Financial and Factoring Maximum Daily Balance under the Financial Services Framework Agreement are determined to be fair and reasonable so far as the independent Shareholders are concerned.

OPINION AND RECOMMENDATION

In view of the above principal factors and reasons, we considered that:

- (i) the entering into of the Framework Agreements and the transactions contemplated thereunder is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and
- (ii) the Framework Agreements and the transactions contemplated thereunder (including the Annual Caps) are on normal commercial terms and fair and reasonable so far as the independent Shareholders are concerned.

We, therefore, recommend the Independent Board Committee to recommend, and we ourselves recommend, the independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM in relation to the Framework Agreements and the transactions contemplated thereunder (including the Annual Caps).

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.

I. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

II. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code were as follows:

Name of Directors	Nature of Interest	Total Number of Shares	Approximate Percentage of Shareholding in Issued Share Capital of the Company as at the Latest Practicable Date
Mr. Zhang Jianshe ^{(1), (3)}	Interest of controlled corporation/Interest of concert parties	769,338,000(L)	29.51%
Mr. Zhang Kaizhan ^{(1), (3)}	Interest of controlled corporation/Interest of concert parties	769,338,000(L)	29.51%

Notes:

- (1) As at the Latest Practicable Date, Mr. Zhang Jianshe was the sole shareholder of YeGu Investment Company Limited (“**YeGu Investment**”) which directly held 392,088,000 Shares and indirectly held, through its shareholding in Green Farmlands Group (“**Green Farmlands**”), 315,790,000 Shares. Accordingly, under the SFO, Mr. Zhang Jianshe was deemed to be interested in the 707,878,000 Shares held directly and indirectly by YeGu Investment. In addition, as at the Latest Practicable Date, Mr. Zhang Kaizhan, through his holding company (SiYuan Investment Company Limited), indirectly held 61,460,000 Shares.

Mr. Zhang Jianshe and Mr. Zhang Kaizhan are substantial shareholders (as defined in the Listing Rules) of the Company and parties acting in concert under the SFO. Therefore, Mr. Zhang Jianshe and Mr. Zhang Kaizhan jointly held 769,338,000 Shares through their respective holding companies. As such, Mr. Zhang Jianshe and Mr. Zhang Kaizhan were each deemed to be interested in approximately 29.51% of the issued share capital of the Company under the SFO as at the Latest Practicable Date.

- (2) (L) – long position.

- (3) On 27 September 2020, Wholesome Harvest Limited (“**Wholesome**”), Hongkong Jingang Trade Holding Co., Limited (“**Jingang Trade**”), which is wholly and beneficially owned by Yili Industrial and Zhang Group (collectively, Mr. Zhang Jianshe, YeGu Investment and Green Farmlands) entered into a share subscription agreement (the “**Share Subscription Agreement**”), pursuant to which, amongst other things, Jingang Trade has conditionally agreed to transfer 432,641,522 Shares legally and beneficially held by it to Wholesome, and Zhang Group has conditionally agreed to transfer (i) 392,088,000 Shares directly owned by YeGu Investment and (ii) 315,790,000 Shares directly owned by Green Farmlands, to Wholesome. Upon completion of the Share Subscription Agreement, Wholesome will hold 1,140,519,522 Shares, representing approximately 43.75% of voting rights of the Company calculated based on the issued share capital of the Company as at the Latest Practicable Date. Jingang Trade and YeGu Investment will respectively hold 1,898,841,522 and 707,878,000 shares of Wholesome, representing approximately 72.84% and 27.16% of the total issued share capital of Wholesome, respectively.

For details, please refer to the announcement of the Company made on 27 September 2020.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept under section 352 of the SFO, or required to be notified to the Company and the Stock Exchange in accordance with the Model Code.

III. SUBSTANTIAL SHAREHOLDERS’ INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company and as required by Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company or as recorded in the register required to be kept under Section 336 of the SFO, the interests or short positions of persons other than the Directors and chief executive of the Company in the Shares and underlying Shares of the Company were as follows:

Name of Substantial Shareholders	Nature of Interest	Total Number of Shares	Approximate Percentage of Shareholding in Issued Share Capital of the Company as at the Latest Practicable Date
Li Jingtao ^{(1), (10)}	Interest of spouse	769,338,000(L)	29.51%
YeGu Investment ⁽¹⁰⁾	Beneficial owner/Interest of concert parties	769,338,000(L)	29.51%
Zhang Fanghong ^{(2), (10)}	Interest of spouse	769,338,000(L)	29.51%
SiYuan Investment Company Limited ⁽¹⁰⁾	Beneficial owner/Interest of concert parties	769,338,000(L)	29.51%
Green Farmlands ⁽¹⁰⁾	Beneficial owner/Interest of concert parties	769,338,000(L)	29.51%
Yili Industrial ^{(3), (10)}	Interest of controlled corporation	1,140,519,522(L)	43.75%
New Energy Investment GP Ltd ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	12.11%
New Energy Investment Limited Partnership ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	12.11%

