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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold or transferred all your shares in China Youran Dairy Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase, or subscribe for any securities of China Youran Dairy Group Limited.

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**優然牧業**  
YOURAN DAIRY

**China Youran Dairy Group Limited**

**中國優然牧業集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 9858)**

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF APPROXIMATELY 27.16% OF  
THE TOTAL ISSUED SHARE CAPITAL OF  
THE TARGET COMPANY;  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**

**RAINBOW.**

RAINBOW CAPITAL (HK) LIMITED  
泓博資本有限公司

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Capitalized terms used in the cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee is set out on pages 19 to 20 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 44 of this circular.

A notice convening the EGM to be held at No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, China on March 23, 2022 at 10:00 a.m. is set out on pages 49 to 50 of this circular.

Whether you are able to attend the EGM or not, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the completed proxy form to the Company's Hong Kong share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, and in any event so that it is received not less than 48 hours before the time appointed for the EGM or any adjourned meeting as the case may be. Completion and return of the proxy form will not preclude you from attending the EGM or any adjournment of such meeting and voting in person should you so wish and in such event, the proxy form will be deemed to be revoked.

**PRECAUTIONARY MEASURES FOR THE EGM**

To protect the attending Shareholders, staff and stakeholders from the risk of infection of the novel coronavirus ("COVID-19"), the Company will implement certain precautionary measures at the EGM. Please refer to the section "Precautionary Measures for the EGM".

March 4, 2022

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## PRECAUTIONARY MEASURES FOR THE EGM

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In view of the ongoing COVID-19 pandemic, the Company will adopt the following precautionary measures at the EGM in order to safeguard the health and safety of the Shareholders, staff and stakeholders who attend the EGM in person:

1. compulsory temperature checks will be carried out on every attendee at the entrance of the EGM venue. Any person with a body temperature above 37.3 degrees Celsius, or is exhibiting flu-like symptoms may be denied entry into the EGM venue and/or requested to leave the EGM venue;
2. every attendee will be required to wear a surgical face mask at the EGM venue and throughout the EGM. **Please note that no surgical face masks will be provided at the EGM venue and attendees should bring and wear their own masks;**
3. every attendee will be required to sit at a distance from the other attendees at the EGM venue and throughout the EGM; and
4. no refreshment or drinks, or corporate gifts or gift coupons will be provided to the attendees at the EGM.

To the extent permitted under the applicable laws, the Company reserves the right to deny any person entry into the EGM venue or require any person to leave the EGM venue so as to ensure the health and safety of the other attendees at the EGM.

Subject to the development of COVID-19, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the websites of the Company ([www.yourandairy.com](http://www.yourandairy.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) for further announcements and updates on the EGM arrangements.

**Voting by proxy in advance of the EGM:** The Company does not in any way wish to diminish the opportunity available to the Shareholders to exercise their rights to vote, but is conscious of the pressing need to protect the Shareholders from possible exposure to COVID-19. For the health and safety of the Shareholders, the Company encourages Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person. Physical attendance is not necessary for the purpose of exercising the voting rights of the Shareholders.

**Appointment of proxy by non-registered Shareholders:** Non-registered Shareholders whose Shares are held through banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited should consult directly with their banks or brokers or custodians (as the case may be) for assistance in the appointment of proxies.

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## DEFINITIONS

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

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorized by law to be closed in Hong Kong and PRC
“Closing”	closing of the purchase and sale of the Transfer Shares
“Closing Date”	the date on which Closing occurs in accordance with the Share Transfer Agreement
“Company”	China Youran Dairy Group Limited (中國優然牧業集團有限公司), an exempted company with limited liability incorporated in the Cayman Islands on August 21, 2020
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“Controller”	Mr. Zhang Jianshe, the sole shareholder of the Seller
“controlling shareholder(s)”	has the meanings ascribed to it under the Listing Rules
“Daily Rate”	Secured Overnight Financing Rate or if Secured Overnight Financing Rate is not available, Secured Overnight Financing Rate Central Bank Rate
“Director(s)”	the director(s) of the Company
“EBITDA”	earnings before interest, tax, depreciation and amortization
“EGM”	the extraordinary general meeting of the Company to be convened and held at No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, China on March 23, 2022 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve the Share Transfer Agreement and the transactions contemplated thereunder
“EUR”	Euro, the lawful currency of the European Union

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## DEFINITIONS

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“EURIBOR”	Euro Interbank Offered Rate
“EV”	enterprise value
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong Interbank Offered Rate
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRS”	International Financial Reporting Standards promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards and interpretations
“Independent Board Committee”	an independent committee of the Board comprising all its independent non-executive Directors, namely Ms. Xie Xiaoyan, Mr. Yao Feng, Mr. Shen Jianzhong, which has been formed to advise the Independent Shareholders on the Share Transfer Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Share Transfer Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who have no material interest in, and are not required to abstain from voting at the EGM to approve, the Share Transfer Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) (as defined in the Listing Rules) of the Company and is/are independent of the Company and the connected person(s) of the Company (as defined under the Listing Rules)

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## DEFINITIONS

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“Jingang”	Hongkong Jingang Trade Holding Co., Limited, a company incorporated in Hong Kong with limited liability on January 17, 2011 and a wholly-owned subsidiary of Yili
“Latest Practicable Date”	February 28, 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	six calendar months following the date of the Share Transfer Agreement (as may be extended by the mutual consents of the Seller, the Controller and the Company)
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“PRC GAAP”	generally accepted accounting principles in the PRC
“P/B”	Price-to-book
“P/E”	Price-to-earnings
“P/S”	Price-to-sale
“RMB”	Renminbi, the lawful currency of the PRC
“Seller”	YeGu Investment Company Limited, an exempted company with limited liability incorporated in the Cayman Islands
“Share Transfer Agreement”	the share transfer agreement dated March 2, 2022 entered into between the Company, the Seller and the Controller in relation to the Share Transfer
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of par value US\$0.00001 each in the issued share capital of the Company

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## DEFINITIONS

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“Share Transfer”	the proposed transfer of the Transfer Shares pursuant to the terms and conditions of the Share Transfer Agreement
“Shareholder(s)”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Wholesome Harvest Limited, an exempted company incorporated in the Cayman Islands, which is owned as to approximately 27.16% by the Seller and approximately 72.84% by Jingang
“Target Group”	Target Company and Zhongdi and the companies in which they hold interests
“Transfer Shares”	707,878,000 ordinary shares of the Target Company, representing approximately 27.16% of the authorized issued and outstanding shares of the Target Company
“US\$”	United States dollars, the lawful currency of the United States
“Yili”	Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a company established under the laws of the PRC in June 1993 and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of the Company’s controlling shareholders
“Youran Dairy”	Inner Mongolia Youran Dairy Co., Ltd. (內蒙古優然牧業有限責任公司), a company established under the laws of the PRC on August 1, 2007 and a subsidiary of our Company
“Zhongdi”	China ZhongDi Dairy Holdings Company Limited, an exempted company with limited liability incorporated in the Cayman Islands and a wholly-owned subsidiary of the Target Company
“%”	per cent.

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LETTER FROM THE BOARD

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**優然牧業**  
YOURAN DAIRY

**China Youran Dairy Group Limited**  
**中國優然牧業集團有限公司**  
*(incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 9858)**

*Executive Directors*

Mr. Zhang Xiaodong (*President*)  
Mr. Dong Jiping

*Non-executive Directors*

Mr. Zhang Yujun (*Chairman*)  
Mr. Xu Jun  
Mr. Xu, Zhan Kevin  
Mr. Qiu Zhongwei

*Independent Non-executive Directors*

Ms. Xie Xiaoyan  
Mr. Yao Feng  
Mr. Shen Jianzhong

*Registered Office*

89 Nexus Way  
Camana Bay, Grand Cayman  
KY1-9009, Cayman Islands

*Principal place of business in the PRC*

No. 169, Hexi Road, Saihan District  
Hohhot, Inner Mongolia  
China

*Principal place of business in*

*Hong Kong*  
31/F., Tower Two  
Times Square  
1 Matheson Street, Causeway Bay  
Hong Kong

March 4, 2022

*To the Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF APPROXIMATELY 27.16% OF  
THE TOTAL ISSUED SHARE CAPITAL OF  
THE TARGET COMPANY;  
AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated March 2, 2022 in relation to, among others, the Share Transfer Agreement entered into between the Company, the Seller and the Controller on March 2, 2022, pursuant to which the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Transfer Shares at a consideration of HK\$1,206,380,000 (the “**Consideration**”).



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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things (i) further information on the Share Transfer; (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Share Transfer; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM.

### **2. THE SHARE TRANSFER AGREEMENT**

The principal terms of the Share Transfer Agreement are as follows:

Date: March 2, 2022

Parties: (i) the Company;  
(ii) the Seller; and  
(iii) the Controller.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Seller and the Controller (being the ultimate beneficial owner of the Seller) are Independent Third Parties.

#### **Subject matter**

Pursuant to the Share Transfer Agreement, the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Transfer Shares, free and clear of any and all encumbrances at the Consideration.

#### **Consideration**

The Consideration was determined after arm's length negotiations between the Company, the Seller and the Controller taking into account (a) the value of the assets and business of the Target Company determined by using the market approach; (b) the business development and future prospects of the Target Company; and (c) the factors set out in the section headed "Reasons for and Benefits of the Share Transfer" in this circular.

In respect of (a) above, the Company did not engage any valuer to perform an independent valuation on the Target Company or Zhongdi. The value of the assets and business of the Target Company was assessed by the Company internally based on available information in addition to the Company's understanding of Zhongdi and the dairy industry and related market players in the PRC. As the Company is engaged in a similar industry as Zhongdi, it has an in depth understanding of the business of Zhongdi and the dairy farming industry in the PRC and therefore has the knowledge and expertise to evaluate the assets and business of the Target Company. Specifically, the Company had considered the EV/EBITDA of Zhongdi and

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## LETTER FROM THE BOARD

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comparable issuers listed in Hong Kong or the PRC engaged in the dairy business in the PRC with market capitalization comparable to that of the Company. P/E, P/B, P/S and EV/EBITDA are the four most commonly used benchmarks in valuing a company. The Company considers that valuing the Target Group using EV/EBITDA is most appropriate as compared with other valuation multiples for the following reasons:

- (a) given the Target Group is profit making and generating positive operating cash flows, P/B and P/S are not appropriate as they do not reflect the earning potential of the Target Group;
- (b) the Target Group and the Comparable Companies (as defined below), which are engaged in the dairy sector, have different capital structures with diverse gearing ratios (and therefore finance costs) and other factors such as changes in fair value less costs to sell of biological assets and fair value changes of financial instruments, which will distort the comparability of P/E. As shown below, the net gearing ratios of the Comparable Companies (as defined below) ranged from a net cash position to approximately 116.1% based on their latest published financial results; and
- (c) EV/EBITDA has the following advantages as compared with other valuation multiples:
  - (1) EV/EBITDA bears the advantages of P/E and P/B by taking into account (i) the earning potential of the Target Group in the form of operating profit; and (ii) both equity and debt values of the Target Group as embedded in the enterprise value; and
  - (2) the variances in capital structures, accounting policies on depreciation and amortisation and other non-cash items such as changes in fair value less costs to sell of biological assets and fair value changes of financial instruments will not distort the comparability of EV/EBITDA among the Target Group and the Comparable Companies (as defined below) given EBITDA in the multiple screens out the impact of finance costs, depreciation and amortisation and other non-operating items and focuses on the operating performance of the core businesses of the relevant companies.

Based on the Company's understanding of Zhongdi's business, the Company notes that the EBITDA of Zhongdi increased by approximately 10.9% from approximately RMB498.6 million for the year ended December 31, 2020 to approximately RMB553.0 million for the year ended December 31, 2021. The Company considers that EBITDA facilitates the evaluation and understanding by the Company of Zhongdi's operating performance, as well as the comparison of operating performances across accounting periods and to comparable companies by eliminating potential impact of differences in accounting policies, further explanation of which is set out in paragraph (a) on page 11 of this circular.

