THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult 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.

雅士利

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)

(1) SPECIAL DEAL RELATING TO THE DISPOSAL OF DANONE SHANGHAI'S ENTIRE INTEREST IN THE CHILLED BUSINESS JVs TO INNER MONGOLIA MENGNIU
(2) MAJOR AND CONNECTED TRANSACTION AND SPECIAL DEAL RELATING TO THE DISPOSAL OF DUMEX CHINA BY YASHILI GUANGDONG TO DANONE APAC
(3) SPECIAL DEAL RELATING TO THE DISPOSAL OF DANONE NUTRITION'S ENTIRE INTERESTS IN THE COMPANY TO MENGNIU
AND
(4) NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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

SOMERLEY CAPITAL LIMITED

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

Approval by the Independent Shareholders of the Chilled Business JVs Acquisition, the Dumex China Disposal and the 25% Yashili Acquisition at the EGM is a pre-condition to the making of the Privatization Proposal and implementation of the Scheme, and such pre-condition cannot be waived. Therefore, the Privatization Proposal can only be made if all of the Chilled Business JVs Acquisition, the Dumex China Disposal and the 25% Yashili Acquisition are approved at the EGM and all other pre-conditions are satisfied.

A letter from the Board is set out on pages 17 to 50 of this circular. A letter of advice from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 53 to 99 of this circular. A letter from the Independent Board Committee is set out on pages 51 to 52 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 Tuesday, August 16, 2022 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 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 (i.e. before 10 a.m. on Sunday, August 14, 2022). 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 if they so wish.

PRECAUTIONARY MEASURES FOR THE EGM

Please see pages 1 to 3 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.

July 29, 2022

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The health of our Shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Novel Coronavirus (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. If any person is denied entry into the meeting venue or required to leave the meeting venue, he or she will be able to vote by submitting a voting slip to the scrutineer.

(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. If any person is denied entry into the meeting venue or required to leave the meeting venue, he or she will be able to vote by submitting a voting slip to the scrutineer.

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 resolutions at the meeting instead of attending the meeting in person, by completing and returning 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.

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 Friday, August 12, 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 participates 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 chooses not to attend the meeting in person but 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 principal place of business in Hong Kong at Room A, 32nd Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong 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
(Business hours: between 9 a.m. and 6 p.m. on Monday to Friday, excluding public holidays in Hong Kong)
Fax: 2865 0990
(Service hours: between 9 a.m. and 4:30 p.m. on Monday to Friday, excluding public holidays in Hong Kong)

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

"2021 Annual Report"	the 2021 Annual Report of the Company published on April 27, 2022
"25% Yashili Acquisition"	the proposed acquisition by Mengniu from Danone Nutrition of the Yashili Sale Shares in accordance with the terms and conditions of the 25% Yashili Acquisition SPA
"25% Yashili Acquisition LSD"	the sixth (6th) business day after the Dumex CP Deadline, provided that if the completion of the Dumex China Disposal is deferred pursuant to the Dumex China SPA, it shall be the sixteenth (16th) business day after the Dumex CP Deadline
"25% Yashili Acquisition SPA"	the sale and purchase agreement dated May 6, 2022 entered into between Mengniu and Danone Nutrition in respect of the sale and purchase of the Yashili Sale Shares
"acting in concert"	has the meaning ascribed to it in the Takeovers Code and "Concert Party(ies)" shall be construed accordingly
"Affiliate"	any natural person or an entity which is directly or indirectly, Controlled by, under common Control with, or in Control of, such person
"Anti-Trust Clearance Authority"	State Antimonopoly Administration under SAMR
"Board"	the board of directors of the Company
"Cancellation Price"	the cancellation price of HK$1.20 per Scheme Share payable in cash to the Scheme Shareholders for each Scheme Share pursuant to the Scheme
"Chilled Business"	the production, promotion, marketing and sale of chilled yoghurt, chilled yoghurt drinks and chilled spoonable dairy-based products in the PRC, Hong Kong and Macau

"Chilled Business Completion"	closing of the Chilled Business JVs Acquisition
"Chilled Business HoldCo JV Contract"	the equity joint venture contract dated August 9, 2013 between Inner Mongolia Mengniu and Danone Asia to establish and govern the Chilled Business JVs Holdco
"Chilled Business Initial Price"	has the meaning ascribed to it in the section headed "2.1 Chilled Business JVs Acquisition" in this circular
"Chilled Business JV(s)"	collectively, Chilled Business JVs Holdco and the Individual Chilled Business JVs
"Chilled Business JVs Acquisition"	the proposed acquisition by Inner Mongolia Mengniu of the Chilled Business Sale Shares
"Chilled Business JVs Consideration Adjustment"	has the meaning ascribed to it in the section headed "2.1 Chilled Business JVs Acquisition" in this circular
"Chilled Business JVs Holdco"	Inner Mongolia Mengniu Danone Dairy Co. Ltd.* (內蒙古蒙牛達能乳製品有限公司), a company incorporated in the PRC with limited liability
"Chilled Business JVs Valuation Report"	the letter and valuation report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited in relation to the market value of the Chilled Business Sale Shares as at April 30, 2022
"Chilled Business Sale Shares"	the 20% equity interest in each of the Chilled Business JVs held by Danone Shanghai
"Chilled Business SPA"	the master equity transfer agreement dated May 6, 2022 and entered into between Inner Mongolia Mengniu and Danone Shanghai (among others) with respect to the Chilled Business JVs Acquisition
"Companies Act"	the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands

"Company"	Yashili International Holdings Ltd, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1230)
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"Control" or "Controlling" or "Controlled"	the ownership of fifty percent (50%) or more of the voting shares or the registered capital of a company, or the power to appoint or elect a majority of the directors or the power to direct the management of a company
"Danone"	Danone S.A., a company incorporated under the laws of France and whose shares are listed on Euronext Paris (symbol: BN)
"Danone APAC"	Danone Asia Pacific Holdings Pte. Ltd., a company incorporated under the laws of Singapore with limited liability and an indirect wholly-owned subsidiary of Danone
"Danone Asia"	Danone Asia Pte. Ltd., a corporation incorporated and existing under the Laws of Singapore with limited liability and an indirect wholly-owned subsidiary of Danone
"Danone Group"	Danone and its subsidiaries
"Danone Mengniu Disposal"	Danone's disposal of all of its equity interest in the issued share capital of Mengniu in May 2021
"Danone Nutrition"	Danone Asia Baby Nutrition Pte. Ltd., a company incorporated under the laws of Singapore with limited liability, an indirect wholly-owned subsidiary of Danone and a substantial shareholder (as defined in the Listing Rules) of the Company

"Danone Shanghai"	Danone (Shanghai) Holding Co., Ltd.* (達能(上海)投資有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of Danone
"Directors"	the director(s) of the Company
"Disinterested Scheme Shareholder(s)"	all of the Scheme Shareholders other than the Offeror and the Offeror Concert Parties. For the avoidance of doubt, Disinterested Scheme Shareholder(s) shall include any member of the HSBC Group in respect of any Scheme Shares where the beneficial owners of such Scheme Shares are investment clients of a member of the HSBC Group and such beneficial owners (A) control the voting rights attached to such Scheme Shares, (B) give instructions to a member of the HSBC Group as to how such Scheme Shares are to be voted and (C) are not otherwise involved in, or interested in, the Privatization Proposal
"Disinterested Scheme Share(s)"	Share(s) held by the Disinterested Scheme Shareholders
"Dumex China"	Dumex Baby Food Co., Ltd.* (多美滋嬰幼兒食品有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Dumex China Adjusted Asset Information"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex China Adjusted Profits Information"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex China Anti-Trust Approval"	approval by the Anti-Trust Clearance Authority pursuant to the Anti-Monopoly Law of the PRC in respect of the Dumex China Disposal
"Dumex China Anti-Trust Filing"	a filing to the Anti-Trust Clearance Authority pursuant to the Anti-Monopoly Law of the PRC in connection with the Dumex China Disposal

"Dumex China Buyer Key Obligation"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex China CP Unconditional Date"	the first (1st) business day following the date of satisfaction (and/or, if applicable, the waiver) of all conditions precedent to the Dumex China Disposal
"Dumex China Disposal"	the proposed disposal by Yashili Guangdong of its 100% equity interest in Dumex China to Danone APAC
"Dumex China Draft Closing Statement"	the draft statements containing calculations of cash and cash equivalents, indebtedness and working capital of Dumex China at the completion date of Dumex China Disposal based on the financial information of Dumex China and in accordance with PRC GAAP
"Dumex China Final Closing Statement"	the financial statements of Dumex China as at completion of the Dumex China Disposal and as prepared according to PRC GAAP
"Dumex China Final Consideration"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex China Initial Consideration"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex China Material Closing Obligations"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex China Post-Closing Determination Date"	the date on which the Dumex China Draft Closing Statement is deemed final and binding or the date on which the Dumex China Final Closing Statement is delivered, as applicable
"Dumex China Seller Key Obligations"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular

"Dumex China SPA"	the equity transfer agreement dated May 6, 2022 and entered into between Yashili Guangdong and Danone APAC with respect to the Dumex China Disposal
"Dumex China Target Business"	the business of Dumex China as conducted on the date of the Dumex China SPA, plus (i) the production and distribution of ALL IN ONE, which as of the date of the Dumex China SPA was carried out by members of the Group on behalf of Dumex China; and (ii) the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products, which as of the date of the Dumex China SPA was carried out by members of the Group on behalf of Dumex China, excluding (a) the Yashili Trade Business; and (b) any business conducted under the Retained Brands which is not part of the transactions contemplated by the Dumex China SPA
"Dumex China's Closing Accounts Auditors"	Ernst & Young or any other "Big Four" accounting firm jointly designated by Yashili Guangdong and Danone APAC
"Dumex CP Deadline"	February 22, 2023 or, if the Dumex CP Deadline Extension occurs pursuant to the Dumex China SPA, June 15, 2023
"Dumex CP Deadline Extension"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex Key Conditions"	collectively, Dumex Key Condition 1, Dumex Key Condition 2, Dumex Key Condition 3, Dumex Key Condition 4, Dumex Key Condition 5 and Dumex Key Condition 6
"Dumex Key Condition 1"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex Key Condition 2"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex Key Condition 3"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular

"Dumex Key Condition 4"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex Key Condition 5"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"Dumex Key Condition 6"	has the meaning ascribed to it in the section headed "2.2 Dumex China Disposal" in this circular
"EGM"	the extraordinary general meeting of the shareholders of the Company to be convened by the Company to approve the Proposed Transactions as special deals and (as applicable) a major and connected transaction
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
"Existing Mengniu-Danone Relationships"	the existing relationships between Mengniu and Danone as described in the section headed "1. BACKGROUND TO THE PROPOSED TRANSACTIONS AND THE PRIVATIZATION PROPOSAL" in this circular
"Governmental Entities"	any supra-national, national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof) or any quasi-governmental or private body exercising any regulatory, Tax imposition or collection, importing or other governmental or quasi-governmental authority, including but not limited to the Stock Exchange and the Executive
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"HSBC"	The Hongkong and Shanghai Banking Corporation Limited, being the financial adviser to the Offeror and Mengniu, a registered institution under the SFO, registered to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
"HSBC Group"	HSBC and persons controlling, controlled by or under the same control as HSBC
"Independent Board Committee"	the independent board committee of the Company established by the Board to make a recommendation to the Independent Shareholders in respect of the Proposed Transactions, and to the Disinterested Scheme Shareholders in respect of the Privatization Proposal and the Scheme
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company, with the approval of the Independent Board Committee, to advise the Independent Board Committee and the Independent Shareholders (as applicable) in respect of the Proposed Transactions and the transactions contemplated thereunder, the Privatization Proposal and the Scheme

"Independent Shareholders"	Shareholders other than (i) the Offeror and the Offeror Concert Parties and (ii) those who are interested in or involved in the Proposed Transactions. For the avoidance of doubt, Independent Shareholders shall include any member of the HSBC Group in respect of any Shares where the beneficial owners of such Shares are investment clients of a member of the HSBC Group and such beneficial owners (A) control the voting rights attached to such Shares, (B) give instructions to a member of the HSBC Group as to how such Shares are to be voted and (C) are not otherwise involved in, or interested in, the Proposed Transactions
"Individual Chilled Business JVs"	Mengniu Dairy (Jiaozuo) Co., Ltd.* (蒙牛乳製品(焦作)有限公司), Mengniu Dairy (Meishan) Co., Ltd.* (蒙牛乳業(眉山)有限公司), Tongliao Mengniu Dairy Co., Ltd.* (通遼市蒙牛乳製品有限責任公司), Mengniu High-Tech Dairy (Ma'anshan) Co., Ltd.* (蒙牛高科乳製品(馬鞍山)有限公司), Ningxia Mengniu Dairy Co., Ltd.* (寧夏蒙牛乳製品有限責任公司), Mengniu Dairy (Tianjin) Co., Ltd.* (蒙牛乳製品(天津)有限責任公司), Mengniu Dairy (Qingyuan) Co., Ltd.* (蒙牛乳業(清遠)有限公司), Mengniu Dairy (Tai'an) Co., Ltd.* (蒙牛乳製品(泰安)有限責任公司), Hubei Frealth Dairy Co., Ltd.* (湖北友芝友乳業有限責任公司) and Mengniu High-Tech Dairy (Beijing) Co., Ltd.* (蒙牛高科乳製品(北京)有限責任公司), companies incorporated in the PRC with limited liability
"Individual Chilled Business JV Contracts"	each of the equity joint venture contracts between Mengniu and/or Inner Mongolia Mengniu on the one hand, and Danone Shanghai on the other hand, in respect of each of the Individual Chilled Business JVs
"Inner Mongolia Mengniu"	Inner Mongolia Mengniu Dairy (Group) Co., Ltd.* (內蒙古蒙牛乳業(集團)股份有限公司), a company incorporated in the PRC with limited liability and a 99.9997%-owned subsidiary of Mengniu
"Intermediary"	has the meaning ascribed to it in the section headed "PRECAUTIONARY MEASURES FOR THE EGM" in this circular

"Joint Announcement"	the announcement dated May 6, 2022, jointly issued by Mengniu, the Offeror and the Company pursuant to Rule 3.5 of the Takeovers Code in relation to the Proposed Transactions and the Privatization Proposal
"Latest Practicable Date"	July 26, 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
"Macau"	the Macau Special Administrative Region
"Mengniu"	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319)
"Mengniu Directors"	the director(s) of Mengniu
"Mengniu Group"	Mengniu and its subsidiaries
"Mengniu International"	China Mengniu International Company Limited, a company incorporated in the British Virgin Islands with limited liability and a 99.95%-owned direct subsidiary of Mengniu as of the Latest Practicable Date
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"New National Standards"	the National Food Safety Standard — Infant Formula (GB10765-2021), the National Food Safety Standard — Older Infants Formula (GB10766-2021), and the National Food Safety Standard — Young Children Formula (GB10767-2021)

"Offeror"	Star Future Investment Company Limited 星萊投資有限公司, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Mengniu
"Offeror Concert Party(ies)"	party(ies) acting in concert with the Offeror in relation to the Company, including Mengniu, Mengniu International, Danone Nutrition, the Mengniu Directors and the HSBC Group (except for members of the HSBC Group, which are exempt principal traders and/or exempt fund managers in their capacity as such, in each case recognized by the Executive as such for the purposes of the Takeovers Code)
"online platform"	has the meaning ascribed to it in the section headed "PRECAUTIONARY MEASURES FOR THE EGM" in this circular
"PRC"	the People's Republic of China, but for the purpose of this circular, excluding Hong Kong, Macau and Taiwan
"PRC GAAP"	generally accepted accounting principles as in effect in the PRC, applied on a consistent basis
"Pre-Conditions Long Stop Date"	July 31, 2023 (or any other date as may be agreed by the Offeror and the Company and as permitted by the Executive)
"Privatization Proposal"	the proposal for the privatization of the Company by the Offeror by way of a scheme of arrangement under section 86 of the Companies Act, on the terms and subject to the pre-conditions and conditions as described in the Joint Announcement
"Profit Warning Announcement"	the announcement of the Company dated May 24, 2022 in relation to the Company's expected record of loss for the six months ending June 30, 2022, which is repeated in full in Appendix IV to this circular
"Proposed Transaction Agreements"	the Chilled Business SPA, the Dumex China SPA, and the 25% Yashili Acquisition SPA

"Proposed Transactions"	the Chilled Business JVs Acquisition, the Dumex China Disposal, and the 25% Yashili Acquisition
"Remaining Group"	the Group excluding the Dumex China Target Business
"Retained Brands"	the brand of TruYn (初穎 in Chinese) (including relevant trademarks) and the brand of Nainiujiadao (奶牛駕到 in Chinese) (including relevant trademarks)
"RMB"	Renminbi, the lawful currency of the PRC
"SAMR"	State Administration for Market Supervision of the PRC
"Scheme"	the scheme of arrangement to be proposed under section 86 of the Companies Act involving, among other things, the cancellation of all of the Scheme Shares
"Scheme Condition(s)"	the condition(s) to the Privatization Proposal, as set out in the Joint Announcement
"Scheme Pre-Conditions"	the pre-conditions to the making of the Privatization Proposal and implementation of the Scheme, as set out in the Joint Announcement
"Scheme Record Date"	the record date to be announced for determining entitlements of the Scheme Shareholders under the Scheme
"Scheme Share(s)"	all of the Shares in issue and such further Shares as may be issued prior to the Scheme Record Date, other than those held by Mengniu (directly or indirectly) and by Danone Nutrition
"Scheme Shareholder(s)"	the holder(s) of the Scheme Shares
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary share(s) of par value HK$0.10 each in the share capital of the Company

"Shareholder(s)"	holder(s) of the Shares
"special deal(s)"	means special deal(s) under Rule 25 of the Takeovers Code
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers of Hong Kong
"Yashili Guangdong"	Yashili International Group Co. Ltd.* (雅士利國際集團有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Yashili Sale Shares"	1,186,390,074 Shares, representing 25.00% of the total issued share capital of the Company, held by Danone Nutrition
"Yashili Trade Business"	(a) the procurement or importation of ingredients, materials, finished products or other products supplied to members of the Group other than Dumex China and the resale of such products to members of the Group other than Dumex China; (b) the production of any products other than the DIAMOR infant milk formula products, Dumex Goat infant milk formula products and ALL IN ONE products and sale of such products to the members of Group other than Dumex China and third parties; (c) the research and development activities conducted by Dumex China including those in support of the members of the Group other than Dumex China; and (d) other businesses and/or functions (including personnel) carried out by Dumex China for the Group (excluding Dumex China)
"%"	per cent

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

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)

Executive Director:
Mr. Yan Zhiyuan

Independent non-executive Directors:
Mr. Mok Wai Bun Ben
Mr. Cheng Shoutai
Mr. Lee Kong Wai Conway

Registered Office:
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in the PRC:
11/F, East Tower, Poly Development Plaza
832 Yuejiang Road Central
Haizhu District, Guangzhou City
Guangdong Province
The People's Republic of China

Principal place of business in Hong Kong:
Room A, 32nd Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

July 29, 2022

To the Shareholders

Dear Sir/Madam,

(1) SPECIAL DEAL RELATING TO THE DISPOSAL OF DANONE SHANGHAI'S ENTIRE INTEREST IN THE CHILLED BUSINESS JVs TO INNER MONGOLIA MENGNIU
(2) MAJOR AND CONNECTED TRANSACTION AND SPECIAL DEAL RELATING TO THE DISPOSAL OF DUMEX CHINA BY YASHILI GUANGDONG TO DANONE APAC
(3) SPECIAL DEAL RELATING TO THE DISPOSAL OF DANONE NUTRITION'S ENTIRE INTERESTS IN THE COMPANY TO MENGNIU
AND
(4) NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Reference is made to the Joint Announcement dated May 6, 2022 jointly issued by the Company, the Offeror and Mengniu pursuant to Rule 3.5 of the Takeovers Code in relation to the Proposed Transactions and the Privatization Proposal.

The purpose of this circular is to provide you with: (i) details of the Proposed Transactions; (ii) a letter from the Independent Board Committee containing its advice in respect of the Proposed Transactions; (iii) a letter from the Independent Financial Adviser containing its advices in respect of the Proposed Transactions (in each case, with respect to considerations relating to Rule 25 of the Takeovers Code and in respect of the Dumex China Disposal, also with respect to considerations relating to Chapter 14A of the Listing Rules); (iv) the valuation report on the value of the 20% equity interest in the Chilled Business JVs; (v) the property valuation report on Dumex China; (vi) the audited financial information of Dumex China; (vii) the unaudited pro forma financial information of the Remaining Group; (viii) other information as required under the Takeovers Code and the Listing Rules; and (ix) a notice convening the EGM, so that you can make an informed decision on voting in respect of the relevant resolutions at the EGM.

1. BACKGROUND TO THE PROPOSED TRANSACTIONS AND THE PRIVATIZATION PROPOSAL

Danone Mengniu Disposal and Unwinding of Existing Mengniu-Danone Relationships

On May 13, 2021, Danone announced that as of May 2021, Danone had disposed of all of its interests in the issued share capital of Mengniu. Following the Danone Mengniu Disposal and as of the date of the Joint Announcement, Mengniu and Danone continued to have the following relationships:

(a) ***Chilled Business JVs***. Danone Shanghai, an indirect wholly-owned subsidiary of Danone, holds a 20% equity interest in each of the Chilled Business JVs, being the Chilled Business Sale Shares, with the remaining 80% equity interests owned by Mengniu and/or Inner Mongolia Mengniu;

(b) ***25% beneficial ownership in the Company***. Danone Nutrition, an indirect wholly-owned subsidiary of Danone, is the beneficial owner of 25% of the issued share capital of the Company, being the Yashili Sale Shares. Mengniu, through its 99.95%-owned subsidiary, Mengniu International, is the beneficial owner of approximately 51% of the issued share capital of the Company; and

(c) ***Dumex China***. Yashili Guangdong, a subsidiary of the Company, is the 100% beneficial owner of Dumex China, a baby infant formula company in the PRC that was sold in May 2016 to Yashili Guangdong by Danone APAC, a wholly-owned subsidiary of Danone,

(together, the "**Existing Mengniu-Danone Relationships**").

Following the Danone Mengniu Disposal, Mengniu and Danone agreed that they will proceed to unwind the Existing Mengniu-Danone Relationships.

The Proposed Transactions

To unwind the Existing Mengniu-Danone Relationships, the following proposed transactions shall be effected in the manner as set forth in the Joint Announcement.

(a) ***Chilled Business JVs Acquisition***. Inner Mongolia Mengniu and Danone Shanghai (among others) entered into the Chilled Business SPA whereby Danone Shanghai has agreed to sell, and Inner Mongolia Mengniu has agreed to purchase, the Chilled Business Sale Shares, subject to the terms and conditions therein;

(b) ***Dumex China Disposal***. Yashili Guangdong and Danone APAC entered into the Dumex China SPA whereby Yashili Guangdong has agreed to sell, and Danone APAC has agreed to purchase, 100% of the equity interest in Dumex China, subject to the terms and conditions therein. The Dumex China Disposal constitutes a major and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules; and

(c) ***25% Yashili Acquisition***. Mengniu and Danone Nutrition entered into the 25% Yashili Acquisition SPA whereby Danone Nutrition has agreed to sell, and Mengniu has agreed to purchase (or procure to purchase through its Affiliate), the Yashili Sale Shares at HK$1.20 per Share, subject to the terms and conditions therein.

The Privatization Proposal

As disclosed in the Joint Announcement, notwithstanding that the 25% Yashili Acquisition did not trigger a mandatory offer obligation on the part of Mengniu under the Takeovers Code, having considered the factors detailed in the section headed "Reasons for and Benefits of the Privatization Proposal" of the Joint Announcement, including but not limited to the unsatisfactory share performance of the Company, the low trading volume of the Shares and the competitive domestic infant milk powder market, Mengniu has proposed that upon completion of the 25% Yashili Acquisition, it will, through the Offeror, a wholly-owned subsidiary of Mengniu, initiate the Privatization Proposal and provide an opportunity for the Scheme Shareholders to monetize their investments in the Company at the same price that is offered to Danone Nutrition under the 25% Yashili Acquisition.

Accordingly, subject to the satisfaction of the Scheme Pre-Conditions, on or prior to the Pre-Conditions Long Stop Date, which include (i) approval by Independent Shareholders of the Proposed Transactions which constitute special deals pursuant to Rule 25 of the Takeovers Code and (with respect to the Dumex China Disposal) a major and connected transaction of the Company under Chapters 14 and 14A of the Listing Rules; (ii) completion of the 25% Yashili Acquisition; and (iii) the consent from the Executive with respect to the Proposed Transactions as special deals under the Takeovers Code having been granted, the Offeror will implement the Privatization Proposal under which the Scheme Shares will be cancelled and in consideration therefor, each Scheme Shareholder will be entitled to receive the Cancellation Price of HK$1.20 for each Scheme Share.

2. THE PROPOSED TRANSACTIONS

2.1 Chilled Business JVs Acquisition

In May 2013, Inner Mongolia Mengniu and Danone Asia entered into a framework agreement contract, which was subsequently amended in August 2013, to establish the Chilled Business JVs which are sino-foreign equity joint ventures incorporated in the PRC and are held as to 80% by Inner Mongolia Mengniu and 20% by Danone Shanghai. In August 2013, Inner Mongolia Mengniu and Danone Asia entered into the Chilled Business HoldCo JV Contract, an equity joint venture contract to establish the holding company of the Individual Chilled Business JVs. Subsequently, Inner Mongolia Mengniu and Danone Shanghai entered into the Individual Chilled Business JV Contracts in respect of the establishment and governance of each of the Individual Chilled Business JVs. The Chilled Business JVs, which consist of 11 entities, are principally engaged in the production, promotion, marketing and sale of chilled yoghurt, chilled yoghurt drinks and chilled spoonable dairy based desserts in the PRC, Hong Kong and Macau.

Pursuant to the Chilled Business HoldCo JV Contract and the Individual Chilled Business JV Contracts, if the equity interests held by the Danone Group in Mengniu directly or indirectly fall below 4% of Mengniu's total issued share capital, Mengniu shall have a right to terminate the Chilled Business HoldCo JV Contract and the Individual Chilled Business JV Contracts and acquire the Chilled Business Sale Shares, as announced in Mengniu's announcement dated August 11, 2013.

The Danone Mengniu Disposal triggered Mengniu's right to terminate the Chilled Business HoldCo JV Contract and the Individual Chilled Business JV Contracts and to acquire the Chilled Business Sale Shares. Mengniu has exercised such rights under the Chilled Business HoldCo JV Contract and the Individual Chilled Business JV Contracts. On May 6, 2022, Inner Mongolia Mengniu and Danone Shanghai, among others, entered into the Chilled Business SPA, pursuant to which Inner Mongolia Mengniu has conditionally agreed to acquire from Danone Shanghai, and Danone Shanghai has conditionally agreed to sell, the Chilled Business Sale Shares (together with all rights that attach to them as at the Chilled Business Completion).

Principal Terms of the Chilled Business SPA

Consideration

The parties to the Chilled Business SPA have agreed that the purchase price for the Chilled Business Sale Shares shall be up to RMB1,600 million, provided that the following adjustments shall apply:

(a) If the Dumex China Disposal has not been completed and the Dumex China SPA has not been terminated upon the Chilled Business Completion:

(1) Inner Mongolia Mengniu shall pay RMB1,400 million (the "**Chilled Business Initial Price**") in cash to Danone Shanghai at the Chilled Business Completion; and

(2) after the Chilled Business Completion:

(i) if the Dumex China Disposal is completed in accordance with the Dumex China SPA, Inner Mongolia Mengniu shall pay RMB200 million to Danone Shanghai in cash within 10 business days after completion of the Dumex China Disposal (or any other date agreed between the parties); or

(ii) if the Dumex China SPA is terminated and the Dumex China Disposal has not been completed at the time of such termination, Danone Shanghai shall pay RMB200 million to Inner Mongolia Mengniu in cash within 10 business days after termination of the Dumex China SPA (or any other date agreed between the parties);

(b) If the Dumex China Disposal is completed in accordance with the Dumex China SPA on or before the Chilled Business Completion, the Chilled Business Initial Price shall be adjusted upwards by RMB200 million to RMB1,600 million and paid by Inner Mongolia Mengniu to Danone Shanghai in cash upon the Chilled Business Completion; and

(c) If the Dumex China SPA is terminated (for example, by either party to the Dumex China SPA due to the failure to obtain shareholders' approval of the Dumex China Disposal at the EGM in connection with the Dumex China Disposal as a major and connected transaction of the Company by the Dumex CP Deadline) and the Dumex China Disposal has not been completed at the time of such termination on or before the Chilled Business Completion, the Chilled Business Initial Price shall be adjusted downwards by RMB200 million to RMB1,200 million and paid by Inner Mongolia Mengniu to Danone Shanghai in cash upon the Chilled Business Completion.

The range of the consideration for the Chilled Business Sale Shares, being RMB1,200 million to RMB1,600 million, was determined by the parties after arm's length negotiations on normal commercial terms after taking into account (a) the net asset value of the Chilled Business, in particular the carrying value of the Chilled Business Sale Shares of approximately RMB1,204 million as of December 31, 2021 recorded in the audited consolidated financial statements of Mengniu for the year ended December 31, 2021, (b) the initial cash contribution made by Danone Shanghai (or its Affiliates) to the Chilled Business JVs of approximately RMB1,600 million (based on the information provided by Danone Shanghai), and (c) the financial performance of the Chilled Business JVs, with reference to the relevant trading multiples of comparable companies. For details of the trading multiples of comparable companies, please refer to the Chilled Business JVs Valuation Report as set out in Appendix II of this circular.

