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

If you have sold or transferred all your shares in the Company, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1230)

REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS UNDER THE FRAMEWORK AGREEMENT WITH MENGNIU DAIRY AND NOTICE OF EGM

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



A letter from the Board is set out on pages 7 to 26 of this circular. A letter of advice from the Independent Financial Adviser (as defined herein) containing its advice and recommendation to the Independent Board Committee (as defined herein) and the Independent Shareholders (as defined herein) is set out on pages 29 to 43 of this circular. A letter from the Independent Board Committee is set out on pages 27 to 28 of this circular.

A notice convening the EGM to be held at 11/F, East Tower, Poly Development Plaza, 832 Yuejiang Road Central, Haizhu District, Guangzhou City, Guangdong Province, the PRC on Monday, 27 June 2022 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.yashili.hk>).

Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjournment(s) thereof or participating in the EGM through the online platform if they so wish.

PRECAUTIONARY MEASURES FOR THE EGM

Please see pages 1 to 2 of this circular for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the EGM, including:

- compulsory body temperature checks
- wearing of a surgical face mask for each attendee is a must
- no distribution of corporate gift or refreshment
- maintenance of appropriate distancing and spacing

Any person who does not comply with the precautionary measures or is subject to any government prescribed quarantine may be denied entry into the meeting venue. The Company reminds Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting as an alternative to attending the meeting in person.

8 June 2022

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PRECAUTIONARY MEASURES FOR THE EGM

The health of our Shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing COVID-19 pandemic, Shareholders can attend the EGM in person or participate in the EGM through Computershare's e-Meeting System (the “**online platform**”).

PHYSICAL ATTENDANCE

In view of the ongoing COVID-19 epidemic and recent requirements for prevention and control of its spread, the Company will implement the following preventive measures at the EGM to protect attending Shareholders, proxies, staff and stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted on every Shareholder, proxy and other attendee at the entrance of the venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue.
- (ii) It is a must for attendees to wear surgical face masks inside the meeting venue at all times, and maintain a safe distance between seats.
- (iii) No refreshments will be served, and there will be no distribution of corporate gifts.

To the extent permitted under law, the Company reserves the right to deny entry into the meeting venue or require any person to leave the meeting venue in order to ensure the safety of the attendees at the meeting.

In addition, the Company reminds all Shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting instead of attending the meeting in person, by completing and return the proxy form attached to this document.

ONLINE ATTENDANCE

Shareholders can participate in the EGM through the online platform. By logging in the dedicated online platform with a smart phone, tablet or computer with access to the internet, Shareholders can listen to the live audio broadcast and submit questions through the online platform, instead of attending the EGM in person. Details and instructions of the dedicated online platform and the login details are set out in the Company's notification letter sent together with this circular. Shareholders shall also refer to the User Guide posted on the Company's website on how to use the live audio broadcast.

PRECAUTIONARY MEASURES FOR THE EGM

Corporate shareholders who wish to participate in the EGM online, please contact the branch share registrar of the Company at +852 2862 8555 on or before 23 June 2022 for arrangement.

Non-registered shareholders whose shares in the Company are held in the Central Clearing and Settlement System through banks, brokers, custodians, nominees or HKSCC Nominees Limited (together, the Intermediary) may be able to participate in the EGM and submit questions online. In this regard, you should consult directly with your Intermediary for the necessary arrangements.

However, if a Shareholder only participate in the EGM online (i.e. neither the Shareholder nor his corporate representative nor his proxy attends the EGM physically and votes), such Shareholder's vote will not be counted. Shareholders not physically attending the EGM but wishing to vote may exercise their voting rights by appointing the chairman of the EGM as their proxy in advance.

In view of the travelling restrictions imposed by various jurisdictions including Hong Kong to prevent the spread of the COVID-19 pandemic, certain Directors may attend the EGM through electronic means.

Subject to the development of the COVID-19 pandemic, the Company may implement further changes and precautionary measures at short notice. Shareholders should check the Company's website at www.yashili.hk for future announcements and updates on the EGM arrangements.

If any Shareholder has any question about any resolution or about the Company, or has any matter for communication with the board of directors of the Company, he/she is welcome to send such question or matter in writing to our registered office or to our email at ir@yashili.cn. If any Shareholder has any question relating to the meeting, please contact Computershare Hong Kong Investor Services Limited, the Company's branch share registrar as follows:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Enquiries: www.computershare.com/hk/contact
Tel: 2862 8555
Fax: 2865 0990

DEFINITIONS

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

“Announcements”	(i) the announcement of the Company dated 2 July 2018 in relation to the entering into of the Framework Agreement, (ii) the announcement of the Company dated 31 December 2018 in relation to, among others, the revision of annual caps of the Continuing Connected Transactions under the Framework Agreement and (iii) the announcement of the Company dated 15 October 2021 in relation to the extension of the Framework Agreement and revision of annual cap of the Continuing Connected Transactions under the Framework Agreement
“Annual Caps”	the annual caps of Type II CCT contemplated under the Framework Agreement for the three years ending 31 December 2022, 2023 and 2024
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Circulars”	the circulars of the Company dated 22 February 2019 and 10 November 2021 in respect of the Framework Agreement
“Company”	Yashili International Holdings Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 1230)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions under the Framework Agreement”	the continuing connected transactions contemplated under the Framework Agreement which include Type I CCT, Type II CCT, Type III CCT and Type IV CCT
“Danone”	Danone SA, Danone Nutrition and other companies directly or indirectly controlled by Danone SA

DEFINITIONS

“Danone Nutrition”	Danone Asia Baby Nutrition Pte. Ltd., a company established and existing under the laws of Singapore, which is an indirect wholly-owned subsidiary of Danone SA and a substantial shareholder of the Company as of the Latest Practicable Date
“Danone SA”	Danone SA, a company incorporated under the laws of France and the ultimate controlling shareholder of Danone Nutrition
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps)
“Framework Agreement”	the framework agreement dated 29 June 2018 entered into between the Company and Mengniu Dairy, the term of which was later extended by the Supplemental Agreement for a period from 12 March 2022 to 31 December 2024
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board composed of all independent non-executive Directors, namely Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway

DEFINITIONS

“Independent Financial Adviser”	Somerley Capital 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 to advise the Independent Board Committee and the Independent Shareholders in relation to Type II CCT (including the revision of Annual Caps)
“Independent Shareholder(s)”	any Shareholder who is not required to abstain from voting at the EGM
“Latest Practicable Date”	31 May 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mengniu Dairy”	China Mengniu Dairy Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2319)
“Mengniu Group”	Mengniu Dairy and its subsidiaries
“Mengniu International”	China Mengniu International Company Limited, a company incorporated in the British Virgin Islands and a subsidiary of Mengniu Dairy. As of the Latest Practicable Date, it is a substantial Shareholder of the Company, holding approximately 51.04% of the issue share capital of the Company
“Periods”	the three years ending 31 December 2022, 2023 and 2024
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	person(s) whose name(s) appear on the register of members of the Company as registered holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement entered into between the Company and Mengniu Dairy on 15 October 2021 in relation to the extension of the term of the Framework Agreement for a period from 12 March 2022 to 31 December 2024
“Type I CCT”	the transactions contemplated under the Framework Agreement in relation to purchase of goods by the Mengniu Group from the Group
“Type II CCT”	the transactions contemplated under the Framework Agreement in relation to purchase of goods by the Group from the Mengniu Group
“Type III CCT”	the transactions contemplated under the Framework Agreement in relation to provision of services by the Mengniu Group to the Group
“Type IV CCT”	the transactions contemplated under the Framework Agreement in relation to provision of services by the Group to the Mengniu Group
“%”	per cent.

* *English names of the PRC entities are literal translation of their Chinese names and are included for identification purpose only.*

LETTER FROM THE BOARD



Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1230)

Non-executive Directors:

Mr. Jeffrey, Minfang Lu (*Chairman*)

Mr. Qin Peng

Mr. Zhang Ping

Mr. Gu Peiji (alias Philip Gu)

Registered Office:

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Executive Director:

Mr. Yan Zhiyuan

Head office and principal place of

business in the PRC:

11/F, East Tower, Poly Development Plaza

832 Yuejiang Road Middle Haizhu District

Guangzhou City

Guangdong Province

The People's Republic of China

Independent non-executive Directors:

Mr. Mok Wai Bun Ben

Mr. Cheng Shoutai

Mr. Lee Kong Wai Conway

Principal place of business in Hong Kong:

Room A, 32nd Floor

COFCO Tower

262 Gloucester Road

Causeway Bay

Hong Kong

8 June 2022

To the Shareholders

Dear Sir/Madam,

**REVISION OF ANNUAL CAPS OF
CONTINUING CONNECTED TRANSACTIONS UNDER
THE FRAMEWORK AGREEMENT WITH MENGNIU DAIRY
AND
NOTICE OF EGM**

LETTER FROM THE BOARD

Reference is made to (1) the Announcements and the Circulars in respect of the Framework Agreement and the Supplemental Agreement between the Company and Mengniu Dairy and (2) the announcement of the Company dated 25 April 2022 in relation to the revision of annual caps of continuing connected transactions under the Framework Agreement. The purpose of this circular is to provide you with: (i) further information on the revision of Annual Caps, (ii) recommendations from the Independent Board Committee to the Independent Shareholders; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) other information as required under the Listing Rules, and (v) the enclosed notice of the EGM so that you can make an informed decision on voting in respect of the relevant resolution(s) at the EGM.