## LETTER FROM THE BOARD

The Company has, based on a search on Bloomberg and the website of the Stock Exchange, identified an exhaustive list of companies (the “**Comparable Companies**”) which (a) are principally engaged in the dairy business in the PRC; (b) have their shares listed in Hong Kong or the PRC; and (c) have market capitalisation within HK\$27 billion, being 50% higher than the market capitalisation of the Company of approximately HK\$18.03 billion as at January 21, 2022. The comparable companies considered by the Company and the Company’s internal assessment are in line with the valuation of the Target Company undertaken by the Independent Financial Adviser to the Company using the market approach in the preparation of its letter of advice to the Independent Board Committee and the Independent Shareholders. For details, please refer to the letter of advice of the Independent Financial Adviser in this circular.

The above selection criteria are set with a view to identifying a reasonable and sufficient sample size of comparable companies engaged in the same sector as the Target Group does with reference to the market capitalisation of the Company for comparison. As shown in the table below, the Comparable Companies had market capitalisations within HK\$27 billion, being 150% of the market capitalisation of the Company as at January 21, 2022. For illustrative purpose, if narrowing down the selection criteria by picking those with market capitalisations within a range of 50% higher or lower than the market capitalisation of the Company as at January 21, 2022, i.e. from HK\$9 billion to HK\$27 billion, only 5 Comparable Companies were identified with EV/EBITDAs ranging from approximately 6.05 times to approximately 23.75 times with an average and median of approximately 14.54 times and 12.75 times, respectively. While the aforesaid results will not affect the analysis and conclusion on the fairness and reasonableness of the Consideration, the Company considers a sample size of 5 is inadequate which may not be fair and representative.

The following table sets out the details of the Comparable Companies:

Company name (stock code)	Principal activities	EV (Note 1) (RMB’ million)	EBITDA (Note 1) (RMB’ million)	EV/ EBITDA (times)	Market capitalisation (Note 1) (HK\$’ billion)	Net gearing ratio (Note 2)
Bright Dairy & Food Co., Ltd. (600597.SH)	Processing and sales of milk and other dairy products	22,533	1,767	12.75	23.33	10.5%
Ausnutria Dairy Corporation Limited (1717.HK)	Production, marketing and distribution of paediatric milk formula products	13,376	1,613	8.29	16.81	Net cash
New Hope Dairy Co., Ltd. (002946.SZ)	Manufacture of milk products	16,879	773	21.84	16.23	116.1%
Beijing Sanyuan Foods Co., Ltd. (600429.SH)	Production and sale of dairy products	11,807	497	23.75	11.66	4.1%

## LETTER FROM THE BOARD

Company name (stock code)	Principal activities	EV (Note 1) (RMB' million)	EBITDA (Note 1) (RMB' million)	EV/ EBITDA (times)	Market capitalisation (Note 1) (HK\$' billion)	Net gearing ratio (Note 2)
China Modern Dairy Holdings Limited (1117.HK)	Production and sales of raw milk and processed liquid milk	12,277	2,028	6.05	11.24	28.2%
Health and Happiness (H&H) International Holdings Limited (1112.HK)	Manufacture and sale of premium pediatric nutritional	10,989	1,885	5.83	8.44	62.5%
Xinjiang Tianrun Dairy Co., Ltd. (600419.SH)	Production and wholesale of dairy products	3,972	269	14.78	4.99	Net cash
Guangdong Yantang Dairy Co., Ltd. (002732.SZ)	Manufacture and sales of dairy products and milk beverages	3,868	281	13.75	4.90	Net cash
China Shengmu Organic Milk Limited (1432.HK)	Production and distribution of raw milk and dairy products	4,799	767	6.25	4.36	22.2%
Lanzhou Zhuangyuan Pasture Co., Ltd. (1533.HK)	Production, processing and marketing of dairy products and milk beverages, as well as the dairy farming business	2,907	142	20.53	3.10	1.1%
Xinjiang Western Animal Husbandry Co., Ltd. (300106.SH)	A raw milk supplier whose operation chain covers breeding, feed production and processing, cattle farming, slaughtering, fresh milk collection and sale and distribution	2,307	120	19.27	2.79	Net cash
Yashili International Holdings Limited (1230.HK)	Manufacture and sale of dairy and nourishment products	901	182	4.96	2.56	Net cash
YuanShengTai Dairy Farm Limited (1431.HK)	Production and sales of raw milk	89	911	0.1	1.31	Net cash
			<b>Maximum</b>	23.75		
			<b>Minimum</b>	0.10		
			<b>Average</b>	12.17		
			<b>Median</b>	12.75		

Source: Bloomberg and website of the Stock Exchange

Notes:

- As at January 21, 2022 as extracted from Bloomberg.
- Being net debt (which equals bank and other borrowings, plus convertible notes, less bank balances and cash, and less pledged and restricted bank deposits under current assets) divided by total equity and multiplied by 100% based on the latest published results of the Comparable Companies.

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## LETTER FROM THE BOARD

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As shown above, EV/EBITDAs of the Comparable Companies ranged from approximately 0.10 time to approximately 23.75 times, with an average and median of approximately 12.17 times and 12.75 times, respectively, as at January 21, 2022. In arriving at the market value of the Target Group, the Company has adopted an EV/EBITDA of approximately 12.17 times which is the average of EV/EBITDAs of the Comparable Companies.

The Company considers the adoption of an EV/EBITDA of approximately 12.17 times is appropriate given (a) an exhaustive list of dairy companies has been considered based on the aforesaid criteria which the Company considers fair and reasonable, allowing the Company to identify a sufficient sample size for a meaningful comparison; and (b) the adopted EV/EBITDA is lower than the median of those of the Comparable Companies of approximately 12.75 times which is typically used to address any outlier issue.

The Company further considers the adoption of the average EV/EBITDA ratio of the Comparable Companies to be fair and reasonable for determining the Consideration after taking into account that:

- (a) EV/EBITDA is an appropriate valuation multiple to value the Target Group as explained above;
- (b) the Comparable Companies both listed in Hong Kong and the PRC were considered to account for the significant growth of Zhongdi in the past. For the six months ended June 30, 2020 and the year ended December 31, 2020, revenue of Zhongdi grew by approximately 23.7% and 28.5% respectively, as compared with the previous period or year. For the Comparable Companies listed in Hong Kong, the change in their revenue for the year ended December 31, 2020 ranged from a decrease of approximately 9.1% to a growth of approximately 18.6% as compared with that of the previous year, with an average and median of a growth of approximately 6.4% and 7.0%, respectively. For the Comparable Companies listed in the PRC, the change in their revenue for the year ended December 31, 2020 ranged from a decrease of approximately 9.8% to a growth of approximately 26.4% as compared with that of the previous year, with an average and median of a growth of approximately 11.2% and 11.5%, respectively. It was noted that (a) the revenue growth of the PRC listed Comparable Companies was generally higher than those of the Hong Kong listed Comparable Companies; and (b) the revenue growth of Zhongdi of approximately 28.5% for the year ended December 31, 2020, as compared with that of previous year, was even higher than those of the PRC listed Comparable Companies. The Directors consider that the implied valuations of the Hong Kong listed Comparable Companies may not fully reflect the growth potential of Zhongdi;
- (c) the Comparable Companies, comprising companies listed in Hong Kong and the PRC, are all engaged in the same sector (i.e. the dairy business in the PRC) as the Target Group does with its principal operations in the PRC;

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## LETTER FROM THE BOARD

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- (d) the average EV/EBITDA ratio of the Comparable Companies is lower than the median of those of the Comparable Companies which is usually used to address any outlier issue;
- (e) the sample size of the Comparable Companies (i.e. 13) is considered sufficient, fair and representative, as compared to a sample size of 7 if only those companies listed in Hong Kong are considered; and
- (f) the Consideration is arrived after arm's length negotiation between the Company, the Seller and the Controller. The Seller and the Controller are Independent Third Parties and do not have any relationship with the Group.

The Board recognizes that the Consideration of approximately HK\$1.7 per Zhongdi share represents a premium to (i) the offer price of HK\$1.132 in Zhongdi's privatization proposal and; (ii) Zhongdi's net asset value per share of approximately HK\$1.22 as at December 31, 2020. However it considers that the Consideration is fair and reasonable for the following reasons:

- (a) Continual improvement in the financial performance of Zhongdi: In addition to EBITDA, the Company noted continual improvement in the financial performance of Zhongdi. In particular, the Company notes that the net profits attributable to shareholders of Zhongdi for the twelve months ended June 30, 2020 on a trailing 12-month basis was approximately RMB159.2 million pursuant to the composite document of Zhongdi dated January 18, 2021 in connection with its privatization (the "**Composite Document**"). On the other hand, since the privatization offer was announced in September 2020, Zhongdi's financial performance had improved and its revenue, profit attributable to shareholders of Zhongdi and net profits for the year ended December 31, 2020 increased to approximately RMB1,927.2 million, RMB236.6 million and RMB232.7 million, respectively, representing an increase of approximately 28.5%, 126.7% and 127.3% respectively, as compared to the previous year.

As disclosed in the section headed "Information on the Parties – Information on the Target Company and its subsidiaries" below, the net profits of Zhongdi for the year ended December 31, 2021 based on its unaudited management accounts prepared in accordance with PRC GAAP was approximately RMB133.7 million. However, due to differences in accounting standards, it is not possible to directly compare Zhongdi's net profits for the year ended December 31, 2021 (which was prepared in accordance with PRC GAAP) with its net profits for the year ended December 31, 2020 (which was prepared in accordance with IFRS). Zhongdi has not prepared a reconciliation of the financial information between PRC GAAP and IFRS and has not quantified such differences but the main difference between PRC GAAP and IFRS identified is the difference in the accounting treatment of biological assets in the financial statements. Under IFRS, biological assets are measured at fair market value and the difference in the fair market value of biological assets for the two

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## LETTER FROM THE BOARD

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financial years ended December 31, 2020 and 2021 would have been recognised only in the financial statements for the year ended December 31, 2021. Under PRC GAAP, biological assets are measured at cost and depreciation of the milkable dairy cows would be calculated annually and recognised in the financial statements for the same year. As the net profits of Zhongdi for the year ended December 31, 2021 prepared in accordance with IFRS is not available, the Company did not consider the net profits of Zhongdi for the year ended December 31, 2021 prepared in accordance with PRC GAAP as a key factor to evaluate the fairness and reasonableness of the Consideration, but primarily considered the EBITDA of Zhongdi for the year ended December 31, 2021 as mentioned above, as EBITDA is less affected by differences in accounting standards;

- (b) Increase in number of dairy cows, a key business asset: whilst the Company did not consider the net asset value of Zhongdi as a key factor to evaluate the fairness and reasonableness of the Consideration and notes that this measure was not used to value the Target Company by the Independent Financial Adviser in its valuation of the Target Company, the Company notes that there was an increase in the number of dairy cows of Zhongdi from approximately 65,000 as at December 31, 2019 to approximately 69,000 as at December 31, 2020 and approximately 75,000 as at the Latest Practicable Date; and
- (c) Similar P/E multiple as Zhongdi in its privatization: the Company further notes that, as disclosed in the Composite Document, the offer price of HK\$1.132 in Zhongdi's privatization proposal represents an implied price-to-earnings multiple ("**Implied P/E multiple**") of approximately 16.7 times. For illustration purpose, the Implied P/E multiple of Zhongdi in respect of the Share Transfer is approximately 15.7 times (based on the implied market value of Zhongdi of approximately RMB3,725.9 million and the profit attributable to shareholders of Zhongdi for the year ended December 31, 2020 of approximately RMB236.6 million), which is not significantly different from the Implied P/E multiple of Zhongdi in its privatization proposal.