The adjustment to the consideration for the Chilled Business Sale Shares above (the "**Chilled Business JVs Consideration Adjustment**") was introduced to incentivize parties to complete the Dumex China Disposal as termination of the Dumex China Disposal will result in reduction of the consideration for the Chilled Business Sale Shares.

Taking into account the factors below, all Directors (including all independent non-executive Directors, and excluding all non-executive Directors who have abstained due to their positions in either Mengniu or Danone Group) are of the view that the Chilled Business JVs Consideration Adjustment is fair and reasonable:

(i) the Chilled Business JVs Consideration Adjustment will not affect the total consideration payable by Danone to the Company under the Dumex China Disposal; and

(ii) the Independent Financial Adviser is of the view that the Chilled Business JVs Consideration Adjustment is fair and reasonable, and the consideration for the Chilled Business Sale Shares is fair and reasonable.

Conditions Precedent

The Chilled Business Completion is conditional upon the satisfaction of the following conditions precedent:

(a) the approval of the SAMR for the Chilled Business JVs Acquisition has been obtained, and such approval remains fully valid and does not change the terms of the Chilled Business SPA in a substantive manner; and

(b) no breach of the representations and warranties set out in the Chilled Business SPA has occurred which remains un-remedied as at the Chilled Business Completion.

Condition (a) above cannot be waived. Condition (b) above may be waived by (to the extent applicable to Danone Shanghai) Inner Mongolia Mengniu, and (to the extent applicable to Inner Mongolia Mengniu) Danone Shanghai, at its respective own discretion. If any of the conditions precedent above is not satisfied or is likely not to be satisfied within six months after the date of the Chilled Business SPA (i.e. on or before November 6, 2022), the parties to the Chilled Business SPA will enter into good faith discussions with a view to reaching a mutually acceptable solution in connection with such condition and the Chilled Business JVs Acquisition.

Completion

The Chilled Business Completion shall take place on the tenth (10th) business day following the satisfaction and/or (if applicable) waiver of all conditions precedent (other than such conditions to be satisfied immediately before or at completion), or such other date as the parties to the Chilled Business SPA may agree.

As the Shareholders' approval of the Chilled Business JVs Acquisition is not a condition precedent to the Chilled Business JVs Acquisition and the Chilled Business Completion is not dependent on the results of the EGM, the Chilled Business Completion may take place before the EGM pursuant to the Chilled Business SPA. As of the Latest Practicable Date, none of the conditions precedent to the Chilled Business JVs Acquisition has been satisfied or waived.

Information on Chilled Business JVs

Based on the audited combined financial statements of the Chilled Business JVs, a summary of selected audited combined financial information of the Chilled Business JVs for the years ended December 31, 2020 and December 31, 2021 is set out as follows:

	(RMB million)
For the year ended December 31, 2021	
Revenue	10,347
Loss before taxation	107
Loss after taxation	200
Total assets as of December 31, 2021	5,035
Total liabilities as of December 31, 2021	3,051
Net asset value as of December 31, 2021	1,983
For the year ended December 31, 2020	
Revenue	9,988
Loss before taxation	177
Loss after taxation	234
Total assets as of December 31, 2020	4,606
Total liabilities as of December 31, 2020	2,429
Net asset value as of December 31, 2020	2,177

A valuation of the market value of 20.00% equity interest in the Chilled Business JVs as at April 30, 2022 conducted by Jones Lang LaSalle Corporate Appraisal and Advisory Limited is set out in Appendix II of this circular.

Takeovers Code Implications — Special Deal

As the Chilled Business JVs Acquisition is an arrangement between Inner Mongolia Mengniu, being an Offeror Concert Party, and Danone Shanghai, a fellow subsidiary of Danone Nutrition, which is in turn a Shareholder, and such arrangement is not also extended to all Shareholders, the Chilled Business JVs Acquisition constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Offeror has made an application to seek the consent of the Executive for the Chilled Business JVs Acquisition and such consent, if granted, will be subject to:

(a) the Independent Financial Adviser publicly stating that in its opinion the terms of the Chilled Business JVs Acquisition are fair and reasonable; and

(b) the approval of the Chilled Business JVs Acquisition by the Independent Shareholders by way of poll at the EGM.

Shareholders are reminded that the Chilled Business JVs Acquisition is not a transaction of the Company, therefore, if the Independent Shareholders do not approve the Chilled Business JVs Acquisition at the EGM, the Privatization Proposal will lapse as such approval is a Scheme Pre-Condition which cannot be waived. In addition, if the Independent Shareholders approve the Chilled Business JVs Acquisition but the Dumex China Disposal and/or the 25% Yashili Acquisition is/are not approved at the EGM, the Privatization Proposal will also lapse as the approval of all of the Proposed Transactions is a non-waivable Scheme Pre-Condition.

Following the lapsing of the Privatization Proposal, the Chilled Business JVs Acquisition will no longer constitute a special deal under Rule 25 of the Takeovers Code.

As the Shareholders' approval of the Chilled Business JVs Acquisition is not a condition precedent to the Chilled Business JVs Acquisition and the Chilled Business Completion is not dependent on the results of the EGM, the Chilled Business Completion may take place before the EGM pursuant to the Chilled Business SPA. As of the Latest Practicable Date, none of the conditions precedent to the Chilled Business JVs Acquisition has been satisfied or waived.

2.2 Dumex China Disposal

After completion of subscription of the Yashili Sale Shares by Danone Nutrition in February 2015, in May 2016, the Group completed the acquisition of Danone's entire equity interests in Dumex China, which was then wholly-owned by Danone.

To unwind the Existing Mengniu-Danone Relationships, on May 6, 2022, Yashili Guangdong and Danone APAC entered into the Dumex China SPA pursuant to which Yashili Guangdong has conditionally agreed to sell, and Danone APAC has conditionally agreed to acquire, 100% of the equity interests in Dumex China, the business scope of which would be adjusted to cover only the Dumex China Target Business (the subject of the Dumex China Disposal) at completion.

Principal Terms of the Dumex China SPA

Consideration

The total consideration for the Dumex China Disposal is RMB870 million on a cash free and debt free basis, which shall be subject to the following customary closing accounts adjustments based on agreed closing accounts ("**Dumex China Final Consideration**") by:

(i) adding the amount of actual cash and cash equivalents of Dumex China as of the closing date;

(ii) deducting the amount of actual indebtedness of Dumex China as of the closing date; and

(iii) adding or deducting the difference between the actual net working capital of Dumex China as of the closing date and the target amount of the net working capital of Dumex China prescribed under the Dumex China SPA.

The Dumex China Final Consideration shall be satisfied in cash in the following manner:

(a) At completion of the Dumex China Disposal, Danone APAC shall pay RMB850 million ("**Dumex China Initial Consideration**") to Yashili Guangdong;

(b) Within 60 days following the completion date, Danone APAC shall procure that Dumex China shall prepare and deliver to Yashili Guangdong and Danone APAC the Dumex China Draft Closing Statement;

(c) On or before the 25th day after Yashili Guangdong's receipt of the Dumex China Draft Closing Statement, each of Yashili Guangdong and Danone APAC shall indicate its acceptance or objection to the Dumex China Draft Closing Statement, which shall be deemed to be final and binding on both parties if no objection was received;

(d) Within 20 days following the last date on which a timely objection was received, the objecting party shall use its reasonable best efforts to agree with the Dumex China's Closing Accounts Auditors as to any amendments that need to be made to the Dumex China Draft Closing Statement, provided that the Dumex China's Closing Accounts Auditors shall have the right to make the final determination with respect to any objections raised and such final determination shall be final and binding on both parties;

(e) Yashili Guangdong and Danone APAC shall use their reasonable best efforts to procure that the Dumex China's Closing Accounts Auditors shall deliver to the parties a final and binding Dumex China Final Closing Statement by no later than 20 days following the last date on which a timely objection was received; and

(f) Within 10 business days following the Dumex China Post-Closing Determination Date, (i) if the Dumex China Final Consideration (after adjustments based on the Dumex China Final Closing Statement) is less than the Dumex China Initial Consideration, Yashili Guangdong shall pay to Danone APAC an amount equal to the difference, and (ii) if the Dumex China Final Consideration (after adjustments based on the Dumex China Final Closing Statement) is more than the Dumex China Initial Consideration, Danone APAC shall pay to Yashili Guangdong an amount equal to the difference.

The consideration for the Dumex China Disposal was determined by the parties after arm's length negotiations on normal commercial terms after taking into account (a) the Company's original acquisition cost of approximately RMB1,027 million for Dumex China, and (b) the recent financial and operating performance of Dumex China and the recognition of a one-off impairment on the trademark of Dumex China of RMB200 million for the year ended December 31, 2021. For the avoidance of doubt, any business of Dumex China conducted under the Retained Brands and the Yashili Trade Business of Dumex China does not form part of the Dumex China Disposal.

Yashili Guangdong shall make commercially reasonable efforts to procure that the aggregate cash and cash equivalents of Dumex China be no less than RMB13 million at the date of completion of the Dumex China Disposal for the operation of Dumex China immediately after completion of the Dumex China Disposal. For the avoidance of doubt, the aforementioned level of cash of Dumex China will be factored into the closing accounts adjustments.

Conditions Precedent

Completion of the Dumex China Disposal is conditional upon the satisfaction or (where applicable) waiver of the following conditions precedent prior to the Dumex CP Deadline:

(a) (i) the representations and warranties made by Danone APAC under the Dumex China SPA shall be (x) (where such representations and warranties are not qualified by a materiality qualification) true and correct in all material respects and (y) (where such representations and warranties are qualified by a materiality qualification) true and correct in all respects as so qualified, as though such representations and warranties had been made on and as of the completion date or (where applicable) another specified date; and (ii) the covenants and agreements under the Dumex China SPA to be complied with by Danone APAC on or before completion shall have been complied with in all material respects;

(b) (i) the representations and warranties made by Yashili Guangdong under the Dumex China SPA shall be true and correct in all respects as though such representations and warranties had been made on and as of the completion date or (where applicable) another specified date except, in each case, for such failures to be true and correct as would not have, individually or in aggregate, a material adverse effect; and (ii) all covenants and agreements under the Dumex China SPA to be complied with by Yashili Guangdong on or before completion shall have been complied with in all material respects (collectively, "**Dumex Key Condition 1**");

(c) the Dumex China Anti-Trust Approval and shareholders' approval of the Dumex China Disposal at the EGM in connection with the Dumex China Disposal as a major and connected transaction of the Company shall have been obtained;

(d) no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or governmental order that prohibits or makes illegal the Dumex China Disposal at or prior to the completion date;

(e) Dumex China shall have obtained from the competent governmental authority the new registration certificate pursuant to the New National Standards for each of two milk formula products, provided that the requirements prescribed in the Dumex China SPA related to the expiry date of each new registration certificate and the production process approved in each new registration certificate are satisfied ("**Dumex Key Condition 2**");

(f) no material adverse effect in relation to the business, operations, consolidated results of operations, consolidated financial condition or the business or financial prospects of Dumex China Target Business (subject to customary carve-outs) having occurred at any time from December 31, 2021 until the completion date ("**Dumex Key Condition 3**");

(g) For the 12 months immediately prior to the month in which completion occurs, the total net sales of Dumex China Target Business have not reduced by 15% or more, compared to the total net sales of Dumex China Target Business for the 12 months immediately prior to the date of the Dumex China SPA ("**Dumex Key Condition 4**");

(h) Dumex China has renewed its drainage permit and its pollutant discharge permit prior to their respective expiry dates with the competent governmental authorities provided that the pollutant parameters set out in these renewed permits shall satisfy the requirements specified in the Dumex China SPA ("**Dumex Key Condition 5**"); and

(i) Dumex China has entered into certain specified key service agreements with the relevant members of the Group or any third party (as applicable), the terms of which relating to ingredient specification, pricing and validity period shall meet the requirements detailed in the Dumex China SPA ("**Dumex Key Condition 6**").

The condition (a) above may be waived by Yashili Guangdong in whole or in part. The conditions (b) and (e) to (i) (inclusive) above may be waived by Danone APAC in whole or in part. No other conditions above may be unilaterally waived by Yashili Guangdong or Danone APAC.

On July 18, 2022, Danone APAC received the Dumex China Anti-Trust Approval granted by the Anti-Trust Clearance Authority. Therefore, the condition (c) above in relation to the obtaining of the Dumex China Anti-Trust Approval has been fulfilled. Save for the foregoing, none of the conditions have been fulfilled as at the Latest Practicable Date.

If the conditions above are not fulfilled prior to the Dumex CP Deadline, the Dumex CP Deadline shall automatically be extended to June 15, 2023, provided only that Dumex China shall have obtained one of the new registration certificates with respect to the Dumex Key Condition 2 on or prior to February 22, 2023 ("**Dumex CP Deadline Extension**").

Anti-Trust Filing

Yashili Guangdong and Danone APAC have agreed that Danone APAC shall submit the Dumex China Anti-Trust Filing as soon as reasonably practicable after the date of the Dumex China SPA.

Completion

Completion of the Dumex China Disposal shall take place on the fifth (5th) business day following the Dumex China CP Unconditional Date, or such other date as Yashili Guangdong and Danone APAC may mutually agree.

Termination

The Dumex China SPA may be terminated if, *inter alia*, (i) (by either party) if any of the conditions precedent has not been fulfilled or otherwise waived in accordance with the Dumex China SPA by the Dumex CP Deadline, provided that such right shall not be available to any party whose failure to fulfill any obligation under the Dumex China SPA shall have caused the failure of such condition precedent being fulfilled or otherwise waived on or prior to the Dumex CP Deadline; or (ii) (by the non-defaulting party) either party has failed to comply with any Dumex China Material Closing Obligations. For instance, in respect of (i), the Dumex China SPA may be terminated by Danone APAC if Dumex China fails to obtain at least one of the new registration certificates with respect to the Dumex Key Condition 2 on or prior to February 22, 2023.

In connection with the Dumex China Material Closing Obligations, both Yashili Guangdong and Danone APAC shall deliver or cause to be delivered to the other party the following, among others, at completion:

(a) (for the Company to Danone APAC) (i) certain key service agreements as specified in the Dumex China SPA between Dumex China and each relevant member of the Group or any third party on terms substantially similar to the existing terms; (ii) a confirmation of the completion of the split-off of the Yashili Trade Business in accordance with the Dumex China SPA; (iii) a duly signed and stamped register of shareholder showing Danone APAC as the sole shareholder of Dumex China; and (iv) a confirmation that certain agreements between Dumex China and Yashili Guangdong or a member of the Group as specified in the Dumex China SPA have been terminated prior to or at completion, and Dumex China has settled all liabilities with Yashili Guangdong and the Group under such agreements, subject to the agreed exceptions (collectively, the "**Dumex China Seller Key Obligations**"); and

(b) (for Danone APAC to the Company) the Dumex China Initial Consideration by wire transfer to the bank account designated by Yashili Guangdong (the "**Dumex China Buyer Key Obligation**", together with the Dumex China Seller Key Obligations, the "**Dumex China Material Closing Obligations**").

If either party fails to comply with any of the Dumex China Material Closing Obligations, then the other party shall be entitled, on the date completion would otherwise have taken place, to, *inter alia*, (a) notify the party in default of a new date for completion (being not more than 10 business days after the original date for completion) but on the basis that such deferral may only occur once; or (b) terminate the Dumex China SPA (other than the provisions relating to the effect of termination and certain general provisions). If (i) completion is deferred and at such deferred completion a party fails to comply with its Dumex China Material Closing Obligations; or (ii) such deferred completion does not occur within 10 business days after the first completion date, the non-defaulting party shall have the right to terminate the Dumex China SPA.

Dumex China Target Business

The business of Dumex China that would form the subject of the Dumex China Disposal is the Dumex China Target Business, i.e. the business of Dumex China as conducted on the date of the Dumex China SPA, plus (i) the production and distribution of ALL IN ONE, which as of the date of the Dumex China SPA was carried out by members of the Group on behalf of Dumex China; and (ii) the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products, which as of the date of the Dumex China SPA was carried out by members of the Group on behalf of Dumex China, excluding (a) the Yashili Trade Business; and (b) any business conducted under the Retained Brands.

Pursuant to the Dumex China SPA, the parties have agreed that any business conducted under the Retained Brands does not form part of the transactions contemplated thereunder. Therefore, Yashili Guangdong shall have the right to cause Dumex China to transfer the Retained Brands to Yashili Guangdong or its affiliates for free or for a nominal price.

Furthermore, Yashili Guangdong shall complete the split-off of the Yashili Trade Business prior to completion of the Dumex China Disposal. For the avoidance of doubt, the split-off of the Yashili Trade Business is not a condition precedent to the Dumex China Disposal. However, as disclosed in the paragraph headed "Termination" above, the split-off of the Yashili Trade Business constitutes a Dumex China Seller Key Obligation. If either party fails to comply with any of the Dumex China Material Closing Obligations, then the other party shall be entitled, on the date which completion would otherwise have taken place, to, *inter alia*, (a) defer the completion date once; or (b) terminate the Dumex China SPA (other than the provisions relating to the effect of termination and certain general provisions).

Yashili Guangdong intends to complete the split-off of the Yashili Trade Business prior to completion of the Dumex China Disposal in accordance with the Dumex China SPA.

Information on Dumex China and the Dumex China Target Business

Dumex China is a company established in the PRC and an indirectly wholly-owned subsidiary of the Company. It is principally engaged in manufacturing, sale and import of dairy products (including infant formula) and other related nutrition products. Examples of milk powder brands owned by Dumex China include infant formula milk powder brands of Dumex Goat and DIAMOR and toddler milk formula brand of ALL IN ONE. Upon completion of the Dumex China Disposal, Dumex China will no longer be a subsidiary of the Company.

Based on the audited financial statements of Dumex China, a summary of selected audited financial information of Dumex China for the years ended December 31, 2020 and December 31, 2021 is set out as follows:

	(RMB million)
For the year ended December 31, 2021	
Revenue	788
Profit before taxation	21
Profit after taxation	12
Total assets as of December 31, 2021	359
Total liabilities as of December 31, 2021	370
Total equity-deficit as of December 31, 2021	11
For the year ended December 31, 2020	
Revenue	879
Profit before taxation	47
Profit after taxation	40
Total assets as of December 31, 2020	781
Total liabilities as of December 31, 2020	805
Total equity-deficit as of December 31, 2020	23

The financial information of Dumex China above reflects the business scope of Dumex China for the relevant period (including but not limited to Dumex China's ownership of the trademarks in relation to ALL IN ONE, Dumex and DIAMOR which are registered in the PRC) and does not take into account (i) the implementation of the transfer of the Retained Brands by Dumex China to Yashili Guangdong (or its affiliates), (ii) the split-off of the Yashili Trade Business pursuant to the Dumex China SPA, and (iii) the production and distribution of ALL IN ONE products and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products (which are currently carried out by other members of the Group on behalf of Dumex China and not booked in the audited financial statements of Dumex China for the years ended December 31, 2020 and December 31, 2021).

Assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business as at December 31, 2021, the unaudited net asset value of Dumex China as of December 31, 2021 would be approximately RMB127 million (the "**Dumex China Adjusted Asset Information**") and, assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business at the beginning of the year ended December 31, 2021, the unaudited net profit (before taxation) and the unaudited net profit (after taxation) of Dumex China for the year ended December 31, 2021 would be approximately RMB4.5

million and RMB4.5 million, respectively. Assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business at the beginning of the year ended December 31, 2020, the unaudited net profit (before taxation) and the unaudited net profit (after taxation) of Dumex China for the year ended December 31, 2020 would be approximately RMB15 million and RMB15 million, respectively. Please refer to Appendix I for further information on the bases of preparation of the Dumex China Adjusted Profits Information, and Appendices I and VII for further information on the bases of preparation of the Dumex China Adjusted Asset Information. The unaudited pro forma financial information of the Remaining Group set out in Appendix VII of this circular also contains details of calculation of the Dumex China Adjusted Asset Information.

The differences between the unaudited adjusted financial information of Dumex China and the corresponding audited financial information of Dumex China above are mainly attributable to the proposed split-off of the Yashili Trade Business: (a) with respect to the Dumex China Adjusted Profits Information, the substantial decrease in the adjusted unaudited profits of Dumex China above as compared to the corresponding audited profits of Dumex China is primarily due to the split-off of the Yashili Trade Business; and (b) with respect to the Dumex China Adjusted Asset Information, it is contemplated under the Dumex China SPA that, if the Dumex China Disposal had been completed on December 31, 2021, a capital injection of approximately RMB137 million would be made by the Company to Dumex China, of which approximately RMB129 million would be used for the settlement of outstanding intra-group payables by the Yashili Trade Business to other entities of the Group to facilitate a clean split-off of the Yashili Trade Business, and approximately RMB8 million would be the balancing figure to meet the agreed minimum cash and bank balance level to be maintained by Dumex China at completion of the Dumex China Disposal of RMB13 million. For the avoidance of doubt, the aforementioned injected capital is expected to be returned to the Group through (i) the settlement of the outstanding payables owing by the Yashili Trade Business to other entities within the Group; and (ii) being reflected in the post-closing adjustment for the calculation of the Dumex China Final Consideration whereby any remaining actual cash on the books of the Dumex China Target Business (after the deduction of any outstanding actual indebtedness and the deduction or addition of the difference between the amount of the actual net working capital and the target amount of the net working capital prescribed under the Dumex China SPA) as of the closing date will be paid by Danone APAC on a dollar-for-dollar basis to Yashili Guangdong in cash.

Notwithstanding that the inclusion of the production and distribution of ALL IN ONE products and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products as part of the Dumex China Target Business is expected to improve the profits of Dumex China for the years ended December 31, 2021 and December 31, 2020 as compared to the audited profits of Dumex China for the same periods, such improvement is insignificant to the overall impact of the completion of the proposed split-off of the Yashili Trade

Business on the audited profits of Dumex China for the same periods. Retained Brands are insignificant to the existing business of Dumex China so carve-out of the Retained Brands is also insignificant to the overall impact on the unaudited adjusted financial information of Dumex China above.

The unaudited net profits of Dumex China prepared on the basis that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business for the years ended December 31, 2021 and December 31, 2020 (the "**Dumex China Adjusted Profits Information**") constitutes a profit forecast under Rule 10 of the Takeovers Code and is required to be reported on by both the Independent Financial Adviser and the Company's auditors in accordance with Rule 10.4 of the Takeovers Code. Please refer to Appendix V for the letters issued by Somerley and KPMG on the reporting on of the Dumex China Adjusted Profits Information.

The audited financial statements of Dumex China for the years ended December 31, 2020 and December 31, 2021 are set out in Appendix VI of this circular.

A valuation of the market value of the property held by Dumex China as at April 30, 2022 conducted by RHL Appraisal Limited is set out in Appendix III of this circular.

Financial Effect of the Dumex China Disposal

As of the Latest Practicable Date, Dumex China is an indirect wholly-owned subsidiary of the Company. Upon completion of the Dumex China Disposal, the Company will cease to hold any interest in Dumex China, and Dumex China will cease to be a subsidiary of the Company. Accordingly, the financial results of Dumex China will no longer be consolidated into the consolidated financial statements of the Group.

The financial effects set out below are for illustrative purposes only and do not purport to represent the financial position of the Group upon completion of the Dumex China Disposal.

Earnings

As the audited equity-deficit of Dumex China as of December 31, 2021 were approximately RMB11 million, the consideration for the Dumex China Disposal of RMB870 million on a cash free and debt free basis (subject to the customary closing accounts adjustments) is approximately RMB881 million in excess of the net book value (i.e. the net equity-deficit) of Dumex China.

Given that (i) the parties negotiated the Chilled Business JVs Acquisition and the Dumex China Disposal simultaneously and have commercial intention to complete both the Chilled Business JVs Acquisition and the Dumex China Disposal, and (ii) the consideration of RMB1,600 million consists of an incentive element of RMB400 million, which involve the Company receiving RMB870 million from the disposal of the Dumex China Target Business, the two transactions are considered to be bundled transactions from the accounting perspective. Assuming the Chilled Business JVs Acquisition and the Dumex China Disposal had been completed on December 31, 2021, Inner Mongolia Mengniu would derecognize the financial liability arising from a put option granted to Danone Shanghai for the sale of the Chilled Business Sale Shares of RMB1,204 million and record an investment in the Company of RMB396 million, which represents the difference between the final consideration for the Chilled Business Sale Shares of RMB1,600 million and the book value of the relevant interest in the Chilled Business of RMB1,204 million. The Company would record a capital contribution from Inner Mongolia Mengniu of RMB396 million in its statement of change in equity directly. For the avoidance of doubt, Mengniu will not receive any Shares from such capital contribution to the Company but will benefit from the completion of the Dumex China Disposal as a controlling shareholder of the Company.

Taking into account the total consideration of RMB870 million for the Dumex China Disposal, RMB396 million to be recorded in equity of the Company if the Chilled Business JVs Acquisition had also been completed on December 31, 2021, and the carrying value of the Dumex China Target Business as of December 31, 2021 of approximately RMB470 million which assumed that the capital injection by the Company into Dumex China of approximately RMB137 million as contemplated under the Dumex China SPA had been completed as of December 31, 2021, the Company would record a gain of approximately RMB4 million from the Dumex China Disposal (before taking into account any taxation and transaction costs).

Assets and Liabilities

Taking into account the total assets and the total liabilities of the Dumex China Target Business as of December 31, 2021 and the total cash to be received by the Company from the Dumex China Disposal, the Group expects the Group's total assets to be increased by approximately RMB378 million and the Group's total liabilities to be decreased by approximately RMB22 million (before taking into account any taxation and transaction costs).

Intended Use of Proceeds

The net proceeds (after deducting the estimated expenses for the Dumex China Disposal) of the Dumex China Disposal are expected to be approximately RMB860 million. The Company intends to apply the net proceeds from the Dumex China Disposal to the Group's milk powder production in the PRC in the next three years in the following manner: (a) approximately 70% of the net proceeds of approximately RMB608 million for funding the capital expenditures on production workshops, spray dryer facilities and laboratories to increase the Group's production efficiency and capacity, of which approximately 47%, 41% and 12% are expected to be utilized in 2023, 2024 and 2025 respectively; and (b) the remaining net proceeds of approximately RMB252 million for funding the capital expenditures on packing equipment and utilities and other general working capital purposes, of which approximately 8%, 79% and 13% are expected to be utilized in 2023, 2024 and 2025 respectively.

For the avoidance of doubt, if the Dumex China Disposal is completed and the Scheme Conditions are fulfilled, upon the Scheme becoming effective, all Scheme Shares held by the Scheme Shareholders will be cancelled in exchange for the payment of the Cancellation Price only and the Scheme Shareholders will not be able to enjoy the net proceeds from the Dumex China Disposal retained by the Company as a Shareholder.

Listing Rules Implications

Danone APAC is an associate (as such term is defined under Rule 14A.13 of the Listing Rules) of Danone Nutrition, a substantial shareholder (as defined in the Listing Rules) of the Company, and therefore it is a connected person of the Company. Yashili Guangdong is a wholly-owned subsidiary of the Company. Accordingly, the Dumex China Disposal constitutes a connected transaction of the Company.

As the highest of all applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Dumex China Disposal for the Company is more than 25% but less than 75%, the Dumex China Disposal constitutes a major and connected transaction of the Company which is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. Accordingly, the Dumex China Disposal will be put forward to the Independent Shareholders for their approval as a major and connected transaction by way of poll at the EGM.

Takeovers Code Implications — Special Deal

As the Dumex China Disposal is an arrangement between Yashili Guangdong, a subsidiary of the Company and an Offeror Concert Party, and Danone APAC, a fellow subsidiary of Danone Nutrition, which is in turn a Shareholder, and such arrangement is not also extended to all Shareholders, the Dumex China Disposal constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Offeror has made an application to seek the consent of the Executive for the Dumex China Disposal and such consent, if granted, will be subject to:

(a) the Independent Financial Adviser publicly stating that in its opinion the terms of the Dumex China Disposal are fair and reasonable; and

(b) the approval of the Dumex China Disposal by the Independent Shareholders by way of poll at the EGM.

Shareholders are reminded that if the Independent Shareholders do not approve the Dumex China Disposal at the EGM, the Dumex China Disposal will not proceed in accordance with the Dumex China SPA and the Privatization Proposal will lapse as such approval is a Scheme Pre-Condition which cannot be waived.

If the Independent Shareholders approve the Dumex China Disposal but the Chilled Business JVs Acquisition and/or the 25% Yashili Acquisition is/are not approved at the EGM, the Shareholders should note that:

(i) the Privatization Proposal will lapse as the approval of all of the Proposed Transactions is a non-waivable Scheme Pre-Condition;

(ii) the Company and Danone can and will, subject to the satisfaction and/or waiver of the conditions precedent of the Dumex China Disposal, still proceed to complete the Dumex China Disposal; and

(iii) after the lapsing of the Privatization Proposal, each of the Chilled Business JVs Acquisition and the 25% Yashili Acquisition will no longer constitute a special deal under Rule 25 of the Takeovers Code. Therefore, Mengniu and Danone can and will, subject to the satisfaction and/or waiver of the conditions precedent of the Chilled Business JVs Acquisition and the 25% Yashili Acquisition, still proceed to complete the Chilled Business JVs Acquisition and the 25% Yashili Acquisition, respectively.

Background of, reasons for and benefits of the Dumex China Disposal

As detailed in the circular of the Company dated May 3, 2016, Yashili Guangdong entered into the equity transfer agreement with Danone APAC regarding its acquisition of Dumex China from Danone APAC on December 1, 2015, with a view to, *inter alias*, obtaining the "Dumex" trademark which was highly-recognized in the PRC and optimizing the Group's production network and reducing production costs by acquiring advanced production facilities. Prior to completion of such acquisition, DIAMOR and ALL IN ONE products have been part of products offered by Dumex China.