REVISION OF ANNUAL CAPS OF TYPE II CCT

As disclosed in the Announcements and the Circulars, the term of the Framework Agreement has been extended by the Supplemental Agreement for a period from 12 March 2022 to 31 December 2024. The Group expects that the Group will increase its purchase amount of the goods from the Mengniu Group for each of the three years ending 31 December 2022, 2023 and 2024, which will be Type II CCT contemplated under the Framework Agreement. As a result, the Board would like to adjust upward the Annual Caps in respect of Type II CCT as follows:

Type II CCT	For the year ending 31 December 2022 <i>(RMB in million)</i>	For the year ending 31 December 2023 <i>(RMB in million)</i>	For the year ending 31 December 2024 <i>(RMB in million)</i>
Original Annual Caps	590	770	990
Revised Annual Caps	1,200	1,500	1,900

The revised Annual Caps were determined after having taken into account: (i) the actual transaction amounts of Type II CCT for the year ended 31 December 2021 and the three months ended 31 March 2022, which were approximately RMB374.4 million (audited) and RMB344.8 million (unaudited), respectively; and (ii) the estimated demand of the Group for the goods to be purchased from the Mengniu Group under Type II CCT during each of the three years ending 31 December 2022, 2023 and 2024.

LETTER FROM THE BOARD

Specifically, the determination of the revised Annual Caps in respect of Type II CCT is set out below.

- The vast majority of the products the Group plans to purchase from the Mengniu Group under Type II CCT are expected to be raw materials, including but not limited to, raw milk, whole milk powder and skimmed milk powder, which the Company expects may account for over 85% of the revised Annual Caps of the Type II CCT.
- The expected purchase amount of raw materials from the Mengniu Group is determined with reference to the rising procurement trend and the sales outlook of the Group for the Periods.
 - i. The actual transaction amount of Type II CCT has increased by approximately 37% from RMB272.32 million in 2019 to RMB374.4 million in 2021. Due to the global COVID-19 pandemic and the global shortage in supply of whole milk powder and skimmed milk powder (collectively, the “**Raw Milk Power**”, major ingredient of the Group’s milk powder products), the global price of Raw Milk Powder has risen substantially in the first quarter of 2022. In order to reduce the Group’s production costs, the Group has used raw milk as major ingredient of the Group’s milk powder products in substitution for Raw Milk Powder. Accordingly, the Group substantially raised its procurement of raw milk from the Mengniu Group and therefore the transaction amount of Type II CCT reached approximately RMB344.8 million for the three months ended 31 March 2022. As it is expected that the global shortage in supply of Raw Milk Powder would remain and the global price of Raw Milk Powder would stay relatively high in the coming years, the procurement trend of raw milk by the Group from the Mengniu Group is expected to continue rising for the Periods.
 - ii. The revenue of the Group has been growing for the five consecutive years ended 31 December 2021, which almost doubled from approximately RMB2.25 billion in 2017 to approximately RMB4.43 billion in 2021, and the Group targets to continue the sales growth at a rate of over 40% per year for the Periods. As disclosed in the Company’s 2021 annual report, the introduction of the three-child policy and the implementation of the national strategy of “Healthy China* (健康中國)” is expected to boost the growth of the milk powder industry. As a result, the Group’s demand of raw materials for its production activities, including but not limited to raw materials purchased from the Mengniu Group, is expected to further increase for the Periods.

LETTER FROM THE BOARD

- iii. Based on (a) the existing individual contracts entered into between the Group and the Mengniu Group under Type II CCT of the Framework Agreement and (b) the estimated demand (taking into account of seasonality) of the Group for the goods to be purchased from the Mengniu Group under Type II CCT, it is currently expected that the Group will procure raw milk and Raw Milk Powder amounting to approximately RMB690 million and other goods of approximately RMB26 million from the Mengniu Group under Type II CCT for the nine months from April to December 2022. Accordingly, the Company's management estimates the total transaction amount of Type II CCT for the year ending 31 December 2022 will be approximately RMB1,061 million. On the basis of an expected annual growth rate of approximately 30% of the total transaction amount of Type II CCT, the transaction amount of Type II CCT is expected to be approximately RMB1,379 million and RMB1,792 million for the year ending 31 December 2023 and 2024, respectively. With reference to the estimated transaction amount and allowing for an additional buffer of 10% of the estimated transaction amount, the revised Annual Caps are therefore set at RMB1,200 million, RMB1,500 million and RMB1,900 million for the year ending 31 December 2022, 2023 and 2024, respectively.
- The Company considers it beneficial to satisfy the Group's demand on raw materials by purchasing from the Mengniu Group as it allows the Group to obtain stable and quality source of supply despite the challenging market environment and reduce purchase costs for raw materials since certain factories of the Mengniu Group are located near the Group's factories and the Mengniu Group is able to provide quality goods with competitive prices. Accordingly, the Annual Caps of Type II CCT have been adjusted upward to cater for such increase in demand from the Group.
 - Other products, including finished products, packaging materials, auxiliary materials, among other things, are expected to account for less than 15% of the revised Annual Caps of Type II CCT.
 - Since both parties are dairy product manufacturers, certain types of materials used by the two parties for production are similar or interchangeable. When the Group experiences inventory shortage due to temporary changes of production plan or other reasons, it may not be able to procure sufficient materials from independent third parties within a short time. This may result from long distance in transportation, inventory shortage of existing cooperating independent third party or the relatively long time it takes to find a new independent supplier. In such situations, the Group would be able to expediently procure relevant materials at the market price from the Mengniu Group to avoid disruption of its normal production.

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS UNDER THE FRAMEWORK AGREEMENT

Save for the revision of Annual Caps, all other terms of the Framework Agreement as disclosed in the Announcements and the Circulars remain unchanged. Below sets forth (i) description of the transactions; (ii) pricing terms; and (iii) payment terms of each of Type I CCT, Type II CCT, Type III CCT and Type IV CCT for the Shareholders' easy reference.

1. Purchase of Goods by the Mengniu Group from the Group (Type I CCT)

(1) Description of Transactions

Purchase of raw materials for dairy products, raw materials for food, food additives (including but not limited to whole milk powder, skimmed milk powder and white sugar), auxiliary materials, packaging materials, semi-finished goods and finished goods by the Mengniu Group from the Group. The list of goods may be updated from time to time according to the business needs of the Group and the Mengniu Group.

(2) Pricing Terms

The price and terms of Type I CCT under the Framework Agreement shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and no less favourable to the Group than those available to the Group from independent third parties.

(3) Payment Terms

Unless otherwise agreed, payment shall be made within 30 to 90 business days of the receipt of the relevant invoice.

2. Purchase of Goods by the Group from the Mengniu Group (Type II CCT)

(1) Description of Transactions

Purchase of raw materials for dairy products, raw materials for goods, food additives (including but not limited to whole milk powder, skimmed milk powder and white sugar), auxiliary materials, packaging materials, semi-finished goods and finished goods by the Group from the Mengniu Group. The list of goods may be updated from time to time according to the business needs of the Group and the Mengniu Group.

LETTER FROM THE BOARD

(2) Pricing Terms

The price and terms of Type II CCT under the Framework Agreement shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and no less favourable to the Group than those available to the Group from independent third parties.

(3) Payment Terms

Unless otherwise agreed, payment shall be made within 30 to 90 business days of the receipt of the relevant invoice.

3. Provision of Services by the Mengniu Group to the Group (Type III CCT)

(1) Description of Transactions

Provision of testing services, storage and leasing services, marketing and sales services, IT services, labour services, advisory services and management services by the Mengniu Group to the Group. The scope of the services may be updated from time to time according to the business needs of the Group and the Mengniu Group.

(2) Pricing Terms

The price and terms of Type III CCT under the Framework Agreement shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and no less favourable to the Group than those available to the Group from independent third parties.

(3) Payment Terms

Unless otherwise agreed, payment shall be made within 30 to 90 business days of the receipt of the relevant invoice.

LETTER FROM THE BOARD

4. Provision of Services by the Group to the Mengniu Group (Type IV CCT)

(1) Description of Transactions

Provision of processing services for skim milk powder, whole milk powder and other products, testing services, storage and leasing services, marketing and sales services, IT services, labour services, advisory services and management services by the Group to the Mengniu Group. The scope of the services may be updated from time to time according to the business needs of the Group and the Mengniu Group.

(2) Pricing Terms

The price and terms of Type IV CCT under the Framework Agreement shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and no less favourable to the Group than those available to the Group from independent third parties.

(3) Payment terms

Unless otherwise agreed, payment shall be made within 30 to 90 business days of the receipt of the relevant invoice.

In addition to the pricing term disclosed above, all transactions under the Framework Agreement shall be priced with reference to market price obtained through, among others, public market information, quotations from independent suppliers and service providers, government prescribed price, recent transaction prices of the Group with independent third parties, price enquiry and comparison with industry players.