### **Payment of Consideration**

The Consideration shall be paid by the Company to the Seller in cash in the following installments:

- (a) HK\$430,000,000 shall be paid at the Closing; and
- (b) HK\$776,380,000 shall be paid within six months after the Closing or as otherwise agreed by the Parties.

The Company intends to finance the Share Transfer by a combination of internal resources and loans obtained/to be obtained by the Company from commercial banks in Hong Kong. As at the Latest Practicable Date, the Company is discussing with a bank (the "**Bank**") for an uncommitted loan facility of up to US\$50,000,000 with a maximum tenor of one year.



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## LETTER FROM THE BOARD

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The interest rate on the aforementioned loan facility is expected to be the Bank's HIBOR/EURIBOR/cost of financing/Daily Rate (as applicable), plus margin at a rate to be agreed between the parties and the guarantor of such loan facility is expected to be Youran Dairy. As at the Latest Practicable Date, the Company is also discussing with another bank for a loan facility of up to US\$90,000,000 with a maximum tenor of 364 days. The interest rate on the aforementioned loan facility is still being determined and the guarantor of such loan facility is also expected to be Youran Dairy. The remaining of the Consideration will be financed by the Company's internal resources.

### **Conditions to the Closing**

The obligations of the Closing, unless otherwise waived in writing by the Company, are subject to the fulfilment of each the following conditions on or before Closing:

- (a) the representations and warranties given by the Seller and the Controller in the Share Transfer Agreement being true and correct as of the date of the Share Transfer Agreement and as of the Closing Date;
- (b) each of the Seller and the Controller shall have performed and complied with all agreements, obligations and conditions contained in the Share Transfer Agreement that are required to be performed or complied with by it/him on or before the Closing;
- (c) the Seller and the Controller shall have delivered the deliverables set forth in the Share Transfer Agreement;
- (d) the passing of the relevant resolutions by way of poll at the Company's extraordinary general meeting by its Shareholders who are entitled to vote and who are not required to abstain from voting under any applicable laws, rules and regulations for approving the Share Transfer Agreement and the transactions contemplated thereunder;
- (e) the Parties shall have obtained any and all necessary governmental authorizations, approvals, consents or permits, which includes (in each case, if applicable) filings with the Ministry of Commerce of the PRC, the National Development and Reform Commission of the PRC and the State Administration of Foreign Exchange of the PRC or their respective local counterparts for overseas investment; and
- (f) the Company shall have received a copy of the updated register of members of the Target Company that reflects the transfer of the Transfer Shares from the Seller to the Company, certified as a true and correct copy by the registered office of the Target Company.

None of the conditions above is waivable by the Company and/or the Seller. As at the Latest Practicable Date, none of the conditions precedent had been satisfied.



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## LETTER FROM THE BOARD

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### **Closing**

Closing shall take place as soon as practicable, but in any event within seven Business Days after the satisfaction or waiver of each condition to the Closing (other than conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions) or at such other time as the Parties shall agree. Based on information currently available to the Company, the Company expects that the Closing may take place in March 2022.

Upon Closing, the Target Company shall become an associate company of the Company and the financial results of the Target Group will be accounted for by using equity method in the consolidated financial statements of the Company.

### **Termination**

The Share Transfer Agreement may be terminated by (i) mutual written consent of the Seller, Controller and the Company; (ii) either the Controller or the Company if the Closing shall not have occurred on or before the Long Stop Date; or (iii) the non-breaching party in the event of any material breach or violation of any representation or warranty, covenant or agreement of the breaching party contained in the Share Transfer Agreement that is not cured or curable within ten Business Days of written notice.

## **3. INFORMATION ON THE PARTIES**

### **Information on the Company and the Group**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its Shares have been listed on the Main Board of the Stock Exchange (stock code: 9858) since June 18, 2021. The Group is primarily engaged in the production and sale of raw milk, and the trading, production and sale of feeds, ruminant farming products and breeding products in the PRC.

### **Information on the Seller and the Controller**

The Seller was incorporated in the Cayman Islands as an exempted company with limited liability and is an investment holding company. It is wholly and beneficially owned by the Controller. As at the Latest Practicable Date, the Seller held approximately 27.16% of the authorized issued and outstanding shares of the Target Company.

The Controller is a businessman and a PRC citizen. The Controller is an Independent Third Party and does not have any relationship with the Company and the Group.

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## LETTER FROM THE BOARD

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### Information on the Target Company and its subsidiaries

The Target Company was incorporated in the Cayman Islands on August 28, 2020 as an exempted company with limited liability. The Target Company was a special purpose vehicle set up by Jingang for the privatization of Zhongdi and has no business other than holding the shares of Zhongdi. The Target Company privatized Zhongdi by way of a mandatory general offer and acquired all the shares of Zhongdi (other than those then already owned by the Target Company) at a price of HK\$1.132 per share.

Zhongdi was incorporated in the Cayman Islands as an exempted company with limited liability and is primarily engaged in dairy farming and production and sales of raw milk and other dairy products in the PRC. As at the Latest Practicable Date, it was a wholly-owned subsidiary of the Target Company. Zhongdi's shares were listed on the Stock Exchange until June 28, 2021, when Zhongdi was privatized by the Target Company through a mandatory general offer.

### *Financial information of Zhongdi*

Set out below is the financial information of Zhongdi for the two financial years ended December 31, 2020 and 2021 based on (i) its unaudited management accounts prepared in accordance with PRC GAAP and (ii) its audited financial statements prepared in accordance with IFRS:

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited on</i>	
	<i>PRC GAAP</i>	<i>(audited on</i>
	<i>basis)</i>	<i>IFRS basis)</i>
Revenue	2,433,746	1,927,230
Profit before taxation	133,798	232,702
Profit after taxation	133,686	232,702

*Note:* Zhongdi's financial information for the year ended December 31, 2021 was based on its unaudited management accounts prepared in accordance with PRC GAAP, instead of IFRS, as it has ceased to prepare financial statements in accordance with IFRS after its privatization and delisting from the Stock Exchange in June 2021.

The net asset value of Zhongdi as at December 31, 2021 was approximately RMB2,672.1 million pursuant to its unaudited management accounts prepared in accordance with PRC GAAP.

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## LETTER FROM THE BOARD

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### 4. REASONS FOR AND BENEFITS OF THE SHARE TRANSFER

The Company is a leader in China's upstream dairy market with an all-round business extending from breeding, feed to raw milk production. One of the Group's future plans and strategies is to continue to scale its business, thereby reinforcing its market leadership.

Zhongdi currently operates a total of nine dairy farms in China with approximately 75,000 dairy cows in China. The Share Transfer would enable the Group to invest in additional dairy farms and to explore potential collaboration opportunities in the future, which will be favorable for the Group's long-term development.

Having considered the above factors, the Directors are of the view that the Share Transfer provides a good opportunity for the Group to invest in quality dairy farm assets and is in line with the strategic development of the Group and that the terms of the Share Transfer are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Given that the Seller and the Controller are willing to sell the Target Company at fair and reasonable terms, the Company considers that it is commercially reasonable to capture this valuable opportunity to continue to strategically expand its business size. The Company currently has no intention to acquire further interest in the Target Company in the short term. Subject to discussions and negotiations between the parties, the Company currently expects that it may consider acquiring further interest in the Target Company with a view to consolidating the Target Company in the next one to two years. As at the Latest Practicable Date, no concrete plan has been reached as to the terms or timing of such acquisition of further interest in the Target Company. In the event that such acquisition of further interest in the Target Company materialises, the Company may be required to aggregate such acquisition with the Share Transfer pursuant to Rule 14A.81 of the Listing Rules (if applicable). In this respect, the Company will comply with the Listing Rules as and when necessary.

The Company also has no current intention to acquire new business, or downsize or dispose of its original business.

### 5. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Share Transfer is more than 5% but all are less than 25%, the Share Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements thereunder.

As at the Latest Practicable Date, Yili, through Jingang, (i) held approximately 72.84% of the authorized issued and outstanding shares in the Target Company; and (ii) was a controlling shareholder of the Company. Therefore, the Share Transfer constitutes a connected transaction of the Company in accordance with Rule 14A.28 of the Listing Rules.

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## LETTER FROM THE BOARD

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Accordingly the Share Transfer is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Zhang Yujun and Mr. Xu Jun were nominated by Yili to be appointed to the Board, they had abstained from voting in respect of the relevant Board resolution relating to the Share Transfer. Save for the aforesaid, no other Directors was required to abstain from voting on the Board resolution approving the Share Transfer.

As at the Latest Practicable Date, Yili, through its wholly owned subsidiaries, China Youran Dairy Holding Limited and Jingang, was deemed to be interested in an aggregate of 1,320,800,000 Shares, representing approximately 34.80% of the total issued share capital of the Company. Accordingly, Yili is regarded as having a material interest in the Share Transfer and required to abstain from voting on the resolution proposed to be passed at the EGM for approving the Share Transfer Agreement and the transactions contemplated thereunder.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, save as disclosed above, no other Shareholders are required to abstain from voting at the EGM.

An Independent Board Committee, comprising all the independent non-executive Directors, namely, Ms. Xie Xiaoyan, Mr. Yao Feng, Mr. Shen Jianzhong, has been formed to consider, and to advise the Independent Shareholders, among other things, whether the Share Transfer is in the ordinary and usual course of business of the Company, fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. Rainbow Capital (HK) Limited has been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders on the terms of the Share Transfer Agreement and the transactions contemplated thereunder.

### **6. EGM**

A notice convening the EGM to be held at No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, China on March 23, 2022 at 10:00 a.m. is set out on pages 49 to 50 of this circular.

The register of members of the Company will be closed on Friday, March 18, 2022 to Wednesday, March 23, 2022, during which no transfer of Shares will be effected. In order to ascertain Shareholders' rights for the purpose of attending and voting at the EGM to be held on Wednesday, March 23, 2022, all transfer documents, accompanied by relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. (Hong Kong time) on Thursday, March 17, 2022 for registration.

A proxy form for use at the EGM is enclosed with this circular. Whether you are able to attend the EGM or not, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's Hong Kong share registrar,

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## LETTER FROM THE BOARD

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Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for the EGM (i.e. before 10:00 a.m. on Monday, March 21, 2022 (Hong Kong time)) or any adjournment thereof (as the case may be). Completion and return of a proxy form shall not preclude you from attending the EGM or any adjournment of such meeting and voting in person should you so wish and in such event, the proxy form will be deemed to be revoked.

In light of COVID-19, the Company encourages Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person. Physical attendance is not necessary for the purpose of exercising the voting rights of the Shareholders.

### 7. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in relation to the Share Transfer Agreement and the transactions contemplated thereunder set out on pages 19 to 20 of this circular; and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the Share Transfer Agreement and the transactions contemplated thereunder set out on pages 21 to 44 of this circular.

The Directors (including the members of the Independent Board Committee having considered the advice from the Independent Financial Adviser) consider that, although the Share Transfer Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of the business of the Company, it is carried out on normal commercial terms, and the terms of the Share Transfer Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the members of the Independent Board Committee having considered the advice from the Independent Financial Adviser) recommend that the Independent Shareholders to vote in favor of the resolution approving the Share Transfer at the EGM.

### 8. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
By order of the Board  
**China Youran Dairy Group Limited**  
**Zhang Xiaodong**  
*Executive Director and President*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Share Transfer Agreement and the transactions contemplated thereunder.*



**優然牧業**  
YOURAN DAIRY

**China Youran Dairy Group Limited**

**中國優然牧業集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 9858)**

March 4, 2022

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF APPROXIMATELY 27.16% OF  
THE TOTAL ISSUED SHARE CAPITAL OF THE TARGET COMPANY**

We refer to the circular dated March 4, 2022 (the “**Circular**”) to the shareholders of the Company of which this letter forms part. Unless otherwise specified, terms 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 Share Transfer Agreement and the connected transaction contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the Circular. The Independent Financial Adviser has been appointed to advise the Independent Shareholders and us in this regard.