After completion of the Company's initial acquisition of Dumex China from Danone in May 2016, as the internal integration and operation optimization of the Group progresses, Dumex China and other members of the Group have entered into intragroup transactions, for example, the production and distribution of ALL IN ONE products and distribution of DIAMOR infant milk formula products, which are currently carried out by other members of the Group on behalf of Dumex China, and the Yashili Trade Business of Dumex China. Concurrently, the Group created the Retained Brands and launched self-developed products under the brand of TruYn, one of the Retained Brands, initially as part of the product portfolio of Dumex China, and thus Dumex China was the registered owner of the trademarks for the brand of TruYn. However, as disclosed in 2020 Interim Report of the Company, the brand of TruYn has been classified and promoted as part of the product portfolio of Reeborne, a brand of the Group which is not associated with "Dumex", since 2020. The business of Dumex China also expanded into the goat milk segment. For instance, the new product line of Dumex Goat milk powder was launched bearing the trademark of "Dumex" in the PRC. The distribution of Dumex Goat infant milk formula products is also currently carried out by other members of the Group on behalf of Dumex China.

In light of the unwinding of the Existing Mengniu-Danone Relationships and the Danone Group ceasing to have any interest in the Company following completion of the 25% Yashili Acquisition, the parties to the Dumex China SPA entered into commercial negotiations, during which a holistic approach was adopted in determining the terms of the Dumex China SPA (including the consideration and the scope of the Dumex China Target Business). In particular, the Company's original acquisition cost for Dumex China and the recent financial and operating performance of Dumex China were taken into account in determining the consideration for the Dumex China Disposal. And the parties agreed that Danone Group would acquire Yashili Guangdong's 100% interests in Dumex China on the terms and subject to the conditions set out in the Dumex China SPA and based on the scope of the Dumex China Target Business. The parties to the Dumex China SPA envisaged that after completion of the Dumex China Disposal, Dumex China's operation shall not be dependent on the Group, and thus they agreed that the existing intragroup arrangements between Dumex China and other members of the Group shall be discontinued upon the completion of the Dumex China Disposal and the scope of the Dumex China

Target Business shall include the production and distribution of ALL IN ONE products and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products (which are currently being carried out by other members of the Group on behalf of Dumex China). Any business of Dumex China conducted under the Retained Brands, which are not Dumex-branded (i.e. do not carry the brand name of "Dumex"), shall be excluded from the scope of the Dumex China Target Business, and the Retained Brands shall be assigned by Dumex China to other members of the Group accordingly. For the avoidance of doubt, ALL IN ONE, DIAMOR and Dumex Goat are being considered as Dumex-branded and the Retained Brands (including TruYn) are not being considered as Dumex-branded.

Upon completion of the Dumex China Disposal, the existing businesses of the Group (excluding Dumex China) as of the Latest Practicable Date will continue except for the following: (i) the Retained Brands will be retained in the Group; (ii) the Yashili Trade Business between Dumex China and other members of the Group shall be discontinued and will be carried out by other members of the Group; and (iii) the production and distribution of ALL IN ONE products and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products shall no longer be carried out by other members of the Group on behalf of Dumex China.

In addition, as discussed in the section headed "4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP" in the Appendix I to this circular, the infant formula milk powder market became increasingly competitive, driving companies to improve product quality and develop more efficacious product segments. In particular, the underperformance of the infant formula products of Dumex China and change in branding strategy of Dumex China led to the Company's recognition of an impairment loss of the Dumex China trademark of RMB200 million for the year ended December 31, 2021, which adversely affected the financial performance of the Company for the same period. Also, the outlook of the business environment is expected to remain uncertain against the backdrop of the resurgence of the COVID-19 pandemic in the PRC this year. In light of the aforementioned factors, the Dumex China Disposal represents a transaction at an opportune time for the Company to monetize its investments in Dumex China and allows the Company to reallocate its resources to invest in the Group's milk powder production, which forms part of the Group's key business segment of milk powder products.

In view of the background of the Dumex China Disposal, the keen competition in the infant formula milk powder market, the business performance of Dumex China and the uncertainty in the general business environment as discussed above, all Directors (including all independent non-executive Directors, whose opinions have been set out in the letter from the Independent Board Committee in this circular after taking into consideration the advice of the Independent Financial Adviser, and excluding all non-executive Directors, who have abstained from voting on the relevant board resolution) are of the view that (a) the terms of the Dumex China Disposal (including the consideration for the Dumex China Disposal) are fair and reasonable so far as the Independent Shareholders are concerned; and (b) the Dumex China Disposal, albeit not in the ordinary and usual course of business of the Group, is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Given the completion status of the Dumex China Disposal will affect the 25% Yashili Acquisition and the Chilled Business JVs Consideration Adjustment, and members of the Mengniu Group and the Danone Group are parties to the Proposed Transactions, and all non-executive Directors (for the avoidance of doubt, not including the independent non-executive Directors) currently occupy senior positions in either Mengniu or Danone Group, all such non-executive Directors therefore are considered to have a material interest in the Dumex China Disposal and the transactions contemplated thereunder. As such, each of the non-executive Directors, namely Mr. Qin Peng, Mr. Gu Peiji (alias Philip Gu), Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping, has abstained from voting on the board resolution of the Company approving the Dumex China Disposal and the transactions contemplated thereunder. For details of the positions assumed by the non-executive Directors in either Mengniu or Danone Group, please refer to the section headed "6. INDEPENDENT BOARD COMMITTEE" of this circular.

2.3 25% Yashili Acquisition

On May 6, 2022, Mengniu and Danone Nutrition entered into the 25% Yashili Acquisition SPA, pursuant to which Mengniu has conditionally agreed to acquire (or procure the acquisition of) from Danone Nutrition, and Danone Nutrition has conditionally agreed to sell to Mengniu (or its Affiliate), the Yashili Sale Shares. Summarized below are the other principal terms of the 25% Yashili Acquisition SPA:

Transfer Subject

The transfer subject comprises the Yashili Sale Shares, being 1,186,390,074 Shares, representing 25.00% of the total issued share capital of the Company as of the Latest Practicable Date.

Consideration

The total consideration for the Yashili Sale Shares is HK$1,423,668,089, representing a price per Share of HK$1.20, which shall be satisfied in cash by Mengniu and was determined by the parties after arm's length negotiations after taking into account, among others, the historical performance and business potential of the Company and the prevailing and historical market price levels of the Shares.

Based on publicly available information, the original acquisition costs of the Yashili Sale Shares to Danone Nutrition were approximately HK$4,390 million.

Conditions to Completion

Completion of the 25% Yashili Acquisition is conditional on each of the following conditions having been satisfied or waived prior to the 25% Yashili Acquisition LSD:

(a) the Dumex China Disposal having been approved by the Independent Shareholders at the EGM as a major and connected transaction of the Company in accordance with the requirements imposed by the relevant Governmental Entities; and

(b) (i) the Dumex China Disposal having been completed on or before the 25% Yashili Acquisition LSD, or (ii) in the case that any one or more of the Dumex Key Conditions have not been satisfied or waived (where applicable) by the Dumex CP Deadline, following all other conditions precedent to the Dumex China Disposal (excluding the Dumex Key Conditions) having been satisfied.

The above condition (a) cannot be waived. Condition (b) may be waived by Mengniu.

For the avoidance of doubt, if the Dumex CP Deadline is extended pursuant to the Dumex China SPA, the earliest date on which condition (b)(ii) above may be assessed to determine whether it has been satisfied is on such extended Dumex CP Deadline as determined in accordance with the Dumex China SPA.

Completion

Completion of the 25% Yashili Acquisition shall take place after all conditions precedent to the 25% Yashili Acquisition have been satisfied or waived in accordance with its terms, provided that:

(a) if the Dumex China Disposal is completed on or before the 25% Yashili Acquisition LSD, completion of the 25% Yashili Acquisition shall take place on the fifth (5th) business day following the satisfaction of all such conditions precedent, or such other date as the parties may agree; and

(b) if all conditions precedent of the Dumex China Disposal are satisfied on or before the Dumex CP Deadline except for any of the Dumex Key Conditions, the date of completion of the 25% Yashili Acquisition shall take place on the fifth (5th) business day following the Dumex CP Deadline, or such other date as the parties may agree.

Takeovers Code Implications — Special Deal

As the 25% Yashili Acquisition is an arrangement between Mengniu, the parent company of the Offeror in the Privatization Proposal, or an Affiliate of Mengniu, and Danone Nutrition, a Shareholder, and such arrangement is not also extended to all Shareholders, the 25% Yashili Acquisition constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Offeror has made an application to seek the consent of the Executive for the 25% Yashili Acquisition and such consent, if granted, will be subject to:

(a) the Independent Financial Adviser publicly stating that in its opinion the terms of the 25% Yashili Acquisition are fair and reasonable; and

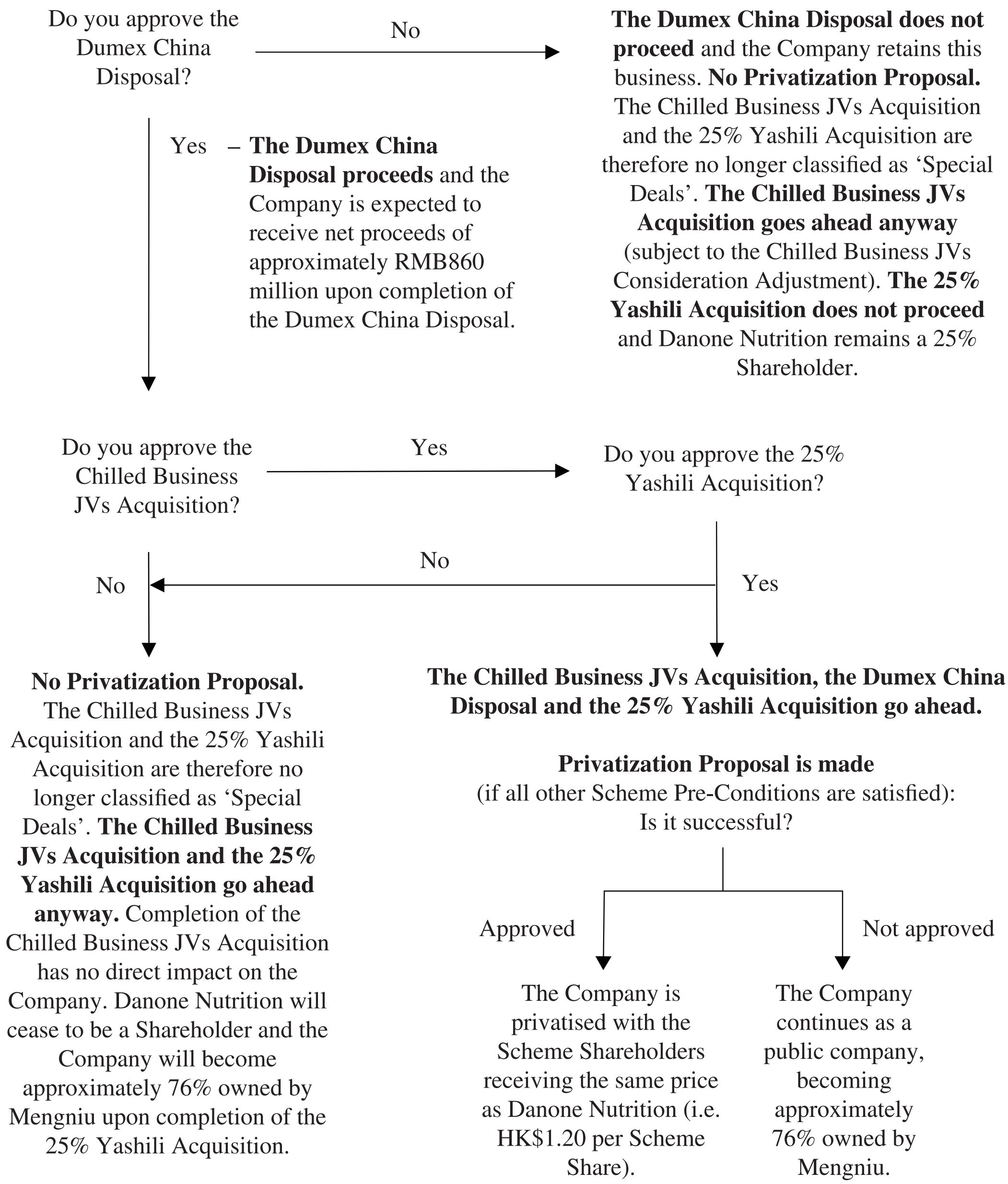
(b) the approval of the 25% Yashili Acquisition by the Independent Shareholders by way of poll at the EGM.

Shareholders are reminded that if the Independent Shareholders do not approve the 25% Yashili Acquisition at the EGM, the Privatization Proposal will lapse as the approval and completion of the 25% Yashili Acquisition are Scheme Pre-Conditions which cannot be waived. In addition, if the Independent Shareholders approve the 25% Yashili Acquisition but the Chilled Business JVs Acquisition and/or the Dumex China Disposal is/are not approved at the EGM, the Privatization Proposal will also lapse as the approval of all of the Proposed Transactions is a non-waivable Scheme Pre-Condition.

Following the lapsing of the Privatization Proposal, the 25% Yashili Acquisition will no longer constitute a special deal under Rule 25 of the Takeovers Code. Therefore, upon the Dumex China Disposal having been approved by the Independent Shareholders at the EGM (being a condition precedent of the 25% Yashili Acquisition which cannot be waived in accordance with the 25% Yashili Acquisition SPA) and the lapsing of the Privatization Proposal, Mengniu and Danone Nutrition can and will, subject to the satisfaction and/or waiver of the conditions precedent of the 25% Yashili Acquisition and the Dumex China Disposal, still proceed to complete the 25% Yashili Acquisition and the Dumex China Disposal, respectively.

3. IMPLICATIONS OF THE RESULTS OF THE EGM

The following is the 'decision tree' diagram prepared by Somerley, which is also set out in the letter of advice from the Independent Financial Adviser in this circular, for the purpose of assisting the Independent Shareholders' appraisal of the outcome of approval and non-approval of each of the resolutions for the Proposed Transactions at the EGM.



4. INFORMATION ON THE COMPANY, YASHILI GUANGDONG, MENGNIU AND INNER MONGOLIA MENGNIU

i. The Company and Yashili Guangdong

The Company, a subsidiary of Mengniu, is listed on the Main Board of the Stock Exchange and a company incorporated in the Cayman Islands with limited liability. It is an investment holding company, which, along with other members of the Group, 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) production and sale of 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).

Yashili Guangdong is an indirect wholly-owned subsidiary of the Company and a subsidiary of Mengniu, and is a company incorporated in the PRC with limited liability. Its principal business is primarily engaging in investment holding and in the production and sale of dairy products.

Based on the audited consolidated financial statements of the Company, the audited financial information of the Company for the years ended December 31, 2020 and December 31, 2021 are set out as follows:

	For the year ended December 31, 2021	**For the year ended December 31, 2020**
	(RMB'000)	
Profit/(Loss) before taxation	(93,082)	129,679
Profit/(Loss) after taxation	(81,363)	101,081

Based on the audited consolidated financial statements of the Company for the year ended December 31, 2021, the audited net asset value of the Company is RMB5,528 million.

ii. Mengniu and Inner Mongolia Mengniu

Mengniu is listed on the Main Board of the Stock Exchange and a company incorporated in the Cayman Islands with limited liability. It is an investment holding company, which together with other members of the Mengniu Group, is principally engaged in the manufacturing and distribution of quality dairy products including liquid milk, ice-cream and other dairy products. Mengniu Group is one of the leading dairy product manufacturers in the PRC.

Inner Mongolia Mengniu, a company incorporated in the PRC with limited liability and a 99.9997%-owned subsidiary of Mengniu, is principally engaged in manufacture and sale of dairy products.

5. INFORMATION ON DANONE, DANONE NUTRITION, DANONE SHANGHAI AND DANONE APAC

Danone Nutrition and Danone APAC, companies incorporated under the laws of Singapore, and Danone Shanghai, a company incorporated in the PRC with limited liability, are indirect wholly-owned subsidiaries of Danone, a company incorporated under the laws of France and whose primary listing is on Euronext Paris. Danone Nutrition, Danone APAC and Danone Shanghai are investment holding companies which form part of the Danone Group. Danone, together with its subsidiaries, is one of the world's leading food and beverage company and principally engaged in international businesses of essential dairy and plant-based products, specialized nutrition and waters.

6. INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors who are not interested in the Proposed Transactions and the Privatization Proposal, namely, Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway, has been established by the Board to advise and make recommendations to the Independent Shareholders as to: (a) whether the terms of the Proposed Transactions are fair and reasonable; (b) whether the Dumex China Disposal is in the ordinary and usual course of business of the Group, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole; and (c) whether the Independent Shareholders should vote in favor of the resolutions to approve the Proposed Transactions at the EGM.

In view of the positions assumed by the respective non-executive Directors below, all non-executive Directors are considered as either an Offeror Concert Party or a person closely related to an Offeror Concert Party. Therefore, they are not considered as independent for the purpose of giving advice or recommendations to the Independent Shareholders and have been precluded from the Independent Board Committee:

(a) Mr. Jeffrey, Minfang Lu is an executive director and the chief executive officer of Mengniu;

(b) Mr. Zhang Ping is an executive director and the chief financial officer of Mengniu;

(c) Mr. Qin Peng is the Chairman of China division of the Danone Group; and

(d) Mr. Gu Peiji (alias Philip Gu) is the general manager of Danone Asia-Pacific Management Co. Ltd and the chairman of the board of Danone (China) Food & Beverage Co., Ltd.

7. INDEPENDENT FINANCIAL ADVISER

Somerley Capital Limited has been appointed as the Independent Financial Adviser by the Company with the approval of the Independent Board Committee in accordance with the Listing Rules and the Takeovers Code, to advise the Independent Board Committee and the Independent Shareholders (as applicable) as to: (a) whether the terms of the Proposed Transactions are fair and reasonable; (b) whether the Dumex China Disposal is in the ordinary and usual course of business of the Group, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole; and (c) whether the Independent Shareholders should vote in favor of the resolutions to approve the Proposed Transactions at the EGM.

8. EGM AND VOTING

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 Tuesday, August 16, 2022 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, to approve the Chilled Business JVs Acquisition (which constitutes a special deal), the Dumex China Disposal (which constitutes a major and connected transaction of the Company under the Listing Rules and a special deal) and the 25% Yashili Acquisition (which constitutes a special deal) pursuant to the respective Proposed Transaction Agreements and the transactions contemplated thereunder. The notice of the EGM is set on pages EGM-1 to EGM-3 of this circular. Any Shareholders who are involved in or interested in the Proposed Transactions, and their respective associates (as defined in the Listing Rules) and any persons acting in concert with any Shareholders who are involved in or interested in the Proposed Transactions are required to abstain from voting on the relevant resolutions in respect of the Proposed Transactions at the EGM.

HSBC is the financial adviser to the Offeror and Mengniu. Accordingly, HSBC and relevant members of the HSBC Group will abstain from voting on the resolution approving the Proposed Transactions at the EGM, other than (1) in respect of any Shares where the beneficial owners of such Shares are investment clients of a member of the HSBC Group and such beneficial owners (A) control the voting rights attached to such Shares, (B) give instructions to a member of the HSBC Group as to how such Shares are to be voted and (C) are not otherwise involved in, or interested in, the Proposed Transactions, (2) for any member of the HSBC Group which is an exempt fund manager as regards Shares held in that capacity; or (3) for any member of the HSBC Group (A) which is an exempt principal trader who holds the Shares as a simple custodian for and on behalf of non-discretionary clients; and (B) there are contractual arrangements in place between the relevant exempt principal trader and the non-discretionary clients that strictly prohibit the relevant exempt principal trader from exercising any voting discretion over the Shares and all voting instructions originate from the non-discretionary clients only (if no instructions are given, then no votes shall be cast for to the relevant Shares held by the relevant exempt principal trader) and the non-discretionary clients are not Offeror Concert Parties or otherwise involved in, or interested in, the Proposed Transactions.

Other than Mengniu International and Danone Nutrition, which held 2,422,117,713 and 1,186,390,074 Shares respectively (representing approximately 51.04% and 25.00% of Shares, respectively) as of the Latest Practicable Date, and save as disclosed above, no other Shareholder will be required to abstain from voting on the resolutions approving the Proposed Transactions.

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 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 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 (i.e. before 10 a.m. on Sunday, August 14, 2022). Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment(s) thereof if you so wish.

The register of members of the Company will be closed from Thursday, August 11, 2022 to Tuesday, August 16, 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 Wednesday, August 10, 2022. The record date for determining eligibility to attend and vote at the EGM will be August 16, 2022.

Shareholders are reminded that if the Independent Shareholders do not approve all of the Proposed Transactions (i.e. the Chilled Business JVs Acquisition, the Dumex China Disposal and the 25% Yashili Acquisition) at the EGM, the Privatization Proposal will lapse as such approval is a Scheme Pre-Condition which cannot be waived.

9. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 51 to 52 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Proposed Transactions and voting at the EGM. Your attention is also drawn to the letter of advice from the Independent Financial Adviser set out on pages 53 to 99 of this circular which contains its advice to the Independent Board Committee and Independent Shareholders in respect of the Proposed Transactions.

All Directors (including all independent non-executive Directors, whose opinions have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser, and excluding all non-executive Directors, who have abstained from voting on the relevant board resolution) are of the view that (a) the terms of the Dumex China Disposal are fair and reasonable so far as the Independent Shareholders are concerned; and (b) the Dumex China Disposal, albeit not in the ordinary and usual course of business of the Group, is on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, all Directors (including all independent non-executive Directors, whose opinions have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser, and excluding all non-executive Directors, who have abstained from voting on the relevant board resolution) recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the Dumex China Disposal and the transaction contemplated under the Dumex China SPA.

The Independent Board Committee, having taken into account the advice from the Independent Financial Adviser, considers that the terms of the Chilled Business JVs Acquisition are fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the Chilled Business JVs Acquisition (which constitutes a special deal) pursuant to the Chilled Business SPA and the transactions contemplated thereunder.

The Independent Board Committee, having taken into account the advice from the Independent Financial Adviser, considers that the terms of the Dumex China Disposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the Dumex China Disposal (which constitutes a major and connected transaction of the Company under the Listing Rules and a special deal) pursuant to the Dumex China SPA and the transactions contemplated thereunder.

The Independent Board Committee, having taken into account the advice from the Independent Financial Adviser, considers that the terms of the 25% Yashili Acquisition are fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the resolution to be proposed at the EGM to approve the 25% Yashili Acquisition (which constitutes a special deal) pursuant to the 25% Yashili Acquisition SPA and the transactions contemplated thereunder.

10. ADDITIONAL INFORMATION

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

11. WARNING

Shareholders and potential investors of the Company should be aware that completion of the Proposed Transactions is subject to the respective conditions precedent as set out under the sections headed "2.1 Chilled Business JVs Acquisition", "2.2 Dumex China Disposal" and "2.3 25% Yashili Acquisition" of this circular being satisfied or waived, as applicable, respectively and therefore the Proposed Transactions may or may not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company. In addition, completion of the Privatization Proposal and the Scheme is subject to pre-conditions and conditions as set out in the Joint

Announcement being satisfied (or, where applicable, waived) and therefore the Privatization Proposal and the Scheme may or may not become unconditional and may or may not be completed. The issuance of this circular does not in any way imply that the Privatization Proposal and the Scheme will become unconditional. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

Yours faithfully,
For and on behalf of the Board
Yashili International Holdings Ltd
雅士利國際控股有限公司
Yan Zhiyuan
Chief Executive Officer and
Executive Director

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Proposed Transactions, which has been prepared for the purpose of inclusion in this circular.

雅士利

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)

July 29, 2022

To the Independent Shareholders

Dear Sirs or Madams,

(1) SPECIAL DEAL RELATING TO THE DISPOSAL OF DANONE SHANGHAI'S ENTIRE INTEREST IN THE CHILLED BUSINESS JVs TO INNER MONGOLIA MENGNIU
(2) MAJOR AND CONNECTED TRANSACTION AND SPECIAL DEAL RELATING TO THE DISPOSAL OF DUMEX CHINA BY YASHILI GUANGDONG TO DANONE APAC
(3) SPECIAL DEAL RELATING TO THE DISPOSAL OF DANONE NUTRITION'S ENTIRE INTERESTS IN THE COMPANY TO MENGNIU

We refer to this circular dated July 29, 2022 (the "**Circular**") issued by the Company of which this letter forms a part. Unless otherwise indicated herein or the context requires otherwise, capitalized terms used in this letter shall have the same meanings as defined in the section headed "Definitions" of this Circular.

We have been appointed by the Board to form the Independent Board Committee to consider the terms of each of the Proposed Transactions and to advise the Independent Shareholders as to (a) whether the terms of each of the Proposed Transactions are fair and reasonable; (b) whether the Dumex China Disposal is on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole; and (c) whether the Independent Shareholders should vote in favor of the resolutions to approve the Proposed Transactions at the EGM.

The appointment of Somerley Capital Limited as the Independent Financial Adviser to advise you and us in this regard has been approved by us. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 53 to 99 of this Circular.

We wish to draw your attention to the letter from the Board as set out on pages 17 to 50 of the Circular, the letter of advice from the Independent Financial Adviser as set out on pages 53 to 99 of the Circular and other additional information set out in this Circular.

Having considered, among other matters, the principal factors and reasons considered by, and the opinion of the Independent Financial Adviser as set out in its letter of advice, we consider that (i) in respect of the Chilled Business JVs Acquisition and the 25% Yashili Acquisition, the terms of the Chilled Business JVs Acquisition and the 25% Yashili Acquisition are fair and reasonable; and (ii) in respect of the Dumex China Disposal, the terms of the Dumex China Disposal are fair and reasonable so far as the Independent Shareholders are concerned, and the Dumex China Disposal, albeit not in the ordinary and usual course of business of the Group, is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the relevant resolutions to be proposed at the EGM to approve the Proposed Transactions, particulars of which are set out in the Notice of the EGM as set out on pages EGM-1 to EGM-3 of the Circular.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Yashili International Holdings Ltd

Mr. Mok Wai Bun Ben
Independent Non-Executive Director

Mr. Cheng Shoutai
Independent Non-Executive Director

Mr. Lee Kong Wai Conway
Independent Non-Executive Director

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

July 29, 2022

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

Dear Sirs,

(1) SPECIAL DEAL RELATING TO THE DISPOSAL OF DANONE SHANGHAI'S ENTIRE INTEREST IN THE CHILLED BUSINESS JVs TO INNER MONGOLIA MENGNIU
(2) MAJOR AND CONNECTED TRANSACTION AND SPECIAL DEAL RELATING TO THE DISPOSAL OF DUMEX CHINA BY YASHILI GUANGDONG TO DANONE APAC
AND
(3) SPECIAL DEAL RELATING TO THE DISPOSAL OF DANONE NUTRITION'S ENTIRE INTERESTS IN THE COMPANY TO MENGNIU

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Transactions. Details of the Proposed Transactions are set out in the circular of the Company to the Shareholders dated July 29, 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.

Following the Danone Mengniu Disposal, Mengniu and Danone agreed that they will proceed to unwind the Existing Mengniu-Danone Relationships. On May 6, 2022, the Chilled Business SPA, the Dumex China SPA and the 25% Yashili Acquisition SPA (collectively, the "**Proposed Transactions Agreements**") were entered into in the manner as set out in the Circular. The Proposed Transactions constitute special deals under Rule 25 of the Takeovers Code (the "**Special Deals**") and requires the consent from the Executive and such consent, if granted, will be subject to: (a) the Independent Financial Adviser publicly stating that in its opinion the terms of the Proposed Transactions are fair and reasonable; and (b) the approval of the Proposed Transactions by the Independent Shareholders by way of poll at the EGM.

As regards the Dumex China Disposal, as the highest of all applicable percentage ratios in respect of the Dumex China Disposal for the Company is more than 25% but less than 75%, the Dumex China Disposal constitutes a major and connected transaction of the Company under the Listing Rules, which is subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

The approval of the Proposed Transactions at the EGM is one of the Scheme Pre-Conditions of the Privatisation Proposal which cannot be waived. Further details of the Privatisation Proposal and the Scheme are set out in the Joint Announcement and the Circular.

The Independent Board Committee, comprising all 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: (a) whether the terms of the Proposed Transactions are fair and reasonable; (b) whether the Dumex China Disposal is in the ordinary and usual course of business of the Group, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole; and (c) whether the Independent Shareholders should vote in favour of the resolutions to approve the Proposed Transactions at the EGM. 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 (a) independent board committee and independent shareholders of the Company in relation to certain continuing connected transactions (details of which are set out in the circulars of the Company dated December 4, 2020, November 10, 2021, November 15, 2021 and June 8, 2022); (b) independent board committee and independent shareholders of Mengniu in relation to certain connected transactions (details of which are set out in the circular of Mengniu dated September 24, 2021); and (c) independent board committee and independent shareholders of China Modern Dairy Holdings Ltd. (stock code: 1117) ("**Modern Dairy**"), a company of which Mengniu is a substantial shareholder, in relation to, among others, certain connected transactions (details of which are set out in the circulars of Modern Dairy dated May 14, 2021 and May 16, 2022). The past engagements were limited to providing independent advisory services and under the past engagements, Somerley Capital Limited received normal professional fees from the engaging companies. 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, Mengniu Group and Danone 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 the Independent Shareholders in respect of the Proposed Transactions as detailed in the Circular.