LETTER FROM THE BOARD

Type I CCT

Public market information

Commodity exchange in the PRC, the industry's authoritative websites such as Global Dairy Trade (GDT) — a leading price reference indicator for the dairy product industry, reports by authoritative institutions, etc.

Applicable transactions:

Raw materials (expected to be the largest category under Type I CCT, which the Company expects may account for over 60% of the annual caps during each of the Periods);
Finished goods and semi-finished goods

Quotations from independent third parties

At least two quotations from independent suppliers capable of high-quality and stable supply

Applicable transactions:

Raw materials;
Auxiliary materials;
Packaging materials

Recent transaction price

Pricing policy for recent transactions (being transactions that took place within a year prior to the contemplated transaction) between the Group and independent third parties

Applicable transactions:

Finished goods and semi-finished goods

LETTER FROM THE BOARD

Type II CCT

Public market information

Commodity exchange in the PRC, the industry's authoritative websites such as Global Dairy Trade (GDT) — a leading price reference indicator for the dairy product industry, reports by authoritative institutions, etc.

Applicable transactions:

Raw materials (expected to be the largest category under Type II CCT, which the Company expects may account for over 85% of the annual caps during each of the Periods);

Finished goods

To be specific, before signing any purchase contract with the Mengniu Group for raw materials such as whole milk powder and skim milk powder, the Group will (1) refer to public market information such as the auction prices on GDT to learn about the general market conditions and price trends; or (2) seek at least two quotations from independent suppliers capable of high-quality and stable supply, to ensure that the purchase price for such raw materials from the Mengniu Group under the contract is not less favourable to the Group than those offered by independent suppliers.

Quotations from independent third parties

At least two quotations from independent suppliers capable of high-quality and stable supply

Applicable transactions:

Raw materials;

Auxiliary materials;

Packaging materials

LETTER FROM THE BOARD

Recent transaction price Pricing policy for recent transactions (being transactions that took place within a year prior to the contemplated transaction) between the Mengniu Group and independent third parties

Applicable transactions:

Finished goods

Type III CCT

Public market information Independent websites, agents, reports by authoritative institutions, etc.

Applicable transactions:

Storage and leasing services;

Advisory services

Quotations from independent third parties At least two quotations from independent suppliers that are experienced and capable of providing professional services

Applicable transactions:

Marketing and sales services (expected to be the largest category under Type III CCT, which the Company expects may account for over 70% of the annual caps for each of the Periods);

Advisory services;

IT services

To be specific, before signing any contract with the Mengniu Group for marketing and sales services, the Group will (1) check if there is any similar recent transaction between the Group and independent third parties and if yes, refer to the pricing policy in such recent transactions; or (2) seek at least two quotations from independent suppliers capable of providing the same services, to ensure that the purchase price for such services from the Mengniu Group under the contract is not less favourable to the Group than those offered by independent suppliers.

LETTER FROM THE BOARD

Recent transaction price	<p>Pricing policy for recent transactions (being transactions that took place within a year prior to the contemplated transaction) between the Group and independent third parties</p> <p>Applicable transactions: Marketing and sales services; Testing services; Labour services; Advisory services; IT services</p>
Government prescribed price	<p>Government prescribed price normally available from the websites and announcements of the relevant regional government where the Group's factories are located</p> <p>Applicable transactions: Management services such as sewage treatment, energy etc.</p>
Type IV CCT	
Public market information	<p>Independent websites, agents, reports by authoritative institutions, etc.</p> <p>Applicable transactions: Storage and leasing services; Advisory services</p>
Quotations from independent third parties	<p>At least two quotations from independent suppliers that are experienced and capable of providing professional services</p> <p>Applicable transactions: Advisory services; Marketing and sales services; IT services</p>

LETTER FROM THE BOARD

Recent transaction price

Pricing policy for recent transactions (being transactions that took place within a year of the contemplated transaction) between the Group and independent third parties

Applicable transactions:

Testing services;

Labour services;

Advisory services;

Marketing and sales services;

IT services

Price enquiry and comparison with industry players

Price enquiry or comparison with at least two industry players capable of providing the same processing services. To the knowledge of the Company, there are other equivalent industry players in the market who provide largely similar processing services.

Applicable transactions:

Processing services (expected to be the largest category under Type IV CCT, which the Company expects may account for over 80% of the annual caps for each of the Periods)

To be specific, before signing any processing service contract with the Mengniu Group for whole milk powder and so on, the Group will make price enquiry or comparisons with at least two independent industry players capable of providing the same processing services, to ensure that the processing fee offered to the Mengniu Group under the contract is not less favourable to the Group than the average market level indicated by such industry players.

LETTER FROM THE BOARD

Government prescribed price

Government prescribed price normally available from the websites and announcements of the relevant regional government where the Group's factories are located

Applicable transactions:

Management services such as sewage treatment, energy etc.

Note: the above definitions of applicable transactions might be adjusted as needed in the ordinary course of business where applicable.

SUPPLY AND PROCUREMENT OF GOODS AND SERVICES UNDER THE DIFFERENT TYPES OF CCT

Type I CCT and Type IV CCT involve supply of goods or services by the Group to the Mengniu Group, while Type II CCT and Type III CCT involve the procurement of goods or services by the Group from the Mengniu Group. Accordingly, Type I CCT and Type IV CCT are of a revenue nature to the Group and Type II CCT and Type III CCT are of an expense nature to the Group.

Supply and procurement of goods under Type I CCT and Type II CCT: Type I CCT involves supply of goods by the Group to the Mengniu Group. Type II CCT involves procurement of goods by the Group from the Mengniu Group.

The vast majority of the products the Mengniu Group plans to purchase from the Group in Type I CCT are expected to be milk powder used for production such as raw materials and semi-finished goods, mainly whole milk powder and base powder, which the Company expects may account for over 70% of the annual caps of Type I CCT during each of the Periods. On the other hand, the vast majority of the products the Group plans to purchase from the Mengniu Group in Type II CCT are expected to be raw materials, including but not limited to, raw milk, whole milk powder and skimmed milk powder, which the Company expects may account for around 85% of the annual caps of Type II CCT during each of the Periods.

On the one hand, the Mengniu Group has immense demand for raw materials throughout the year. Therefore, the Mengniu Group tends to focus its purchase of raw materials during milk seasons in order to realise better cost control, with its purchase of raw materials from the Group as part of its overall purchase plan. On the other hand, the Group has much less demand for purchasing and limited space for storing raw materials. Therefore, it is necessary that the Group purchases raw materials by phases throughout the year based on estimated demand as adjusted from time to time.

LETTER FROM THE BOARD

The Group's purchase of raw materials from the Mengniu Group enables the Group to take advantage of the Mengniu Group's storage space and secure stable supply of raw materials at competitive prices. Other products, which constitute a relatively smaller portion of Type I CCT and Type II CCT, include finished products, packaging materials and auxiliary materials, among other things. Since both parties are dairy product manufacturers, certain materials used by the two parties for production are similar or interchangeable. When the Group or the Mengniu Group experiences inventory shortage due to temporary changes of production plan or other reasons, it may not be able to procure sufficient materials from independent third parties within a short time. This may be due to long distance in transportation, inventory shortage of existing cooperating independent third parties or the relatively long time it takes to find a new independent supplier. In such situations, the Group or the Mengniu Group would be able to expediently procure relevant materials at the market price from the other party to avoid disruption of its normal production.

Supply and procurement of services under Type III CCT and Type IV CCT: Type III CCT involves procurement of services by the Group from the Mengniu Group. Type IV CCT involves supply of services by the Group to the Mengniu Group.

The vast majority of the services the Mengniu Group plans to purchase from the Group in Type IV CCT are expected to be processing services, which the Company expects may account for more than 80% of the annual caps of Type IV CCT for each of the Periods. On the other hand, the vast majority of the services the Group plans to purchase from the Mengniu Group in Type III CCT, are expected to be marketing and sales services, which the Company expects may account for more than 70% of the annual caps of Type III CCT for each of the Periods. Other services that are expected to constitute a smaller portion of Type III CCT and Type IV CCT include advisory services, testing services, labour services, storage and leasing services, among others, which are determined with reference to the possible demand for relevant services of the two parties. For example, the Group has comprehensive and strong testing capability for milk powder products, while the Mengniu Group possesses technical testing know-how for testing liquid milk products. In addition, each of the Group and the Mengniu Group has its own warehouse and office space, which may be provided by one party to the other when necessary.

The Directors are of the view that the Framework Agreement would not lead to any extreme reliance on the Mengniu Group and would not affect the Company's ability to operate on a stand-alone basis to any material extent. Most of the goods and services supplied or procured under the transactions contemplated under the Framework Agreement are common types of goods and services readily available in the market. While such transactions are/will be entered into based on the sound relationship and ongoing cooperation between the Group and the Mengniu Group, the

LETTER FROM THE BOARD

Directors are of the view that, in the event that the Framework Agreement is terminated, the Group will be able to sell to or purchase from independent third party customers or suppliers, given that the Group has established a wide base of quality customers or suppliers other than the Mengniu Group.