Details of the advice and the principal factors and reasons the Independent Financial Adviser has taken into consideration in giving such advice, are set out in the “Letter from the Independent Financial Adviser” in the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendix thereto.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the terms of the Share Transfer Agreement and the transactions contemplated thereunder and the advice of the Independent Financial Adviser, although the Share Transfer Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of the business of the Company, we are of the opinion that it is carried out on normal commercial terms, and the terms of the Share Transfer Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, therefore, recommend that you vote in favor of the resolution to be proposed at the EGM to approve the Share Transfer.

Yours faithfully,

For and on behalf of

**Independent Board Committee**

**Ms. Xie Xiaoyan**

**Mr. Yao Feng**

**Mr. Shen Jianzhong**

*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of a letter of advice from Rainbow Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Transfer Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of incorporation in this circular.*

**Rainbow Capital (HK) Limited**

March 4, 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF APPROXIMATELY 27.16% OF  
THE TOTAL ISSUED SHARE CAPITAL OF THE TARGET COMPANY**

**INTRODUCTION**

We refer to our appointment as the Independent Financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated March 4, 2022 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On March 2, 2022, the Company, the Seller and the Controller, entered into the Share Transfer Agreement, pursuant to which the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Transfer Shares at a consideration of HK\$1,206,380,000 (the “**Consideration**”). The Target Group is principally engaged in dairy farming and production and sales of raw milk and other dairy products in the PRC.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Share Transfer is more than 5% but all are less than 25%, the Share Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements thereunder. As at the Latest Practicable Date, Yili, through Jingang, (i) held approximately 72.84% of the authorized issued and outstanding shares in the Target Company; and (ii) was a controlling shareholder of the Company. Therefore, the Share Transfer also constitutes a connected transaction of the Company in accordance with Rule 14A.28 of the Listing Rules. Accordingly, the Share Transfer is subject to the reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at the Latest Practicable Date, Yili, through its wholly-owned subsidiaries, China Youran Dairy Holding Limited and Jingang, was deemed to be interested in an aggregate of 1,320,800,000 Shares, representing approximately 34.80% of the total issued share capital of the Company. Accordingly, Yili is regarded as having a material interest in the Share Transfer and required to abstain from voting on the resolution proposed to be passed at the EGM for approving the Share Transfer Agreement and the transactions contemplated thereunder. To the best of the Director's knowledge, information and belief having made all reasonable enquiries, save for the aforesaid, no other Shareholders are required to abstain from voting at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely, Ms. Xie Xiaoyan, Mr. Yao Feng and Mr. Shen Jianzhong, has been formed to advise the Independent Shareholders on whether (i) the Share Transfer is in the ordinary and usual course of business of the Group; and (ii) the terms of the Share Transfer are on normal commercial terms which are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and as to voting. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, the Seller and the Controller that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement or connection between the Group, the Seller or the Controller on one hand and us on the other hand. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we had received any fees or benefits from the Group, the Seller or the Controller. Accordingly, we are qualified to give independent advice in respect of the Share Transfer Agreement and the transactions contemplated thereunder.

### **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In arriving at our opinion and recommendation, we have reviewed, among other things, (i) the consolidated financial information of the Group for two years ended December 31, 2020 and the six months ended June 30, 2021 as disclosed in the prospectus of the Company dated June 7, 2021 (the “**Prospectus**”) and the interim report of the Company for six months ended June 30, 2021 (the “**2021 Interim Report**”); (ii) the consolidated financial information of the Target Group for the two years ended December 31, 2021; (iii) the industry report on the dairy industry in the PRC compiled by Frost & Sullivan (“**F&S**”) as included in the Prospectus; (iv) the Share Transfer Agreement; and (v) the Circular.

We consider that we have reviewed sufficient information currently available and corroborated and substantiated any public information referred to in this letter to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group and the Seller or their respective substantial shareholders, subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In considering whether the terms of the Share Transfer Agreement are fair and reasonable, we have taken into account the principal factors and reasons set out below:

#### **1. Background information of the Group**

With nearly 40 years of experience in the dairy industry and in-depth research and development, the Group’s business has grown to cover the entire upstream dairy value chain, including (i) provision of raw milk to large-scale dairy manufacturers; (ii) provision of nutritious concentrated feed and forage grass for dairy farms and ancillary ruminant farming support services; (iii) provision of breeding products including high-quality frozen bovine semen for dairy cattle and beef cattle to dairy farms; and (iv) provision of ruminant farming products purchased from selected suppliers through own online retail platform and offline pick-up stores.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The tables below set forth a summary of the consolidated financial information of the Group for the year ended December 31, 2019 (“**FY2019**”), the year ended December 31, 2020 (“**FY2020**”), the six months ended June 30, 2020 (“**2020H1**”) and the six months ended June 30, 2021 (“**2021H1**”) as extracted from the Prospectus and the 2021 Interim Report:

*(i) Financial performance*

	<b>FY2019</b>	<b>FY2020</b>	<b>2020H1</b>	<b>2021H1</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
<b>Revenue</b>	7,667,818	11,781,195	5,344,427	7,291,767
Sales of raw milk	3,063,615	6,994,592	3,192,968	4,351,943
Sales of feeds	4,376,520	4,395,724	1,977,149	2,711,981
Sales of ruminant farming products	227,683	339,992	146,377	199,844
Sales of breeding products	–	50,887	27,933	27,999
<b>Gross profit</b>	1,886,260	3,603,192	1,607,315	2,138,881
<i>Gross profit margin</i>	<i>24.6%</i>	<i>30.6%</i>	<i>30.1%</i>	<i>29.3%</i>
(Loss)/Gain arising from changes in fair value less costs to sell of biological assets	(133,255)	(413,784)	(217,637)	97,625
Other income	55,396	76,979	37,835	54,848
Selling and distribution expenses	(340,687)	(453,116)	(206,302)	(265,765)
Administrative expenses	(445,453)	(744,516)	(270,333)	(346,357)
Other expenses	(26,528)	(20,030)	(6,224)	(2,351)
Listing expenses	–	(34,365)	(10,328)	(17,848)
Finance costs	(104,071)	(309,825)	(152,554)	(297,661)
<b>Profit before tax</b>	850,855	1,594,435	770,547	1,216,671
<b>Profit attributable to the Shareholders</b>	801,882	1,340,735	731,249	935,275
<b>Net cash generated from operating activities</b>	870,809	1,707,871	1,237,633	1,594,270

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *FY2020 compared to FY2019*

The Group's revenue increased by approximately 53.6% from approximately RMB7,667.8 million for FY2019 to approximately RMB11,781.2 million for FY2020, primarily driven by a significant increase in revenue generated from the raw milk business.

The increase in revenue generated from the raw milk business was mainly due to (a) a significant increase in the sales volume of premium raw milk as a result of (1) the acquisition of 58.36% of the equity interest in Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. ("SKX") which was completed on January 2020, (2) new dairy farms put into production in FY2020, and (3) the increase in the number of milkable cow and average milk yield per milkable cow; and (b) a rise in the average unit price of premium raw milk; and (c) an increase in the sales volume of specialty raw milk, the average selling price of which remained stable for FY2020.

As a result of the aforesaid growth in revenue alongside the consolidation of the financial performance of SKX and an improvement in overall gross profit margin, the Group's gross profit increased by approximately 91.0% from approximately RMB1,886.3 million for FY2019 to approximately RMB3,603.2 million for FY2020. Gross profit margin increased from approximately 24.6% for FY2019 to approximately 30.6% for FY2020, mainly due to the increase in revenue generated from the raw milk business with relatively higher gross profit margin.

The Group's loss arising from changes in fair value less costs to sell of biological assets increased by approximately 210.5% from approximately RMB133.3 million for FY2019 to approximately RMB413.8 million for FY2020. Such increase in loss was primarily due to (a) the consolidation of SKX's loss arising from changes in fair value less costs to sell of biological assets; and (b) the disposal of certain dairy cows with less than expected lactating level for optimizing dairy herd structure, leading to a loss. The increase in loss arising from changes in fair value less costs to sell of biological assets was partially offset by an unrealized gain in the fair value of biological assets since the Group (a) improved the average selling price of premium raw milk during 2020, which was in line with the overall raw milk supply industry; (b) increased the scale of biological assets through the acquisition of SKX; and (c) improved herd structure and quality.

The Group had a profit before tax of approximately RMB1,594.4 million for FY2020 as compared with approximately RMB850.9 million for FY2019. Profit attributable to the Shareholders increased by approximately 67.2% from approximately RMB801.9 million for FY2019 to approximately RMB1,340.7 million for FY2020, primarily due to the consolidation of the financial performance of SKX, resulting in economies of scale which led to the faster growth of net profit as compared to revenue. The Group generated net cash from operating activities of approximately RMB870.8 million and RMB1,707.9 million for FY2019 and FY2020, respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *2021H1 compared to 2020H1*

The Group's revenue grew by approximately 36.4% from approximately RMB5,344.4 million for 2020H1 to approximately RMB7,291.8 million for 2021H1. The revenue from the raw milk business increased by approximately 36.3% from approximately RMB3,193.0 million for 2020H1 to approximately RMB4,351.9 million for 2021H1, mainly due to the acquisition of Fonterra (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd. (collectively, the "**Fonterra China Farms Group**") completed in April 2021 and the steady increase in raw milk sales and milk prices. The revenue from sales of feeds grew by approximately 37.2% from approximately RMB1,977.1 million for 2020H1 to approximately RMB2,712.0 million for 2021H1, mainly due to the vigorous expansion by the Group of the markets in Xinjiang, Gansu and Henan with a huge overall herd size during 2021H1.

The Group's gross profit increased by approximately 33.1% from approximately RMB1,607.3 million for 2020H1 to approximately RMB2,138.9 million for 2021H1, mainly due to the increase in revenue. The gross profit margin remained stable at approximately 30.1% and 29.3% for 2020H1 and 2021H1, respectively.

The Group's changes in fair value less costs to sell of biological assets turned from a fair value loss of approximately RMB217.6 million for 2020H1 to a fair value gain of approximately RMB97.6 million for 2021H1, primarily due to an increase in the valuation of dairy cows as a result of the improvement of the management level of SKX's dairy farms and the Fonterra China Farms Group and the increase in the market price of reserve cows.