We are not associated with the Company, the Mengniu Group, Danone Group or their respective substantial shareholders (if applicable) or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposed Transactions. Apart from normal professional fees paid or payable to us in connection with this appointment, and save for our past engagements disclosed above, no arrangement exists whereby we will receive any fees or benefits from the Company, the Mengniu Group, Danone Group or their respective substantial shareholders (if applicable) or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Proposed Transactions Agreements; (ii) the valuation report in relation to the 20% equity interest in the Chilled Business JVs and the property valuation report of Dumex China as set out in Appendix II and III to the Circular respectively; and (iii) the information set out in the Circular. We have relied on the information and facts supplied by the Company and the opinions expressed by the executive Director and the 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 as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Circular were true at the time they were made and at the Latest Practicable Date. Independent Shareholders will be informed as soon as possible if we become aware of any material change to such representations, up to the date of the EGM. We have 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 consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to 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, Mengniu Group and Danone Group, or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them; 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. Background to the Proposed Transactions and the Privatisation Proposal

On May 13, 2021, Danone announced that as of May 2021, Danone had disposed of all of its approximately 9.8% interests in the issued share capital of Mengniu. Following the Danone Mengniu Disposal, Mengniu and Danone agreed that they would proceed to unwind the Existing Mengniu-Danone Relationships, further details of which are set out in the section headed "Background to the Proposed Transactions and the Privatisation Proposal" in the "Letter from the Board" contained in the Circular.

On May 6, 2022, the respective agreement relating to each of the Proposed Transactions, namely (i) the Chilled Business SPA; (ii) the Dumex China SPA; and (iii) the 25% Yashili Acquisition SPA were entered into for the purpose of unwinding such relationships. Our analysis and discussions on each of the Proposed Transactions are set out in this letter below.

As set out in the abovementioned section in the Circular, although the 25% Yashili Acquisition will not trigger a mandatory offer obligation on the part of Mengniu under the Takeovers Code, having considered various factors including but not limited to the unsatisfactory share performance of the Company, the low trading volume of the Shares and the competitive domestic infant milk powder market, Mengniu has proposed that upon completion of the 25% Yashili Acquisition, it will, through the Offeror, a wholly-owned subsidiary of Mengniu, initiate the Privatisation Proposal and provide an opportunity for the Scheme Shareholders to monetise their investments in the Company at the same price that is offered to Danone Nutrition under the 25% Yashili Acquisition (i.e. HK$1.20 for each Scheme Share).

Independent Shareholders should note that the making of the Privatisation Proposal is, and the implementation of the Privatisation Proposal and the Scheme will be, conditional upon the following pre-conditions having been satisfied:

(a) the Independent Shareholders having approved the Proposed Transactions at the EGM;

(b) the 25% Yashili Acquisition having been completed in accordance with its terms; and

(c) the consent from the Executive with respect to the Proposed Transactions as special deals under the Takeovers Code having been granted.

The Scheme Pre-Conditions set out above cannot be waived. **If the Scheme Pre-Conditions are not satisfied on or before the Pre-Conditions Long Stop Date (i.e. July 31, 2023), the Privatisation Proposal will lapse.** Further details on the Privatisation Proposal and the Scheme are set out in Joint Announcement and the Circular.

2. Special Deals — The Proposed Transactions

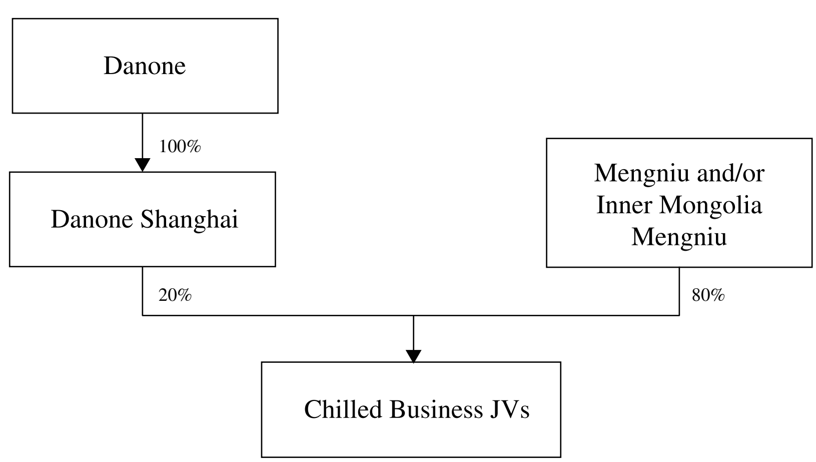
(A) The Chilled Business JVs Acquisition

The Chilled Business JVs Acquisition is not a transaction to which the Company is a party. However, Independent Shareholders are asked to consider it as it is classified as a special deal under the Takeovers Code, as explained below. The Chilled Business JVs Acquisition may proceed even if the Independent Shareholders do not approve it, but the Privatisation Proposal will not.

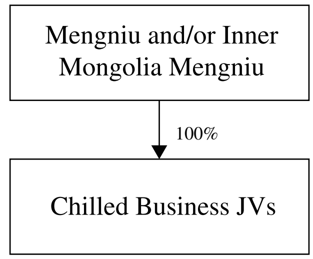
(i) Shareholding structure of the Chilled Business JVs

The following charts illustrate the simplified shareholding structure of the Chilled Business JVs (1) as of the Latest Practicable Date; and (2) immediately after the Chilled Business Completion.

(1) As of the Latest Practicable Date



(2) Immediately after the Chilled Business Completion



(ii) Background of and reasons for the Chilled Business JVs Acquisition

The Chilled Business JVs, which consist of 11 entities, are sino-foreign equity joint ventures incorporated in the PRC and are held as to 80% by Inner Mongolia Mengniu and 20% by Danone Shanghai. The Chilled Business JVs are principally engaged in the production, promotion, marketing and sale of chilled yoghurt, chilled yoghurt drinks and chilled spoonable dairy based desserts in the PRC, Hong Kong and Macau.

Pursuant to the Chilled Business HoldCo JV Contract (being the equity joint venture contract entered into in 2013 for the governance of the Chilled Business JVs Holdco) and the Individual Chilled Business JV Contracts (being the equity joint venture contracts entered into in 2013 for the governance of the Individual Chilled Business JVs), if the equity interests held by the Danone Group in Mengniu directly or indirectly fall below 4% of Mengniu's total issued share capital, Mengniu shall have a right to terminate the Chilled Business HoldCo JV Contract and Individual Chilled Business JV Contracts, and acquire the Chilled Business Sale Shares (being the 20% equity interest in each of the Chilled Business JVs held by Danone Shanghai). The Danone Mengniu Disposal triggered Mengniu's right to terminate the Chilled Business HoldCo JV Contract and the Individual Chilled Business JV Contracts, and to acquire the Chilled Business Sale Shares. After the decision to unwind the Existing Mengniu-Danone Relationships, Mengniu exercised such rights under the relevant contracts. On May 6, 2022, Inner Mongolia Mengniu and Danone Shanghai, among others, entered into the Chilled Business SPA with respect to the Chilled Business JVs Acquisition.

Further information on the Chilled Business JVs (including a summary of its selected audited combined financial information) and background of the Chilled Business JVs Acquisition are set out in the sub-section headed "Chilled Business JVs Acquisition" in the "Letter from the Board" contained in the Circular.

(iii) Principal terms of the Chilled Business SPA

Consideration

The consideration for the Chilled Business Sale Shares shall be up to RMB1,600 million, provided that the following adjustments shall apply:

(a) If the Dumex China Disposal has not been completed and the Dumex China SPA has not been terminated upon the Chilled Business Completion:

(1) Inner Mongolia Mengniu shall pay RMB1,400 million (the "**Chilled Business Initial Price**") in cash to Danone Shanghai at the Chilled Business Completion; and

(2) after the Chilled Business Completion;

(i) if the Dumex China Disposal is completed in accordance with the Dumex China SPA, Inner Mongolia Mengniu shall pay RMB200 million to Danone Shanghai in cash within 10 business days after completion of the Dumex China Disposal (or any other date agreed between the parties); or

(ii) if the Dumex China SPA is terminated and the Dumex China Disposal has not been completed at the time of such termination, Danone Shanghai shall pay RMB200 million to Inner Mongolia Mengniu in cash within 10 business days after termination of the Dumex China SPA (or any other date agreed between the parties) (i.e. reducing the effective price to RMB1,200 million);

(b) If the Dumex China Disposal is completed in accordance with the Dumex China SPA on or before the Chilled Business Completion, the Chilled Business Initial Price shall be adjusted upwards by RMB200 million to RMB1,600 million and paid by Inner Mongolia Mengniu to Danone Shanghai in cash upon the Chilled Business Completion; and

(c) If the Dumex China SPA is terminated (for example, by either party to the Dumex China SPA due to the failure to obtain shareholders' approval of the Dumex China Disposal at the EGM as a major and connected transaction for the Company by the Dumex CP Deadline) and the Dumex China Disposal has not been completed at the time of such termination on or before the Chilled Business Completion, the Chilled Business Initial Price shall be adjusted downwards by RMB200 million to RMB1,200 million and paid by Inner Mongolia Mengniu to Danone Shanghai in cash upon the Chilled Business Completion.

As set out in the sub-section headed "Chilled Business JVs Acquisition" in the "Letter from the Board" contained in the Circular, the range of the consideration for the Chilled Business Sale Shares, being RMB1,200 million to RMB1,600 million, was determined by the parties after arm's length negotiations on normal commercial terms after taking into account (a) the net asset value of the Chilled Business, in particular the carrying value of the Chilled Business Sale Shares of approximately RMB1,204 million as of December 31, 2021 recorded in the audited consolidated financial statements of Mengniu for the year ended December 31, 2021; (b) the initial cash contribution made by Danone Shanghai (or its Affiliates) to the Chilled Business JVs of approximately RMB1,600 million (based on the information provided by Danone Shanghai); and (c) the financial performance of the Chilled Business JVs, with reference to the relevant trading multiples of comparable companies (details of which are set out in the Chilled Business JVs Valuation Report contained in Appendix II to this Circular. The adjustment to the consideration for the Chilled Business Sale Shares above (the "**Chilled Business JVs Consideration Adjustment**") was introduced to incentivize parties to complete the Dumex China Disposal as termination of the Dumex China Disposal will result in reduction of the consideration for the Chilled Business Sale Shares.

Conditions Precedent

The Chilled Business Completion is conditional upon the satisfaction of the conditions precedent set out in the abovementioned sub-section in the "Letter from the Board" of the Circular, including the approval of the SAMR for the Chilled Business JVs Acquisition having been obtained. Such condition cannot be waived. If any of the conditions precedent to the Chilled Business JVs Acquisition is not satisfied or is likely not to be satisfied within six months after the date of the Chilled Business SPA (i.e. on or before November 6, 2022), the parties to the Chilled Business SPA will enter into good faith discussions with a view to reaching a mutually acceptable solution in connection with such condition and the Chilled Business JVs Acquisition. The Chilled Business Completion shall take place on the tenth (10th) business day following the satisfaction and/or (if applicable) waiver of all conditions precedent (other than such conditions to be satisfied immediately before or at completion), or such other date as the parties to the Chilled Business SPA may agree.

As the Shareholders' approval of the Chilled Business JVs Acquisition is not a condition precedent to the Chilled Business JVs Acquisition and the Chilled Business Completion is not dependent on the results of the EGM, the Chilled Business Completion may take place before the EGM pursuant to the Chilled Business SPA. As of the Latest Practicable Date, none of the conditions precedent to the Chilled Business JVs Acquisition has been satisfied or waived.

(iv) Takeovers Code implications — Special Deal

As the Chilled Business JVs Acquisition is an arrangement between Inner Mongolia Mengniu, being an Offeror Concert Party, and Danone Shanghai, a fellow subsidiary of Danone Nutrition, which is in turn a Shareholder, and such arrangement is not also extended to all Shareholders, the Chilled Business JVs Acquisition constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Offeror has made an application to seek the consent of the Executive for the Chilled Business JVs Acquisition and such consent, if granted, will be subject to: (a) the Independent Financial Adviser publicly stating that in its opinion the terms of the Chilled Business JVs Acquisition are fair and reasonable; and (b) the approval of the Chilled Business JVs Acquisition by the Independent Shareholders by way of poll at the EGM.

Shareholders are reminded that the Chilled Business JVs Acquisition is not a transaction to which the Company is a party. However, if the Independent Shareholders do not approve the Chilled Business JVs Acquisition at the EGM, the Privatisation Proposal will lapse as such approval is a Scheme Pre-Condition which cannot be waived. In addition, if the Independent Shareholders approve the Chilled Business JVs Acquisition but the Dumex China Disposal and/or the 25% Yashili Acquisition is/are not approved at the EGM, the Privatisation Proposal will also lapse as the approval of all of the Proposed Transactions is a non-waivable Scheme Pre-Condition.

Following the lapsing of the Privatisation Proposal, the Chilled Business JVs Acquisition will no longer constitute a special deal under Rule 25 of the Takeovers Code. Therefore, upon the lapsing of the Privatisation Proposal, Mengniu and Danone can and will, subject to the satisfaction and/or waiver of the conditions precedent of the Chilled Business JVs Acquisition, still proceed to complete the Chilled Business JVs Acquisition.

(v) Evaluation of the consideration of the Chilled Business JVs Acquisition

(a) Scope of work and qualifications of the independent valuer

Mengniu and Inner Mongolia Mengniu engaged Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**Independent Valuer**") to prepare a valuation report (the "**Valuation Report**") in respect of the market value range of 20% equity interest in the Chilled Business JVs as of April 30, 2022 (the "**Valuation**"). The Chilled Business Sales Shares represent the 20% equity in each of the Chilled Business JVs. As set out in the Valuation Report contained in Appendix II to the Circular, the appraised value of 20% equity interest in the Chilled Business JVs is in a range of approximately RMB1.3 billion to RMB1.6 billion as of April 30, 2022 (the "**Appraised Value Range**").

In reviewing the Valuation Report, we have complied with the requirements under Rule 13.80(2)(b) Note 1(d) of the Listing Rules and Rule 11.1(b) of the Takeovers Code. Our letter in relation to the Valuation Report under Rule 11.1(b) of the Takeovers Code is set out in Appendix II to the Circular.

We have reviewed the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussed the same with the Independent Valuer. We note that the person signing the Valuation Report, an executive director of the Independent Valuer, has more than 20 years of experience in providing valuation services (including but not limited to company equity valuation) to listed companies of different industries in the PRC, Hong Kong, Singapore and the United States. Based on the review work conducted by us, we are satisfied that the Independent Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation competently. Furthermore, we also reviewed the Independent Valuer's terms of engagement stated in the engagement letter in respect of the Valuation and noted that the scope of work was appropriate for the Independent Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer in the Valuation Report.

(b) Valuation methodologies

As set out in the Valuation Report and based on our discussions with the Independent Valuer, the market approach is adopted in deriving the Appraised Value Range. We have discussed with the Independent Valuer on their valuation methodologies and understand that the Independent Valuer adopted the market approach as this approach considers the recent prices for similar targets and introduces objectivity as publicly available inputs are used. Under the market approach, the Independent Valuer applied the average adjusted Enterprise Value/Sales multiple of the Chilled Business JVs Comparable Companies (as defined below) in the Valuation.

As advised by the Independent Valuer, the market value of 20% equity interest of the Chilled Business JVs is arrived with reference to comparable companies (the "**Chilled Business JVs Comparable Companies**"). As set out in the Valuation Report, the selection of comparable companies is primarily based on the industry peers of the Chilled Business JVs, which derive their revenues primarily in the PRC specialising in dairy product with a product line in yoghurt. We understand from the Independent Valuer that no public companies that are only specifically engaged in chilled yoghurt, yoghurt drinks and dairy based desserts meeting their selection criteria can be identified, and many companies did not disclose the portion of revenue generated specifically from yoghurt business. Therefore, using the stated criteria is a systematic way to search for comparable companies to be used in the Valuation. Considering (i) the principal business of the Chilled Business JVs as set out above; (ii) the Chilled Business JVs Comparable Companies are companies listed in Hong Kong and the PRC which provide the best available public information for assessing the market value of the Chilled Business JVs; (iii) as advised by the Independent Valuer, comparable transaction analysis was not feasible due to a lack of recent similar transactions in the market; and (iv) we understand from the Independent Valuer that the methodologies adopted by them in the Valuation are commonly used and are consistent with industry practice, we consider that the selection criteria adopted by the Independent Valuer in identifying the Chilled Business JVs Comparable Companies are reasonable and appropriate for the purpose of the Valuation. Given there already exists a sufficient amount of the Chilled Business JVs Comparable Companies for analysis, we are of the view that the Chilled Business JVs Comparable Companies provide objective benchmarks for valuing the market value of 20% equity interest in the Chilled Business JVs and the market approach was appropriate for this Valuation. As set out in the Valuation Report, the Independent Valuer has applied a discount for lack of marketability ("**DLOM**") of 9.6% and 27.3% (based on their professional judgement with reference to a global study report published by Stout in 2021) to arrive at the range of the market value of the Chilled Business JVs as at the valuation date. We have obtained from the Independent Valuer the study report and confirmed with the Independent Valuer that such study report is the latest publicly available source of DLOM, and it is commonly used in valuation practice. Taking into account the above, we concur with the Independent Valuer that the adoption of the aforesaid DLOM is appropriate.

We reviewed the relevant calculations and supporting documents provided by the Independent Valuer and discussed with the Independent Valuer the key basis and assumptions adopted for the valuation. Major assumptions made by the Independent Valuer are set out in the Valuation Report contained in Appendix II to the Circular. We discussed with the Independent Valuer and noted that these major assumptions are commonly adopted in business valuation. During our discussions with the Independent Valuer, we did not identify any major factors which cause us to doubt the reasonableness of the major assumptions adopted in the Valuation Report.

Having taken into account the above, we concur with the Independent Valuer that the market approach is commonly used and is the appropriate method (as well as the rationale and basis for adopting the various adjustments factors as set out in the Valuation Report) for deriving the Appraised Value Range. According to the Chilled Business SPA, the Chilled Business Initial Price amounts to RMB1.4 billion which is within the Appraised Value Range. If the Dumex China Disposal is not completed/terminated, the consideration for the Chilled Business JVs Acquisition would be reduced to RMB1.2 billion which is below the low-end of the Appraised Value Range. Based on the assumption that the Dumex China Disposal is completed, the consideration for the Chilled Business JVs Acquisition would be RMB1.6 billion which is in line with the top-end of the Appraised Value Range. On this basis, we consider that the consideration of the Chilled Business JVs Acquisition is fair and reasonable.

As discussed in the sub-section headed "The Dumex China Disposal" of this letter below, the terms of the Dumex China Disposal are considered fair and reasonable so far as the Independent Shareholders are concerned and the Dumex China Disposal is in the interest of the Company and its Shareholders as a whole. Considering the aforesaid and that (a) the Chilled Business JVs Consideration Adjustment was commercially agreed among the parties; (b) the Chilled Business JVs Consideration Adjustment will not affect the total consideration payable by Danone APAC to the Company under the Dumex China Disposal; and (c) such adjustment mechanism could incentivize the parties to complete the Dumex China Disposal, we consider that the Chilled Business JV Consideration Adjustment are fair and reasonable.

(vi) Assessment on the Special Deal

The Chilled Business JVs are part of the Existing Mengniu-Danone Relationships. Mengniu had exercised its rights to terminate the Chilled Business HoldCo JV Contract and Individual Chilled Business JV Contracts and to acquire the Chilled Business Sale Shares, in each case, in accordance with the terms of such contracts. As discussed above, we consider that the consideration for the Chilled Business JVs Acquisition is fair and reasonable. In light of the objective to unwind the Existing Mengniu-Danone Relationships and the Danone Group ceasing to have any interest in the Company following completion of the 25% Yashili Acquisition, Mengniu, as a controlling Shareholder of the Company, has introduced the Chilled Business JVs Consideration Adjustment to incentivize parties to complete the Dumex China Disposal at a consideration of RMB870 million. If the Dumex China Disposal is completed, the Company is expected to receive net proceeds of approximately RMB860 million. As set out in the paragraph headed "Financial Effect of the Dumex China Disposal" in the "Letter from the Board" contained in the Circular, assuming the Chilled Business JVs Acquisition and the Dumex China Disposal had been completed on December 31, 2021, Inner Mongolia Mengniu would derecognize the financial liability arising from a put option granted to Danone Shanghai for the sale of the Chilled Business Sale Shares of RMB1,204 million and record an investment in the Company of RMB396 million, which represents the difference between the final consideration for the Chilled Business Sale Shares of RMB1,600 million and the book value of the relevant interest in the Chilled Business of RMB1,204 million. Concurrently, the Company would record a capital contribution from Inner Mongolia Mengniu of RMB396 million in its statement of change in equity and a gain of approximately RMB4 million from the Dumex China Disposal. Although the Chilled Business JVs Acquisition is a transaction between the Mengniu Group and Danone Group, Inner Mongolia Mengniu would record an investment in the Company of RMB396 million and the Company would concurrently record a capital contribution from Inner Mongolia Mengniu of RMB396 million in its statement of change in equity directly, which is being accounted by the Group as a subsidy from Mengniu. As a result, the see-through amount (the "**See-through Amount**") of approximately RMB470 million, instead of the consideration according to the Dumex China SPA of RMB870 million, would be used to calculate a gain on disposal of approximately RMB4 million under the

Dumex China Disposal. The executive Director expects that the Dumex China Disposal will have a positive impact on the assets and liabilities position of the Group. Although cash of RMB870 million will be received by the Group and recorded in the cashflow statement of the Group, only approximately RMB470 million will be accounted for under the Dumex China Disposal as RMB396 million will be accounted for as capital contribution by Mengniu.

Based on our analysis and discussions of the Dumex China Disposal below, we consider the terms of the Dumex China Disposal (notwithstanding the See-through Amount is approximately RMB470 million instead of the consideration of RMB870 million according to the Dumex China SPA) are fair and reasonable so far as the Independent Shareholders are concerned, and the Dumex China Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, we consider the Chilled Business JVs Consideration Adjustment (which serves to incentivize parties to complete the Dumex China Disposal and the RMB396 million being accounted by the Group as a subsidy from Mengniu) is fair and reasonable. We consider the impact of the Chilled Business JVs Acquisition on the Dumex China Disposal (through the Chilled Business JVs Consideration Adjustment which serves to incentivize parties to complete the Dumex China Disposal) is a favourable factor from the Independent Shareholders' perspective.

(B) The Dumex China Disposal

(i) Information on Dumex China and the Dumex China Target Business

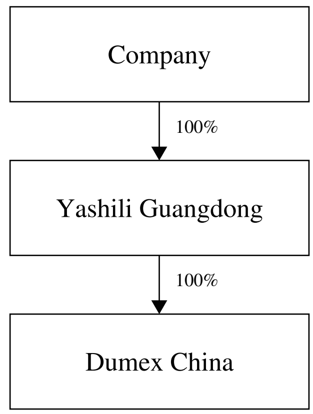
(a) Principal activities of Dumex China

Dumex China is a company established in the PRC and an indirectly wholly-owned subsidiary of the Company. It is principally engaged in manufacturing, sale and import of dairy products and other related nutrition products in the PRC (mainly infant formula and milk powder). Examples of milk powder brands owned by Dumex China include infant formula milk powder brands of Dumex Goat and DIAMOR and toddler milk formula brand of ALL IN ONE.

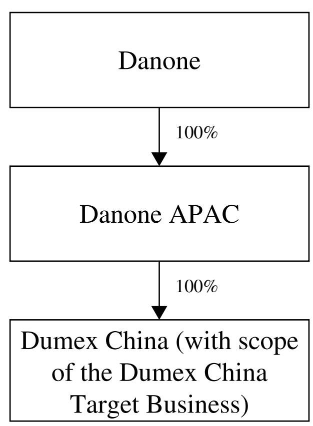
(b) Shareholding structure of Dumex China

The following charts illustrate the simplified shareholding structure of Dumex China (1) as of the Latest Practicable Date; and (2) immediately after completion of the Dumex China Disposal.

(1) As of the Latest Practicable Date



(2) Immediately after completion of the Dumex China Disposal



(c) Financial information of Dumex China

The audited financial statements of Dumex China were prepared in accordance with PRC GAAP for the two years ended December 31, 2020 and 2021. The following is a summary of the financial results of Dumex China for the two years ended December 31, 2020 and 2021. Further details of the audited financial information of Dumex China is set out in Appendix VI contained in the Circular.

	For the year ended December 31,	
	2021	**2020**
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Revenue	787,568.4	878,665.7
Profit after taxation	12,175.2	39,653.7

For the year ended December 31, 2021, Dumex China recorded revenue of approximately RMB787.6 million, representing a decrease of approximately 10.4% as compared to approximately RMB878.7 million for the year ended December 31, 2020. Based on our discussions with the Company's management, we understand that such decrease was mainly attributable to shortage of imported infant formula and raw materials along the supply chain due to the international logistics disruptions and decreased production by overseas suppliers during the global pandemic.

For the year ended December 31, 2021, profit after taxation of Dumex China decreased to approximately RMB12.2 million, representing a decrease of approximately 69.3% as compared to approximately RMB39.7 million for the year ended December 31, 2020. This was primarily attributable to, among others, (i) decrease in the results of subtracting operating costs from operating incomes of approximately RMB7.2 million; (ii) increase of sales expenses of approximately RMB7.5 million incurred by the new digital marketing and promotion campaign of Dumex China; and (iii) the change from the net finance income of approximately RMB0.2 million in 2020 to net finance cost of approximately RMB3.3 million in 2021 as a result of the increase in the interest expenses incurred by the new borrowings for the use of working capital.

Set out below is a summary of the financial position of Dumex China as at December 31, 2020 and 2021.

	As at December 31,	
	2021	**2020**
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Total assets	359,075.3	781,414.8
Total liabilities	370,041.9	804,556.6
Equity-deficit	10,966.6	23,141.8

As at December 31, 2021, Dumex China recorded total assets of approximately RMB359.1 million, which mainly consisted of, among others, (i) cash and cash equivalents of approximately RMB107.6 million; (ii) deferred tax assets of approximately RMB81.7 million; (iii) accounts receivable of approximately RMB77.9 million; (iv) fixed assets of approximately RMB29.9 million, of which approximately RMB9.7 million is subject to the property valuation as set out in Appendix III of the Circular; (v) inventories of approximately RMB29.7 million; and (vi) other receivables of approximately RMB21.5 million. Total liabilities of Dumex China amounted to approximately RMB370.0 million as at December 31, 2021 which primarily consisted of, among others, (i) other payables of approximately RMB183.1 million which were mainly related to the capital expenditure incurred by Dumex China; and (ii) accounts payable to suppliers regarding Dumex China's principal business of approximately RMB134.0 million. As at December 31, 2021, both of the total assets and total liabilities of Dumex China decreased by approximately 54.0% as compared to those as at December 31, 2020. Such decrease was primarily attributable to, among others, (i) the change in the internal control of Dumex China by tightening the credit policy and the payment terms of the transactions which substantially decreased the amount of both accounts receivable and the accounts payable; and (ii) the maturity of financial assets of approximately RMB121.8 million in 2021 which the cash redeemed was used to settle a short-term loan and led to decreases in both current assets and current liabilities of Dumex China. As at December 31, 2021, the audited equity-deficit of Dumex China amounted to approximately RMB11.0 million.

As set out in the section headed "Material change to Dumex China" in Appendix I to the Circular, the Directors confirm that, save as disclosed in the aforementioned section in the Circular, there has been no material change in the financial or trading position or outlook of Dumex China since December 31, 2021, being the date to which the latest audited financial statements of Dumex China were made up, up to and including the Latest Practicable Date.

The above financial information of Dumex China reflects the business scope of Dumex China for the relevant period (including but not limited to Dumex China's ownership of the trademarks in relation to ALL IN ONE, Dumex Goat and DIAMOR which are registered in the PRC) and does not take into account the adjustments of business scope of Dumex China to the Dumex China Target Business. Such adjustments include (i) the inclusion of businesses with respect to the production and distribution of ALL IN ONE products, and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products (which are currently carried out by other members of the Group on behalf of Dumex China and not booked in the audited financial statements of Dumex China for the years ended December 31, 2020 and 2021); (ii) the implementation of the transfer of the Retained Brands by Dumex China to Yashili Guangdong (or its affiliates); and (iii) the split-off of the Yashili Trade Business pursuant to the Dumex China SPA (collectively, the "**Dumex China Scope Adjustments**").

Assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business as at December 31, 2021, the unaudited net asset value as of December 31, 2021 would be approximately RMB127 million (i.e. the Dumex China Adjusted Asset Information).

Based on (i) the net assets value of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) of approximately RMB127 million, plus (ii) the appreciation of the land use rights and properties held by Dumex China of approximately RMB75.3 million calculated with reference to (a) the book value of approximately RMB9.7 million as at December 31, 2021; and (b) the appraised value of RMB85.0 million as set out in the property valuation report in Appendix III to the Circular, the reassessed net asset value of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) is approximately RMB202.3 million.

Assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business at the beginning of the year ended December 31, 2021, the unaudited net profit (before taxation) and the unaudited net profit (after taxation) for the year ended December 31, 2021 would be approximately RMB4.5 million and RMB4.5 million, respectively. Assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business at the beginning of the year ended December 31, 2020, the unaudited net profit (before taxation) and the unaudited net profit (after taxation) of Dumex China for the year ended December 31, 2020 would be approximately RMB15 million and RMB15 million, respectively. Further information on the bases of preparation of the Dumex China Adjusted Profits Information and the Dumex China Adjusted Asset Information are set out in Appendix I to the Circular, and details of the calculations of the Dumex China Adjusted Asset Information are set out in Appendix VII to the Circular.

As set out in the paragraph headed "Information on Dumex China and the Dumex China Target Business" in the "Letter from the Board" contained in the Circular, the differences between (a) the net asset value of the Dumex China Target Business of approximately RMB127 million and the audited equity-deficit of Dumex China of approximately RMB11.0 million as of December 31, 2021; and (b) the net profits after taxation of the Dumex China Target Business of approximately RMB4.5 million and the profit after taxation of Dumex China of approximately RMB12.2 million for the year ended December 31, 2021 are mainly attributable to the proposed split-off of the Yashili Trade Business. Further details on the adjustments on the audited equity-deficit of Dumex China of approximately RMB11.0 million to arrive at the net asset value of the Dumex China Target Business of approximately RMB127 million as of December 31, 2021 are set out in Appendix VII to the Circular.