HISTORICAL TRANSACTION AMOUNTS AND ANNUAL CAPS

During the year ended 31 December 2021 and the year of 2022 up to the Latest Practicable Date, the transaction amounts of the Continuing Connected Transactions under the Framework Agreement are set out below:

Transaction amounts	For the year ended 31 December 2021 <i>(RMB in million)</i> (audited)	For the year of 2022 up to the Latest Practicable Date <i>(RMB in million)</i> (unaudited)
Type I CCT	282.7	124.7
Type II CCT	374.4	474.2
Type III CCT	11.7	1.6
Type IV CCT	45.6	0.3

Save for the revision of Annual Caps in respect of Type II CCT, the annual caps in respect of Type I CCT, Type III CCT and Type IV CCT as disclosed in the Announcements and the Circulars remain unchanged. The annual caps in respect of each type of the Continuing Connected Transactions under the Framework Agreement (assuming the revision of Annual Caps is approved at the EGM) are set out below for the Shareholders' easy reference:

Annual caps	For the year ending 31 December 2022 <i>(RMB in million)</i>	For the year ending 31 December 2023 <i>(RMB in million)</i>	For the year ending 31 December 2024 <i>(RMB in million)</i>
Type I CCT	860	1,100	1,150
Type II CCT	1,200 (revised)	1,500 (revised)	1,900 (revised)
Type III CCT	69	76	82
Type IV CCT	67	71	78

LETTER FROM THE BOARD

INTERNAL CONTROL MEASURES ON CONNECTED TRANSACTIONS

The Company has implemented internal control procedures and policies to monitor connected transactions with emphasis on, among others, (1) maintenance of a list of connected persons and connected transactions; (2) procedure for identifying connected transactions; (3) procedure for aggregating connected transactions and managing the aggregated transaction amount; and (4) monitoring mechanism for the annual caps of continuing connected transactions.

All contracts, before signing, are submitted to the Company's office automation system (the "OA System") to initiate review process. The OA System has incorporated the list of connected persons maintained by the Company and will capture any match between the contract parties and the list of connected persons. If a match is captured and such contracts are identified as potential connected transactions, the OA System will automatically add the compliance department to the review process. The compliance department will assess the Listing Rules implications and procure the Company to comply with applicable requirements under the Listing Rules. Contracts identified as connected transactions are reviewed by various departments of the Company including, among others, business department, legal department and compliance department. Such departments will review the terms and conditions of such contracts to ensure prices are determined on normal commercial terms and comply with the relevant pricing policy.

The Company has also established a monitoring mechanism for the annual caps of all continuing connected transactions of the Group. Pursuant to the Group's internal control procedures and policies, the compliance department has created and maintained a ledger account for the Continuing Connected Transactions under the Framework Agreement to monitor the actual transaction amount and ensure that the relevant annual caps will not be exceeded. The compliance department conducts a monthly review of the actual transaction amount and the estimated annualised transaction amount of each of Type I CCT, Type II CCT, Type III CCT and Type IV CCT and is in continuing discussion with the business department on any material changes in the estimated annualised transaction amount. Prior to the Group's entering into any individual transaction under the Framework Agreement, the compliance department will discuss with the business department to ensure that (i) prices are determined on normal commercial terms and complied with the relevant pricing policy and (ii) the actual transaction amount and the estimated annualised transaction amount of that type of Continuing Connected Transactions under the Framework Agreement will not exceed the relevant annual cap. The Company also has a monitoring system in place which restricts the booking of any transaction conducted with the Mengniu Group if the transaction amount would exceed the pre-determined range set by the compliance department.

LETTER FROM THE BOARD

Based on the abovementioned internal control procedures and policies, the Company is of the view that appropriate internal control measures are in place to prevent the actual transaction amount of the Continuing Connected Transactions under the Framework Agreement from exceeding the relevant annual caps. The Company will ensure that all the connected transactions, including but not limited to those contemplated under the Framework Agreement, are conducted in compliance with Chapter 14A of the Listing Rules.

INFORMATION ON THE COMPANY AND MENGNIU DAIRY

The Company is an investment holding company, which, along with its subsidiaries, is primarily engaged in the manufacturing and sale of dairy and nourishment products. It operates in the following segments: (a) production and sale of milk powder products (including the development, manufacture and sale of milk powder products in the PRC and overseas); (b) other milk powder products (including the production and sale of base powder); (c) sale of dissolvable products (including the development, manufacture and sale of soymilk powder, rice flour and cereal products); and (d) other operations (mainly including the sale of surplus raw materials and consigned processing operation).

Mengniu Dairy is a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of Stock Exchange. As of the Latest Practicable Date, there is no ultimate controlling shareholder of Mengniu Dairy who is entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of Mengniu Dairy. The Mengniu Group is one of the leading dairy product manufacturers in the PRC, principally engaged in manufacturing and distribution of quality dairy products including milk, ice cream, milk formula and other products.

REASONS FOR AND BENEFITS OF THE REVISION OF ANNUAL CAPS

The Directors (including the independent non-executive Directors whose views are set out in the letter from the independent board committee included in this circular) are of the view that the revision of Annual Caps would enable the Group to secure stable and quality supply of goods from the Mengniu Group despite the challenging market environment and reduce costs.

The Directors (including the independent non-executive Directors whose views are set out in the letter from the independent board committee included in this circular) are of the view that the revision of Annual Caps and the transactions contemplated under the Framework Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and the terms of the transactions contemplated under the Framework Agreement (including the revised Annual Caps) are fair and reasonable.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mengniu International, a subsidiary of Mengniu Dairy, held approximately 51.04% of the total issued share capital of the Company and is a substantial Shareholder of the Company. Therefore, Mengniu Dairy is a connected person of the Company. As such, the revision of Annual Caps and the transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (other than profits ratio) in respect of the Framework Agreement (with the revised Annual Caps) exceeds 5%, the revision of Annual Caps and the transactions contemplated thereunder are subject to reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Jeffrey, Minfang Lu is an executive director and the chief executive officer of Mengniu Dairy. Mr. Zhang Ping is an executive director and the chief financial officer of Mengniu Dairy. Accordingly, each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping is considered to have a material interest in the revision of Annual Caps. As such, each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping has abstained from voting on the board resolution approving the revision of Annual Caps.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been established to consider the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps) and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the resolution(s) approving the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps). No member of the Independent Board Committee has any material interest in the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps).

Somerley Capital Limited has been appointed as the Independent Financial Adviser in accordance with the Listing Rules to advise the Independent Board Committee and Independent Shareholders as to whether the revision of Annual Caps and the terms of Type II CCT are fair and reasonable so far as the Independent Shareholders are concerned, and the revision of Annual Caps and Type II CCT are on normal commercial terms in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole, as well as how to vote at the EGM.

LETTER FROM THE BOARD

EGM

The EGM will be held at 11/F, East Tower, Poly Development Plaza, 832 Yuejiang Road Central, Haizhu District, Guangzhou City, Guangdong Province, the PRC on Monday, 27 June 2022 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, to approve the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps). The notice of the EGM is set on pages EGM-1 to EGM-2 of this circular. To the best of the Directors' knowledge, the information and belief, having made all reasonable enquiry, other than Mengniu International, no other Shareholder will be required to abstain from voting on the resolution approving the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps).

Pursuant to Rule 13.39(4) of the Listing Rules and the articles of association of the Company currently in force, any vote of the Shareholders at a general meeting (except for purely to procedural or administrative matters) must be taken by poll. An announcement on the poll vote results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for the use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.yashili.hk>). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment(s) thereof or participating in the EGM through the online platform if you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors whose views are set out in the letter from the independent board committee contained in this circular after taking into consideration the advice of the Independent Financial Adviser) consider that the revision of Annual Caps and the terms of the transactions contemplated under the Framework Agreement (including the revised Annual Caps) are fair and reasonable and the revision of Annual Caps and the transactions contemplated under the Framework Agreement are on normal commercial terms in the ordinary and usual course of business of the Group, and in the interests of the Company and the

LETTER FROM THE BOARD

Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolution approving the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps).

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the information set out in the appendix to this circular.

Yours faithfully,

For and on behalf of the Board

Yashili International Holdings Ltd

雅士利國際控股有限公司

Kwok Wai Cheong, Chris

Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps), prepared for the purpose of inclusion in this circular.



Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1230)

8 June 2022

To the Independent Shareholders,

Dear Sir/Madam,

REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS UNDER THE FRAMEWORK AGREEMENT WITH MENGNIU DAIRY

We refer to the circular issued by the Company to the Shareholders of even date (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider and to advise you as to the fairness and reasonableness of the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps) and to recommend whether or not the Independent Shareholders should approve them. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of the advice of the Independent Financial Adviser, together with the principal factors and reasons which the Independent Financial Adviser has taken into consideration in arriving such advice, are set out on pages 29 to 43 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps).