The Group had a profit before tax of approximately RMB1,216.7 million for 2021H1 as compared to approximately RMB770.5 million for 2020H1. The Group recorded a profit attributable to the Shareholders of approximately RMB935.3 million for 2021H1, representing an increase of approximately 27.9% from approximately RMB731.2 million 2020H1, mainly attributable to (a) the increase in sales volume and unit price of raw milk; (b) completion of the acquisition of the Fonterra China Farms Group in April 2021; and (c) the increase in revenue from sales of feeds. The Group generated net cash from operating activities of approximately RMB1,237.6 million and RMB1,594.3 million for 2020H1 and 2021H1, respectively.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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*(ii) Financial position*

	As at December 31,		As at June 30,
	2019	2020	2021
	RMB'000	RMB'000	RMB'000
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
<b>Non-current assets, including:</b>	6,902,810	15,795,647	20,494,461
– Property, plant and equipment	2,933,139	6,183,940	7,930,242
– Right-of-use assets	532,968	1,321,296	1,695,354
– Biological assets	3,322,917	7,038,112	9,262,607
<b>Current assets, including:</b>	3,043,764	6,405,296	7,573,624
– Inventories	967,286	1,972,145	1,591,058
– Trade and bills receivables	974,298	834,521	1,162,252
– Prepayments, deposits and other receivables	230,809	246,691	309,302
– Amounts due from related parties	145,519	555,676	655,182
– Pledged and restricted bank deposits	60,100	128,367	54,318
– Bank balances and cash	570,476	2,619,113	3,776,602
<b>Total assets</b>	9,946,574	22,200,943	28,068,085
<b>Current liabilities, including:</b>	2,900,534	6,944,108	9,332,502
– Trade and bills payables	572,559	1,438,505	1,263,732
– Other payables and accruals	581,362	1,149,490	1,031,089
– Bank and other borrowings	1,682,945	4,224,527	4,647,571
– Convertible notes	–	–	2,234,477
<b>Non-current liabilities, including:</b>	1,656,221	6,195,299	4,718,347
– Bank and other borrowings	1,099,660	1,971,606	3,419,920
– Convertible notes	–	3,043,648	–
<b>Total liabilities</b>	4,556,755	13,139,407	14,050,849
<b>Net current assets/(liabilities)</b>	143,230	(538,812)	(1,758,878)
<b>Equity attributable to the Shareholders</b>	5,389,819	7,820,208	12,527,765
<b>Current ratio (Note 1)</b>	1.05	0.92	0.81
<b>Net gearing ratio (Note 2)</b>	39.9%	71.6%	46.2%

*Notes:*

- Being current assets divided by current liabilities.
- Being net debt (which equals bank and other borrowings, plus convertible notes, less bank balances and cash, and less pledged and restricted bank deposits under current assets) divided by total equity and multiplied by 100%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at June 30, 2021, total assets of the Group were approximately RMB28,068.1 million, which mainly consisted of (a) property, plant and equipment of approximately RMB7,930.2 million; (b) right-of-use assets of approximately RMB1,695.4 million; (c) biological assets of approximately RMB9,262.6 million, including calves and heifers, milkable cows, feeder cattle and breeding stock; (d) inventories of approximately RMB1,591.1 million; (e) trade and bills receivables of approximately RMB1,162.3 million; and (f) bank balances and cash of approximately RMB3,776.6 million.

As at June 30, 2021, total liabilities of the Group were approximately RMB14,050.8 million, which mainly consisted of (a) trade and bills payables of approximately RMB1,263.7 million; (b) other payables and accruals of approximately RMB1,031.1 million; (c) bank and other borrowings of approximately RMB8,067.5 million with effective interest rates ranging from approximately 2.00% to approximately 6.00% per annum; and (d) convertible notes of approximately RMB2,234.5 million.

The Group had net current liabilities of approximately RMB1,758.9 million with a current ratio of approximately 0.81 time as at June 30, 2021. As stated in the 2021 Interim Report, the Directors consider that the Group is able to continue as a going concern and will have adequate funds to meet its liabilities as and when they fall due for at least 12 months from June 30, 2021, based on a cash flow forecast of the Group for the 12 months ending 30 June 2022 prepared by the management of the Group. The net gearing ratio of the Group was approximately 46.2% as at June 30, 2021. Despite the net current liabilities position, the Group generated strong cash flows from operating activities of approximately RMB870.8 million, RMB1,707.9 million and RMB1,594.3 million for FY2019, FY2020 and 2021H1, respectively.

### *(iii) Overall comment*

The profitability of the Group is primarily driven by the sales of raw milk and sales of feeds. As stated in the 2021 Interim Report, the Group's overall business volume increased for 2021H1, which was mainly attributable to (a) the continuous improvement of average milk yield; (b) the acquisitions of SKX and the Fonterra China Farms Group which are engaged in dairy farming business; (c) innovation and development of specialty raw milk and high-technology feed products; and (d) the steady increase in raw milk sales and milk prices.

In line with the growth in revenue, the Group's gross profit increased by approximately 91.0% and 33.1% for FY2020 and 2021H1, respectively, as compared to the previous year or period. The Group's profit attributable to the Shareholders increased by approximately 67.2% and 27.9% for FY2020 and 2021H1, respectively, as compared to the previous year or period.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Given the continuous increase in the overall business volume for FY2020 and 2021H1, we expect that the Group will continue to expand business size and improve operational efficiency leveraging its advantages in full-service industry chain and the advanced management, operation, research and development capability.

### 2. Information of the Target Group

The Target Company was incorporated in the Cayman Islands on August 28, 2020 as an exempted company with limited liability. The Target Company was a special purpose vehicle set up by Jingang for the privatization of Zhongdi and has no business other than the holding of the shares of Zhongdi. The Target Company privatized Zhongdi by way of a mandatory general offer and acquired all the shares of Zhongdi (other than those then already owned by the Target Company) at a price of HK\$1.132 per share.

Zhongdi, incorporated in the Cayman Islands as an exempted company with limited liability, is primarily engaged in dairy farming and production and sales of raw milk and other dairy products in the PRC. As at the Latest Practicable Date, Zhongdi was a wholly-owned subsidiary of the Target Company. Zhongdi's shares were listed on the Stock Exchange until June 28, 2021, when Zhongdi was privatized by the Target Company through a mandatory general offer.

Set out below is the financial information of Zhongdi for the two years ended December 31, 2021 based on (i) its unaudited management accounts prepared in accordance with PRC GAAP; and (ii) its audited financial statements prepared in accordance with IFRS:

	For the year ended December 31,	
	2020	2021
	RMB'000	RMB'000
	(audited on IFRS basis)	(unaudited on PRC GAAP basis)
Revenue	1,927,230	2,433,746
Profit before taxation	232,702	133,798
Profit after taxation	232,702	133,686

*Note:* Zhongdi's financial information for the year ended December 31, 2021 was based on its unaudited management accounts prepared in accordance with PRC GAAP, instead of IFRS, as it has ceased to prepare financial statements in accordance with IFRS after its privatization and delisting from the Stock Exchange in June 2021.

The net asset value of Zhongdi as at December 31, 2021 was approximately RMB2,672.1 million pursuant to its unaudited management accounts prepared in accordance with PRC GAAP.

### 3. Industry overview

The Target Group is primarily engaged in dairy farming and production and sales of raw milk and other dairy products in the PRC which is part of the Group's principal businesses.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As disclosed in the Prospectus, in recent years, the introduction of supportive government policies, such as the “Outlines of Rectification and Rejuvenation Plan for the Dairy Industry” (奶業整頓和振興規劃綱要), encouraged the development of large-scale dairy farms and promoted larger scale of dairy farming, with an increasing number of dairy cows housed in large-scale dairy farms. As of 2015, large-scale dairy farms with more than 1,000 dairy cows housed 23.6% of total dairy cows in the PRC, which increased to 43.5% by the end of 2020. Driven by the growing demand of consumers for premium raw milk as well as dairy manufacturers’ shifting focus on securing direct, stable and reliable supply of raw milk, large-scale dairy farms are ramping up to a dominant market position and are expected to house 55.5% of total dairy cows in the PRC at the end of 2025. The increasing presence of large-scale dairy farms, combined with growing demand from downstream consumption, supportive government policies and expanding growing of high-quality forage grass, have been driving the expansion of herd size in the PRC. The number of dairy cows in the PRC is expected to increase from 10.8 million in 2020 to 11.8 million in 2025. The Share Transfer is in line with the Group’s strategy of expanding its business scale and the aforesaid government policies.

The PRC’s dairy industry has been undergoing significant growth in recent years, driven by increasing dairy product consumption and demand of end consumers as well as rising health awareness of Chinese consumers. According to F&S, retail sales value of dairy products in the PRC grew from approximately RMB326.4 billion in 2015 to approximately RMB490.3 billion in 2020, representing a compound annual growth rate (“CAGR”) of approximately 8.5%, and is expected to reach approximately RMB738.5 billion in 2025, representing a CAGR of approximately 8.5% between 2020 and 2025. F&S expects dairy product consumption in the PRC to continue to grow rapidly with increasing disposable income and consumption upgrade.

According to F&S, the PRC’s raw milk demand for dairy consumption has grown steadily in the past few years, from approximately 42.7 million tons in 2015 to approximately 53.0 million tons in 2020, representing a CAGR of approximately 4.4%. Driven by the increasing demand for dairy products from Chinese consumers as mentioned above, raw milk demand for dairy consumption in the PRC is expected to continue to grow and reach approximately 62.5 million tons in 2025, representing a CAGR of approximately 3.3% from 2020 to 2025. Such demand has outstripped the raw milk supply in the past years and the shortfall in supply is expected to reach approximately 21.0 million tons in 2025 according to F&S.

Compared to the dairy product market in developed countries, the PRC’s dairy product market is still underpenetrated, and has significant growth potential. Unlike consumers in developed countries who relatively prefer dry dairy products, such as butter, cheese and cream, Chinese consumers prefer liquid milk. According to F&S, in terms of the equivalent of liquid milk, per capita dairy product consumption in the PRC was 42.1 kilogram in 2020, which was only 17.0% of that in the European Union and 18.5% of that in the United States.

Based on the above, we expect dairy product consumption in the PRC will continue to grow steadily along with increasing disposable income and consumption upgrade and are optimistic about the prospects of the raw milk market in the PRC.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4. Reasons for and benefits of the Acquisition

The Group is a leader in the PRC's upstream dairy market with an all-round business extending from breeding, feed to raw milk production. According to F&S, the Group is the largest integrated provider of products and services in the upstream dairy industry in the PRC in terms of revenue in 2020. One of the Group's business strategies is to continue to strategically expand the scale and coverage of its raw milk business with a view to maintaining its market leadership.

The Target Group is primarily engaged in dairy farming and production and sales of raw milk and other dairy products in the PRC. As disclosed in the Letter from the Board, the Target Group currently operates a total of nine dairy farms in the PRC with approximately 75,000 dairy cows in the PRC. We concur with the Directors that the Share Transfer will enable the group to invest in additional dairy farm assets and explore potential collaboration opportunities in the future, which is consistent with the Group's stated strategy of expanding the business scale of its raw milk business.

We consider the acquisition of a significant interest in Zhongdi, though not a controlling stake, through the Share Transfer will facilitate the Group and Zhongdi to closely assess potential strategic cooperation in the future which will be beneficial to the long-term business development of the Group. Subject to discussions and negotiations between the parties, the Company currently expects that it may consider acquiring further interest in the Target Company with a view to consolidating the Target Company in the next one to two years. As at the Latest Practicable Date, no concrete plan has been reached as to the terms or timing of such acquisition of further interest in the Target Company. In the event that such acquisition of further interest in the Target Company materialises, the Company may be required to aggregate such acquisition with the Share Transfer pursuant to Rule 14A.81 of the Listing Rules (if applicable). In this respect, the Company will comply with the Listing Rules as and when necessary.

### 5. Principal terms of the Share Transfer Agreement

Set out below is a summary of the principal terms of the Share Transfer Agreement. Independent Shareholders are advised to read further details of the Share Transfer Agreement as disclosed in the Letter from the Board.

Date	:	March 2, 2022
Parties	:	(i) The Company; (ii) The Seller; and (iii) The Controller
Subject matter	:	The Company conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Transfer Shares, free and clear of any and all encumbrances at a consideration of HK\$1,206,380,000.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Consideration : The Consideration for the Share Transfer is HK\$1,206,380,000, which shall be paid by the Company to the Seller in cash in the following installments:

- (i) HK\$430,000,000 shall be paid at the Closing; and
- (ii) HK\$776,380,000 shall be paid within six months after the Closing or as otherwise agreed by the parties.

The Company intends to finance the Share Transfer by a combination of internal resources and loans obtained/to be obtained by the Company from commercial banks in Hong Kong.