The decrease in net profits of the Dumex China Target Business as compared to the corresponding net profits of Dumex China in 2021 is primarily due to the split-off of the Yashili Trade Business. As set out in the section headed "Further information on bases of preparation of the Dumex China Adjusted Profits Information" in Appendix I to the Circular, the sales of the Dumex China Target Business represents the revenue from the business of Dumex China as conducted on the date of the Dumex China SPA and plus the revenue from ALL IN ONE, DIAMOR and Dumex Goat, excluding the revenue from the Yashili Trade Business. As no revenue from the business conducted under the Retained Brands was recorded in the audited financial statements of Dumex China for the year ended December 31, 2021, therefore no relevant adjustments are required in the preparation of the net profits of the Dumex China Target Business. Notwithstanding that the inclusion of the production and distribution of ALL IN ONE products and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products as part of the Dumex China Target Business is expected to improve the profits of Dumex China for the years ended December 31, 2020 and 2021 as compared to the audited profits of Dumex China for the same periods, such improvement is insignificant to the overall impact of the completion of the proposed split-off of the Yashili Trade Business on the audited profits of Dumex China for the same periods. Retained Brands are insignificant to the existing business of Dumex China so carve-out of the Retained Brands is also insignificant to the overall impact on the unaudited adjusted financial information of Dumex China set out above.

As set out in the paragraph headed "Information on Dumex China and the Dumex China Target Business" in the "Letter from the Board" contained in the Circular, it is contemplated under the Dumex China SPA that, if the Dumex China Disposal had been completed on December 31, 2021, a capital injection of approximately RMB137 million would be made by the Company to Dumex China, of which approximately RMB129 million would be used for settlement of outstanding intra-group payables by the Yashili Trade Business to other entities of the Group to facilitate a clean split-off of the Yashili Trade Business, and approximately RMB8 million would be the balancing figure to meet the agreed minimum cash and bank balance level to be maintained by Dumex China at completion of the Dumex China Disposal of RMB13 million. This primarily made up of the adjustments to derive the net asset value of the Dumex China Target Business as of December 31, 2021. As set out in the unaudited pro forma financial information of the Remaining Group contained in Appendix VII to the Circular, no adjustment on the net asset value of the Dumex China Target Business is required for ALL IN ONE, DIAMOR and Dumex Goat on the ground that these brands are already owned by Dumex China and will form part of the Dumex China Target Business. Dumex China will acquire from other subsidiaries of the Company the assets and relevant liabilities in relation to the production and distribution of ALL IN ONE products and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products. The net amount of these assets and liabilities is approximately RMB2 million, which will be settled by existing cash of Dumex China. Therefore no adjustment on the net asset value of the Dumex China Target Business is required in this regard. Further, no adjustments on the Retained Brands are required in the preparation of the net asset value of Dumex China Target Business as of December 31, 2021 because the Retained Brands have nil value at the book of Dumex China as of December 31, 2021.

(ii) Background to and reasons for the Dumex China Disposal

After completion of the subscription of the Yashili Sale Shares by Danone Nutrition in February 2015, the Group acquired Danone's entire equity interests in Dumex China in May 2016. As advised by the executive Director, prior to completion of such initial acquisition, DIAMOR and ALL IN ONE products have been part of products offered by Dumex China. After completion of such initial acquisition, as the internal integration and operation optimisation of the Group progresses, Dumex China and other members of the Group have entered into intragroup transactions, for example, the production and distribution of ALL IN ONE products and distribution of DIAMOR infant milk formula products which are currently carried out by other members of the Group on behalf of Dumex China, and the Yashili Trade Business of Dumex China which are currently carried out by Dumex China for the Group (excluding Dumex China). Concurrently, the Group created the Retained Brands and launched self-developed products under the brand of TruYn, one of the Retained Brands, initially as part of the product portfolio of Dumex China, and thus Dumex China was the registered owner of the trademarks for the brand of TruYn. However, as disclosed in the 2020 interim report of the Company, the brand of TruYn has been classified and promoted as part of the product portfolio of Reeborne, a brand of the Group which is not associated with "Dumex", since 2020. The business of Dumex China also expanded into the goat milk segment and the new product line of Dumex Goat milk powder was launched, bearing the "Dumex" trademark in the PRC. The distribution of Dumex Goat infant milk formula products is currently carried out by other members of the Group on behalf of Dumex China.

To unwind the Existing Mengniu-Danone Relationships, Yashili Guangdong and Danone APAC entered into the Dumex China SPA on May 6, 2022, pursuant to which Yashili Guangdong has conditionally agreed to sell, and Danone APAC has conditionally agreed to acquire 100% of the equity interests in Dumex China, the business scope of which would be adjusted to cover only the Dumex China Target Business (the subject of the Dumex China Disposal) at completion. The parties to the Dumex China SPA envisaged that after completion of the Dumex China Disposal, Dumex China's operation shall not be dependent on the Group, and thus they agreed that the existing intragroup arrangements between Dumex China and other members of the Group shall be discontinued upon completion of the Dumex China Disposal and the scope of the Dumex China Target Business shall include the production and distribution of ALL IN ONE products and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products (which are currently being carried out by other members of the Group on behalf of Dumex China). Any business of Dumex China conducted under the Retained Brands, which is not Dumex-branded (i.e. do not carry the brand name of "Dumex"), shall be excluded from the scope of the Dumex China Target Business, and the Retained Brands shall be assigned by Dumex China to other members of the Group accordingly. For the avoidance of doubt, ALL IN ONE, DIAMOR and Dumex Goat are being considered as Dumex-branded and the Retained Brands (including TruYn) are not being considered as Dumex-branded.

Upon completion of the Dumex China Disposal, the Retained Brands, including TruYn and Nainiujiadao (which are not Dumex-branded) will be retained in the Group and the Yashili Trade Business (currently carried out by Dumex China for the Group) will be carried out by other members of the Group. Other than the business in respect of the production and distribution of ALL IN ONE products, and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products (which are currently carried out by other members of the Group on behalf of Dumex China), the operation of other existing businesses of the Group will continue.

According to the Company's 2021 Annual Report, with the continued COVID-19 pandemic and decline in China's birth rate, the growth of infant formula milk powder market size had slowed down and there are increasing competition in the existing market. Coupled with the new national standards for infant formula food issued in March 2021, which set higher requirements for raw materials, supply chain, research and development and process stability of infant formula milk powder enterprises, and the subsequent recipe re-registration requirement, such enterprises are driven to improve product quality and develop more efficacious product segments. Also, the executive Director expects the outlook of the business environment to remain uncertain against the backdrop of the resurgence of the COVID-19 pandemic in the PRC.

As stated in the paragraph headed "Financial information of Dumex China" in this letter above, assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business at the beginning of the year ended December 31, 2021, the unaudited net profit (after taxation) of the Dumex China Target Business for the year ended December 31, 2021 would be approximately RMB4.5 million, representing a year-on-year decrease of approximately 70% from the unaudited net profit (after taxation) of approximately RMB15 million for the year ended December 31, 2020. According to the 2021 Annual Report and as advised by the executive Director, due to the underperformance of the Dumex infant formula products which resulted in less investment made by the Group to build the Dumex brands, an impairment loss of Dumex China's trademark of RMB200 million was recognised in 2021, which adversely affected the financial performance of the Company for the same period.

As set out in the paragraph headed "Financial Effect of the Dumex China Disposal" in the "Letter from the Board" contained in the Circular and as advised by the executive Director, assuming the Dumex China Disposal be completed as of December 31, 2021, it is expected that the Group's total assets would be increased by approximately RMB378 million and the Group's total liabilities would be decreased by approximately RMB22 million (before taking into account any taxation and transaction costs). Accordingly, the executive Director expects, and we concur, that the Dumex China Disposal would have a positive impact on the assets and liabilities position of the Group.

As stated in the abovementioned paragraph in the Circular, the net proceeds (after deducting the estimated expenses for the Dumex China Disposal) of the Dumex China Disposal are expected to be approximately RMB860 million. The Company intends to apply the net proceeds from the Dumex China Disposal to the Group's milk powder production in the PRC in the next three years in the following manner: (a) approximately 70% of the net proceeds of approximately RMB608 million for funding the capital expenditures on production workshops, spray dryer facilities and laboratories to increase the Group's production efficiency and capacity, of which approximately 47%, 41% and 12% are expected to be utilised in 2023, 2024 and 2025 respectively; and (b) the remaining net proceeds of approximately RMB252 million for funding the capital expenditures on packing equipment and utilities and other general working capital purposes, of which approximately 8%, 79% and 13% are expected to be utilised in 2023, 2024 and 2025 respectively.

In view of the background of the Dumex China Disposal, the keen competition in the infant formula milk powder market, the uncertainty in the outlook of the business environment in the PRC, the underperformance of the Dumex infant formula products, the expected positive impact on the assets and liabilities position of the Group after completion of the Dumex China Disposal and the intended use of proceeds as mentioned above, the executive Director is of the view, and we concur, although the Dumex China Disposal is not in the ordinary and usual course of business of the Group, it allows the Group to divest from Dumex China business and reallocate its resources to invest in the Group's milk powder production to improve its operational efficiency, which is in the interests of the Company and the Shareholders as a whole.

(iii) Principal terms of the Dumex China SPA

Date

May 6, 2022

Parties

(i) Yashili Guangdong (as the seller)

(ii) Danone APAC (as the purchaser)

Consideration

The total consideration for the Dumex China Disposal is RMB870 million on a cash free and debt free basis, which shall be subject to the following customary closing accounts adjustments based on agreed closing accounts, and the Dumex China Final Consideration is calculated as follows:

(a) RMB870 million;

(b) plus the aggregate of actual cash and cash equivalents of Dumex China as of the closing date;

(c) less the aggregate of the actual indebtedness of Dumex China as of the closing date;

(d) plus the value difference between (i) the aggregate of the net working capital (excluding those items specifically included in (b) and (c) above) of Dumex China as of the closing date (the "**Actual Working Capital**"); and (ii) the target amount of the net working capital of Dumex China (the "**Target Working Capital**") prescribed under the Dumex China SPA. Such value will be (1) positive if the Actual Working Capital is greater than the Target Working Capital; or (2) negative if the Actual Working Capital is less than the Target Working Capital.

The Dumex China Final Consideration shall be satisfied in cash in the manner stated in the Dumex China SPA which include, among others:

(a) At completion of the Dumex China Disposal, Danone APAC shall pay the Dumex China Initial Consideration amount of RMB850 million to Yashili Guangdong;

(b) Within 10 business days following the Dumex China Post-Closing Determination Date which the Dumex China Draft Closing Statement is deemed final and binding or the date on which the Dumex China Final Closing Statement is delivered, as applicable,

(i) if the Dumex China Final Consideration (after adjustments based on the Dumex China Final Closing Statement) is less than the Dumex China Initial Consideration, Yashili Guangdong shall pay to Danone APAC an amount equal to the difference, and

(ii) if the Dumex China Final Consideration (after adjustments based on the Dumex China Final Closing Statement) is more than the Dumex China Initial Consideration, Danone APAC shall pay to Yashili Guangdong an amount equal to the difference.

Further details on the settlement clauses are set out in the paragraph headed "Consideration" under the sub-section headed "Dumex China Disposal" in the "Letter from the Board" contained in the Circular.

The consideration for the Dumex China Disposal was determined by the parties after arm's length negotiations on normal commercial terms after taking into account (a) the Company's original acquisition cost of approximately RMB1,027 million for Dumex China; and (b) the recent financial and operating performance of Dumex China and the recognition of a one-off impairment on the trademark of Dumex China of RMB200 million for the year ended December 31, 2021. For the avoidance of doubt, any business of Dumex China conducted under the Retained Brands and the Yashili Trade Business do not form part of the Dumex China Disposal. Further details are set out in the paragraph headed "Dumex China Target Business" below in this letter.

Yashili Guangdong shall make commercially reasonable efforts to procure that the aggregate cash and cash equivalents of Dumex China be no less than RMB13 million at the date of completion of the Dumex China Disposal for the operation of Dumex China immediately after completion of the Dumex China Disposal. For the avoidance of doubt, the aforementioned level of cash of Dumex China will be factored into the closing accounts adjustments.

Conditions precedent

Completion of the Dumex China Disposal is conditional upon the satisfaction or (where applicable) waiver of the conditions precedent set out in paragraph headed "Principal Terms of the Dumex China SPA" under the sub-section headed "Dumex China Disposal" in the "Letter from the Board" contained in the Circular prior to the Dumex CP Deadline. Conditions precedent include:

(1) (i) the representations and warranties made by Danone APAC under the Dumex China SPA shall be (x) (where such representations and warranties are not qualified by a materiality qualification) true and correct in all material respects and (y) (where such representations and warranties are qualified by a materiality qualification) true and correct in all respects as so qualified, as though such representations and warranties had been made on and as of the completion date or (where applicable) another specified date; and (ii) the covenants and agreements under the Dumex China SPA to be complied with by Danone APAC on or before completion shall have been complied with in all material respects;

(2) the Dumex China Anti-Trust Approval and shareholders' approval of the Dumex China Disposal at the EGM in connection with the Dumex China Disposal as a major and connected transaction of the Company shall have been obtained;

(3) no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or governmental order that prohibits or makes illegal the Dumex China Disposal at or prior to the completion date; and

(4) the Dumex Key Conditions.

As set out in the paragraph headed "Principal Terms of the Dumex China SPA" under the sub-section headed "Dumex China Disposal" in the "Letter from the Board" contained in the Circular, the condition (a) may be waived by Yashili Guangdong in whole or in part. The conditions (b) and (e) to (i) (inclusive) (i.e. the Dumex Key Conditions) may be waived by Danone APAC in whole or in part. No other conditions may be unilaterally waived by Yashili Guangdong or Danone APAC.

On July 18, 2022, Danone APAC received the Dumex China Anti-Trust Approval granted by the Anti-Trust Clearance Authority. Therefore, the condition (2) above in relation to the obtaining of the Dumex China Anti-Trust Approval has been fulfilled. Save for the foregoing, none of the conditions have been fulfilled as at the Latest Practicable Date.

If the conditions are not fulfilled prior to the Dumex CP Deadline, the Dumex CP Deadline shall automatically be extended to June 15, 2023, provided only that Dumex China shall have obtained one of the new registration certificates with respect to the Dumex Key Condition 2 on or prior to February 22, 2023.

Anti-Trust Filing

Yashili Guangdong and Danone APAC have agreed that Danone APAC shall submit the Dumex China Anti-Trust Filing as soon as reasonably practicable after the date of the Dumex China SPA.

Completion

Completion of the Dumex China Disposal shall take place on the fifth (5th) business day following the Dumex China CP Unconditional Date, or such other date as Yashili Guangdong and Danone APAC may mutually agree.

Termination

The Dumex China SPA may be terminated if, inter alia, (i) (by either party) if any of the conditions precedent has not been fulfilled or otherwise waived in accordance with the Dumex China SPA by the Dumex CP Deadline, provided that such right shall not be available to any party whose failure to fulfil any obligation under the Dumex China SPA shall have caused the failure of such condition precedent being fulfilled or otherwise waived on or prior to the Dumex CP Deadline; or (ii) (by the non-defaulting party) either party has failed to comply with any Dumex China Material Closing Obligations.

If either party fails to comply with any of the Dumex China Material Closing Obligations, then the other party shall be entitled, on the date completion would otherwise have taken place, to, inter alia, (a) notify the party in default of a new date for completion (being not more than 10 business days after the original date for completion) but on the basis that such deferral may only occur once; or (b) terminate the Dumex China SPA (other than the provisions relating to the effect of termination and certain general provisions). If (i) completion is deferred and at such deferred completion a party fails to comply with its Dumex China Material Closing Obligations; or (ii) such deferred completion does not occur within 10 business days after the first completion date, the non-defaulting party shall have the right to terminate the Dumex China SPA.

Further details on the termination clauses are set out in the paragraph headed “Principal Terms of the Dumex China SPA” under the sub-section headed “Dumex China Disposal” in the “Letter from the Board” contained in the Circular.

Dumex China Target Business

The business of Dumex China that would form the subject of the Dumex China Disposal is the Dumex China Target Business, i.e. the business of Dumex China as conducted on the date of the Dumex China SPA, plus (i) the production and distribution of ALL IN ONE, which as of the date of the Dumex China SPA was carried out by members of the Group on behalf of Dumex China; and (ii) the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products, which as of the date of the Dumex China SPA was carried out by members of the Group on behalf of Dumex China, excluding (a) the Yashili Trade Business; and (b) any business conducted under the Retained Brands.

Pursuant to the Dumex China SPA and as advised by the executive Director, the parties have agreed that any business conducted under the Retained Brands does not form part of the transactions contemplated thereunder and will be retained in the Group. Therefore, Yashili Guangdong shall have the right to cause Dumex China to transfer the Retained Brands to Yashili Guangdong or its affiliates for free or for a nominal price. Furthermore, Yashili Guangdong shall complete the split-off of the Yashili Trade Business prior to completion of the Dumex China Disposal. For the avoidance of doubt, the split-off of the Yashili Trade Business is not a condition precedent to the Dumex China Disposal. However, as disclosed in the paragraph headed "Termination" under the sub-section headed "Dumex China Disposal" in the "Letter from the Board" contained in the Circular, the split-off of the Yashili Trade Business constitutes a Dumex China Seller Key Obligation. If either party fails to comply with any of the Dumex China Material Closing Obligations, then the other party shall be entitled, on the date which completion would otherwise have taken place, to, inter alia, (a) defer the completion date once; or (b) terminate the Dumex China SPA (other than the provisions relating to the effect of termination and certain general provisions).

Yashili Guangdong intends to complete the split-off of the Yashili Trade Business prior to completion of the Dumex China Disposal in accordance with the Dumex China SPA.

(iv) Evaluation of consideration of the Dumex China Disposal

As set out in the paragraph headed "Principal Terms of the Dumex China SPA" under the sub-section headed "Dumex China Disposal" in the "Letter from the Board" contained in the Circular, the consideration for the Dumex China Disposal was determined by the parties after arm's length negotiations on normal commercial terms after taking into account (a) the Company's original acquisition cost of approximately RMB1,027 million for Dumex China; and (b) the recent financial and operating performance of Dumex China and the recognition of a one-off impairment on the trademark of Dumex China of RMB200 million for the year ended December 31, 2021.

In light of the objective to unwind the Existing Mengniu-Danone Relationships and the Danone Group ceasing to have any interest in the Company following completion of the 25% Yashili Acquisition, Mengniu, as a controlling Shareholder of the Company, has introduced the Chilled Business JVs Consideration Adjustment to incentivize parties to complete the Dumex China Disposal at a consideration of RMB870 million. As the consideration of RMB1,600 million for the Chilled Business JVs Acquisition consists of an incentive element of RMB400 million in relation to the completion of the Dumex China Disposal, the See-through Amount under the Dumex China Disposal is approximately RMB470 million. As discussed in the paragraph headed "Financial effects of the Dumex China Disposal" in this letter below, the Company would record a capital contribution from Inner Mongolia Mengniu of RMB396 million in its statement of change in equity directly (which is being accounted by the Group as a subsidy from Mengniu) and a gain of approximately RMB4 million from the Dumex China Disposal.

Dumex China is principally engaged in manufacturing, sale and import of infant formula, dairy products and other related nutrition products (mainly infant formula and milk powder). Accordingly, we have conducted a search on Bloomberg and identified four comparable companies (including the Company) (the "**Dumex China Comparable Companies**") listed on the Main Board of the Stock Exchange, which, based on their latest published annual reports available as at the Latest Practicable Date, are principally engaged in milk powder or infant formula business in the PRC. Taking into account that the principal activities of Dumex China is the primary factor to be considered when selecting the Dumex China Comparable Companies and market prices of public companies provides objective references of a company's value, we are of the view that the abovementioned selection criteria of the Dumex China Comparable Companies is appropriate, fair and representative while allowing a sufficient number of Dumex China Comparable Companies to be obtained for the purpose of this analysis. The Dumex China Comparable Companies set out in the table below represent an exhaustive list of companies comparable to Dumex China based on the above criteria.

To assess the fairness and reasonableness of the consideration for the Dumex China Disposal, we have compared the price-to-earnings multiples ("**P/E Multiples**") and the price-to-book multiples ("**P/B Multiples**") of Dumex China (i.e. before the Dumex China Scope Adjustments) and the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments), based on the consideration of RMB870 million, (the "**Unadjusted Consideration**") and the See-through Amount of approximately RMB470 million (the "**Unadjusted See-through Amount**"), assuming no customary closing accounts adjustment to the Dumex China Final Consideration, with those of the Dumex China Comparable Companies. The P/E Multiple and the P/B Multiple are adopted because they are two of the commonly used multiples for valuing businesses and are appropriate multiples to be adopted in this case considering the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) has recorded profits and is not regarded as an asset-light business.

Dumex China Comparable Companies	Stock code	Principal businesses	Market capitalisation as at the Latest Practicable Date	Historical P/E Multiple	Historical P/B Multiple
			(Approximate HK$' million)	*(Approximate times)* *(Note 1)*	*(Approximate times)* *(Note 2)*
China Feihe Limited	6186	The company provides infant milk formula products processing, production, marketing and other services.	63,675.4	8.0	2.6

Dumex China Comparable Companies	Stock code	Principal businesses	Market capitalisation as at the Latest Practicable Date	Historical P/E Multiple	Historical P/B Multiple
			(Approximate HK$' million)	*(Approximate times)* *(Note 1)*	*(Approximate times)* *(Note 2)*
Ausnutria Dairy Corporation Ltd.	1717	The company is principally engaged in the production, marketing and distribution of paediatric milk formula products in China.	11,538.5	9.1	1.7
Health & Happiness H&H International Holdings Ltd	1112	The company is principally engaged in the manufacture and sale of premium pediatric nutrition.	6,323.1	10.7	0.9
The Company	1230	The Company is primarily engaged in the manufacturing and sale of dairy and nourishment products.	2,183.0 *(Note 3)*	Not applicable *(Note 4)*	0.3 *(Note 5)*
			Maximum	10.7	2.6
			Minimum	8.0	0.3
			Mean	9.3	1.4
			Median	9.1	1.3
		Based on the Unadjusted Consideration			
		Dumex China (i.e. before the Dumex China Scope Adjustments) (for reference only)		71.3 *(Note 6)*	Not applicable *(Note 7)*

Dumex China Comparable Companies	Stock code	Principal businesses	Market capitalisation as at the Latest Practicable Date	Historical P/E Multiple	Historical P/B Multiple
			(Approximate HK$' million)	*(Approximate times)* *(Note 1)*	*(Approximate times)* *(Note 2)*
		Dumex China Target Business (i.e. after the Dumex China Scope Adjustments)		193.3 *(Note 8)*	4.3 *(Note 9)*
		Based on the Unadjusted See-through Amount			
		Dumex China (i.e. before the Dumex China Scope Adjustments) (for reference only)		38.5 *(Note 6)*	Not applicable *(Note 7)*
		Dumex China Target Business (i.e. after the Dumex China Scope Adjustments)		104.4 *(Note 8)*	2.3 *(Note 9)*

Source: Bloomberg, the website of the Stock Exchange and the 2021 Annual Report

Notes:

1. The historical P/E Multiples of the Dumex China Comparable Companies (save for the Company) were extracted from Bloomberg as at the Latest Practicable Date. As shown on Bloomberg, the earning per share of each of the Dumex China Comparable Companies for the latest financial year was adopted. The latest financial year end dates of all the Dumex China Comparable Companies are December 31, 2021.

2. The historical P/B Multiples of the Dumex China Comparable Companies (save for the Company) were extracted from Bloomberg as at the Latest Practicable Date. As shown on Bloomberg, the net asset value per share of each of the Dumex China Comparable Companies as at the latest financial year end date was adopted. The financial year end dates of all the Dumex China Comparable Companies are December 31, 2021.

3. The market capitalisation of the Company as at March 11, 2022 (the "**Unaffected Price Date**"), being the last trading day prior to March 14, 2022 when there were irregular trading volumes and price movements in the Shares, of approximately HK$2,183.0 million was adopted for the purpose of this analysis to exclude the impact of the Privatisation Proposal on the market price of the Shares.

4. The Company was loss making for the year ended December 31, 2021, therefore the P/E Multiple is not applicable.

5. The P/B Multiple of the Company of approximately 0.3 times is calculated by dividing the market capitalisation as at the Unaffected Price Date of approximately HK$2,183.0 million by the net asset value of the Company attributable to owners of the parent of approximately RMB5,528.1 million (equivalent to approximately HK$6,775.8 million) as at December 31, 2021.

6. The P/E Multiples of Dumex China (i.e. before the Dumex China Scope Adjustments) of approximately 71.3 times and 38.5 times are calculated by dividing the Unadjusted Consideration of RMB870 million and the Unadjusted See-through Amount of approximately RMB470 million respectively by the audited profit after taxation of Dumex China (i.e. before the Dumex China Scope Adjustments) for the year ended December 31, 2021 of approximately RMB12.2 million.

7. Dumex China (i.e. before the Dumex China Scope Adjustments) recorded an audited equity-deficit of approximately RMB11.0 million as at December 31, 2021. The consideration for the Dumex China Disposal of RMB870 million on a cash free and debt free basis (subject to the customary closing accounts adjustments) is approximately RMB881 million in excess of the audited equity-deficit of Dumex China as of December 31, 2021. The See-through Amount of approximately RMB470 million is approximately RMB481 million in excess of the audited equity-deficit of Dumex China as of December 31, 2021 of approximately RMB11 million.

8. The P/E Multiples of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) of approximately 193.3 times and 104.4 times are calculated by dividing the Unadjusted Consideration of RMB870 million and the Unadjusted See-through Amount of approximately RMB470 million respectively by profit after taxation of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) of approximately RMB4.5 million for the year ended December 31, 2021 as extracted from the Dumex China SPA.

9. The P/B Multiples of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) of approximately 4.3 times and 2.3 times are calculated by dividing the Unadjusted Consideration of RMB870 million and the Unadjusted See-through Amount of approximately RMB470 million respectively by the reassessed net asset value of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) of approximately RMB202.3 million as at December 31, 2021. The reassessed net asset value of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) of approximately RMB202.3 million is derived based on (i) the net assets value of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) of approximately RMB127 million as extracted from the Dumex China SPA, plus (ii) the appreciation of the land use rights and properties held by Dumex China of approximately RMB75.3 million calculated with reference to (a) the book value of approximately RMB9.7 million as at December 31, 2021; and (b) the appraised value of RMB85.0 million as set out in the property valuation report in Appendix III to the Circular. For reference purpose, the P/B Multiple of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) calculated by dividing the Unadjusted Consideration of RMB870 million by the carrying value of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) of approximately RMB470 million (being the book value of the Dumex China Target Business recognised in the consolidated financial statements of the Company) as at December 31, 2021 is approximately 1.9 times.

As set out in the table above, the P/E Multiples of the Dumex China Comparable Companies ranged from approximately 8.0 times to 10.7 times. The P/E Multiple of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) of approximately 193.3 times (based on the Unadjusted Consideration) and 104.4 times (based on the Unadjusted See-through Amount), which are calculated according to the standard formula based on the Unadjusted Consideration of RMB870 million, the Unadjusted See-through Amount of approximately RMB470 million and the unaudited net profit (after taxation) of the Dumex China Target Business for the year ended December 31, 2021 of approximately RMB4.5 million, are significantly above the range of those of the Dumex China Comparable Companies. However, the unaudited net profit (after taxation) of approximately RMB4.5 million may be a low point, representing a year-on-year decrease of approximately 70% from approximately RMB15 million for the previous year ended December 31, 2020. On the basis of the unaudited net profit (after taxation) of approximately RMB15 million for 2020, the P/E Multiples of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) would be approximately 58 times (based on the Unadjusted Consideration) and 31.3 times (based on the Unadjusted See-through Amount), which are still significantly above the range of those of the Dumex China Comparable Companies. The P/B Multiples of the Dumex China Comparable Companies ranged from approximately 0.3 times to 2.6 times. The P/B Multiple of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) calculated based on the Unadjusted Consideration of approximately 4.3 times is above the range of those of the Dumex China Comparable Companies while the P/B Multiple of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) calculated based on the Unadjusted See-through Amount of approximately 2.3 times is above the mean and median of those of the Dumex China Comparable Companies. Independent Shareholders should note that Dumex China is an unlisted company and the shares of Dumex China are not readily marketable compared to the shares of the Dumex China Comparable Companies which are listed on the Stock Exchange. The above P/E Multiples and P/B Multiples of the Dumex China Comparable Companies implicitly reflect a premium in their market value due to their listing status and the marketability advantage as compared to unlisted companies. Assuming such premium in the market value of the Dumex China Comparable Companies is disregarded, the P/E Multiples and P/B Multiples of Dumex China Comparable Companies would have been even lower than those already shown in the table above.

Taking into account that P/E Multiple and P/B Multiple are two of the commonly used multiples for valuing businesses with standard formula, as well as the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) has recorded profits and is not regarded as an asset-light business, we consider the use of P/E Multiples and P/B Multiples in this analysis is appropriate, fair and representative. Based on the analysis set out above, we are of the view that the consideration of the Dumex China Disposal (notwithstanding the See-through Amount is approximately RMB470 million instead of the consideration of RMB870 million according to the Dumex China SPA) is fair and reasonable so far as the Independent Shareholders are concerned.

(v) Financial effects of the Dumex China Disposal

As of the Latest Practicable Date, Dumex China is an indirect wholly-owned subsidiary of the Company. Upon completion of the Dumex China Disposal, the Company will cease to hold any interest in Dumex China, and Dumex China will cease to be a subsidiary of the Company. The financial results of Dumex China will no longer be consolidated into the consolidated financial statements of the Company.