Having taken into account the terms of transactions contemplated under the Framework Agreement (including the revised Annual Caps) and the reasons and benefits of the revision of Annual Caps and the transactions contemplated under the Framework Agreement, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we are of the view that the revision of Annual Caps and the terms of the transactions contemplated under the Framework Agreement (including the revised Annual Caps) are fair and reasonable and the revision of Annual Caps and the transactions contemplated under the Framework Agreement are on normal commercial terms in the ordinary and usual course of business of the Group and in the best interests of the Company and the Independent Shareholders as a whole.

We therefore recommend the Independent Shareholders to support and to vote in favour of the resolution approving the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps).

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Yashili International Holdings Ltd
Mok Wai Bun Ben
Cheng Shoutai
Lee Kong Wai Conway
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor, China Building

29 Queen's Road Central

Hong Kong

8 June 2022

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS UNDER THE FRAMEWORK AGREEMENT WITH MENGNIU DAIRY

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the revision of the Annual Caps in respect of Type II CCT contemplated under the Framework Agreement as extended pursuant to the Supplemental Agreement entered into between the Company and Mengniu Dairy on 15 October 2021. Details of Type II CCT and the revised Annual Caps are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 8 June 2022 (the “**Circular**”), of which this letter forms part. Unless otherwise specified, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, Mengniu International, a subsidiary of Mengniu Dairy, held approximately 51.04% of the total issued share capital of the Company and is a substantial Shareholder of the Company. Therefore, Mengniu Dairy is a connected person of the Company. As such, the revision of Annual Caps and the transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Framework Agreement (with the revised Annual Caps) exceeds 5%, the revision of Annual Caps and the transactions

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

contemplated under the Framework Agreement are subject to reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway, has been established to advise the Independent Shareholders as to whether (i) Type II CCT contemplated under the Framework Agreement (including the revision of the Annual Caps) are conducted in the ordinary and usual course of business of the Group; (ii) the terms of the Framework Agreement in respect of Type II CCT are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned; and (iv) the revision of the Annual Caps is in the interest of the Company and the Shareholders as a whole, and make recommendation to the Independent Shareholders as to how to vote at the EGM on the resolution in relation to the revision of the Annual Caps. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to (i) the independent board committee and independent shareholders of the Company in relation to, among others, the continuing connected transactions as detailed in the Company's circulars dated 4 December 2020, 10 November 2021 and 15 November 2021; and (ii) the independent board committee and independent shareholders of Mengniu Dairy in relation to certain connected transactions as detailed in the circular of Mengniu Dairy dated 24 September 2021. As at the Latest Practicable Date, Somerley Capital Limited was acting as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to, among others, a major and connected transaction and a pre-conditional proposal for the privatisation of the Company as detailed in the joint announcement published by the Company and Mengniu Dairy dated 6 May 2022. The above engagements were limited to providing independent advisory services to independent board committee and independent shareholders of the Company and Mengniu Dairy pursuant to the Listing Rules and the Hong Kong Code on Takeovers and Mergers. Under the above engagements, Somerley Capital Limited received normal professional fees from the Company. As at the Latest Practicable Date, there have been no other arrangements, relationships or interests existing between (a) Somerley Capital Limited and (b) the Group and the Mengniu Group whereby we had received or will receive any fees or benefits that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of Type II CCT (including the revision of Annual Caps) as detailed in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Director and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the executive Director that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and the Mengniu Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations, we have taken into account the principal factors and reasons set out below:

1. Information on the parties

The Company

The Company is an investment holding company, which, along with its subsidiaries, is primarily engaged in the manufacturing and sale of dairy and nourishment products. It operates in the following segments: (a) production and sale of milk powder products (including the development, manufacture and sale of milk powder products in the PRC and overseas); (b) other milk powder products (including the production and sale of base powder); (c) sale of dissolvable products (including the development, manufacture and sale of soymilk powder, rice flour and cereal products); and (d) other operations (mainly including the sale of surplus raw materials and consigned processing operation).

Mengniu Dairy

Mengniu Dairy is a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange. As of the Latest Practicable Date, there is no ultimate controlling shareholder of Mengniu Dairy who is entitled to exercise or control the exercise of 30% or more of the voting power at the general meeting. The Mengniu Group is one of the leading dairy product manufacturers in the PRC, principally engaged in manufacturing and distribution of quality dairy products including milk, ice cream, milk formula and other products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

2. Reasons for and benefits of the revision of the Annual Caps

The original Annual Caps were approved at the extraordinary general meeting of the Company on 30 November 2021. As set out in the section headed “Revision of Annual Caps of Type II CCT” in the “Letter from the Board” contained in the Circular, the Group expects that the Group will increase its purchase amount of the goods from the Mengniu Group for each of the three years ending 31 December 2022, 2023 and 2024, which constitute Type II CCT contemplated under the Framework Agreement. As a result, the Board would like to adjust upward the Annual Caps.

As disclosed in the Company’s 2021 annual report, revenue from the segment of production and sale of milk powder products accounted for approximately 82.3% of the total revenue of the Group for the year ended 31 December 2021. We have discussed with the management of the Company and reviewed the auction prices published on Global Dairy Trade (“GDT”) (<https://www.globaldairytrade.info/>) which is a leading price reference indicator for the dairy product industry and understood that the prices of whole milk powder and skimmed milk powder (collectively, the “Raw Milk Powder”), being the major ingredients for the production of milk powder products, surged over 18% and 21% respectively during the first quarter of 2022 as a result of, among others, the global shortage in supply. Accordingly, the production costs of milk powder products using the Raw Milk Powder as major ingredients have increased substantially. To reduce the Group’s costs of production, the Group switched to domestic raw milk as the major ingredient, and increased the procurement of raw milk from the Mengniu Group for the three months ended 31 March 2022. In view of the (i) ongoing global COVID-19 pandemic; (ii) unstable political environment; and (iii) the global supply shortage of the Raw Milk Powder, the management of the Company expects that the price of the Raw Milk Powder will stay at a relatively high level in the coming years generally and the increase in procurement of raw milk from the Mengniu Group will continue. In addition, as disclosed in the Company’s 2021 annual report, after the revision of the Law of the People’s Republic of China on Population and Family Planning* (《中華人民共和國人口與計劃生育法》) and the introduction of the three-child policy, provinces, cities and regions in the PRC have successively implemented supporting measures to support childbirth, which, together with the implementation of the national strategy of “Healthy China* (健康中國)”, will benefit the milk powder industry. As stated in the Report on the Development of Elderly-related Industry in China* (《中國老齡產業發展報告》) issued by the China National Committee on Aging* (中國老齡問題全國委員會), the elderly population in China is expected to reach over 480 million in 2050, and their potential consumption power is estimated to increase to approximately RMB106 trillion, accounting for approximately 33% of the gross domestic product (GDP) in the PRC. Therefore, it is expected that the market size of adult milk powder will continue to expand. The management of the Company expects that the size of China’s milk powder market will grow steadily, and the Group’s demand of ingredients for its production

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

activities, including the procurement amount of raw milk from the Mengniu Group, is expected to increase for the Periods. Taking into account the above, the management of the Company expects the estimated transaction amounts of Type II CCT will exceed the original Annual Caps for the Periods.

Accordingly, the Company proposes to seek Independent Shareholders' approval for the revision of Annual Caps at the EGM. In view of the above and given that Type II CCT will be conducted on normal commercial terms (as more particularly discussed in the sub-section headed "Background and principal terms of the Framework Agreement" of this letter below), the executive Director considers, and we concur, that the revision of Annual Caps would provide the Group with flexibility to conduct its business, and enable the Group to reduce the production costs of milk powder products under competitive market environment which in turn will benefit the Group's long-term development.

3. Background and principal terms of the Framework Agreement

The Supplemental Agreement was entered into between the Company and Mengniu Dairy on 15 October 2021 in relation to the extension of the Framework Agreement for a period from 12 March 2022 to 31 December 2024. Pursuant to the Framework Agreement, the Group will purchase, among others, raw materials for dairy products, raw materials for goods, food additives (including but not limited to whole milk powder, skimmed milk powder and white sugar), auxiliary materials, packaging materials, semi-finished goods and finished goods from the Mengniu Group under Type II CCT. The list of goods may be updated from time to time according to the business needs of the Group and the Mengniu Group.

Type II CCT will be conducted on the same pricing and payment terms as provided in the Framework Agreement as disclosed in the Announcements and the Circulars, with details set out below:

Pricing terms

We understand from the Company that the prices shall be determined with reference to market price. As set out in the section headed "Continuing Connected Transactions under the Framework Agreement" in the "Letter from the Board" contained in the Circular, the prices and terms for Type II CCT shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and no less favourable to the Group than those offered to the Group by independent third parties. All Type II CCT shall be priced with reference to market price obtained through, among others, public market information, quotations from suppliers who are independent third parties of the Group, recent transaction prices of the Mengniu Group with independent third parties, price enquiry and comparison with industry

LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

players. As stated in the “Letter from the Board” contained in the Circular, before signing any purchase contract with the Mengniu Group for raw materials such as whole milk powder and skimmed milk powder, the Group will (1) refer to public market information such as the auction prices on GDT to learn about the general market conditions and price trends; or (2) seek at least two quotations from independent suppliers capable of providing high-quality and stable supply, to ensure that the price for such raw materials purchased from the Mengniu Group under the contract is no less favourable to the Group than those offered by independent suppliers. Further details of the pricing terms of Type II CCT are set out in the section headed “Continuing Connected Transactions under the Framework Agreement” in the “Letter from the Board” contained in the Circular.