As at the Latest Practicable Date, the Company is discussing with a bank for an uncommitted loan facility of up to US\$50,000,000 with a maximum tenor of one year. The interest rate on the aforementioned loan facility is expected to be the bank's HIBOR/EURIBOR/cost of financing/Daily Rate (as applicable), plus margin at a rate to be agreed between the parties and the guarantor of such loan facility is expected to be Youran Dairy. As at the Latest Practicable Date, the Company is also discussing with another bank for a loan facility of up to US\$90,000,000 with a maximum tenor of 364 days. The interest rate on the aforementioned loan facility is still being determined and the guarantor of such loan facility is also expected to be Youran Dairy. The remaining of the Consideration will be financed by the Company's internal resources.

Conditions to the Closing : The obligations of the Closing, unless otherwise waived in writing by the Company, are subject to the fulfilment of each the following conditions on or before the Closing:

- (i) the representations and warranties given by the Seller and the Controller in the Share Transfer Agreement being true and correct as of the date of the Share Transfer Agreement and as of the Closing Date;
- (ii) each of the Seller and the Controller shall have performed and complied with all agreements, obligations and conditions contained in the Share Transfer Agreement that are required to be performed or complied with by it/him on or before the Closing;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iii) the Seller and the Controller shall have delivered the deliverables set forth in the Share Transfer Agreement;
- (iv) the passing of the relevant resolutions by way of poll at the EGM by the Independent Shareholders for approving the Share Transfer Agreement and the transactions contemplated thereunder;
- (v) the parties to the Share Transfer Agreement shall have obtained any and all necessary governmental authorizations, approvals, consents or permits, which includes (in each case, if applicable) filings with the Ministry of Commerce of the PRC, the National Development and Reform Commission of the PRC and the State Administration of Foreign Exchange of the PRC and their respective local counterparts for overseas investment; and
- (vi) the Company shall have received a copy of the updated register of members of the Target Company that reflects the transfer of the Transfer Shares from the Seller to the Company, certified as a true and correct copy by the registered office of the Target Company.

None of the conditions above is waivable by the Company and/or the Seller. As at the Latest Practicable Date, none of the conditions precedent had been satisfied.

- Closing : The Closing shall take place as soon as practicable, but in any event within seven Business Days after the satisfaction or waiver of each condition to the Closing (other than conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions) or at such other time as the parties shall agree. As disclosed in the Letter from the Board, the Closing is expected to take place in March 2022.
- Termination : The Share Transfer Agreement may be terminated by (i) mutual written consent of the Seller, the Controller and the Company; (ii) either the Controller or the Company if the Closing shall not have occurred on or before the Long Stop Date; or (iii) the non-breaching party in the event of any material breach or violation of any representation or warranty, covenant or agreement of the breaching party contained in the Share Transfer Agreement that is not cured or curable within ten Business Days of written notice.

## **6. Evaluation of the Consideration**

The Target Group is principally engaged in dairy farming and production and sales of raw milk and other dairy products in the PRC.

As stated in the Letter from the Board, the Consideration was determined after arm's length negotiations between the Company, the Seller and the Controller taking into account (i) the value of the assets and business of the Target Company as determined by using the market approach; (ii) the business development and future prospects of the Target Company; and (iii) the factors set out in the section headed "Reasons for and benefits of the Share Transfer" in the Letter from the Board.

### *(i) Selection of valuation methodologies*

In determining the valuation of the Target Group, we have considered three generally accepted valuation methodologies, namely the market approach, the income approach and the cost approach.

Among these valuation methodologies, we consider that the market approach is most appropriate after considering the following: (a) the income approach requires significant level of subjective assumptions and judgements to be made to arrive at, among others, detailed operational information and long-term financial projections, to which the valuation is highly sensitive, and such information is not readily available; (b) the cost approach does not directly incorporate information about the economic benefits contributed by the Target Group, and the earning potential of the Target Group cannot be captured in such a valuation given that the Target Group is profit making; and (c) the market approach considers prices recently paid for similar assets or businesses, with adjustments made to market prices to reflect condition and utility of the appraised assets or businesses relative to the market comparables, where few or no assumptions are required and publicly available inputs are used to introduce objectivity.

### *(ii) Adoption of the market approach*

Price-to-earnings ("P/E(s)"), price-to-book ("P/B(s)"), price-to-sale ("P/S(s)") and enterprise value ("EV") to earnings before interest, tax, depreciation and amortisation ("EBITDA") ("EV/EBITDA(s)") multiples are the four most commonly used benchmarks in valuing a company. P/E is usually adopted for judging valuations for companies which are profit making. On the other hand, P/B is typically applied for valuing companies which hold relatively liquid assets on their balance sheets and their book values approximate their fair market values such as real estate companies and banks whereas P/S is approximate for valuing companies which have volatile earnings or loss but with relatively stable revenue such as retailers offering general merchandise. EV/EBITDA is appropriate for valuing companies in the same industry with various capital structures. Enterprise value is calculated by adding market capitalisation and total debt and then subtracting all cash and cash equivalents.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that valuing the Target Group using EV/EBITDA is most appropriate as compared with other valuation multiples for the following reasons:

- (a) given the Target Group is profit making and generating positive operating cash flows, P/B and P/S are not appropriate as they do not reflect the earning potential of the Target Group;
- (b) the Target Group and the Comparable Companies (as defined below), which are engaged in the dairy sector, have different capital structures with diverse gearing ratios (and therefore finance costs) and other factors such as changes in fair value less costs to sell of biological assets and fair value changes of financial instruments, which will distort the comparability of P/E. As shown in the sub-section headed “Analysis of comparable companies” below, the net gearing ratios of the Comparable Companies (as defined below) ranged from a net cash position to approximately 116.1% based on their latest published financial results; and
- (c) EV/EBITDA has the following advantages as compared with other valuation multiples:
  - (1) EV/EBITDA bears the advantages of P/E and P/B by taking into account (i) the earning potential of the Target Group in the form of operating profit; and (ii) both equity and debt values of the Target Group as embedded in the enterprise value; and
  - (2) the variances in capital structures, accounting policies on depreciation and amortisation and other non-cash items such as changes in fair value less costs to sell of biological assets and fair value changes of financial instruments will not distort the comparability of EV/EBITDA among the Target Group and the Comparable Companies (as defined below) given EBITDA in the multiple screens out the impact of finance costs, depreciation and amortisation and other non-operating items and focuses on the operating performance of the core businesses of the relevant companies.

### *(iii) Analysis of comparable companies*

The Target Group is principally engaged in dairy farming and production and sales of raw milk and other dairy products in the PRC.

In evaluating the fairness and reasonableness of the Consideration, we have, based on our search on Bloomberg and the website of the Stock Exchange, identified an exhaustive list of companies (the “**Comparable Companies**”) which (a) are principally engaged in the dairy business in the PRC; (b) have their shares listed in Hong Kong or

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the PRC; and (c) have market capitalisation within HK\$27 billion, being 50% higher than the market capitalisation of the Company of approximately HK\$18.03 billion as at January 21, 2022. Based on these criteria, we identified 13 Comparable Companies.

The Comparable Companies both listed in Hong Kong and the PRC were considered to account for the significant growth of Zhongdi in the past. For 2020H1 and FY2020, revenue of Zhongdi grew by approximately 23.7% and 28.5% respectively, as compared with the previous period or year. For the Comparable Companies listed in Hong Kong, the change in their revenue in FY2020 ranged from a decrease of approximately 9.1% to a growth of approximately 18.6% with an average and median of a growth of approximately 6.4% and 7.0%, respectively. For the Comparable Companies listed in the PRC, the change in their revenue in FY2020 ranged from a decrease of approximately 9.8% to a growth of approximately 26.4% with an average and median of a growth of approximately 11.2% and 11.5%, respectively. We noted that (a) the revenue growth of the PRC listed Comparable Companies was generally higher than those of the Hong Kong listed Comparable Companies; and (b) the revenue growth of Zhongdi of approximately 28.5% in FY2020 was even higher than those of the PRC listed Comparable Companies. As such, we consider that the implied valuations of the Hong Kong listed Comparable Companies may not fully reflect the growth potential of Zhongdi.

The above selection criteria are set with a view to identifying a reasonable and sufficient sample size of comparable companies engaged in the same sector as the Target Group does with reference to the market capitalisation of the Company for comparison. As shown in the table below, the Comparable Companies had market capitalisations within HK\$27 billion, being 150% of the market capitalisation of the Company as at January 21, 2022.

On the one hand, for illustrative purpose, if narrowing down our selection criteria by picking those with market capitalisations within a range of 50% higher or lower than the market capitalisation of the Company as at January 21, 2022, i.e. from HK\$9 billion to HK\$27 billion, only 5 Comparable Companies were identified with EV/EBITDAs ranging from approximately 6.05 times to approximately 23.75 times with an average and median of approximately 14.54 and 12.75 times, respectively. While the aforesaid results will not affect our analysis and conclusion on the fairness and reasonableness of the Consideration, we consider a sample size of 5 is inadequate which may not be fair and representative.

On the other hand, while we consider a sample size of 13 is reasonable and sufficient, we noted that other than the 13 Comparable Companies identified, other dairy companies listed in Hong Kong and the PRC generally had market capitalisation of over HK\$100 billion as at January 21, 2022, which we consider too sizeable for comparison purpose, namely Inner Mongolia Yili Industrial Group Co. Ltd. (stock code: 600887.SH), China Mengniu Dairy Co. Ltd. (stock code: 2319.HK) and China Feihe Limited (stock code: 6186.HK).



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Overall, we consider the Comparable Companies are fair and representative given that (a) they and the Target Group are engaged in the dairy sector with their principal operations all located in the PRC; (b) they can reflect the growth potential of Zhongdi; and (c) a reasonable and sufficient sample size could be identified to allow a meaningful comparison based on the aforesaid criteria as illustrated above.

As detailed below, in arriving at the market value of the Target Company, for the sake of prudence, we will adopt the lower of the average or the median of the EV/EBITDAs of the Comparable Companies which is typically used to address any outlier issue.

The following table sets out the details of the Comparable Companies:

Company name (stock code)	Principal activities	EV (Note 1) (RMB' million)	EBITDA (Note 1) (RMB' million)	EV/ EBITDA (times)	Market capitalisation (Note 1) (HK\$' billion)	Net gearing ratio (Note 2)
Bright Dairy & Food Co., Ltd. (600597.SH)	Processing and sales of milk and other dairy products	22,533	1,767	12.75	23.33	10.5%
Ausnutria Dairy Corporation Limited (1717.HK)	Production, marketing and distribution of pediatric milk formula products	13,376	1,613	8.29	16.81	Net cash
New Hope Dairy Co., Ltd. (002946.SZ)	Manufacture of milk products	16,879	773	21.84	16.23	116.1%
Beijing Sanyuan Foods Co., Ltd. (600429.SH)	Production and sale of dairy products	11,807	497	23.75	11.66	4.1%
China Modern Dairy Holdings Limited (1117.HK)	Production and sales of raw milk and processed liquid milk	12,277	2,028	6.05	11.24	28.2%
Health and Happiness (H&H) International Holdings Limited (1112.HK)	Manufacture and sale of premium pediatric nutritional	10,989	1,885	5.83	8.44	62.5%
Xinjiang Tianrun Dairy Co., Ltd. (600419.SH)	Production and wholesale of dairy products	3,972	269	14.78	4.99	Net cash
Guangdong Yantang Dairy Co., Ltd. (002732.SZ)	Manufacture and sales of dairy products and milk beverages	3,868	281	13.75	4.90	Net cash



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Company name (stock code)	Principal activities	EV (Note 1) (RMB' million)	EBITDA (Note 1) (RMB' million)	EV/ EBITDA (times)	Market capitalisation (Note 1) (HK\$' billion)	Net gearing ratio (Note 2)
China Shengmu Organic Milk Limited (1432.HK)	Production and distribution of raw milk and dairy products	4,799	767	6.25	4.36	22.2%
Lanzhou Zhuangyuan Pasture Co., Ltd. (1533.HK)	Production, processing and marketing of dairy products and milk beverages, as well as the dairy farming business	2,907	142	20.53	3.10	1.1%
Xinjiang Western Animal Husbandry Co., Ltd. (300106.SH)	A raw milk supplier whose operation chain covers breeding, feed production and processing, cattle farming, slaughtering, fresh milk collection and sale and distribution	2,307	120	19.27	2.79	Net cash
Yashili International Holdings Limited (1230.HK)	Manufacture and sale of dairy and nourishment products	901	182	4.96	2.56	Net cash
YuanShengTai Dairy Farm Limited (1431.HK)	Production and sales of raw milk	89	911	0.1	1.31	Net cash
			<b>Maximum</b>	23.75		
			<b>Minimum</b>	0.10		
			<b>Average</b>	12.17		
			<b>Median</b>	12.75		

Source: Bloomberg and website of the Stock Exchange

Notes:

- As at January 21, 2022 as extracted from Bloomberg.
- Being net debt (which equals bank and other borrowings, plus convertible notes, less bank balances and cash, and less pledged and restricted bank deposits under current assets) divided by total equity and multiplied by 100% based on the latest published results of the Comparable Companies.