As set out in the paragraph headed "Financial Effect of the Dumex China Disposal" in the ''Letter from the Board'' contained in the Circular, as the audited equity-deficit of Dumex China as of December 31, 2021 was approximately RMB11 million, the consideration for the Dumex China Disposal of RMB870 million on a cash free and debt free basis (subject to the customary closing accounts adjustments) is approximately RMB881 million in excess of the net book value (i.e. the net equity-deficit) of Dumex China (i.e. before the Dumex China Scope Adjustments). As the unaudited net asset value of Dumex China as of December 31, 2021 would be approximately RMB127 million assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) as at December 31, 2021, the consideration for the Dumex China Disposal of RMB870 million on a cash free and debt free basis is approximately RMB743 million in excess of such net asset value. The See-through Amount of approximately RMB470 million is approximately RMB481 million in excess of the audited equity-deficit of Dumex China as of December 31, 2021 of approximately RMB11 million, and approximately RMB343 million in excess of the unaudited net asset value of the Dumex China Target Business as of December 31, 2021 of RMB127 million.

As set out in the abovementioned paragraph contained in the Circular, given that (i) the parties negotiated the Chilled Business JVs Acquisition and the Dumex China Disposal simultaneously and have commercial intention to complete both the Chilled Business JVs Acquisition and the Dumex China Disposal, and (ii) the consideration of the Chilled Business JVs Acquisition of RMB1,600 million consists of an incentive element of RMB400 million, which involve the Company receiving RMB870 million from the disposal of the Dumex China Target Business, the two transactions are considered to be bundled transactions from the accounting perspective. Assuming the Chilled Business JVs Acquisition and the Dumex China Disposal had been completed on December 31, 2021, Inner Mongolia Mengniu would derecognize the financial liability arising from a put option granted to Danone Shanghai for the sale of the Chilled Business Sale Shares of RMB1,204 million and record an investment in the Company of RMB396 million, which represents the difference between the final consideration for the Chilled Business Sale Shares of RMB1,600 million and the book value of the relevant interest in the Chilled Business of RMB1,204 million. The Company would record a capital contribution from Inner Mongolia Mengniu of RMB396 million in its statement of change in equity. For the avoidance of doubt, Mengniu will not receive any Shares from such capital contribution to the Company but will benefit from the completion of the Dumex China Disposal as a controlling shareholder of the Company.

Taking into account the total consideration of RMB870 million for the Dumex China Disposal, RMB396 million to be recorded in equity of the Company if the Chilled Business JVs Acquisition had also been completed on December 31, 2021, and the carrying value of the Dumex China Target Business as of December 31, 2021 of approximately RMB470 million which assumed that the capital injection by the Company into Dumex China of approximately RMB137 million as contemplated under the Dumex China SPA has been completed as of December 31, 2021, the Company would record a gain of approximately RMB4 million from the Dumex China Disposal (before taking into account any taxation and transaction costs). Assuming the incentive element of RMB400 million does not exist, taking into account the total consideration of RMB870 million for the Dumex China Disposal and the carrying value of the Dumex China Target Business as of December 31, 2021 of approximately RMB470 million which assumed that the capital injection by the Company into Dumex China of approximately RMB137 million as contemplated under the Dumex China SPA has been completed as of December 31, 2021, the Company would record a gain of approximately RMB400 million from the Dumex China Disposal (before taking into account any taxation and transaction costs). As advised by the Company, both profits and capital contribution of the Group are regarded as equity (not issued share capital) of the Group and are eligible for distribution as dividends to Shareholders (subject to the Group's dividend policy). Considering the above, although gain from Dumex China Disposal would have been increased to approximately RMB400 million from approximately RMB4 million if the incentive element of RMB400 million under the Chilled Business SPA does not exist, we consider that the Chilled Business JV Consideration Adjustment are fair and reasonable.

Taking into account the total assets and the total liabilities of the Dumex China Target Business as of December 31, 2021, and the total cash to be received by the Company from the Dumex China Disposal, the Group expects the Group's total assets to be increased by approximately RMB378 million and the Group's total liabilities to be decreased by approximately RMB22 million (before taking into account any taxation and transaction costs). Accordingly, the executive Director expects that the Dumex China Disposal will have a positive impact on the assets and liabilities position of the Group. Details of the pro forma financial information of the Remaining Group are set out in Appendix VII to the Circular.

(vi) Takeovers Code implications — Special Deal

As the Dumex China Disposal is an arrangement between Yashili Guangdong, a subsidiary of the Company and an Offeror Concert Party, and Danone APAC, a fellow subsidiary of Danone Nutrition, which is in turn a Shareholder, and such arrangement is not also extended to all Shareholders, the Dumex China Disposal constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Offeror has made an application to seek the consent of the Executive for the Dumex China Disposal and such consent, if granted, will be subject to:

(a) the Independent Financial Adviser publicly stating that in its opinion the terms of the Dumex China Disposal are fair and reasonable; and

(b) the approval of the Dumex China Disposal by the Independent Shareholders by way of poll at the EGM.

Shareholders are reminded that if the Independent Shareholders do not approve the Dumex China Disposal at the EGM, the Dumex China Disposal will not proceed in accordance with the Dumex China SPA and the Privatisation Proposal will lapse as such approval is a Scheme Pre-Condition which cannot be waived.

If the Independent Shareholders approve the Dumex China Disposal but the Chilled Business JVs Acquisition and/or the 25% Yashili Acquisition is/are not approved at the EGM, the Shareholders should note that:

(i) the Privatisation Proposal will lapse as the approval of all of the Proposed Transactions is a non-waivable Scheme Pre-Condition;

(ii) the Company and Danone can and will, subject to the satisfaction and/or waiver of the conditions precedent of the Dumex China Disposal, still proceed to complete the Dumex China Disposal; and

(iii) after the lapsing of the Privatisation Proposal, each of the Chilled Business JVs Acquisition and the 25% Yashili Acquisition will no longer constitute a special deal under Rule 25 of the Takeovers Code. Therefore, Mengniu and Danone can and will, subject to the satisfaction and/or waiver of the conditions precedent of the Chilled Business JVs Acquisition and the 25% Yashili Acquisition, still proceed to complete the Chilled Business JVs Acquisition and the 25% Yashili Acquisition, respectively.

(vii) Assessment on the Special Deal

As discussed above, considering the background of the Dumex China Disposal, the keen competition in the infant formula milk powder market, the uncertainty in the outlook of the business environment in the PRC, and the underperformance of Dumex China's infant formula products, the Dumex China Disposal allows the Group to divest from the Dumex China business and reallocate its resources to invest in the Group's milk powder production to improve its operational efficiency. Taking into account that the consideration for the Dumex China Disposal was determined by the parties after arm's length negotiations on normal commercial terms, and based on our analysis set out in the paragraph headed "Evaluation of consideration of the Dumex China Disposal" of this letter above, we consider the consideration and the terms of the Dumex China Disposal (notwithstanding the See-through Amount is approximately RMB470 million instead of the consideration of RMB870 million according to the Dumex China SPA) are fair and reasonable so far as the Independent Shareholders are concerned. As set out in the "Letter from the Board" and this letter above, the consideration of RMB1,600 million for the Chilled Business JVs Acquisition consists of an incentive element of RMB400 million in relation to the completion of the Dumex China Disposal. If, deducting such RMB400 million from the actual consideration payable by Danone APAC of RMB870 million under the Dumex China Disposal, the amount of RMB470 million represents (i) a P/E multiple of approximately 104.4 times (calculated based on the profit after taxation of the Dumex China Target Business of approximately RMB4.5 million for the year ended December 31, 2021) and a P/E multiple of approximately 31.3 times (calculated based on the profit after taxation of the Dumex China Target Business of approximately RMB15 million for the year ended December 31, 2020), which are above the range of the P/E multiples of the Dumex China Comparable Companies; and (ii) a P/B multiple of approximately 2.3 times (calculated based on the reassessed net asset value of the Dumex China Target Business of approximately RMB202.3 million), which is above the mean and median of the P/B multiples of the Dumex China Comparable Companies. On this basis, we consider the See-through Amount of approximately RMB470 million is fair and reasonable so far as the Independent Shareholders are concerned.

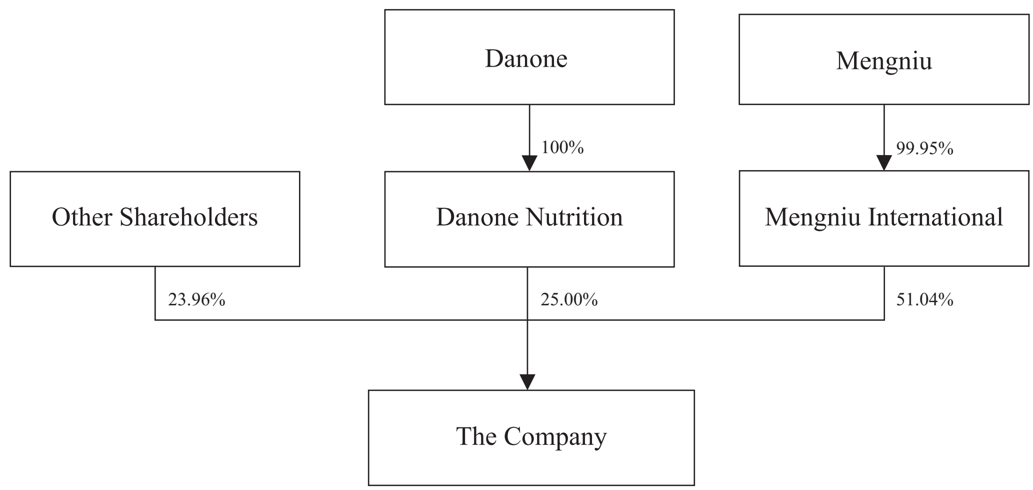
(C) The 25% Yashili Acquisition

The Company is not a party to the 25% Yashili Acquisition, but Independent Shareholders are asked to consider it as it is classified a special deal under the Takeovers Code as explained below. The 25% Yashili Acquisition may proceed even if the Independent Shareholders do not approve it, but the Privatisation Proposal will not.

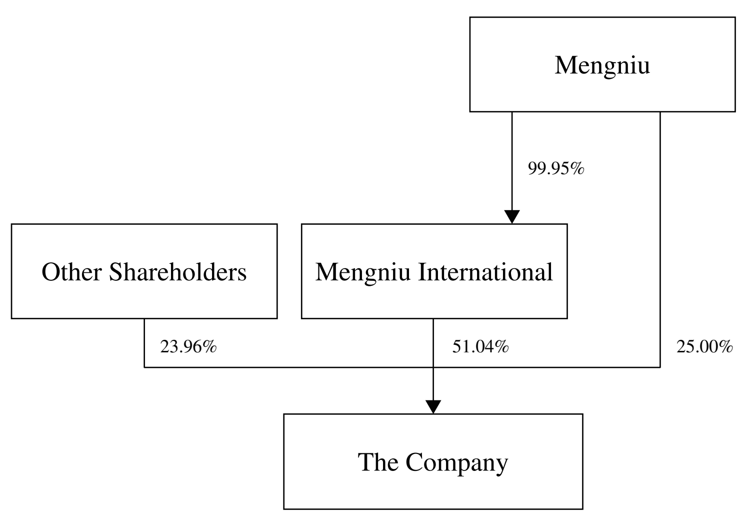
(i) Shareholding structure of the Company

The following charts illustrate the simplified shareholding structure of the Company (1) as of the Latest Practicable Date; and (2) immediately after completion of the 25% Yashili Acquisition (assuming that there are no other changes to the issued share capital of the Company and holding of the Shares between the Latest Practicable Date and completion of the 25% Yashili Acquisition).

(1) As of the Latest Practicable Date



(2) Immediately after completion of the 25% Yashili Acquisition (assuming that there are no other changes to the issued share capital of the Company and holding of the Shares between the Latest Practicable Date and completion of the 25% Yashili Acquisition)



(ii) Background of and reasons for the 25% Yashili Acquisition

The Danone Group subscribed for the Yashili Sale Shares in October 2014 at a price of HK$3.7 per Share. As at the Latest Practicable Date, Danone Nutrition, a wholly-owned subsidiary of Danone, is the beneficial owner of 1,186,390,074 Shares, representing 25% of the total issued share capital of the Company. Mengniu, through Mengniu International (a 99.95%-owned subsidiary of Mengniu), is the beneficial owner of approximately 51% of the issued share capital of the Company.

As set out in the Joint Announcement, the decision to unwind the Existing Mengniu-Danone Relationships following the Danone Mengniu Disposal is a key reason for conducting the 25% Yashili Acquisition. Upon completion of the 25% Yashili Acquisition and assuming that there are no changes to the issued shares of the Company and there is no exercise of the Mengniu International Exchange Right (as defined in the Joint Announcement) prior to completion of the 25% Yashili Acquisition, the Company will be held as to approximately and effectively 76% by Mengniu, and the Danone Group will cease to hold any Shares. Further details on the 25% Yashili Acquisition are set out in the "Letter from the Board" contained in the Circular.

(iii) Principal terms of the 25% Yashili Acquisition SPA

Consideration

The total consideration for the Yashili Sale Shares is HK$1,423,668,089, representing a price per Share of HK$1.20, which shall be satisfied in cash by Mengniu and was determined by the parties after arm's length negotiations after taking into account, among others, the historical performance and business potential of the Company and the prevailing and historical market price levels of the Shares.

Conditions to Completion

Completion of the 25% Yashili Acquisition is conditional on each of the following conditions having been satisfied or waived prior to the 25% Yashili Acquisition LSD: (a) the Dumex China Disposal having been approved by the Independent Shareholders at the EGM as a major and connected transaction of the Company in accordance with the requirements imposed by the relevant Governmental Entities; and (b) (i) the Dumex China Disposal having been completed on or before the 25% Yashili Acquisition LSD, or (ii) in the case that any one or more of the Dumex Key Conditions have not been satisfied or waived (where applicable) by the Dumex CP Deadline, following all other conditions precedent to the Dumex China Disposal (excluding the Dumex Key Conditions) having been satisfied. The above condition (a) cannot be waived. Condition (b) may be waived by Mengniu. Completion of the 25% Yashili Acquisition shall take place after all conditions precedent to the 25% Yashili Acquisition have been satisfied or waived in accordance with its terms, further details of which are set out in the sub-section headed "25% Yashili Acquisition" in the "Letter from the Board" contained in the Circular.

(iv) Takeovers Code implications — Special Deal

As the 25% Yashili Acquisition is an arrangement between Mengniu, the parent company of the Offeror in the Privatisation Proposal, or an Affiliate of Mengniu, and Danone Nutrition, a Shareholder, and such arrangement is not also extended to all Shareholders, the 25% Yashili Acquisition constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Offeror has made an application to seek the consent of the Executive for the 25% Yashili Acquisition and such consent, if granted, will be subject to: (a) the Independent Financial Adviser publicly stating that in its opinion the terms of the 25% Yashili Acquisition are fair and reasonable; and (b) the approval of the 25% Yashili Acquisition by the Independent Shareholders by way of poll at the EGM.

Shareholders are reminded that if the Independent Shareholders do not approve the 25% Yashili Acquisition at the EGM, the Privatisation Proposal will lapse as the approval and completion of the 25% Yashili Acquisition are Scheme Pre-Conditions which cannot be waived. In addition, if the Independent Shareholders approve the 25% Yashili Acquisition but the Chilled Business JVs Acquisition and/or the Dumex China Disposal is/are not approved at the EGM, the Privatisation Proposal will also lapse as the approval of all of the Proposed Transactions is a non-waivable Scheme Pre-Condition.

If the Privatisation Proposal lapses, the 25% Yashili Acquisition will no longer constitute a special deal under Rule 25 of the Takeovers Code. Therefore, provided the Dumex China Disposal is approved by the Independent Shareholders at the EGM (being a condition precedent of the 25% Yashili Acquisition which cannot be waived in accordance with the 25% Yashili Acquisition SPA), Mengniu and Danone Nutrition can and will, subject to the satisfaction and/or waiver of the conditions precedent of the 25% Yashili Acquisition and the Dumex China Disposal, still proceed to complete the 25% Yashili Acquisition and the Dumex China Disposal, respectively.

(v) Assessment on the Special Deal

As set out in the sub-section headed "25% Yashili Acquisition" in the "Letter from the Board" contained in the Circular, the consideration for the 25% Yashili Acquisition was determined by the parties after arm's length negotiations after taking into account, among others, the historical performance and business potential of the Company and the prevailing and historical market price levels of the Shares.

Mengniu proposes that upon completion of the 25% Yashili Acquisition, it will, through the Offeror, initiate the Privatisation Proposal and provide an opportunity for the Scheme Shareholders to realise their investments in the Company at the same price that is offered to Danone Nutrition under the 25% Yashili Acquisition (i.e. cancellation price of HK$1.2 per Scheme Share). The approval and completion of the 25% Yashili Acquisition are Scheme Pre-conditions which cannot be waived, and if such Scheme Pre-conditions are not met, the Privatisation Proposal will lapse.

As set out in the 2021 Annual Report, for the year ended December 31, 2021, the Company recorded a loss attributable to owners of the parent of approximately RMB81.4 million, compared to a profit of approximately RMB101.1 million in 2020. As set out in the Company's profit warning announcement dated May 24, 2022, the Group expects to record a loss of not more than RMB195 million for the first six months of 2022, which is mainly attributable to: (a) the COVID-19 pandemic situations in the PRC which adversely affected the market; and (b) the increase in production costs as a result of the rising costs of milk powder as raw materials. Further details with respect to the Group's prospects are set out in the section headed "Financial and trading prospects of the Group" in Appendix I to the Circular.

The consideration for the 25% Yashili Acquisition, being HK$1.20 per Share, represents (a) a premium of approximately 160.9% over the closing Share price as quoted on the Stock Exchange on the Unaffected Price Date (i.e. March 11, 2022); (b) a premium of approximately 150.5%, 138.5%, 134.2%, 127.3% and 124.4% over the average closing Share price based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days, 30 trading days, 60 trading days, 90 trading days and 120 trading days up to and including the Unaffected Price Date respectively; (c) a premium of approximately 30.4% over the closing Share price as quoted on the Stock Exchange on May 6, 2022 (the "**Last Trading Day**"); (d) a premium of approximately 38.6%, 31.8%, 64.4%, 81.8% and 89.5% over the average closing Share price based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days, 30 trading days, 60 trading days, 90 trading days and 120 trading days up to and including the Last Trading Day respectively; and (e) a premium of approximately 14.3% over the closing Share price as at the Latest Practicable Date.

The consideration of HK$1.20 per Share also represents a price-to-book (P/B) multiple of approximately 0.84 times based on the net asset value per Share of the Group as at December 31, 2021 (the "**25% Yashili Acquisition P/B Multiple**") which is above the P/B multiple of the Company based on closing Share price on the Unaffected Price Date of around 0.3 times. As set out in the table contained in the paragraph headed "Evaluation of consideration of the Dumex China Disposal" of this letter above, the 25% Yashili Acquisition P/B Multiple is below the range of the P/B multiples of the comparable companies (other than the Company) principally engaging in milk powder or infant formula business in the PRC. Since the Company recorded a loss in 2021, the use of P/E multiple is not applicable. Therefore, alternatively, we have adopted P/B multiple for the purpose of our analysis which we considered appropriate for a non-asset light company and have not adopted other alternative parameters in this analysis.

The consideration of HK$1.2 per Share was determined by the parties after arm's length negotiations after taking into account the various factors set out in the Circular, and the decision to unwind the Existing Mengniu-Danone Relationships following the Danone Mengniu Disposal is the key reason for conducting the 25% Yashili Acquisition. Notwithstanding the consideration represents premium over the Company's historical Share prices, it is noted that (i) the Danone Group originally subscribed for the Yashili Sale Shares at a price of approximately HK$3.7 per Share; (ii) according to Danone's audited consolidated financial statements for the year ended December 31, 2021, the carrying amount of the investment in the Company was €237 million (equivalent to approximately HK$1.66 per Share based on exchange rate of 1EUR=8.3HKD); and (iii) the consideration represents a discount of approximately 15% to the Company's audited net asset value as at December 31, 2021 (i.e. a P/B multiple of approximately 0.84 times, which is above the P/B multiple of the Company (based on closing Share price on the Unaffected Price Date), despite lower than the market range as discussed above. Taking into account the above, we are of the view that the terms of the 25% Yashili Acquisition, on balance, are fair and reasonable.

Danone disposed of all of its interests in Mengniu as of May 2021. Following such disposal, Mengniu and Danone agreed that they would proceed to unwind the Existing Mengniu-Danone Relationships and the Proposed Transactions Agreements were entered into for this purpose. Given Danone's intention to divest from Mengniu and its group companies (including but not limited to the Company), the executive Director does not consider retaining Danone as a Shareholder would strategically benefit the Company in the long-run, and we concur in this regard.

Independent Shareholders should note that, at this stage, we do consider it a benefit for Independent Shareholders to have the opportunity to consider the Privatisation Proposal (if it is made). Details of the Privatisation Proposal and our advice to the Independent Board Committee as regards the Privatisation Proposal (including fairness and reasonableness of the terms of the Privatisation Proposal and voting action) will be set out in the Scheme document to be despatched to Scheme Shareholders if the Privatisation Proposal proceeds.

DISCUSSION

Background

Independent Shareholders at this stage are asked to consider the three Proposed Transactions, which are Special Deals. Subsequently, if the Independent Shareholders approve all the three Proposed Transactions, they will have the opportunity to consider the Privatisation Proposal.

Unusually, in our experience as regards special deals, the Company itself is only party to one of these three Proposed Transactions, as regards the sale of Dumex China, currently a wholly-owned subsidiary of the Company which operates an infant formula business, to Danone

APAC. The other two Proposed Transactions involve Mengniu Group's purchase from the Danone Group of (i) 20% equity interest in each of the Chilled Business JVs; and (ii) 25% interest in the Company itself. However, as both of these purchases are considered Special Deals, they require approval by the Independent Shareholders for the Privatisation Proposal to proceed. The Dumex China Disposal is also a connected transaction, so that cannot proceed without the Independent Shareholders' approval. The other two transactions are intended to be completed whether the Independent Shareholders approve them or not.

Independent Shareholders are faced with a number of decisions which are complex and to a large degree inter-dependent. The 'decision tree' diagram set out below is designed to assist the Independent Shareholders' appraisal of these decisions and their consequences. We recommend the Independent Shareholders begin by considering the Dumex China Disposal, as it is the only transaction at this stage to which the Company is a party.

Decision Tree

Do you approve the Dumex China Disposal?

No

The Dumex China Disposal does not proceed and the Company retains this business. **No Privatisation Proposal**. The Chilled Business JVs Acquisition and the 25% Yashili Acquisition are therefore no longer classified as Special Deals. **The Chilled Business JVs Acquisition goes ahead anyway** (subject to the Chilled Business JVs Consideration Adjustment). **The 25% Yashili Acquisition does not proceed** and Danone Nutrition remains a 25% Shareholder.

Yes – **The Dumex China Disposal proceeds** and the Company is expected to receive net proceeds of approximately RMB860 million upon completion of the Dumex China Disposal.

Do you approve the Chilled Business JVs Acquisition?

Yes

Do you approve the 25% Yashili Acquisition?

No

No

No Privatisation Proposal. The Chilled Business JVs Acquisition and the 25% Yashili Acquisition are therefore no longer classified as Special Deals. **The Chilled Business JVs Acquisition and the 25% Yashili Acquisition go ahead anyway.** Completion of the Chilled Business JVs Acquisition has no direct impact on the Company. Danone Nutrition will cease to be a Shareholder and the Company will become approximately 76% owned by Mengniu upon completion of the 25% Yashili Acquisition.*

Yes

The Chilled Business JVs Acquisition, the Dumex China Disposal and the 25% Yashili Acquisition go ahead.

Privatisation Proposal is made
(if all other Scheme Pre-Conditions are satisfied):
Is it successful?

Approved

The Company is privatised with the Scheme Shareholders receiving the same price as Danone Nutrition (i.e. HK$1.20 per Scheme Share).

Not approved

The Company continues as a public company, becoming approximately 76% owned by Mengniu.#

* Danone disposed of all of its interests in Mengniu as of May 2021. Following such disposal, Mengniu and Danone agreed that they would proceed to unwind the Existing Mengniu-Danone Relationships and the Proposed Transactions Agreements were entered into for this purpose. Given Danone's intention to divest from Mengniu and its group companies, the executive Director does not consider retaining Danone as a Shareholder would strategically benefit the Company in the long-run, and we concur in this regard.

At this stage, we are not yet in a position to reach a view as to whether Independent Shareholders should approve the Privatisation Proposal. We do consider it a benefit for Independent Shareholders to have the opportunity to consider a Privatisation Proposal which on the face of it would be at a significant premium to market. However, it would be premature for us to speculate on whether turning down a Privatisation Proposal (if made) would be better than the current position.

The key factors we consider the Independent Shareholders should take into account in considering these decisions are summarised below.

The Dumex China Disposal

This is the only one of the Proposed Transactions to which the Company is a party. The Group originally acquired Dumex China from Danone in May 2016. As discussed in the paragraph headed "Background to and reasons for the Dumex China Disposal" of this letter above, in view of the background of the Dumex China Disposal, the keen competition in the infant formula milk powder market, the uncertainty in the outlook of the business environment in the PRC, and the underperformance of the Dumex infant formula products including an impairment loss of Dumex China's trademark of RMB200 million recognised by the Group in 2021, the executive Director is of the view that the Dumex China Disposal, which is expected to generate approximately RMB860 million in cash, allows the Group to divest from the Dumex China business and reallocate its resources to invest in the Group's milk powder production to improve its operational efficiency.

As shown in the table set out in the paragraph headed "Evaluation of consideration of the Dumex China Disposal" above, (i) the P/E Multiples of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) calculated based on the Unadjusted Consideration and the Unadjusted See-through Amount are significantly above the range of those of the Dumex China Comparable Companies; and (ii) the P/B Multiple of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) calculated based on the Unadjusted Consideration is above the range of those of the Dumex China Comparable Companies while the P/B Multiple of the Dumex China Target Business (i.e. after the Dumex China Scope Adjustments) calculated based on the Unadjusted See-through Amount is above the mean and median of those of the Dumex China Comparable Companies. Independent Shareholders should note that Dumex China is an unlisted company and the shares of Dumex China are not readily marketable compared to the shares of the Dumex China Comparable Companies which are listed on the Stock Exchange. The P/E Multiples and P/B Multiples of the Dumex China Comparable Companies implicitly reflect a premium in their market value due to their listing status and the marketability advantage as compared to unlisted companies. Assuming such premium in the market value of the Dumex China Comparable Companies is disregarded, the P/E Multiples and P/B Multiples of the Dumex China Comparable Companies would have been even lower than those already shown in the table set out in the paragraph headed "Evaluation of consideration of the Dumex China Disposal" above. On this basis, as well as the consideration for the Dumex China Disposal was determined by the parties after arm's length negotiations on normal commercial terms, we consider the consideration and the terms of the Dumex China Disposal (notwithstanding the See-through Amount is approximately RMB470 million instead of the consideration of RMB870 million according to the Dumex China SPA) are fair and reasonable so far as the Independent Shareholders are concerned.

Before taking into account any taxation and transaction costs, it is expected that the Company would record a gain of approximately RMB4 million from the Dumex China Disposal, As advised by the Company, both profits and capital contribution of the Group are regarded as equity (not issued share capital) of the Group and are eligible for distribution as dividends to Shareholders (subject to the Group's dividend policy). Considering the above, although gain from Dumex China Disposal would have been increased to approximately RMB400 million from approximately RMB4 million if the incentive element of RMB400 million under the Chilled Business SPA does not exist, we consider that the Chilled Business JV Consideration Adjustment are fair and reasonable. The Group's total assets are expected to increase by approximately RMB378 million and the Group's total liabilities are expected to decrease by approximately RMB22 million assuming the completion of the Dumex China Disposal as of December 31, 2021.

The Chilled Business JVs Acquisition

The Chilled Business Acquisition SPA was entered into as a result of Mengniu exercising its rights pursuant to the Chilled Business HoldCo JV Contract and Individual Chilled Business JV Contracts to buy Danone Shanghai's 20% interest in the Chilled Business JVs if Danone Group's interest in Mengniu falls below 4%, which it did in May 2021.

The Independent Valuer was engaged to prepare the Valuation Report in respect of the market value of 20% equity interest of the Chilled Business JVs as of April 30, 2022. As set out in the Valuation Report contained in Appendix II to the Circular, the appraised value of 20% equity interest of the Chilled Business JVs is in a range of approximately RMB1.3 billion to RMB1.6 billion as of April 30, 2022. We have discussed with the Independent Valuer its work including the valuation methodologies and the assumptions adopted in the Valuation and considered that the methodologies and assumptions adopted by the Independent Valuer are appropriate. As discussed in the paragraph headed "Evaluation of the consideration of the Chilled Business JVs Acquisition" of this letter above, we consider the consideration for the Chilled Business JVs Acquisition is fair and reasonable. We consider the Chilled Business JVs Consideration Adjustment serves to incentivize the parties to complete the Dumex China Disposal are fair and reasonable. If the Dumex China Disposal is completed, the Company is expected to receive net proceeds of approximately RMB860 million and the Company would record a capital contribution from Inner Mongolia Mengniu of RMB396 million in its statement of change in equity and a gain of approximately RMB4 million from the Dumex China Disposal. The executive Director expects that the Dumex China Disposal will have a positive impact on the assets and liabilities position of the

Group. Based on our analysis and discussions of the Dumex China Disposal in this letter above, notwithstanding the See-through Amount is approximately RMB470 million instead of the consideration of RMB870 million according to the Dumex China SPA, we consider the terms of the Dumex China Disposal are fair and reasonable so far as the Independent Shareholders are concerned, and the Dumex China Disposal is in the interest of the Company and the Shareholders as a whole. Accordingly, we consider the Chilled Business JVs Consideration Adjustment (which serves to incentivize parties to complete the Dumex China Disposal and the RMB396 million being accounted by the Group as a subsidy from Mengniu) is fair and reasonable. We consider the impact of the Chilled Business JVs Acquisition on the Dumex China Disposal (through the Chilled Business JVs Consideration Adjustment which serves to incentivize parties to complete the Dumex China Disposal) is a favourable factor from the Independent Shareholders' perspective.