Payment terms

As set out in the sub-section headed “Purchase of Goods by the Group from the Mengniu Group (Type II CCT)” in the “Letter from the Board” contained in the Circular, payment shall be made within 30 to 90 business days of the receipt of the relevant invoice unless otherwise agreed.

Save for the revision of Annual Caps, all other terms of the Framework Agreement as disclosed in the Announcements and the Circulars remain unchanged.

4. Revised Annual Caps in respect of Type II CCT

The Group will purchase, among others, raw materials for dairy products, raw materials for goods, food additives (including but not limited to whole milk powder, skimmed milk powder and white sugar), auxiliary materials, packaging materials, semi-finished goods and finished goods from the Mengniu Group under the Framework Agreement. Purchase of raw milk and the Raw Milk Powder accounted for over 99% of the actual transaction amount of Type II CCT for the three months ended 31 March 2022. Based on the information provided by the Company, we understand that the goods to be purchased by the Group from the Mengniu Group are primarily for production of milk powder products and sales of finished goods by the Group.

The historical transaction amounts with respect to Type II CCT were approximately RMB272.3 million, RMB324.7 million and RMB374.4 million for the three years ended 31 December 2019, 2020 and 2021, representing year-on-year increases of approximately 19.2% and 15.3% respectively. For the three months ended 31 March 2022, the unaudited actual transaction amount with respect to Type II CCT was approximately RMB344.8 million.

For the purpose of setting the revised Annual Cap in respect of Type II CCT for the year ending 31 December 2022 (the “**Revised 2022 Annual Cap**”), as transactions with respect to Type II CCT are currently ongoing, the historical transaction amount for the three months ended 31

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March 2022 should fall under the Revised 2022 Annual Cap. As such, the Revised 2022 Annual Cap would have taken into account the transaction amounts with respect to Type II CCT from 1 January to 31 December 2022. The transaction amount of Type II CCT for the year ending 31 December 2022 is estimated after taken into account (i) the actual transaction amounts for the year ended 31 December 2021 and the three months ended 31 March 2022; (ii) the existing contracts entered into between the Group and the Mengniu Group; (iii) the business plan of the Group; and (iv) the seasonality of the Group's demand of milk powder for production.

Based on the information provided by the Company and our discussions with the Company's management, we understand that the Revised 2022 Annual Cap was primarily derived with reference to the historical procurement amount of raw milk and the Raw Milk Powder of approximately RMB344.8 million for the three months ended 31 March 2022. Taking into the consideration of the seasonality of the Group's demand and the supply capacity of the Mengniu Group, the Company's management estimated the procurement amount of raw milk and the Raw Milk Powder to be approximately RMB690 million for the nine months from April to December 2022. Based on (i) the existing contracts entered into between the Group and the Mengniu Group; and (ii) the business plan of the Group, it is expected that the Group will procure goods other than raw milk and the Raw Milk Powder of approximately RMB26 million during the year of 2022. Taking into account of the above, the estimated transaction amount with respect to Type II CCT is expected to be approximately RMB1,061 million for the year ending 31 December 2022.

As discussed in the sub-section headed "Reasons for and benefits of the revision of the Annual Caps" in this letter above, the price of the Raw Milk Powder increased substantially during the first quarter of 2022. To reduce the Group's costs of production, the Group switched to raw milk as the major ingredient. We were advised by the management of the Company that the Group mainly purchased the Raw Milk Powder from independent third parties and primarily procured raw milk from the Mengniu Group for production of milk powder products. The replacement of the Raw Milk Powder by the use of raw milk led to an increase in the transaction amount of Type II CCT in the first quarter of 2022. Taking into consideration (i) the historical transaction amount for the three months ended 31 March 2022; (ii) the Company's expectation on the Raw Milk Powder price remaining high generally in the coming years; and (iii) the Group's demand for ingredients, including raw milk, for its production activities is expected to grow as a result of the government policies which are favourable to the milk powder industry and the market potential of adult milk powder due to population aging in the PRC, it is expected that the procurement amount of raw milk by the Group from the Mengniu Group will continue to increase in 2023 and 2024.

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Based on our discussions with the management of the Company, in estimating the transaction amount with respect to Type II CCT for the two years ending 31 December 2023 and 2024, the Company has taken into account, among others, (i) the historical transaction amounts with respect to Type II CCT; and (ii) an expected annual growth rate of 30% for the purchase of products from the Mengniu Group.

In assessing the reasonableness of the expected annual growth rate of 30%, we note that the historical transaction amounts with respect to Type II CCT increased by approximately 19.2% and 15.3% year-on-year in 2020 and 2021. For the year ended 31 December 2021, the Company's revenue and cost of sales grew by approximately 21.5% and 28.5% year-on-year respectively, while the Company's revenue and cost of sales grew at a compound annual growth rate of approximately 18.4% and 22.2%, respectively, for the four years ended 31 December 2021. Taking into consideration of the favourable policies to the milk powder industry introduced by the PRC government and the market potential of adult milk powder due to population aging in the PRC as disclosed in the Company's 2021 annual report, the management of the Company expects that the size of milk powder market will grow steadily and the growth in sales will continue for the Periods. The Company has provided and we have reviewed the sales plan of the Group from 2022 to 2024. According to the sales plan, the Group targets to continue the annual sales growth of over 40% for the Periods. Accordingly, it is anticipated that the Group's demand for raw materials from the Mengniu Group will continue to increase with estimated growing sales for the Periods. In view of the above, we concur with the management of the Company that a reasonable basis was adopted in estimating the growth rate of 30% for purchase of various products under Type II CCT. As such, the transaction amounts with respect to Type II CCT are expected to be approximately RMB1,061 million, RMB1,379 million and RMB1,792 million for the year ending 31 December 2022, 2023 and 2024 respectively. We also noted that the Company included a buffer of 10% in addition to the abovementioned estimated transaction amounts with respect to Type II CCT for the Periods and we are of the view that it is not uncommon for companies to include such buffer on the estimated transaction amount to allow for flexibility in the event of any unexpected increase in the Group's demand for those products for use in the Group's production process under Type II CCT.

Taking into account the aforesaid factors, the revised Annual Caps are set out below:

Type II CCT	For the year ending 31 December		
	2022	2023	2024
	<i>(RMB in million)</i>	<i>(RMB in million)</i>	<i>(RMB in million)</i>
Revised Annual Caps	1,200	1,500	1,900

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5. Internal control measures regarding Type II CCT

The pricing management for the continuing connected transactions of the Group, including Type II CCT being carried out under the Framework Agreement, will be carried out jointly by, among others, business department, production department, purchasing department, finance department and other departments of the Company where required. All information on market prices and transaction prices will be gathered by the aforementioned departments to facilitate the price setting process. Transaction prices of products to be procured by the Group, unless the standard price has been set out or the price guidance has been provided by the government, will be determined with reference to the prevailing market information and terms of similar transactions to be entered into with independent third parties. In the case that the independent third party transaction price/market price is not available, the Group may make reference to the prices in the transactions between the connected person and its independent third party. In the case that all of the aforesaid prices are not available, the price may be determined by the Group after taking into account, among others, the reasonable cost and profit margin for transacting the goods with the connected persons of the Company.

We have reviewed and discussed with the management of the Company a list of transactions with brief transaction details (such as transaction date, parties involved, product descriptions and transaction price and volume) for the first quarter of 2022, and two sets of sample documents relating to transactions with the largest amount (including, among other things, agreements, transaction records, price quotation, public market price information and other related documents) for each of the main products (i.e. raw milk and the Raw Milk Powder) with respect to Type II CCT (the “**Sample Transactions**”) conducted between the Group and the Mengniu Group were selected, which we consider such basis to be fair and appropriate. We have also reviewed sample documents (including, among other things, agreements and other related documents) of the respective comparable transactions conducted between the Group and independent third parties, where available.

The Company has provided and we have reviewed the latest comparable transactions involving the procurement of the Raw Milk Powder entered into by the Group with independent third parties. Based on our review of sample documents of those Samples Transactions, where comparable independent third party transactions are available for comparison, we note that the prices of those Sample Transactions are no less favourable to the Group than those offered by independent third parties. For the Sample Transactions in relation to procurement of raw milk, we were advised by the Company that the Group has no comparable transactions conducted with independent third parties. As discussed in the sub-section headed “Background and principal terms of the Framework Agreement” in this letter above, all Type II CCT shall be priced with reference to market price obtained through, among others, public market information, quotations from independent suppliers, recent transaction prices of the Mengniu Group with independent third

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parties, price enquiry and comparison with industry players. For Type II CCT, before signing any purchase contract with the Mengniu Group for raw materials such as whole milk powder and skimmed milk powder, the Group will (1) refer to public market information such as the auction prices on GDT to learn about the general market conditions and price trends; or (2) seek at least two quotations from independent suppliers capable of providing high-quality and stable supply, to ensure that the price for such raw materials purchased from the Mengniu Group under the contract is no less favourable to the Group than those offered by independent suppliers. Based on our review of the sample documents in relation to procurement of raw milk, we noted that the price offered by the Mengniu Group is no less favourable to the Group than the market price of raw milk shown in the public market information, including, among others, the dairy market updates published by Dairy Online* (乳業在線) which is a data service provider providing market information, news and in-depth analysis with respect to the dairy market in the PRC. We have discussed with the Company, obtained and reviewed relevant documents in relation to each of the abovementioned Sample Transactions (including, where applicable, agreements, transaction records, price quotation, public market price information and other related documents) and noted that they are consistent with the pricing policy as described above in this section.