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As shown above, EV/EBITDAs of the Comparable Companies ranged from approximately 0.10 time to approximately 23.75 times, with an average and median of approximately 12.17 times and 12.75 times, respectively. In arriving at the market value of the Target Group as shown in the following sub-section, we will adopt an EV/EBITDA of approximately 12.17 times which is the average of EV/EBITDAs of the Comparable Companies.

According to Bloomberg, the EV/ EBITDA of the Company was approximately 8.48 times as at the Latest Practicable Date. Although such EV/EBITDA of the Company is lower than the adopted EV/EBITDA of approximately 12.17 times, we consider the adopted EV/EBITDA to be fair and reasonable after taking into account that (a) the stock price of the Company is currently undervalued as compared to the EV/EBITDAs of the Company ranging from approximately 8.29 times to approximately 11.33 times during the period from June 18, 2021 (date of listing of the Shares on the Stock Exchange) and up to the Latest Practicable Date; (b) an exhaustive list of dairy companies has been considered based on the aforesaid criteria which we consider fair and reasonable, allowing us to identify a sufficient sample size for a meaningful comparison; (c) the adopted EV/EBITDA is lower than the median of those of the Comparable Companies of approximately 12.75 times which is typically used to address any outlier issue; and (d) the Consideration is arrived at after arms' length negotiation among the Company and the Controller who is an Independent Third Party and does not have any relationship with the Group.

***(iv) Market value of the Target Group***

Set out below is the computation of the market value of 100% equity interest in the Target Company as at January 21, 2022:

		<i>RMB'000</i>
EBITDA of the Target Group for the year ended		
December 31, 2021 ( <i>Note 1</i> )	A	552,955
EV/EBITDA (times) ( <i>Note 2</i> )	B	12.17
<b>Enterprise value of the Target Group</b>	<b>C = A x B</b>	<b>6,729,462</b>
Add: Cash and cash equivalents as at December 31, 2021	D	397,217
Less: Non-operating liabilities as at December 31, 2021 ( <i>Note 3</i> )	E	(2,583,810)
<b>Equity value of the Target Group</b>	<b>F = C + D + E</b>	<b>4,542,869</b>
Less: Non-controlling interests as at December 31, 2021	G	(107,328)
<b>Equity value attributable to shareholders of the Target Company</b>	<b>H = F + G</b>	<b>4,435,541</b>
Less: Discount for lack of marketability (“DLOM”) of 16.0% ( <i>Note 4</i> )	I = H x 16.0%	(709,687)
<b>Market value of 100% equity interest in the Target Company</b>	<b>J = H + I</b>	<b>3,725,854</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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RMB'000

<b>Market value of 27.16% equity interest in the Target Company</b>		
– in RMB'000	K = J x 27.16%	<b>1,011,942</b>
– in HK\$'000	K x 1.23	<b>1,244,689</b>
<b>Consideration (in HK\$'000)</b>		<b>1,206,380</b>
<b>Discount of the Consideration to market value</b>		<b>3.1%</b>

*Notes:*

1. Being revenue less the sum of cost of sales, business tax and surcharges, selling expenses and administrative expenses and plus depreciation and amortisation expenses of the Target Group, as provided by the Company.
2. Being the average of EV/EBITDAs of the Comparable Companies as at January 21, 2022.
3. Being short-term and long-term borrowings, lease liabilities and other non-current liabilities due within one year of the Target Group, as provided by the Company.
4. Refers to the median of discount for lack of marketability for the manufacturing industry (including dairy products) as extracted from the 2021 edition of the Stout Restricted Stock Study Companion Guide published by Stout Risius Ross, LLC which we consider a reliable reference given it is global investment bank and advisory firm specialising in corporate finance, valuation, financial disputes and investigations with offices located in Asia, Europe and North America.

As shown above, the market value of 100% equity interest in the Target Company is approximately RMB3,725.9 million, which is determined with reference to (a) the unaudited consolidated financial information of the Target Group; (b) the average of EV/EBITDAs of the Comparable Companies; and (c) a DLOM of 16.0% given the Target Group is a private group with no established market for sale and purchase. The Consideration represents a discount of approximately 3.1% to the market value of 27.16% equity interest in the Target Company.

*(v) Overall comment*

The Consideration for 707,878,000 Transfer Shares, representing approximately 27.16% of the issued share capital of the Target Company, is HK\$1,206,380,000 (equivalent to approximately HK\$1.70 per Transfer Share). This is higher than (a) the offer price of HK\$1.132 per share (the “**Offer Price**”) in Zhongdi’s privatization proposal (the “**Privatization**”) announced in September 2020; and (b) the net asset value per share of Zhongdi of approximately HK\$1.20 as at December 31, 2020, calculated based on (1) the equity attributable to shareholders of Zhongdi of approximately RMB2,624.1 million as at December 31, 2020; (2) 2,606,719,522 issued shares of Zhongdi as at December 31, 2020; and (3) an exchange rate of RMB1: HK\$1.1917 as at 31 December 2020 as extracted from Bloomberg.

As disclosed in the composite document (the “**Composite Document**”) dated January 18, 2021 jointly issued by Zhongdi and Wholesome Harvest Limited, the P/E as implied by the Privatization was approximately 16.7 times, calculated based on (a) the valuation of Zhongdi implied by the Offer Price; (b) the profit attributable to shareholders of Zhongdi of approximately RMB159.2 million for the twelve months ended June 30, 2020; and (c) the exchange rate of RMB1: HK\$1.10907.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Notwithstanding the above, we consider the Consideration to be fair and reasonable after taking into account the following:

- (a) *revenue and net profit of Zhongdi continued to grow rapidly subsequent to the announcement of the Privatization in September 2020*

At the time when the Privatization was announced, only the consolidated financial information of Zhongdi for 2020H1 was available, in which revenue and profit attributable to shareholders of Zhongdi increased by approximately 23.7% and 109.5% for 2020H1 as compared to the corresponding period in 2019. For the twelve months ended June 30, 2020, revenue and profit attributable to shareholders of Zhongdi amounted to approximately RMB1,666.9 million (the “**LTM Revenue**”) and RMB159.2 million (the “**LTM Profit**”), respectively.

The annual results of Zhongdi for FY2020 was published on March 31, 2021 after the despatch of the Composite Document in January 2021. For FY2020, revenue and profit attributable to shareholders of Zhongdi amounted to approximately RMB1,927.2 million and RMB236.6 million, representing an increase of approximately 28.5% and 126.7%, respectively, as compared to the previous year. The growth in revenue and net profit for FY2020 was higher than those for 2020H1 when the Privatization was announced. As compared with the LTM Revenue and the LTM Profit, revenue and net profit of Zhongdi for FY2020 increased by approximately 15.6% and 48.6%, respectively. For the year ended December 31, 2021, EBITDA of Zhongdi increased by approximately 10.9% to approximately RMB553.0 million from approximately RMB498.6 million for FY2020.

As disclosed in the section headed “Information on the Parties – Information on the Target Company and its subsidiaries” in the Letter from the Board, the net profit of Zhongdi for the year ended December 31, 2021 based on its unaudited management accounts prepared in accordance with PRC GAAP was approximately RMB133.7 million. However, due to differences in accounting standards, it is not possible to directly compare Zhongdi’s net profit for the year ended December 31, 2021 (which was prepared in accordance with PRC GAAP) with its net profit for FY2020 (which was prepared in accordance with IFRS). Zhongdi has not prepared a reconciliation of the financial information between PRC GAAP and IFRS and has not quantified such differences but the main difference between PRC GAAP and IFRS identified is the difference in the accounting treatment of biological assets in the financial statements. Under IFRS, biological assets are measured at fair market value and the difference in the fair market value of the biological assets for the two financial years ended December 31, 2020 and 2021 would have been recognised only in the financial statements for the year ended December 31, 2021. Under PRC GAAP, biological assets are measured at cost and depreciation of the milkable dairy cows would be calculated annually and recognised in the financial statements for the same year. As the net profits of Zhongdi for the year ended December 31, 2021 prepared in accordance with IFRS is not available, we are not able to comment on the trend of Zhongdi’s net profit for the year ended December 31, 2021 as compared to that for FY2020.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For illustrative purpose only, based on (1) the valuation of 100% equity interest in the Target Company of approximately RMB3,725.9 million; and (2) the profit attributable to shareholders of Zhongdi of approximately RMB236.6 million for FY2020, the implied P/E is approximately 15.7 times which is lower than that of approximately 16.7 times implied by the Privatization.

Based on the above, we consider that the higher valuation implied by the Share Transfer is well supported by the rapid growth of Zhongdi in terms of revenue and net profit subsequent to the announcement of the Privatization.

*(b) the dairy industry in the PRC has been undergoing significant growth in recent years and is expected to continue to grow according to F&S*

The PRC's dairy industry has grown significantly in recent years and is expected to continue to grow, driven by increasing dairy product consumption and demand of end consumers. This in turn has been driving the demand for raw milk.

According to F&S, retail sales value of dairy products in the PRC grew from approximately RMB326.4 billion in 2015 to approximately RMB490.3 billion in 2020, representing a CAGR of approximately 8.5%, and is expected to reach approximately RMB738.5 billion in 2025, representing a CAGR of approximately 8.5% between 2020 and 2025. F&S expects dairy product consumption in the PRC to continue to grow rapidly with increasing disposable income and consumption upgrade.

On the other hand, according to F&S, the PRC's raw milk demand for dairy consumption grew from approximately 42.7 million tons in 2015 to approximately 53.0 million tons in 2020, representing a CAGR of approximately 4.4%, and is expected to reach approximately 62.5 million tons in 2025, representing a CAGR of approximately 3.3% between 2020 to 2025, driven by the increasing demand for dairy products from consumers. Such demand has outstripped the raw milk supply in the past years and the shortfall in supply is expected to reach approximately 21.0 million tons in 2025 according to F&S.

The average raw milk price in the PRC has since August 2018 started to rally and increased to approximately RMB3,830 per ton in December 2019 and further to approximately RMB4,152 per ton in December 2020, according to F&S. As disclosed in the 2021 Interim Report, driven by the downstream market demand for dairy products, the average raw milk price in 10 major production provinces in the PRC achieved a double-digit growth for 2021H1 as compared with 2020H1.

We consider that the continued growth of Zhongdi, backed by the growth potential and prospects of the dairy industry in the PRC as mentioned above, allows Zhongdi to sustain an increasing valuation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(c) *the Consideration represents a discount to the market value of the Target Group determined by using the market approach*

As set out in the sub-section headed “Adoption of the market approach” above, valuing the Target Group using EV/EBITDA is most appropriate given it has taken into account the earning potential of the Target Group as well as the capital structure of the Target Group. Valuation of the Target Group based on its asset backing is not appropriate as it does not reflect the earning potential of the Target Group.