The 25% Yashili Acquisition

The Danone Group subscribed for the Yashili Sale Shares in October 2014 at a price of HK$3.7 per Share. The 25% Yashili Acquisition is a transaction entered into by the parties after arm's length negotiations, mainly for the purpose of unwinding the Existing Mengniu-Danone Relationships. The consideration for the 25% Yashili Acquisition, being HK$1.20 per Share, represents (i) a premium over the historical closing Share prices for different periods as set out in this letter above; (b) a premium of approximately 14.3% over the closing Share price as at the Latest Practicable Date; and (c) and a price-to-book (P/B) multiple of approximately 0.84 times based on the Group's net asset value per Share as at December 31, 2021, which is above the P/B multiple of the Company (based on closing price on the Unaffected Price Date), despite lower than market range as discussed in this letter above.

Upon completion of the 25% Yashili Acquisition and assuming that there are no changes to the issued shares of the Company and there is no exercise of the Mengniu International Exchange Right (as defined in the Joint Announcement) since May 6, 2022 (the date of the Joint Announcement) until the completion of the 25% Yashili Acquisition, the Company will be held as to approximately and effectively 76% by Mengniu, and the Danone Group will cease to hold any Shares. Danone disposed of all of its interests in Mengniu as of May 2021. Following such disposal, Mengniu and Danone agreed that they would proceed to unwind the Existing Mengniu-Danone Relationships and the Proposed Transactions Agreements were entered into for this purpose. Given Danone's intention to divest from Mengniu and its group companies, the executive Director does not consider retaining Danone as a Shareholder would strategically benefit the Company in the long-run, and we concur in this regard.

In view of the above, we considered that the terms of the 25% Yashili Acquisition, on balance, to be fair and reasonable.

As regards both the Chilled Business JVs Acquisition and the 25% Yashili Acquisition

Put another way round, we see no plausible basis for the Independent Shareholders to vote against these two acquisitions, to which the Company is not a party, unless such Independent Shareholders do not wish even to have the opportunity to consider the Privatisation Proposal, and indeed wish to block it at this stage. The Chilled Business JVs Acquisition and the 25% Yashili Acquisition (completion of the 25% Yashili Acquisition is subject to, among others, approval of the Dumex China Disposal by the Independent Shareholders at the EGM having been obtained) will be completed whether Independent Shareholders approve them or not at the EGM.

The Privatisation Proposal

Mengniu has proposed that upon approval of all three Proposed Transactions (i.e. the Dumex China Disposal, the Chilled Business JVs Acquisition and the 25% Yashili Acquisition), completion of the 25% Yashili Acquisition and approval of the Executive of the Proposed Transactions as Special Deals, it will, through the Offeror, initiate the Privatisation Proposal and provide an opportunity for the Scheme Shareholders to realise their investments in the Company at the same price paid to Danone Nutrition under the 25% Yashili Acquisition. The approval and completion of the 25% Yashili Acquisition are Scheme Pre-conditions which cannot be waived. Further, the approval of the Chilled Business JVs Acquisition and the Dumex China Disposal by the Independent Shareholders at the EGM is a non-waivable Scheme Pre-Condition of the Privatisation Proposal. We consider it would be advantage to the Independent Shareholders to have the opportunity to consider the Privatisation Proposal, which will be pitched at a premium to the historical market Share prices (as set out in the Joint Announcement) and P/B of the Company (based on closing Share price on the Unaffected Price Date). On March 16, 2022, the Company published the joint announcement (the "**Rule 3.7 Announcement**") of the potential pre-conditional offer for the Company by Mengniu. The general increase in the Share price since the publication of the Rule 3.7 Announcement in our view is likely to have been due to positive market feedback on the potential Privatisation Proposal, and such increase may not therefore be sustained if the Privatisation Proposal lapses.

Independent Shareholders will have the opportunity to consider and vote on the Privatisation Proposal at the court meeting and the extraordinary general meeting to be held with respect to the Scheme only if the Proposed Transactions are approved at the EGM and other Scheme Pre-Conditions are satisfied. Details of the Privatisation Proposal and our advice to the Independent Board Committee as regards the Privatisation Proposal will be set out in the Scheme document to be despatched to Scheme Shareholders if the Privatisation Proposal proceeds.

OPINION AND RECOMMENDATIONS

Having taken into account the outcome of the various decisions Independent Shareholders are asked to make as set out in the "Decision Tree" and the principal factors and reasons summarised in the section headed "Discussion" above, we consider that (i) the terms of the Chilled Business JVs Acquisition and the 25% Yashili Acquisition are fair and reasonable; and (ii) the terms of the Dumex China Disposal are fair and reasonable so far as the Independent Shareholders are concerned, and the Dumex China Disposal, although not in the ordinary and usual course of business of the Group, is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of each of the resolution to be proposed at the EGM to approve the Chilled Business JVs Acquisition, the Dumex China Disposal and the 25% Yashili Acquisition respectively.

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 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over thirteen years' experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP FOR EACH OF THE THREE YEARS ENDED DECEMBER 31, 2021

The financial information of the Group for the three years ended December 31, 2021 is disclosed in the following documents which have been published on the websites of the Stock Exchange (**http://www.hkexnews.hk**) and the Company (**http://www.yashili.hk**):

- The audited consolidated financial statements of the Group for the year ended December 31, 2021 have been set out on pages 130 to 256 of the annual report 2021 of the Company published on April 27, 2022. Please also see below the link to the annual report 2021:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042701121.pdf

- The audited consolidated financial statements of the Group for the year ended December 31, 2020 have been set out on pages 136 to 266 of the annual report 2020 of the Company published on April 20, 2021. Please also see below the link to the annual report 2020:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0420/2021042001509.pdf

- The audited consolidated financial statements of the Group for the year ended December 31, 2019 have been set out on pages 136 to 263 of the annual report 2019 of the Company published on April 28, 2020. Please also see below the link to the annual report 2019:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042802276.pdf

2. STATEMENT OF INDEBTEDNESS

As at the close of business on June 30, 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the total outstanding interest-bearing bank and borrowings of the Group were as follows:

	Total	**Secured and unguaranteed**	**Unsecured and unguaranteed**
		(RMB'000)	
Bank loans	510,844	142,292	368,552
Lease liabilities	16,131	—	16,131

As of June 30, 2022, certain bank loans of the Group were secured by the following assets:

	RMB'000
Pledged deposits	55,000
Pledged trade receivables	2,292
	57,292

Save as set out above or as otherwise disclosed herein, and apart from intra-group liabilities, as of the close of business on June 30, 2022, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL STATEMENT

Taking into account the impact of the Dumex China Disposal and the financial resources available to the Group and in the absence of unforeseen circumstances, the Directors, after due and careful consideration, are of the opinion that the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the manufacture and sale of dairy and nourishment products.

As disclosed in the 2021 Annual Report, the Group's revenue amounted to RMB4,434.7 million, representing a year-on-year increase of approximately 21.5% as compared to RMB3,649.2 million for 2020, and the loss attributable to equity holders of the Company amounted to RMB81.4 million, representing a year-on-year decrease of 180.5% as compared to profit attributable to equity holders of the Company of RMB101.1 million for 2020. The increase in the Group's revenue was mainly due to: (1) the significant increase in the revenue from adult milk powder; and (2) enhanced product awareness attributable to media promotion in multiple dimensions and communication through diversified scenarios. The Group recorded loss attributable to equity holders for 2021 primarily due to the one-off impairment on trademark of Dumex China of RMB200 million.

In 2021, as the new-born population of the PRC continued to decline, the infant formula milk powder market became increasingly competitive, driving companies to improve product quality and develop more efficacious product segments. Concurrently, the market share of domestic milk powder brands continued to expand during the year as the trend of consuming domestic products surged among customers. Yashili will continue to develop milk powder and nutritional products to meet different nutritional needs and increase its investment in digital marketing and trade channels to seize market opportunities and provide new growth drivers for the business.

Given the outlook of the business environment is expected to remain uncertain against the backdrop of the resurgence of the COVID-19 pandemic in the PRC this year, the Directors will continue to assess the financial impacts of the pandemic on the Group and adjust its business strategies in a timely manner to weather the unprecedented challenges.

5. MATERIAL ADVERSE CHANGE TO THE GROUP

Saved as disclosed in the Profit Warning Announcement and in the paragraph headed "4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP" above in this Appendix, as of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2021, being the date to which the latest published audited accounts of the Group were made up.

6. MATERIAL CHANGE TO DUMEX CHINA

Save as disclosed below, the Directors confirm that there has been no material change in the financial or trading position or outlook of Dumex China since December 31, 2021, being the date to which the latest audited financial statements of Dumex China were made up, up to and including the Latest Practicable Date.

The Dumex China Disposal

As set out in the "Letter from the Board" in this circular, on May 6, 2022, Yashili Guangdong (as the seller) and Danone APAC (as the purchaser) entered into the Dumex China SPA in respect of the Dumex China Disposal. The Dumex China Target Business would form the subject of the Dumex China Disposal. Pursuant to the Dumex China SPA, the parties have agreed that any business of Dumex China conducted under the Retained Brands and the Yashili Trade Business do not form part of the transactions contemplated thereunder. Also, Yashili Guangdong shall complete the split-off of the Yashili Trade Business prior to completion of the Dumex China Disposal. As further set out in the "Letter from the Board" in this circular and the unaudited pro forma financial information of the Remaining Group contained in Appendix VII to this circular, it is contemplated under the Dumex China SPA that a capital injection of approximately RMB137 million would be made by the Company to Dumex China of which approximately RMB129 million would be used for settlement of outstanding intra-group payables by the Yashili Trade Business to other entities of the Group to facilitate a clean split-off of the Yashili Trade Business. As of the Latest Practicable Date, RMB130 million has been injected which primarily contributed to an increase in the net assets value of Dumex China as compared to an equity-deficit of approximately RMB11 million as at December 31, 2021. Further details as regards the above are set out in this circular and Appendix VII hereto.

7. FURTHER INFORMATION ON BASES OF PREPARATION OF THE DUMEX CHINA ADJUSTED PROFITS INFORMATION

For the purpose of preparation of the Dumex China Adjusted Profits Information, the following bases were also adopted:

(a) the sales of the Dumex China Target Business represents that the revenue from the business of Dumex China as conducted on the date of the Dumex China SPA and plus the revenue from ALL IN ONE, DIAMOR and Dumex Goat, excluding the revenue from the Yashili Trade Business;

(b) the cost of sales of the Dumex China Target Business reflects the actual purchase prices of assuming sourcing directly from the suppliers;

(c) intercompany sales and procurement have been eliminated;

(d) selling expenses, general and administrative expenses and taxes and surcharges were estimated at the rate of expenses to revenue of the relevant business units of the Group or with reference to the expenses, on a pro-rata basis, in the relevant production units of the Group;

(e) the supporting functions, such as sales and marketing, finance, human resources and information technology are shared functions within the Group; and

(f) no interest income/expenses, non-operating income/expenses, investment income or income tax expenses were assumed or reflected in the Dumex China Adjusted Profits Information.

For the avoidance of doubt, revenue from the business of Dumex China conducted under the Retained Brands was not being taken into account in the preparation of the Dumex China Adjusted Profits Information on the ground that no such revenue was recorded in the audited financial statements of Dumex China for the years ended December 31, 2021 and December 31, 2020.

8. FURTHER INFORMATION ON BASES OF PREPARATION OF THE DUMEX CHINA ADJUSTED ASSET INFORMATION

For the purpose of preparation of the Dumex China Adjusted Asset Information, customary closing accounts adjustments were adopted and they include (i) the capital injection into Dumex China by the Company of approximately RMB137 million; (ii) receiving/payments of the receivables/payables due from/to other entities within the Group; and (iii) acquiring from other subsidiaries of the Company the assets and relevant liabilities in relation to the production and distribution of ALL IN ONE products and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products.

1. REPORT FROM SOMERLEY ON THE CHILLED BUSINESS JVs VALUATION REPORT

The following is the full text of the letter from Somerley to the Board in relation to the Chilled Business JVs Valuation Report, 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

July 29, 2022

The Board of Directors
Yashili International Holdings Ltd
Room A, 32nd Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

We refer to the valuation report (the "**Valuation Report**") with respect to the Chilled Business JVs prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**Independent Valuer**") as set out in Appendix II of this circular (the "**Circular**"), of which this letter forms part. We are required to report on the Valuation Report under Rule 11.1(b) of the Takeovers Code. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We have relied on the information and facts supplied, and the opinion expressed by Yashili International Holdings Ltd and the Independent Valuer, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not carried out any independent verification of the information supplied to us.

Pursuant to the Corporate Finance Adviser Code of Conduct, we have reviewed the Valuation Report and the supporting documents relating to the valuation of the 20% equity interest in the Chilled Business JVs (the "**Valuation**"), and discussed with the Independent Valuer regarding the Valuation, including, in particular, the valuation approach, as well as key bases and assumptions adopted in the Valuation. With regard to the qualifications and experience of the Independent Valuer, based on the review work conducted by us, which includes reviewing the supporting documents on the qualifications, experience and expertise of the Independent Valuer and discussing the same with the Independent Valuer, we are satisfied that the Independent Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation competently.

On the basis of the foregoing, we concur with the Independent Valuer that the valuation approach, as well as the bases and assumptions adopted in the Valuation have been made by the Independent Valuer with due care and objectivity, and on a reasonable basis. We are also satisfied that the Independent Valuer possesses the qualifications and experience to compile the Valuation Report.

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

2. THE CHILLED BUSINESS JVs VALUATION REPORT

The following is the full text of the letter and valuation report from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, to, among others, the Board in relation to the value of the 20% equity interest in the Chilled Business JVs, which has been prepared for the purpose of inclusion in this circular.

JLL®
仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7th Floor One Taikoo Place 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

29 July 2022

The Board of Directors
China Mengniu Dairy Company Limited
32nd Floor, COFCO Tower
262 Gloucester Road, Causeway Bay
Hong Kong

The Board of Directors
Yashili International Holdings Ltd.
Room A, 32/F, COFCO Tower,
262 Gloucester Road, Causeway Bay,
Hong Kong

Dear Sirs,

In accordance with the instructions from China Mengniu Dairy Company Limited (the "**Company**" or the "**Client**"), Jones Lang LaSalle Corporate Appraisal and Advisory Limited (or "**we**") have undertaken a valuation exercise which requires us to express an independent opinion of a range for the market value of 20.00% equity interest in the Chilled Business JVs (as defined below and also the "**Subject**") as at 30 April 2022 (the "**Valuation Date**").

The purpose of this valuation is for inclusion in public disclosure of Yashili International Holdings Ltd ("**Yashili**").

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

BACKGROUND OF THE COMPANY AND THE SUBJECT

In May 2013, Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (內蒙古蒙牛乳業(集團)股份有限公司, "**Inner Mongolia Mengniu**"), a subsidiary of the Company, and Danone Asia Pte Ltd ("**Danone Asia**"), a subsidiary of Danone S.A. ("**Danone**"), entered into a framework agreement contract, which was subsequently amended in August 2013, to establish the Chilled Business JVs which are sino-foreign equity joint ventures incorporated in the PRC and are held as to 80% by Inner Mongolia Mengniu and 20% by Danone (Shanghai) Holding Co., Ltd. (達能(上海)投資有限公司 "**Danone Shanghai**"), a wholly-owned subsidiary of Danone. In August 2013, Inner Mongolia Mengniu and Danone Asia entered into an equity joint venture contract ("**Chilled Business HoldCo JV Contract**") to establish the holding company of the Individual Chilled Business JVs (as defined in the joint announcement issued by the Company, Star Future Investment Company Limited and Yashili dated 6 May 2022). Subsequently, Inner Mongolia Mengniu and Danone Shanghai entered into the equity joint venture contracts ("**Individual Chilled Business JV Contracts**") in respect of the establishment and governance of each of the Individual Chilled Business JVs. The Chilled Business JVs, which are collectively the Individual Chilled Business JVs and their holding company, the Inner Mongolia Mengniu Danone Dairy Co. Ltd., are principally engaged in the production, promotion, marketing and sale of chilled yoghurt, chilled yoghurt drinks and chilled spoonable dairy based desserts in the PRC, Hong Kong and Macau.

On 6 May 2022, Inner Mongolia Mengniu and Danone Shanghai, among others, entered into the master equity transfer agreement ("**Chilled Business SPA**"), pursuant to which Inner Mongolia Mengniu conditionally agreed to acquire from Danone Shanghai, and Danone Shanghai conditionally agreed to sell, the 20% equity interest in each of the Chilled Business JVs held by Danone Shanghai (the "**Chilled Business Sale Shares**") (together with all rights that attach to them as at the closing of the proposed acquisition by Inner Mongolia Mengniu of the Chilled Business Sale Shares).

Based on the information provided to us, the Subject is currently operated in the Greater China region, predominantly in Mainland China, Hong Kong and Macau.

Key financial information of the Subject for the three financial years ended 31 December 2021 is set out as below (unit: RMB'000):

	2019/12/31	**2020/12/31**	**2021/12/31**
	(Audited)	(Audited)	(Audited)
Revenue	10,689,228	9,987,795	10,346,866
Net Profit	70,032	(233,585)	(200,192)
Net Assets	2,766,950	2,177,346	1,983,450

SOURCES OF INFORMATION

In conducting our valuation of the 20.00% equity interest in the Subject, we have reviewed information from several sources, including, but not limited to:

- Background of the Subject and relevant corporate information;
- Audited financial statements, which contain the financial and operational information, of the Subject for the twelve-month periods ended 31 December 2019, 2020 and 2021; and
- Market information derived from public domains in relation to the Subject' business.

We have held discussions with management of the Company, and conducted market research from public sources to assess the reasonableness and fairness of the above information provided by the management. We assumed such information reliable and legitimate; and we have relied to a considerable extent on the information provided by the Company in arriving at our opinion of value.

BASIS OF OPINION

We have conducted our valuation referred to the International Valuation Standards issued by International Valuation Standards Council. The valuation procedures employed include a review of legal status and economic condition of the Subject and an assessment of key assumptions, estimates, and representations made by the proprietor or the operator of the Subject. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;

- The nature of business and history of the operation concerned;
- The financial condition of the Subject;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business including continuity of income;
- Consideration and analysis on the micro and macro economy affecting the subject business; and
- Assessment of the liquidity of the subject business.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Subject.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Given the unique characteristics of the asset, there are substantial limitations for the income approach and the cost approach for valuing the Subject.

Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is highly uncertain as at the Valuation Date given the performance of the Subject had been continuously impacted by the pandemic. As the derived value based on the income approach is highly dependent on the reliability of the financial projections, given the uncertain short term and long term development due to the significant uncertainty over the magnitude and time period of the impact of COVID-19, the financial projections, which would base on highly subjective assumptions, may not be reliable and thus the income approach is not adopted in the valuation.

Secondly, the cost approach does not directly incorporate information about the economic benefits and future earnings or loss potential contributed by the Subject as a going concern business. Due to the nature of the business, the economic value of the Subject is mainly attributable to the earning or loss potential of the business but not the value or replacement costs of its assets.

In view of the above, we have adopted the market approach for the valuation. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable (if applicable). Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. Given the nature of the manufacturing business of the Subject and its long operating history and established business, market information and comparable in the manufacturing industry for this transaction are widely available. Therefore, based on the above factors, we consider that the market approach is the most appropriate approach to the Subject.

The market approach can be applied through two commonly used methods, namely the guideline public company method and the comparable transaction method. The comparable transaction method utilizes information on transactions involving assets that are same or similar to the subject asset. For this particular valuation exercise, the comparable transaction method is not adopted due to lack of sufficient recent market transactions with similar nature as the Subject, that are companies involving in Chilled Business. Therefore, in this valuation exercise, the market value of the 20.00% equity interest in the Subject is developed through the guideline public company method.

This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of the 20.00% equity interest in the Subject. In this valuation, we have considered the following commonly used benchmark multiples:

- Price to earnings multiple ("**P/E**") cannot be adopted as the Subject is in the loss-making position.

- Price to book multiple ("**P/B**") is not adopted as P/B multiple is common for asset intensive industries which is not the case for the Subject.

- Price to sales multiple ("**P/S**") is not adopted as P/S multiple does not factor in differences in the balance sheet positions between the Subjects and the comparable companies.

- Enterprise value to EBITDA multiple ("**EV/EBITDA**") cannot be adopted as Earnings before interest, tax, depreciation and amortization ("**EBITDA**") of the Subject was highly unstable and volatile over the past few years due to the continuous impact by COVID-19. Given the uncertain short term and long term development of the Subject due to the significant uncertainty over the magnitude and time period of the impact of the pandemic, the use of EV/EBITDA multiple may not be reliable.

- It is considered that the suitable multiple in this valuation is the enterprise value to sales multiple ("**EV/S**"), as EV/S can incorporate the differences in balance sheet positions between the Subject and the comparable companies. Also, given the much stable trend demonstrated in the Sales generated by the Subject over the past few years, the use of EV/S multiple is more reliable. In this valuation, adjusted EV/S is adopted and it is calculated as enterprise value as at the Valuation Date divided by the Sales for the latest available twelve-month period with adjustments made for the difference in the scale of business and profitability between the Subject and the selected comparable companies.

We applied the adjusted EV/S multiple, which is calculated by using comparable companies' latest available financial statements, to calculate the enterprise value of the Chilled Business JVs (where enterprise value is defined as the sum of the market value of the ordinary equity, preferred equity (if any) and debt less cash and cash equivalents.). To determine the market value of the Subject, we take into account whether further adjustments are required to arrive at the market value.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value. The following assumptions in determining the market value of the equity interest have been made:

- We have assumed that there will be no material change in the existing political, legal, technological, natural, fiscal or economic conditions, which might adversely affect the business of the Subject;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements entered into between the Subject and any other parties, including but not limited to loan contracts, business contracts and other contracts that will affect the business of the Subject, will be honored;
- We have assumed that the facilities and systems in place or proposed (if any) are sufficient for future operations in order to realize the growth potential of the business that is in line with the industry and maintain a competitive edge;
- We have assumed continuous prudent management of the Subject that is reasonable and necessary to maintain the character and integrity of the assets valued;
- We have assumed the accuracy of the audited financial and operational information of the Subject provided to us by the Company and relied to a considerable extent on such information in arriving at our opinion of value; and
- We have assumed that there are no hidden or unexpected conditions (such as natural disaster, war, government intervention, major change in management, etc.) associated with the asset valued that might adversely affect the reported value.

SUMMARY OF MARKET APPROACH

In determining the financial multiple, a list of comparable companies was identified. The selection criteria is set as below:

1. The comparable companies are searchable in S&P Capital IQ;

2. The companies derive their revenues in China from the same industry as the Subject, which is specifically the food products industry specialized in dairy product with a product line in yoghurt;

3. The comparable companies publicly listed in Hong Kong, Shanghai or Shenzhen, are selected; and

4. EV/S multiple as at the Valuation Date on the companies are available (these data for certain companies that satisfy other criteria may be not available due to negative EV or share suspension of such companies).

As sourced from S&P Capital IQ, an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis. The details of the comparable companies are listed below:

Ticker	Company Name	Company Description	EV/S Multiple
1533.HK	Lanzhou Zhuangyuan Pasture Company Limited (蘭州莊園牧場股份有限公司)	Lanzhou Zhuangyuan Pasture Company Limited manufactures, markets, and sells dairy products in the PRC. It operates through two segments, dairy farming and dairy products production. The company offers liquid milk products comprising pasteurized milk, UHT milk, modified milk, yogurt, and other dairy products; raw milk; and milk beverage products. It markets its products to retail chains, supermarkets, and local schools through distributors, sales agents, and direct sale.	2.64

Ticker	Company Name	Company Description	EV/S Multiple
600419.SH	Xinjiang Tianrun Dairy Company Limited (新疆天潤乳業股份有限公司)	Xinjiang Tianrun Dairy Company Limited operates in the dairy farming industry in China. It offers yogurt, milk powder, milk drink, cheese, fresh milk, milk beer, concentrated milk, fermented milk, and other dairy products. The company provides its products under the Tianrun, Gary, Jiali, and other brand names, as well as Ecolean name.	1.60
600429.SH	Beijing Sanyuan Foods Company Limited (北京三元食品股份有限公司)	Beijing Sanyuan Foods Company Limited produces, processes, and sells dairy products (including yogurt), beverages, foods, cold foods and drinks, and ice creams in the PRC. The company offers cheese, liquid milk, fermented milk, milk beverages, and milk powder products, as well as vegetable spreads. It offers its products through e-commerce channels.	1.94
600597.SH	Bright Dairy & Food Company Limited (光明乳業股份有限公司)	Bright Dairy & Food Company Limited engages in the development, production, and sale of dairy products, dairy cow breeding, cultivation, logistics and distribution activities in the PRC. It primarily offers fresh milk and yogurt, room temperature yogurts, lactic acid bacteria drinks, infant and middle-aged and elderly milk powders, cheese, butter, cold drinks, and other products.	0.65
600887.SH	Inner Mongolia Yili Industrial Group Company Limited (內蒙古伊利實業集團股份有限公司)	Inner Mongolia Yili Industrial Group Company Limited produces and sells dairy products in the PRC and internationally. The company offers liquid milk, milk powder, yoghourt, ice cream, and cheese.	2.16

Ticker	Company Name	Company Description	EV/S Multiple
605179.SH	Zhejiang Yiming Food Company Limited (浙江一鳴食品股份有限公司)	Zhejiang Yiming Food Company Limited engages in dairy cow farming business in the PRC. It is involved in production of dairy products, including yogurt, flavored milk, fresh milk, egg milk, lactobacillus beverages, and others; and production, processing, and sale of baking products.	1.94
605337.SH	Zhe Jiang Li Zi Yuan Food Company Limited (浙江李子園食品股份有限公司)	Zhe Jiang Li Zi Yuan Food Company Limited engages in the research, development, production, and sale of milk and other beverages in China. The company's products include six series of milk beverages, dairy products (including yogurt), vegetable protein beverages, composite protein beverages, fruit juice beverages, and cereal beverages.	4.15
002329.SZ	Royal Group Company Limited (皇氏集團股份有限公司)	Royal Group Company Limited engages in the processing, producing, and selling dairy products (including yogurt) in China. The company was formerly known as Guangxi Royal Dairy Company Limited and changed its name to Royal Group Company Limited in December 2014.	2.44
002719.SZ	Maiquer Group Company Limited (麥趣爾集團股份有限公司)	Maiquer Group Company Limited engages in the production and sale of dairy products, beverages, frozen drinks, mineral water, and quick-frozen foods in the PRC. The company's principal products include sterilized milk, yogurt, protein drinks, ice cream, and popsicles. It also provides agricultural products; livestock breeding and agricultural cultivation services; and bakery and festival products.	0.89

Ticker	Company Name	Company Description	EV/S Multiple
002732.SZ	Guangdong Yantang Dairy Company Limited (廣東燕塘乳業股份有限公司)	Guangdong Yantang Dairy Company Limited research, develops, processes, markets, and sells dairy products in the PRC. Its products include health food, nectars, flavored fermented milk, Greek and cereal yogurt, chocolate milk drinks, and fresh milk, as well as ice cream.	1.36
002946.SZ	New Hope Dairy Company Limited (新希望乳業股份有限公司)	New Hope Dairy Company Limited produces and sells dairy products in the PRC. It offers fresh milk and yoghurt, as well as milk-containing beverages and milk powder.	1.51
300106.SZ	Xinjiang Western Animal Husbandry Company Limited (新疆西部牧業股份有限公司)	Xinjiang Western Animal Husbandry Company Limited provides milk products in the PRC. The company engages in the purchase and production of milk; and offers dairy (including yogurt), meat, grease, and health products.	1.49

We have included all companies that are involved in yogurt business although they do not disclose the portion of revenue generated specifically from yogurt business. Also, as yogurt products are one of the most common dairy products in the market, we consider that they are facing a similar group of customers and market as the other dairy products. Therefore, we still consider that these companies are comparable.

The comparable companies are often of significantly different size/profitability from the Subject. Larger/profitable companies generally have lower expected returns that translate into higher values. On the other hand, smaller or loss-making companies are generally perceived as riskier in relation to business operation and financial performance, and therefore the expected returns are higher and resulting in lower multiples. Therefore, the EV/S multiples were adjusted to reflect the difference in size and profitability between the comparable companies and the Subject.

We referred to a formula in a widely-adopted textbook "Financial Valuation — Applications and Model", 2017 by James R. Hitchner, a renowned valuation expert in the US, for the pricing multiple adjustments:

The adjusted EV/S multiples were calculated using the following formula: Adjusted EV/S multiple = $1/((1/M) + \alpha * \varepsilon * \theta)$

where:

M = The Base EV/S multiple
α = The ratio of sales to NOPAT of the comparable company
ε = The ratio of the equity value to the enterprise value of the comparable company
θ = Required adjustment in the equity discount rate for difference in size and profitability
(Reference: Hitchner, R. (2017) Financial Valuation: Applications and Models (4th Edition))

The logic behind the pricing multiple adjustments is that the reciprocal of the base multiple represents a capitalization rate. In this valuation, the reciprocal of the base EV/S multiple represents a capitalization rate of the enterprise value.

For the parameter θ, it was used as a desired adjustment to reflect the difference in natures between the comparable companies and the Subject. With reference to Cost of Capital Navigator 2022 published by Kroll, depending on the market capitalization of each of the Comparable Companies, size premium differentials were adopted to capture the size difference between the comparable companies and the Subject. With reference to "The Adjusted Capital Asset Pricing Model for Developing Capitalization Rates: An Extension of Previous "Build-Up" Methodologies Based Upon the Capital Asset Pricing Model" published in 1989 by Z. Christopher Mercer, specific risks were adopted to capture the difference in profitability including net profit and net operating profit after tax ("**NOPAT**") level, between the Comparable Companies and the Subject.