Regarding the payment terms of the Sample Transactions, based on our review of the Sample Transactions in relation to procurement of the Raw Milk Powder, the payments were made within 30 business days of the receipt of the relevant invoice. We have also reviewed the payment terms of latest comparable transactions of the Raw Milk Powder entered into by the Group with independent third parties. Based on our review of sample documents of those Samples Transactions, in which comparable independent third party transactions are available for comparison, we note that the payment terms of those Sample Transactions are no less favourable to the Group than those offered by independent third parties.

As discussed in the paragraph headed “Payment terms” of the sub-section headed “Background and principal terms of the Framework Agreement” above in this letter, payment of Type II CCT shall be made within 30 to 90 business days of the receipt of the relevant invoice unless otherwise agreed. For the Sample Transactions in relation to procurement of raw milk which the Group has no comparable transactions with independent third parties, the payments were made within 21 business days, the earliest, of the receipt of the relevant invoice. As advised by the management of the Company, taking into account, amongst others, (i) the price offered by the Mengniu Group is no less favourable to the Group as compared to the market price; (ii) the payment terms of 21 business day, the earliest, from the receipt of the relevant invoice would not lead to significant burden to the Group’s cashflow; and (iii) the sound relationship and ongoing cooperation between the Group and the Mengniu Group, the Company is of the view, and we concur, that the payment terms of 21 business days, the earliest, of the receipt of the relevant invoice is, on balance, acceptable.

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All contracts for the continuing connected transactions of the Group (including Type II CCT) are reviewed by various departments of the Company including, among others, business department, purchase department, legal department and finance department. Terms and conditions for each contract are to be (i) reviewed by those departments to ensure prices are determined on normal commercial terms; and (ii) compared with the relevant pricing policy to ensure that the terms and conditions are in compliance with the relevant pricing policy. After clearance from respective department is obtained, the potential contract will be submitted to the Board. All non-fully exempted continuing connect transactions would require the Board's approval. For the avoidance of doubt, any specific transactions conducted pursuant to the Framework Agreement after obtaining independent shareholders' approval will no longer be submitted to the Board for approval.

Compliance department and finance department of the Company are jointly responsible for, among others, gathering information for disclosure of continuing connected transactions pursuant to the Listing Rules and on-going monitoring of all the continuing connected transactions of the Group.

The Company has provided and we have reviewed the "Rules for Management of Connected Transactions" (《關連交易管理制度》) developed by the Company's strategic development department, which is in place for monitoring connected transactions of the Group with particular emphasis on: (i) maintenance of the list of connected persons and connected transactions; (ii) procedure for pre-identifying connected transactions including those with members of the Mengniu Group; (iii) procedure for aggregating connected transactions and managing the aggregated transaction amount; and (iv) monitoring mechanism for the annual caps and contract periods of continuing connected transactions.

We understand from the Company that all contracts, before signing, are submitted to the Company's office automation ("OA") system to initiate a review process. The OA system has incorporated the list of connected persons maintained by the Company and will capture any match between the contract parties and the list of connected persons. If a match is captured and such contracts are identified as potential connected transactions, the OA system will automatically include the compliance department to the review process. The compliance department will assess the Listing Rules implications and procure the Company to comply with applicable requirements under the Listing Rules. Contracts identified as connected transactions are reviewed by various departments of the Company including, among others, business department, legal department and compliance department. Based on our discussions with the Company and two review records of the abovementioned departments generated from the OA system in 2022 which we randomly selected, we note that such departments reviewed the terms and conditions of the contracts to ensure prices were determined on normal commercial terms and comply with the relevant pricing policy of the Group prior to entering into each contract.

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Regarding the monitoring mechanism for the annual caps, we have discussed with the Company's management and understood that the compliance department created a ledger account for continuing connected transactions of the Group. The Company has provided us with the latest available ledger account of January to April 2022. Prior to entering into each agreement with the connected person of the Company, the compliance department would discuss with the business department and obtain the estimated annualised transaction amount of the continuing connected transactions. The compliance department would also review the actual transaction amount of the continuing connected transactions of each month and evaluate the estimated annualised transaction amount. We have reviewed the latest available summary sheet of the continuing connected transactions conducted under the Framework Agreement from January to April of 2022. The summary sheet lists out the aggregated transactions amount of each contract entered into under the Framework Agreement and we are advised by the Company's management that the compliance department monitors the estimated annualised transaction amount based on information contained in the summary sheet. As noted from such summary sheet, the aggregate transaction amount of the agreements with respect to Type II CCT for the period from January to April 2022 did not exceed the original Annual Caps. Continuing communications between the business department and the compliance department will be conducted for any unexpected material change in the estimated amount of the continuing connected transactions for the year. The Company has also established a system to monitor the transactions conducted with the Mengniu Group. The system restricts the booking of any trade which the transaction amount exceeds the range set by the compliance department. We have reviewed the Company's internal compliance manual with respect to the monitoring mechanism for the annual caps which details the aforesaid measures. Based on the above, the Company is of the view that appropriate monitoring and prevention mechanism is in place to ensure the actual transactions amount will not exceed the annual caps.

6. Review of the continuing connected transactions by auditors

The auditors of the Company were engaged to report on the Group's continuing connected transactions as set out in the 2021 annual report of the Company (the "**Past Transactions**") in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. We understood from the executive Director that the auditors were of the conclusion that (a) nothing had come to their attention that caused them to believe that the Past Transactions had not been approved by the Board; (b) for the Past Transactions involving the provision of goods or services by the Group, nothing had come to their attention that caused them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (c) nothing had come to their attention that caused them to believe that the Past Transactions were not entered into, in all material respects, in accordance with the relevant agreements; and (d) with respect to

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the aggregate amount of each of the Past Transactions, nothing had come to their attention that caused them to believe that the Past Transactions had exceeded the maximum aggregate annual value disclosed in the previous announcements.

Based on the obligations of the Directors to comply with the Listing Rules to conduct the continuing connected transactions on normal commercial terms, we consider that the continuing connected transactions will be conducted on normal commercial terms.

7. Conditions of Type II CCT

In compliance with the Listing Rules, Type II CCT are subject to a number of conditions which include, among other things:

- (i) the Annual Caps will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually Type II CCT and confirm in the Company's annual report whether Type II CCT have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually Type II CCT and confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that Type II CCT:
 - a) have not been approved by the Board;
 - b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing Type II CCT; and
 - d) have exceeded the Annual Caps;

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- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;
- (v) the Company must allow, and ensure that Mengniu Dairy allows, the auditors of the Company sufficient access to their records of Type II CCT for the purpose of the auditors' reporting on Type II CCT. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and
- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of Type II CCT exceeds the Annual Caps, or that there is any material amendment to the terms of the Framework Agreement.

In light of the conditions imposed on Type II CCT, in particular, (1) the limit of the value of Type II CCT by way of the Annual Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of Type II CCT; and (3) the on-going review by the auditors of the Company confirming the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of Type II CCT and safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATIONS

Having taken into account the above principal factors, we consider that (i) Type II CCT (including the revision of the Annual Caps) are conducted in the ordinary and usual course of business of the Group; (ii) the terms of the Framework Agreement in respect of Type II CCT are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned; and (iv) the revision of the Annual Caps is in the interest of the Company and the Shareholders as a whole.

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Accordingly, we 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 revised Annual Caps in respect of Type II CCT.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Stephanie Chow
Director

Ms. Stephanie Chow is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type I (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over thirteen years' experience in the corporate finance industry.

* *for identification purpose only*

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 herein or this circular misleading.

2. DISCLOSURE OF DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As of the Latest Practicable Date, the Directors and the chief executives of the Company and their respective associates had or was deemed to have the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), which have been notified to the Company and the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executives of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Rules Governing the Listing of Securities (the “Listing Rules”):

Directors' interests in the shares of the Company:

Name of director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of the issued share capital
Mr. Yan Zhiyuan	Beneficial owner	15,657,370 ^{(L)1}	0.33%

Notes:

- Grant of 18,342,100 phantom shares by the Company to Mr. Yan Zhiyuan, in which 2,684,730 phantom shares were realized, pursuant to the phantom share incentive scheme adopted by the Company on 15 July 2020. The phantom share incentive scheme does not involve the grant of options over new shares or other new securities that may be issued by the Company (or any of its subsidiaries). The recipients of phantom shares do not own any shares, nor enjoy voting rights or allotment rights of the shares.