Given (1) the market approach using EV/EBITDA is the most appropriate valuation methodology as set out in the sub-section headed “Adoption of the market approach” above; (2) the Consideration represents a discount of approximately 3.1% to the market value as set out in the sub-section headed “Market value of the Target Group” above; and (3) the Company will be able to exert significant influence over the Target Company upon Closing, we consider the Consideration to be fair and reasonable.

### **7. Financial effects of the Acquisition**

Upon the Closing, the Target Company shall become an associate company of the Company and the financial results of the Target Group will be accounted for by using the equity method in the consolidated financial statements of the Company.

#### **(i) Earnings**

As the Target Group has been generating revenue and profit, the Share Transfer is expected to contribute to the Group’s results upon Closing.

#### **(ii) Net asset value**

As the Target Company will not become a subsidiary of the Company, its financial statements will not be consolidated into the financial statements of the Group upon Closing. The Company intends to finance the Share Transfer by a combination of internal resources and loans obtained/to be obtained by the Company from commercial banks in Hong Kong. The increase in investment in associate will be offset by the increase in bank and other borrowings. Therefore, the Share Transfer is expected to have no material impact on the net asset value of the Group.

#### **(iii) Gearing**

As the Share Transfer is intended to be partly financed by bank borrowings, the Share Transfer is expected to increase the gearing of the Group upon Closing.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*(iv) Liquidity*

The Consideration will be paid (a) as to HK\$430,000,000 at the Closing; and (b) as to HK\$776,380,000 within six months after the Closing or as otherwise agreed by the parties. The Company intends to finance the Consideration by a combination of internal resources and bank borrowings.

Based on the 2021 Interim Report, the Group had net current liabilities of approximately RMB1,758.9 million with a current ratio of approximately 0.81 time as at June 30, 2021. The sufficiency of the Group's working capital depends on the Group's ability to obtain the anticipated cash flows from the Group's operating activities, the available unutilized bank loan facilities obtained and the successful renewal of the existing bank loan facilities.

Given (i) the Group recorded significant growth in both revenue and profit for FY2020 and 2021H1; (ii) the Group recorded significant cash flows from operating activities for FY2020 and 2021H1; (iii) the Group is the largest provider of comprehensive products and services along the upstream dairy industry chain in the PRC which may facilitate the Group to obtain or renew bank loan facilities; and (iv) the Share Transfer is expected to contribute to the results of the Group and have no material impact on the net asset value of the Group, we consider the negative impact of the Share Transfer on the gearing and liquidity of the Group to be acceptable.

### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Share Transfer Agreement is on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Share Transfer Agreement, while not in the ordinary and usual course of business of the Group, is nevertheless in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Share Transfer Agreement.

Yours faithfully,  
For and on behalf of  
**Rainbow Capital (HK) Limited**  
**Larry Choi**  
*Managing Director*

*Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.*



## 1. 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 in this circular or this circular misleading.

## 2. DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

### Interests of Directors and chief executive in the Company

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) 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 (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or which (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules.

### Interests of substantial Shareholders in the Company

As at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, the following parties (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to section 336 of the SFO, were as follows:

Name of Shareholder	Nature of interest	Number of Shares <sup>(1)</sup>	Percentage of issued share capital (%) <sup>(2)</sup>
PAG Holdings Limited <sup>(3)</sup>	Interest in controlled corporations	1,934,013,555(L)	50.96(L)
		107,315,000(S)	2.83(S)
Pacific Alliance Group Limited <sup>(3)</sup>	Interest in controlled corporations	1,934,013,555(L)	50.96(L)
		107,315,000(S)	2.83(S)
Shan Weijian <sup>(3)</sup>	Interest in controlled corporations	1,934,013,555(L)	50.96(L)
		107,315,000(S)	2.83(S)



Name of Shareholder	Nature of interest	Number of Shares <sup>(1)</sup>	Percentage of issued share capital (%) <sup>(2)</sup>
PAG Capital Limited <sup>(3)</sup>	Interest in controlled corporations	1,934,013,555(L) 107,315,000(S)	50.96(L) 2.83(S)
PAG Dairy GP I Limited <sup>(3)</sup>	Interest in controlled corporations	1,562,429,904(L) 5,688,000(S)	41.17(L) 0.15(S)
PAG Dairy I LP <sup>(3)</sup>	Interest in controlled corporations	1,562,429,904(L) 5,688,000(S)	41.17(L) 0.15(S)
Yili <sup>(4)</sup>	Interest in controlled corporations	1,320,800,000(L)	34.80(L)
PAGAC Yogurt Holding II Limited <sup>(3)</sup>	Beneficial interest	822,602,530(L) 5,688,000(S)	21.67(L) 0.15(S)
China Youran Dairy Holding Limited <sup>(4)</sup>	Beneficial interest	800,000,000(L)	21.08(L)
PAGAC Yogurt Holding III Limited <sup>(3)</sup>	Beneficial interest	739,827,374(L)	19.49(L)
Meadowland Investment Limited Partnership <sup>(5)</sup>	Beneficial interest	564,982,819(L)	14.89(L)
Jingang <sup>(4)</sup>	Beneficial interest	520,800,000(L)	13.72(L)
PAG Asia Capital GP I Limited <sup>(3)</sup>	Interest in controlled corporations	371,583,651(L) 101,627,000(S)	9.79(L) 2.68(S)
PAG Asia I LP <sup>(3)</sup>	Interest in controlled corporations	371,583,651(L) 101,627,000(S)	9.79(L) 2.68(S)
PAGAC Yogurt Holding I Limited <sup>(3)</sup>	Beneficial interest	371,583,651(L) 101,627,000(S)	9.79(L) 2.68(S)
GIC Private Limited	Investment manager	190,518,000(L)	5.02(L)

## Notes:

- (1) The letter “L” denotes the Shareholder’s long position in such Shares, while the letter “S” denotes the Shareholder’s short position in such Shares.
- (2) The percentages are calculated on the basis of 3,795,404,000 Shares in issue as at the Latest Practicable Date.
- (3) PAGAC Yogurt Holding I Limited (“**PAG I**”) directly held 371,583,651 Shares in the long position and 101,627,000 Shares in the short position and PAGAC Yogurt Holding II Limited (“**PAG II**”) held 822,602,530 Shares in the long position and 5,688,000 Shares in the short position. In addition, PAGAC Yogurt Holding III Limited (“**PAG III**”) was interested in 739,827,374 Shares by way of subscription of convertible notes in the amount of US\$330 million at a conversion price of US\$0.44605 (the “**Convertible Notes**”). As at the Latest Practicable Date, none of the Convertible Notes had been converted. PAG I, PAG II and PAG III are each wholly-owned subsidiaries of funds managed by PAG Capital Limited. PAG I is a wholly-owned subsidiary of PAG Asia I LP, whose general partner is PAG Asia Capital GP I Limited. Accordingly, PAG Asia I LP and PAG Asia Capital GP I Limited were deemed to be interested in 371,583,651 Shares. PAG II and PAG III are each wholly-owned subsidiaries of PAG Dairy I LP, whose general partner is PAG Dairy GP I Limited. Accordingly, PAG Dairy I LP and PAG Dairy GP I Limited were deemed to be interested in an aggregate of 1,562,429,904 Shares. PAG Capital Limited is held as to 55% by Pacific Alliance Group Limited and 45% by Mr. Shan Weijian. Pacific Alliance Group Limited is in turn held as to 99.17% by PAG Holdings Limited. Accordingly, PAG Capital Limited, Pacific Alliance Group Limited, Mr. Shan Weijian and PAG Holdings Limited were deemed to be interested in an aggregate of 1,934,013,555 Shares in the long position and 107,315,000 Shares in the short position.

- (4) China Youran Dairy Holding Limited directly held 800,000,000 Shares and Jingang directly held 520,800,000 Shares. Each of China Youran Dairy Holding Limited and Jingang is a wholly-owned subsidiary of Yili. Accordingly, Yili was deemed to be interested in an aggregate of 1,320,800,000 Shares.
- (5) Meadowland Investment Limited Partnership is an exempted limited partnership established under the laws of the Cayman Islands.

Save as disclosed above, so far as the Directors were aware, as at the Latest Practicable Date, no other parties had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to section 336 of the SFO.

### **3. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE GROUP**

None of the Directors has, or has had, any direct or indirect interest in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Group since December 31, 2020, the date to which the latest published audited financial statements of the Group were made up, and none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

### **4. 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, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

### **5. DIRECTORS' COMPETING INTERESTS**

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors and their respective associates were to be considered to have any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were treated as a controlling shareholder.

### **6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since December 31, 2020, being the date to which the latest published audited financial statements of the Company were made up.

## 7. EXPERT QUALIFICATION AND CONSENT

The qualification of the experts who have been named in this circular and have given opinions or advice which are contained herein is set out below:

<b>Name</b>	<b>Qualification</b>
Rainbow Capital (HK) Limited	A corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or statements and reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, the Independent Financial Adviser was not beneficially interested in the share capital of the Group nor did it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Group.

As at the Latest Practicable Date, the Independent Financial Adviser had no direct or indirect interest in any assets which had been since December 31, 2020 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.

## 8. DOCUMENTS ON DISPLAY

Copies of the following documents will be available on display on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.yourandairy.com](http://www.yourandairy.com)) for a period of 14 days from the date of this circular:

- (a) the Share Transfer Agreement; and
- (b) the written consent referred to in the section headed "Experts and consents" in this appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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**優然牧業**  
YOURAN DAIRY

**China Youran Dairy Group Limited**  
**中國優然牧業集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 9858)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (the “EGM”) of China Youran Dairy Group Limited (the “Company”) will be held at No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, China on Wednesday, March 23, 2022 at 10:00 a.m. for the following purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

**1. “THAT**

- (a) the execution of the Share Transfer Agreement (as defined and described in the circular dated March 4, 2022 (the “Circular”)) be and are hereby confirmed, ratified and approved and the transactions contemplated thereunder be and is hereby approved; and
- (b) any one or more directors of the Company be and are hereby authorized to do all such acts and things as they consider necessary and to sign and execute all such documents (including under the seal of the Company), and to take all such steps which in their opinion may be necessary appropriate, desirable or expedient for the purpose of giving effect to the Share Transfer Agreement and completing the transactions contemplated thereby.”

By order of the Board  
**China Youran Dairy Group Limited**  
**Zhang Xiaodong**  
*Executive Director and President*

Hong Kong, March 4, 2022

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. A member of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the EGM. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each of such proxies is so appointed. In light of COVID-19, the Company encourages shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorized in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer or attorney authorized to sign the same.
3. In order to be valid, the proxy form must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, with the Company's share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and, in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. before 10:00 a.m. on Monday, March 21, 2022 (Hong Kong time)) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude a shareholder from attending in person and voting at the EGM or any adjournment thereof, should he/she so wish and in such event, the proxy form will be deemed to be revoked.
4. The register of members of the Company will be closed from Friday, March 18, 2022 to Wednesday, March 23, 2022, both dates inclusive, during which no transfer of shares will be effected. In order to ascertain shareholders' rights for the purpose of attending and voting at the EGM, all transfer documents, accompanied by relevant share certificates, must be lodged with the Company's share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, March 17, 2022 for registration.
5. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
6. The voting on the resolution will be conducted by way of a poll.
7. As at the date of this notice, the Company's executive directors are Mr. Zhang Xiaodong, Mr. Dong Jiping; non-executive directors are Mr. Zhang Yujun, Mr. Xu Jun, Mr. Xu, Zhan Kevin, Mr. Qiu Zhongwei; and independent non-executive directors are Ms. Xie Xiaoyan, Mr. Yao Feng and Mr. Shen Jianzhong.