Name of Substantial Shareholders	Nature of Interest	Total Number of Shares	Approximate Percentage of Shareholding in Issued Share Capital of the Company as at the Latest Practicable Date
VTD705HL Hong Kong Ltd. ⁽⁴⁾	Interest of controlled corporation	315,790,000(L)	12.11%
PACIFIC EMINENT LIMITED ⁽⁴⁾	Beneficial owner	315,790,000(L)	12.11%
Agriculture Investment Company Limited (“ Agriculture Investment ”) ⁽⁵⁾	Beneficial owner	172,500,000(L)	6.62%
Shanghai Jingmu Investment Center (limited partnership) (“ Shanghai Jingmu ”) ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	10.66%
Goldstone Agri-Investment Funds Management Center (Limited Partnership) ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	10.66%
Beijing Agriculture Investment Fund (Limited Partnership) (“ Agriculture Investment Fund ”) ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	10.66%
Beinong Xingbang Investment Consulting Co., Ltd. (formerly know as Beijing Jianye Fengde Investment Consulting Co., Ltd.) ⁽⁵⁾	Interest of controlled corporation	277,760,000(L)	10.66%
CITIC Capital Holdings Limited ⁽⁶⁾	Interest of controlled corporation	174,100,000(L)	6.68%
Jin Jiejing ⁽⁷⁾	Interest of controlled corporation	147,040,000(L)	5.64%
Bao Ying ⁽⁸⁾	Interest of spouse	147,040,000(L)	5.64%
Marvel One Limited ⁽⁷⁾	Interest of controlled corporation	147,040,000(L)	5.64%
Tai Shing Company Limited ⁽⁷⁾	Beneficial owner	147,040,000(L)	5.64%

Notes:

- (1) Ms. Li Jingtao is the spouse of Mr. Zhang Jianshe and is therefore deemed to be interested in Shares in which Mr. Zhang Jianshe is interested under the SFO.
- (2) Ms. Zhang Fanghong is the spouse of Mr. Zhang Kaizhan and is therefore deemed to be interested in the Shares in which Mr. Zhang Kaizhan is interested under the SFO.
- (3) As at the Latest Practicable Date, Wholesome was wholly-owned by Jingang Trade, which was in turn wholly-owned by Yili Industrial. Therefore, Yili Industrial was interested in 1,140,519,522 Shares to be held by Wholesome upon the completion of the share subscription under the Share Subscription Agreement under the SFO.
- (4) PACIFIC EMINENT LIMITED is wholly owned by VTD705HL Hong Kong Ltd. and VTD705HL Hong Kong Ltd. is wholly owned by New Energy Investment Limited Partnership, New Energy Investment Limited Partnership is wholly owned by New Energy Investment GP Ltd. Each of New Energy Investment Limited Partnership and New Energy Investment GP Ltd. is deemed to be interested in the same number of Shares in which PACIFIC EMINENT LIMITED is interested under the SFO.

- (5) Shanghai Jingmu was the sole shareholder of both Agriculture Investment and Jingmu Investment Company Limited and was therefore deemed to be interested in the same number of Shares held by each of them (being 277,760,000 Shares in total). Agriculture Investment Fund was the limited partner of Shanghai Jingmu holding approximately 99.85% of its registered capital, while Goldstone Agri-Investment Funds Management Center (Limited Partnership) was the general partner of Shanghai Jingmu holding approximately 0.15% of its registered capital. Accordingly, each of Agriculture Investment Fund and Goldstone Agri-Investment Funds Management Center (Limited Partnership) was deemed to be interested in the 277,760,000 Shares held by Agriculture Investment and Jingmu Investment Company Limited in aggregate under the SFO. Furthermore, Beinong Xingbang Investment Consulting Co., Ltd., the general partner of Goldstone Agri-Investment Funds Management Center (Limited Partnership), was also deemed to be interested in the 277,760,000 Shares referenced above under the SFO.
- (6) CITIC Capital Holdings Limited held 174,100,000 Shares through a number of wholly-owned subsidiaries.
- (7) Tai Shing Company Limited wholly-owned by Marvel One Limited and Marvel One Limited is wholly-owned by Jin Jiejing. Therefore, Jin Jiejing and Marvel One Limited are interested in the 147,040,000 Shares held by Tai Shing Company Limited under the SFO.
- (8) Bao Ying is the spouse of Jin Jiejing and is therefore deemed to be interested in Shares in which Jin Jiejing is interested under the SFO.
- (9) (L) – long position.
- (10) Pursuant to the Share Subscription Agreement, Jingang Trade has conditionally agreed to transfer 432,641,522 Shares legally and beneficially held by it to Wholesome, and Zhang Group has conditionally agreed to transfer (i) 392,088,000 Shares directly owned by YeGu Investment and (ii) 315,790,000 Shares directly owned by Green Farmlands, to Wholesome. Upon completion of the Share Subscription Agreement, Wholesome will hold 1,140,519,522 Shares, representing approximately 43.75% of voting rights of the Company calculated based on the issued share capital of the Company as at the Latest Practicable Date. Jingang Trade and YeGu Investment will respectively hold 1,898,841,522 and 707,878,000 shares of Wholesome, representing approximately 72.84% and 27.16% of the total issued share capital of Wholesome, respectively.