- The total issued Shares of the Company as at the Latest Practicable Date was 4,745,560,296.

(L) The interest is held in long position.

Directors' interests in the shares of China Mengniu Dairy Company Limited (“**Mengniu Dairy**”) (being a holding company and an associated corporation of the Company):

Name of director	Capacity/ Nature of interest	Number of ordinary shares^(L)	Approximate percentage of the issued share capital⁽¹⁾
Mr. Jeffrey, Minfang Lu	Beneficial owner	11,651,240	0.29%
Mr. Zhang Ping	Beneficial owner	1,992,613	0.05%
Mr. Yan Zhiyuan	Beneficial owner	82,255	0.00%

Notes:

1. The calculation is based on the number of shares as a percentage of the total number of issued shares of Mengniu Dairy (i.e. 3,954,421,650 shares) as at the Latest Practicable Date.

(L) All the shares are held in long position.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Save as disclosed above, at no time was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

To the best of knowledge of the Directors and the chief executive of the Company, as of the Latest Practicable Date, the persons or corporations (other than Directors or chief executives of the Company) who had interest or short positions in the shares and underlying shares of the Company or its associated corporation(s) which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept under section 336 of the SFO were as follows:

Name of substantial Shareholder	Capacity/Nature of interest	Number of Shares held⁽⁵⁾	Approximate percentage of the issued share capital⁽⁶⁾
Mengniu Dairy ⁽¹⁾	Interests in a controlled corporation	2,422,117,713	51.04%
	Beneficial Owner ⁽²⁾	1,186,390,074	25.00%
Mengniu International ⁽¹⁾	Beneficial owner	2,422,117,713	51.04%
Danone SA ⁽³⁾	Interests in a controlled corporation	1,186,390,074	25.00%
Danone Baby and Medical Nutrition BV ⁽³⁾	Interests in a controlled corporation	1,186,390,074	25.00%
Nutricia International BV ⁽³⁾	Interests in a controlled corporation	1,186,390,074	25.00%
Danone Nutrition ⁽³⁾	Beneficial owner	1,186,390,074	25.00%
Vanguard International Investment Co., Ltd ⁽⁴⁾	Interests in a controlled corporation	303,462,119	6.39%
Zhang Yangui ⁽⁴⁾	Interests in a controlled corporation	303,462,119	6.39%

Name of substantial Shareholder	Capacity/Nature of interest	Number of Shares held ⁽⁵⁾	Approximate percentage of the issued share capital ⁽⁶⁾
Zhang International Investment Ltd. ⁽⁴⁾	Beneficial owner	303,462,119	6.39%

Notes:

- (1) As at the Latest Practicable Date, Mengniu Dairy held 99.95% interest in Mengniu International, which directly held the relevant 2,422,117,713 Shares.
- (2) On 6 May 2022, Mengniu Dairy and Danone Nutrition entered into a sale and purchase agreement, pursuant to which Danone Nutrition conditionally agreed to sell, and Mengniu Dairy conditionally agreed to acquire (or procure the acquisition of), 1,186,390,074 Shares, subject to the terms and conditions therein.
- (3) As at the Latest Practicable Date, Danone SA held 100% interest in Danone Baby and Medical Nutrition BV. Danone Baby and Medical Nutrition BV held 100% interest in Nutricia International BV. Nutricia International BV held 100% interest in Danone Nutrition and Danone Nutrition directly held the relevant 1,186,390,074 Shares.
- (4) As at the Latest Practicable Date, Zhang International Investment Limited was held as to 35.06% by Vanguard International Investment Co., Ltd, which is in turn wholly owned by Mr. Zhang Yangui.
- (5) All the above shares are held in long position (as defined under Part XV of the SFO).
- (6) The total number of issued Shares of the Company as at the Latest Practicable Date was 4,745,560,296.

Save as disclosed above, as of the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As of the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Group which does not expire or is not determinable by the Group within one year without payment of compensation other than statutory compensation.

5. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As of the Latest Practicable Date, none of the Directors or the expert described in paragraph 9 of this Appendix had any direct or indirect interest in any assets which had been, since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, the Group.

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

6. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping hold offices in the Mengniu Group. Mengniu Dairy is a substantial shareholder of the Company. Bellamy's Australia Limited, which is an Australian organic infant formula and baby food provider, acquired by the Mengniu Group in 2019, is engaged in, among others, manufacturing and distribution of milk formula. Each of Mr. Qin Peng and Mr. Gu Peiji (alias Philip Gu) hold offices in Danone. Danone Nutrition, a member of the Danone Group, is a substantial shareholder of the Company. Danone is engaged in, among others, manufacturing and distribution of milk formula.

The above-mentioned competing businesses are managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities. When making decisions, the relevant Directors, in performance of their duty as Director, have acted and will continue to act in the best interests of the Group.

Save as disclosed above, as of the Latest Practicable Date, in so far as the Directors are aware, none of the Directors nor any of his/her respective associates had any direct or indirect interests in any business that constitutes or may constitute a competing business of the Group.

7. LITIGATION

As of the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL ADVERSE CHANGES

As of the Latest Practicable Date, save as disclosed in the Company's announcement dated 24 May 2022 in relation to, among other things, the expected record of loss for the first six months of 2022, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited accounts of the Group were made up.

9. EXPERT AND CONSENT

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

Name	Qualification
Somerley Capital Limited	A corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter as set out in this circular and references to its name in the form and context in which they appear respectively.

As of the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member 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 any member of the Group.

10. DIRECTORSHIP AND EMPLOYMENT OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As of the Latest Practicable Date, save as disclosed below, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company which had such discloseable interest or short position	Position within such company
Zhang Ping	Mengniu Dairy	Executive director and chief financial officer
	Mengniu International	Director
Jeffrey, Minfang Lu	Mengniu Dairy	Executive director and chief executive officer
Qin Peng	Danone Nutrition	Director

As of the Latest Practicable Date, Mr. Gu Peiji (alias Philip Gu) does not hold any directorship in Danone that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.yashili.hk>) for a period of 14 days from the date of this circular:

- (a) the Supplemental Agreement;
- (b) the Framework Agreement; and
- (c) this circular.

12. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Kwok Wai Cheong, Chris, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.
- (b) The Cayman Islands principal share registrar and transfer office is SMP Partners (Cayman) Limited, Royal Bank House, 3rd Floor, 24 Shedden Road, P.O. Box 1586, George Town, Grand Cayman, Cayman Islands, KY1-1110.
- (c) The Hong Kong branch share registrar and transfer is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

NOTICE OF EGM



Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1230)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of Yashili International Holdings Ltd (the “**Company**”) will be held at 11/F, East Tower, Poly Development Plaza, 832 Yuejiang Road Central, Haizhu District, Guangzhou City, Guangdong Province, the PRC on Monday, 27 June 2022 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company.

Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the circular of the Company dated 8 June 2022.

ORDINARY RESOLUTION

“**THAT:**

- (a) the revision of Annual Caps and the transactions contemplated under the Framework Agreement (including the revised Annual Caps) be and are hereby approved; and
- (b) any one director of the Company or any two directors of the Company, if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to do all such things and exercise all powers which he/they consider(s) necessary, desirable or expedient in connection with the revision of Annual Caps and the Framework Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder, including, without limitation, the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements.”

On behalf of the Board
Yashili International Holdings Ltd
雅士利國際控股有限公司
Kwok Wai Cheong, Chris
Company Secretary

Hong Kong, 8 June 2022

NOTICE OF EGM

Principal place of business in Hong Kong:

Room A, 32nd Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Notes:

- (i) Resolutions at the EGM will be taken by poll pursuant to the Company's articles of association and the Listing Rules and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
- (ii) Any member of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the EGM. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.
- (iii) In order to be valid, the duly completed and signed form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting (in such event, the instrument appointing a proxy shall be deemed to be revoked) or participating in the meeting through the online platform.
- (iv) The register of members of the Company will be closed from Wednesday, 22 June 2022 to Monday, 27 June 2022, both days inclusive and during which period no share transfer will be effected for the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4: 30 p.m. on Tuesday, 21 June 2022. The record date for determining eligibility to attend and vote at the EGM will be Monday, 27 June 2022.
- (v) A form of proxy for use at the EGM is enclosed herewith.
- (vi) Shareholders can attend the EGM in person or participate in the EGM through Computershare's e-Meeting System (the "**online platform**"). By logging in the dedicated online platform with a smart phone, tablet or computer with access to the internet, Shareholders can participate in the meeting through the live audio broadcast and submit questions. Details and instructions of the dedicated online platform and the login details are set out in the Company's notification letter sent together with this notice. In order to facilitate the prevention and control of the epidemic and to safeguard the health and safety of the Shareholders, the Company encourages the Shareholders to consider appointing the chairman of the meeting as his/her proxy to vote on the relevant resolution(s) at the meeting and/or participating in the meeting through the online platform, instead of attending the meeting in person.
- (vii) References to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, the board of directors of the Company comprises: Mr. Jeffrey, Minfang Lu (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Mr. Gu Peiji (alias Philip Gu) as non-executive directors; Mr. Yan Zhiyuan as executive director; and Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway as independent non-executive directors.