Pursuant to the Codes on Takeovers and Mergers of Hong Kong, upon the said completion, Wholesome is required to make a mandatory conditional cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by Wholesome). For details, please refer to the announcement of the Company made on 27 September 2020.

Save as disclosed above, as at the Latest Practicable Date, the Directors had not been notified by any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

IV. DIRECTORS' POSITIONS HELD WITH THE SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Directors were in the employment with the companies which had interests or short positions in the Shares or underlying Shares which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of Substantial Shareholder	Position
Mr. Zhang Jianshe	YeGu Investment	Director
	Green Farmlands	Director
Mr. Zhang Kaizhan	SiYuan Investment Company Limited	Director

Name of Director	Name of Substantial Shareholder	Position
Mr. Du Yuchen	Shanghai Jingmu	CEO
	Goldstone Agri-Investment Funds Management Center (Limited Partnership)	CEO
	Agriculture Investment Fund	CEO
	Beijing Agriculture Investment Co. Ltd	Deputy general manager
Mr. Li Jian	CITIC Capital Holdings Limited	Managing director

V. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which will not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

VI. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates was considered by the Company to have interests in businesses which compete with, or might compete with, either directly or indirectly, the businesses of the Group.

VII. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP

SinoFarm Genetics & Seeds (Group) Co., Ltd. ("**SinoFarm Genetics & Seeds**") entered into the property lease agreements with ZhongDi Farm Technology Corporation and ZhongDi Dairy Corporation* (中地乳業集團有限公司), each being a wholly-owned subsidiary of the Group on 21 June 2018 in respect of the leasing of the premises for a term of three years commencing from 22 June 2018 and expiring on 21 June 2021. SinoFarm Genetics & Seeds is beneficially owned by YeGu Agriculture Technology Development Company limited ("**YeGu Agriculture**") as to 51% and Qin Long Da Bio Technology Co., Ltd ("**Qin Long Da**") as to 49% respectively. YeGu Agriculture is wholly owned by Mr. Zhang Jianshe, being an Director as well as a substantial shareholder of the Company. Furthermore, Qin Long Da is owned as to 1% by Ms. Chang Na (常娜), being an independent third party and 99% by Mr. Li Jingbo (李景波), being the brother-in-law of Mr. Zhang Jianshe. Reference is made to the announcement of the Company dated 21 June 2018 for details.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors were aware, none of the Directors nor their respective close associates had any direct or indirect interests in any assets which have been acquired, disposed of or leased to, or which were proposed to be acquired, disposed of or leased to, any member of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

VIII. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS OF THE GROUP

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, which was significant in relation to the business of the Group.

IX. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up.

X. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

XI. EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinion or advice of which is contained in this circular:

Name	Qualifications
Opus Capital	a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the Independent Financial Adviser

As at the Latest Practicable Date, Opus Capital did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Opus Capital did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up.

As at the Latest Practicable Date, Opus Capital had not withdrawn its written consent to the issue of this circular with the inclusion in this circular of its letter and reference to its name and opinion in the form and context in which they appear in this circular.

XII. MISCELLANEOUS

- (a) The registered office of the Company is at PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business of the Company in Hong Kong is situated at 20/F, 238 Des Voeux Road Central, Hong Kong.
- (b) The company secretary of the Company is Ms. Zhang Xin, a member of both the Hong Kong Institute of Certified Public Accountants and the Chinese Institute of Certified Public Accountants.
- (c) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version to the extent of such inconsistency.

XIII. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents will be made available for inspection at the Hong Kong at 20/F, 238 Des Voeux Road Central, Hong Kong during normal business hours for a period of 14 days (excluding Saturdays and public holidays) from the date of this circular:

- (a) the Articles of Association;
- (b) the Framework Agreements;
- (c) the letter from Opus Capital to the Independent Board Committee and the independent Shareholders in respect of the Framework Agreements, and the transactions contemplated thereunder and the proposed annual caps;
- (d) the letter from the Independent Board Committee to the independent Shareholders in respect of the Framework Agreements, and the transactions contemplated thereunder and the proposed annual caps;
- (e) the written consent from Opus Capital referred to in the section headed "XI. Expert and Consent" in this Appendix above; and
- (f) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED

中國中地乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1492)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of China ZhongDi Dairy Holdings Company Limited (the “**Company**”) will be held at the Conference Room, 10th Floor, Block A, Times Fortune Compound, No. A6 Shuguang Xili, Chaoyang District, Beijing, the People’s Republic of China on Wednesday, 4 November 2020 at 10:30 a.m. for the purposes of considering and, if thought fit, passing with or without modifications, the following proposed ordinary resolutions of the Company. Unless otherwise defined, capitalized terms used herein shall have the same meanings as ascribed to them in the circular of the Company dated 15 October 2020.

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the raw fresh milk supply framework agreement (the “**Raw Fresh Milk Supply Framework Agreement**”) dated 4 September 2020 entered into by the Company and Yili Industrial Group Co., Ltd. (“**Yili Industrial**”) in relation to the sale of raw fresh milk by the Company, its subsidiaries and associates (the “**Group**”) to the Yili Industrial, its subsidiaries and associate(s) (“**Yili Group**”) for a term commencing from the date of its consideration and approval at the EGM to 31 December 2022, the transactions contemplated under such agreement and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022 be and are hereby approved, ratified and confirmed; and
- (b) any one of the directors of the Company be and is/are hereby authorised to do all such acts or things and sign all documents necessary by him/her to be incidental to, ancillary to or in connection with the Raw Fresh Milk Supply Framework Agreement, the transactions contemplated under such agreement and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “**THAT**

- (a) the materials procurement framework agreement (the “**Materials Procurement Framework Agreement**”) dated 4 September 2020 entered into by the Company and Inner Mongolia Youran Dairy Co., Ltd. (“**Youran Dairy**”) in relation to the purchase of materials by the Group from Youran Dairy, its subsidiaries and associate(s) for a term commencing from the date of its consideration and approval at the EGM to 31 December 2022, the transactions contemplated under such agreement and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022 be and are hereby approved, ratified and confirmed; and
- (b) any one of the directors of the Company be and is/are hereby authorised to do all such acts or things and sign all documents necessary by him/her to be incidental to, ancillary to or in connection with the Materials Procurement Framework Agreement, the transactions contemplated under such agreement and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022.”

3. “**THAT**

- (a) the financial and factoring services framework agreement (the “**Financial and Factoring Services Framework Agreement**”) dated 4 September 2020 entered into by the Company and Yili Industrial in relation to the provision of financial and factoring services by Yili Group to the Group for a term commencing from the date of its consideration and approval at the EGM to 31 December 2022, the transactions contemplated under such agreement and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022 be and are hereby approved, ratified and confirmed; and
- (b) any one of the directors of the Company be and is/are hereby authorised to do all such acts or things and sign all documents necessary by him/her to be incidental to, ancillary to or in connection with the Financial and Factoring Services Framework Agreement, the transactions contemplated under such agreement and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021, and 2022.”

On behalf of the Board
China ZhongDi Dairy Holdings Company Limited
Zhang Jianshe
Chairman

Hong Kong, 15 October 2020

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. All resolutions at the EGM will be taken by poll (except where the chairman, in good faith, decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy or, if holding two or more shares of the Company, more than one proxy (who must be an individual) to attend and on a poll, vote instead of him. A proxy needs not be a shareholder of the Company. If more than one proxy is appointed, the number of shares of the Company in respect of which each such proxy so appointed must be specified in the relevant form of proxy.

On a show of hands, every shareholder of the Company who is present in person (or, in the case of a corporation, by its duly authorised representative) shall have one vote. In the case of a poll, every shareholder of the Company present in person or by proxy or, in the case of a shareholder of the Company being a corporation, by its duly authorized representative shall be entitled to one vote for each share held by him.

3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the Company’s Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (i.e. not later than 10:30 a.m. on Monday, 2 November 2020). Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 30 October 2020 to Wednesday, 4 November 2020, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 29 October 2020.
5. References to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, the Board comprises Mr. Zhang Jianshe and Mr. Zhang Kaizhan as executive Directors; Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua as non-executive Directors; and Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry as independent non-executive Directors.