The ratio of the market capitalization to enterprise value ε was adopted as a weighting factor. As aforesaid, the logic behind this formula is that a pricing multiple is the reciprocal of the capitalization rate. In the case of an enterprise value multiple, the capitalization rate is driven by the weighted average cost of capital ("**WACC**") of the valuation subject. Since the size and specific risk premium differentials "θ" are applicable only to the equity portion (for a listed company, market capitalization represents the market value of its equity) but not to the debt portion of the WACC, we shall only adjust the equity portion of the capitalization rate in this pricing multiple adjustment formula. The ratio ε was used to apply an appropriate weighting on the parameter θ so that the capitalization rate was adjusted only to the extent of its equity portion. In other words, the ratio ε takes into account of the varying capital structures among the comparable companies.

The ratio of sales to NOPAT was used as a scale factor α, which is applied in the adjustment of the EV/S multiple. It is considered that the base measure of the benefits for enterprise value to be NOPAT (Hitchner, R., 2017), which is a financial measure that shows how well a company performed through its core operations net of taxes and it excludes tax savings from existing debt and one-time losses or charges. As EV/S was adopted as the pricing multiple in this valuation, sales becomes an alternative measure of the benefits for enterprise value in the pricing multiple adjustment formula. Hence, α was used as a scale factor for the alternative measure of benefit.

Details of the adjusted factors of the comparable companies are shown as below:

Ticker	Company Name	Market Capitalization *(USD million)*	Enterprise Value *(USD million)*	Sales To NOPAT "α"	Market capitalization to Enterprise value " ε "	Size and specific risk premium Differential "θ"
1533.HK	Lanzhou Zhuangyuan Pasture Company Limited	359	429	16.46	0.84	1.20%
600419.SH	Xinjiang Tianrun Dairy Company Limited	598	531	12.52	1.13	1.20%
600429.SH	Beijing Sanyuan Foods Company Limited	1,079	2,273	65.33	0.47	3.00%
600597.SH	Bright Dairy & Food Company Limited	2,305	2,907	42.34	0.79	3.00%
600887.SH	Inner Mongolia Yili Industrial Group Company Limited	37,257	37,302	14.75	1.00	4.44%
605179.SH	Zhejiang Yiming Food Company Limited	641	700	101.80	0.92	3.00%
605337.SH	Zhe Jiang Li Zi Yuan Food Company Limited	1,025	930	6.32	1.10	3.00%
002329.SZ	Royal Group Company Limited	570	934	44.74	0.61	0.00%
002719.SZ	Maiquer Group Company Limited	187	172	81.08	1.09	1.20%
002732.SZ	Guangdong Yantang Dairy Company Limited	420	405	13.88	1.04	1.20%
002946.SZ	New Hope Dairy Company Limited	1,491	2,113	25.28	0.71	3.00%
300106.SZ	Xinjiang Western Animal Husbandry Company Limited	253	267	22.30	0.95	1.20%

Financial data retrieved from S&P Capital IQ

Applying on the pricing multiple adjustment formula and the results of the adjusted factors on "α", and "θ" as above, after the adjustment on the base EV/S multiples, the adjusted EV/S multiples of the comparable companies are listed as below:

Ticker	Company Name	Market Capitalization *(USD million)*	Base EV/S Multiple	Adjusted EV/S Multiple
1533.HK*	Lanzhou Zhuangyuan Pasture Company Limited	359	2.64	1.84
600419.SH	Xinjiang Tianrun Dairy Company Limited	598	1.60	1.26
600429.SH	Beijing Sanyuan Foods Company Limited	1,079	1.94	0.69
600597.SH*	Bright Dairy & Food Company Limited	2,305	0.65	0.39
600887.SH	Inner Mongolia Yili Industrial Group Company Limited	37,257	2.16	0.89
605179.SH*	Zhejiang Yiming Food Company Limited	641	1.94	0.30
605337.SH*	Zhe Jiang Li Zi Yuan Food Company Limited	1,025	4.15	2.22
002329.SZ*	Royal Group Company Limited	570	2.44	2.44
002719.SZ	Maiquer Group Company Limited	187	0.89	0.46
002732.SZ	Guangdong Yantang Dairy Company Limited	420	1.36	1.10
002946.SZ	New Hope Dairy Company Limited	1,491	1.51	0.83
300106.SZ	Xinjiang Western Animal Husbandry Company Limited	253	1.49	1.08
		Average (excluding outliers)		**0.90**
		Median		**0.99**

* *Excluded from the calculation of the average of the EV/S multiple as considered as outlier which is outside 1 standard deviation. In statistics, 2 standard deviation includes about 95% of the population while 1 standard deviation only includes about 68% of the population. With the use of 2 or more standard deviations, no outliers will be excluded and thus reflects that the population in this situation are widely dispersed. Using 1 standard deviation is a much efficient way to only include those samples that are concentrated around the true mean.*

The adjusted average (excluding outliers) and median value is 0.90x and 0.99x respectively. As the data set of EV/S of comparable companies are widely dispersed, median is highly affected by fluctuations of samples as well as the sample size and it only uses the mean of the two middle data, which does not take into account the precise value of each observation and hence does not uses all information available in the data set. The average value excluding outliers is more appropriate in this case as it makes use of all relevant data in the data set in order to fully reflect the industry.

DISCOUNT FOR LACK OF MARKETABILITY (DLOM)

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

In this valuation exercise, we have assessed the DLOM of this interest by referencing to the most recent DLOM study published by Stout in 2021, in which the median discounts of the first quintile and the fifth quintile are presented as 9.60% and 27.30% respectively. The study does not provide full data but instead displays a summary of the median discounts for each of the quintiles. In this Valuation, the first and fifth quintiles are the minimum and maximum presented in the study. Therefore, we have adopted these figures to arrive at the range of the market value of the Subject as at the Valuation Date.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from S&P Capital IQ as at the Valuation Date. We have also taken into account the DLOM. The calculation of the market value of the 20.00% equity interest in the Subject as at the Valuation Date is as follows:

	Lower-end	**Upper-end**
	(RMB'000)	*(RMB'000)*
Trailing 12 months Sales of the Subject	10,346,866	10,346,866
EV/S multiple (times)[1]	0.90	0.90
Enterprise Value of the Subject	**9,341,617**[2]	**9,341,617**[2]
Add: Cash and cash equivalents[3]	144,865	144,865
Less: Interest bearing debt[3]	228,861	228,861
Less: Amount due to related company[4]	265,209	265,209
Equity Value of the Subject	**8,992,412**	**8,992,412**
Equity Value of 20% Equity Interest in the Subject	**1,798,482**	**1,798,482**
Less: Discount of Lack of Marketability	490,986[5]	172,653[6]
Market Value of 20% Equity Interest in the Subject[7]	**1,307,497**	**1,625,828**

1. EV/S multiple of 0.90 is adopted with reference to the average of the adjusted EV/S multiples of the comparable companies.

2. Difference is due to rounding.

3. Audited figures are as of 31 December 2021.

4. Representing the amount due to Inner Mongolia Mengniu and its subsidiaries defined in the 2021 audited report as at 31 December 2021.

5. DLOM of 27.30% is adopted.

6. DLOM of 9.60% is adopted.

7. As the market value of 20% equity interest in the Subject refers to a non-controlling minority interest in the Subject, control premium adjustment is not required.

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions which have been set out in this report above. Further, while the assumptions are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We confirm that we have sufficient current local knowledge of the market which the Subject are engaged in and the skills and understanding necessary to undertake the valuation of the Subject competently. We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Further, we are not aware of any material changes to the Subject between the Valuation Date and the date of this report.

We are instructed to provide our opinion of value as per the Valuation Date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the Valuation Date. In particular, it has come to our attention that the outbreak of Novel Coronavirus disease (COVID-19) has caused significant disruption to economic activities around the world. This disruption has increased the risk towards the achievability of the financial projections/assumptions. As of the date of this report, it is uncertain how long the disruption will last and to what extent it will affect the economy. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this report.

This report is issued subject to our Limiting Conditions as attached.

CONCLUSION OF VALUE

Based on the results of our investigations and analysis, we are of the opinion that the market value of the 20.00% equity interest of the Subject as at the Valuation Date is reasonably stated at the amount between **RMB1,307.5 million and RMB1,625.8 million**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Simon M.K. Chan
Executive Director

Note: Mr. Simon M.K. Chan is a fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS). He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the company's/engagement parties' analysis in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the subject property rests solely with the company/engagement parties.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The management and the board of the Company have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialized expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/proposal and the full settlement of the fees and all the expenses.

8. We assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation. We cannot provide assurance on the achievability of the results forecasted by the company/engagement parties because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

9. This report has been prepared solely for the use as stated in the report and the engagement letter. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not be liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

10. This report is confidential to the client, unless otherwise stated, and the calculation of values expressed herein is valid only for the purpose stated in this report and the engagement letter/or proposal as of the Valuation Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

11. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation.

12. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

13. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.

14. To the extent any of the assumptions mentioned requires adjustments, the resulting value may differ significantly.

15. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

The following is the full text of a letter and valuation certificate by RHL Appraisal Limited, an independent qualified valuer, in connection with the valuation of the property interest of Dumex China as at April 30, 2022, which has been prepared for the purpose of inclusion in this circular.

永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

T +852 2730 6212
F +852 2736 9284

Room 1010, 10/F, Star House,
Tsimshatsui, Hong Kong

29 July 2022

The Board of Directors
Yashili International Holdings Ltd.
Room A, 32/F, COFCO Tower,
262 Gloucester Road, Causeway Bay,
Hong Kong

Dear Sirs/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the Property (the "**Property**") held by Dumex Baby Food Co., Ltd. ("**Dumex China**") (多美滋嬰幼兒食品有限公司), a wholly-owned subsidiary of Yashili International Holding Ltd (the "**Company**", together with its subsidiaries, the "**Group**") with the intention to be disposed located in the People's Republic of China (the "**PRC**"). We confirm that we have carried out property inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 30th April 2022 (the "**Valuation Date**").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation is our opinion of the market value ("**Market Value**") which we would define as intended to mean the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's–length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion. Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

The property comprises of various kinds of buildings like office, workshops, storage and some facilities and structure with specific usage, due to the nature of the buildings and structures of the Property, there are absence of sufficient available market data, we have valued the Property by depreciation replacement cost.

Calculation of the depreciated replacement cost is based on an estimate of the market value of the land in its existing use, plus the current cost of new replacement of the buildings and structures, less allowance for physical deterioration and all relevant forms of obsolescence and optimization. For land portion, we have made reference to the market transaction evidence as available in the locality. Comparable lands of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each land in order to arrive at a fair comparison of market value.

VALUATION CONSIDERATIONS

In valuing the Property, we have complied with all the requirements contained in Chapter 5, Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, Rule 11 of the Code on Takeovers and Mergers issued by Securities and Futures Commission and the International Valuation Standards 2022.

VALUATION ASSUMPTION

In our valuation, unless otherwise stated, we have assumed that:

i. no deleterious or hazardous materials or techniques have been used in the construction of the Property; and

ii. the Property is connected to main services and sewers which are available on normal terms.

TITLE INVESTIGATION

We have been shown copies of various documents relating to the Property. However, we have not examined the original documents to verify the existing titles to the Property or any amendment which does not appear on the copies handed to us. We have relied considerably on the information given by the Company's PRC legal adviser, Zhong Lun Law Firm, concerning the validity of the titles to the Property.

LIMITING CONDITIONS

We have conducted on-site inspections to the Property on 16 June 2022 by Mr. Chen Yi Jun, Aleck (China Registered Land Valuer). During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Property are free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the Property but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate.

Should it be discovered that contamination, subsidence or other latent defects exists in the Property or on adjoining or neighboring land or that the Property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

We have relied to a very considerable extent on the information provided by the Group and have accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas and all other relevant matters in the identification of the Property. The plans including but not limited to location plan, site plan, lot index plan, outline zoning plan, building plan if any, in the report are included to assist the reader to identify the Property for reference only and we assume no responsibility for their accuracy.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material fact has been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of the legal advisers of the Group. Neither have we verified the correctness of any information supplied to us concerning the Property.

POTENTIAL TAX LIABILITY

As advised by the Group, if the property is to be sold, major potential tax liabilities include:

— Land appreciation tax at progressive tax rates from 30% to 60%;

— Stamp duty 0.03%

— Deed tax 3%

If the property is to be disposed in the market, the likelihood of such liabilities crystalising is high. But if the transaction is an equity transaction which the property is included, as advised by the Group, it should not involve the aforesaid property-related tax (land appreciation tax, stamp duty and deed tax).

The exact amount of tax payable upon realization will be subject to the formal tax advice issued by the relevant tax authorities at the time of disposal.

REMARKS

We have valued the Property in Renminbi (RMB).

We enclose herewith the "Property Particulars and Opinion of Value".

Jessie X. Chen
MRICS, MSc (Real Estate), BEcon
Senior Associate Director

Jenny S. L. Mok
MHKIS, MRICS, BSc (Hons)
Senior Manager

Ms. Jessie X. Chen is a Registered Professional Surveyor (Valuation) with over 10 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Chen is a Professional Member of The Royal Institution of Chartered Surveyors.

Ms. Jenny S. L. Mok is a Chartered Surveyor with over 10 years' experience in valuation of properties in HKSAR and mainland China. Ms. Mok is a Professional Member of The Royal Institution of Chartered Surveyors and a Member of The Hong Kong Institute of Surveyors.

PROPERTY PARTICULARS AND OPINION OF VALUE

Property	Description and tenure	Particulars of occupancy	Market Value as at 30 April 2022 *RMB*
An industrial complex located at No.188 Ningqiao Road, Jinqiao Export Processing Zone, Pudong New Area, Shanghai, the PRC 中華人民共和國上海市浦東新區金橋出口加工區寧橋路188號之工業廠房	The Property comprises an industrial complex which mainly consists of workshops, office, storages and other facilities erected over a parcel of land with a site area of approximately 30,001.00 sq.m. (322,928.06 sq.ft.). The main portion of the Property with a gross floor area of 20,608.44 sq.m. (221,827.39 sq.ft.) was completed in about 1999 then an extension project was done in around 2010. After completion, the Property has a total gross floor area of approximately 26,891.58 sq.m. (289,458.55 sq.ft.). The land use rights of the Property have been granted for a term of 50 years commencing on 1 January 1993 and expiring on 31 December 2042 for industrial use.	The Property is mainly owner-occupied except for portion of the Property which is leased at a monthly rental of RMB26,000 for office use (Please refer to Note. 3).	85,000,000 (RENMINBI EIGHTY FIVE MILLION ONLY)

Notes:

1. Pursuant to a Real Estate Title Certificate — Hu (2019) Pu Zi Bu Dong Chan Quan Di No. 140441 dated on 27 December 2019, the land use rights of the property with a site area of approximately 30,001.00 sq.m. were granted to Dumex China for a term of 50 years commencing on 1 January 1993 and expiring on 31 December 2042 for industrial use. The building ownerships of the Property with a total gross floor area of approximately 26,891.58 sq.m. are vested in Dumex China.

   Dumex China is wholly-owned subsidiary of Yashili International Holding Ltd.

2. Pursuant to 12 sets of Shanghai Real Estate Title Registration Documents dated on 16 May 2022, the land use rights of the Property with a site area of approximately 30,001.00 sq.m. were granted to Dumex China for a term of 50 years commencing on 1 January 1993 and expiring on 31 December 2042 for industrial use. The building ownerships of the Property with a total gross floor area of approximately 26,891.58 sq.m. are vested in Dumex China. The details of such information are as follows:

Building No.	GFA (sq.m.)	Total Floor	Completion Year	Type	Notes
2(188)	23,136.87	6	2010	Industrial	
3(188)	374.00	2	1994	Industrial	
4(188)	1,751.00	1	1994	Industrial	
5(188)	46.00	1	1994	Industrial	
6(188)	246.00	1	1994	Industrial	
7(188)	61.00	1	1994	Industrial	With a basement with a total gross
8(188)	264.00	1	1994	Industrial	area of approximately 132 sq.m.
9(188)	630.68	2	2010	Industrial	
10(188)	68.04	1	2010	Industrial	
11(188)	139.68	1	2010	Industrial	
12(188)	105.60	1	2010	Industrial	
13(188)	68.71	1	2010	Industrial	
Total:	26,891.58				

3. Pursuant to a tenancy agreement entered into between Dumex China (as the lessor) and Arla Foods Dairy Products Technical Service (Beijing) Co., Ltd. Shanghai Branch (“阿拉福兹乳製品技術服務(北京)有限公司上海分公司”) (as the lessee), the property with 132 sq.m. is leased to the lessee with a term commencing on 1 January 2022 and expiring on 31 December 2022 at a monthly rental of RMB26,000 for office use.

4. We have been provided with a legal opinion by the Group’s PRC legal advisor, Zhong Lun Law Firm regarding the legal title of the Property, which contains, inter alia, the followings:

   i. the real estate title certificate — Hu (2019) Pu Zi Bu Dong Chan Quan Di No. 140441 obtained is legal and valid;

   ii. the Property is legally held by Dumex China;

   iii. Dumex China is entitled to transfer, lease, mortgage or dispose of the Property freely in the market; and

   iv. the Property is free from any other mortgage or third parties’ encumbrance.

1. PROFIT WARNING ANNOUNCEMENT

The following is the full text of the Profit Warning Announcement, which is repeated in full in this circular pursuant to Rule 10.4 of the Takeovers Code.

雅士利

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)

PROFIT WARNING

This announcement is made by Yashili International Holdings Ltd (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**").

The Company would like to update the shareholders of the Company (the "**Shareholders**") and potential investors that, based on a preliminary assessment of the unaudited consolidated management accounts of the Group for the four months ended 30 April 2022, which have not been confirmed, reviewed or audited by the Company's auditors or audit committee and may be subject to adjustment, and other information currently available to the Group's management, the Group expects to record a loss of not more than RMB195 million for the first six months of 2022, which is mainly attributable to: (a) the COVID-19 pandemic situations in the People's Republic of China which adversely affected the market; and (b) the increase in production costs as a result of the rising costs of milk powder as raw materials (the "**Statement**").

Detailed financial information and performance of the Group for the six months ending 30 June 2022 will be disclosed in the Company's interim results announcement for the same period which is expected to be published by the end of August 2022 in accordance with the Listing Rules.

Reference is made to the joint announcement of China Mengniu Dairy Company Limited, Star Future Investment Company Limited (the "**Offeror**") and the Company dated 6 May 2022 (the "**Rule 3.5 Announcement**") in relation to, amongst others, the proposal for the privatization of the Company by the Offeror (the "**Privatization Proposal**").

The Company is currently in the offer period (as defined in the Code on Takeovers and Mergers of Hong Kong, the "**Takeovers Code**") with respect to the Privatization Proposal. Pursuant to the Takeovers Code, the Statement is considered to constitute a profit forecast under Rule 10 of the Takeovers Code. As such, the Company is required to comply with the requirements under Rule 10 of the Takeovers Code with respect to the Statement which has to be reported on by the Company's auditors or accountants and financial advisers and repeated in full, together with the aforementioned reports, in the next document in connection with the Privatization Proposal to be despatched to the Shareholders (the "**Shareholders' Document**"). Taking into account (i) the practical difficulties in terms of the additional time required for the preparation of the reports by the Company's auditors and financial advisers; and (ii) the requirements for timely disclosures of inside information under Rule 13.09 of the Listing Rules and Part XIVA of the SFO, the Statement does not meet the standard required by Rule 10 of the Takeovers Code. The Company has arranged for the Statement to be reported on in accordance with Rule 10 of the Takeovers Code in the Shareholders' Document.

Shareholders and potential investors should note that the Statement does not meet the standard required by Rule 10 of the Takeovers Code and has not been reported on in accordance with the Takeovers Code. Accordingly, Shareholders and potential investors are advised to exercise caution when placing reliance on the Statement in assessing the merits and demerits of the Privatization Proposal and the 25% Yashili Acquisition (as defined in the Rule 3.5 Announcement), and when dealing in the securities of the Company.

By order of the board of directors of
Yashili International Holdings Ltd
雅士利國際控股有限公司
Yan Zhiyuan
Chief Executive Officer and Executive Director

Hong Kong, 24 May 2022

As at the date of this announcement, 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.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

2. BASES OF PREPARATION OF THE PROFIT WARNING ANNOUNCEMENT

The Directors confirm that the Statement (as defined in the Profit Warning Announcement) in the Profit Warning Announcement was prepared based on the unaudited consolidated management accounts of the Group for the four months ended April 30, 2022 and an estimate of the consolidated results of the Group for the remaining two months ending June 30, 2022, which had been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the 2021 Annual Report.

3. LETTER FROM KPMG ON THE PROFIT WARNING ANNOUNCEMENT

The following is the full text of the letter on the Profit Warning Announcement from KPMG, which has been prepared for the purpose of inclusion in this circular.

The Board of Directors
Yashili International Holdings Ltd.
Room A, 32nd Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

July 29, 2022

Dear Sirs

Yashili International Holdings Ltd. ("the Company")
Forecast of results for the six months ending 30 June 2022

We refer to the forecast of the consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ending 30 June 2022 (the "**Forecast**"). The Forecast has been prepared to enable the directors of the Company to make the following statement set forth in the profit warning announcement of the Company dated 24 May 2022 ("**Profit Warning Announcement**") and part 1 of Appendix IV to the Company's circular dated July 29, 2022 (the "**Circular**").

"based on a preliminary assessment of the unaudited consolidated management accounts of the Group for the four months ended 30 April 2022, which have not been confirmed, reviewed or audited by the Company's auditors or audit committee and may be subject to adjustment, and other information currently available to the Group's management, the Group expects to record a loss of not more than RMB195 million for the first six months of 2022"

Directors' Responsibilities

The Forecast has been prepared by the directors of the Company based on the unaudited consolidated results based on the management accounts of the Group for the four months ended 30 April 2022 and a forecast of the consolidated results of the Group for the remaining two months ending 30 June 2022.

The Company's directors are solely responsible for the Forecast.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control (HKSQC) 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" issued by the HKICPA, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Forecast based on our procedures. We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Forecast in accordance with the bases adopted by the directors and as to whether the Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled in accordance with the bases adopted by the directors as set out in the Profit Warning Announcement and the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2021.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

4. REPORT FROM SOMERLEY ON THE PROFIT WARNING ANNOUNCEMENT

The following is the full text of the report on the Profit Warning Announcement from Somerley, 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

July 29, 2022

The Board of Directors
Yashili International Holdings Ltd
Room A, 32nd Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

We refer to the profit warning announcement (the "**Profit Warning Announcement**") of Yashili International Holdings Ltd (the "**Company**", together with its subsidiaries, the "**Group**") dated May 24, 2022. Capitalised terms used in this letter shall have the same meanings as defined in the Profit Warning Announcement unless otherwise specified.

We also refer to the statement (the "**Statement**") made by directors of the Company (the "**Directors**") in the Profit Warning Announcement that "based on a preliminary assessment of the unaudited consolidated management accounts of the Group for the four months ended April 30, 2022, which have not been confirmed, reviewed or audited by the Company's auditors or audit committee and may be subject to adjustment, and other information currently available to the Group's management, the Group expects to record a loss of not more than RMB195 million for the first six months of 2022" (the "**Loss Estimate**"). The Statement is regarded as a profit forecast under Rule 10 of the Takeovers Code and therefore, is required to be reported on pursuant to Rule 10 of the Takeovers Code.

The Statement has been prepared by the Directors based on the unaudited consolidated management accounts of the Group for the four months ended April 30, 2022 and an estimate of the consolidated results of the Group for the remaining two months ending June 30, 2022.

We have relied on the information and facts supplied, and the opinion expressed by you, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the date hereof. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not carried out any independent verification of the information supplied nor verified the computations leading to the Loss Estimate.

We have discussed with you the bases upon which the Statement was prepared. We have also considered the letter dated July 29, 2022 regarding the forecast (the "**Forecast**") of the consolidated results of the Group for the six months ending June 30, 2022 issued by KPMG, the reporting accountant and auditor of the Company, to you, the text of which is set out in Appendix IV to the circular (the "**Circular**") issued by the Company to its Shareholders dated July 29, 2022, which stated that, "so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled in accordance with the bases adopted by the directors as set out in the Profit Warning Announcement and the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Group for the year ended 31 December 2021".

Based on the above, we are satisfied that the Statement, for which the Directors are solely responsible, has been made with due care and consideration.

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

1. LETTER FROM KPMG ON DUMEX CHINA ADJUSTED PROFITS INFORMATION

The following is the full text of the letter in relation to the Dumex China Adjusted Profits Information from KPMG, which has been prepared for the purpose of inclusion in this circular.

KPMG

The Board of Directors
Yashili International Holdings Ltd.
Room A, 32nd Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

July 29, 2022

Dear Sirs

Yashili International Holdings Ltd. (the "Company")
Profit Estimate of the Dumex China Target Business for the years ended December 31, 2020 and 2021

We refer to the estimate of net profit (before taxation) and net profit (after taxation) for each of the years ended December 31, 2020 and 2021 of Dumex China Target Business (as defined in the circular of the Company dated July 29, 2022 (the "**Circular**")) (the "**Profit Estimate**") which were prepared by the directors of the Company in accordance with the basis as set out in the sections headed "Information on Dumex China and the Dumex China Target Business" in the "Letter From The Board" on page 31 and "Further Information on Bases of Preparation of the Dumex China Adjusted Profits Information" in the "Financial Information of the Group" on page I-4 of the Circular.

The Profit Estimate contained in the section headed "Information on Dumex China and the Dumex China Target Business" in the "Letter From the Board" on page 31 of the Circular is reproduced as follows:

"assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business at the beginning of the year ended December 31, 2021, the unaudited net profit (before taxation) and the unaudited net profit (after taxation) of Dumex China for the year ended December 31, 2021 would be approximately RMB4.5 million and RMB4.5 million, respectively. Assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business at the beginning of the year ended December 31, 2020, the unaudited net profit (before taxation) and the unaudited net profit (after taxation) of Dumex China for the year ended December 31, 2020 would be approximately RMB15 million and RMB15 million, respectively."

Directors' Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited financial statements of Dumex China for each of the years ended December 31, 2020 and 2021, financial information of other components of Dumex China Target Business which were carried out by other subsidiaries of the Company and financial information of components to be transferred out from Dumex China for the years ended December 31, 2020 and 2021, in accordance with the basis of preparation as stated in the section headed "Information on Dumex China and the Dumex China Target Business" in the "Letter From The Board" on page 31 and "Further Information on Bases of Preparation of the Dumex China Adjusted Profits Information" in the "Financial Information of the Group" on page I-4 of the Circular.

The Company's directors are solely responsible for the Profit Estimate.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control (HKSQC) 1 "Quality Control for Firms That Perform Audits and Reviews of Historical Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures. We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Company and its subsidiaries (the "**Group**"). Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in the sections headed "Information on Dumex China and the Dumex China Target Business" in the "Letter From The Board" on page 31 and "Further Information on Bases of Preparation of the Dumex China Adjusted Profits Information" in the "Financial Information of the Group" on page I-4 of the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Group for each of the years ended December 31, 2020 and 2021.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

2. LETTER FROM SOMERLEY ON DUMEX CHINA ADJUSTED PROFITS INFORMATION

The following is the full text of the letter in relation to the Dumex China Adjusted Profits Information from Somerley, 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

July 29, 2022

The Board of Directors
Yashili International Holdings Ltd
Room A, 32nd Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

We refer to the Dumex China Adjusted Profits Information as set out in this circular (the "**Circular**") of Yashili International Holdings Ltd (the "**Company**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless otherwise specified.

The unaudited net profits of the Dumex China Target Business for the years ended December 31, 2020 and 2021 (the "**Profit Estimate**") in the Letter from the Board contained in the Circular as reproduced below are regarded as profit forecasts pursuant to Rule 10 of the Takeovers Code and are required to be reported on:

"···assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business at the beginning of the year ended December 31, 2021, the unaudited net profit (before taxation) and the unaudited net profit (after taxation) of Dumex China for the year ended December 31, 2021 would be approximately RMB4.5 million and RMB4.5

million, respectively. Assuming that the business scope of Dumex China had been adjusted to only include the Dumex China Target Business at the beginning of the year ended December 31, 2020, the unaudited net profit (before taxation) and the unaudited net profit (after taxation) of Dumex China for the year ended December 31, 2020 would be approximately RMB15 million and RMB15 million, respectively."

We have relied on the information and facts supplied, and the opinion expressed by you, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the date hereof. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not carried out any independent verification of the information supplied nor verified the computations leading to the Profit Estimate.

We have discussed with you the bases upon which the Profit Estimate were prepared. We have also considered the letter on the Profit Estimate dated July 29, 2022 issued by KPMG, the reporting accountant and auditor of the Company, to you, the text of which is set out in Appendix V to the Circular, which stated that "so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in the sections headed "Information on Dumex China and the Dumex China Target Business" in the "Letter From The Board" on page 31 and "Further Information on Bases of Preparation of the Dumex China Adjusted Profits Information" in the "Financial Information of the Group" on page I-4 of the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Group for each of the years ended December 31, 2020 and 2021".

Based on the above, we are satisfied that the Profit Estimate, for which the Directors are solely responsible, has been made with due care and consideration.

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

AUDITOR'S REPORT

Ernst & Young Hua Ming (2022) Shen Zi No. 61090074_A02
Dumex Baby Food Co., Ltd.

To the board of directors of Dumex Baby Food Co., Ltd.,

(I) Opinion

We have audited the financial statements of Dumex Baby Food Co., Ltd., which comprise the balance sheet as at 31 December 2021, and the income statement, the statement of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Dumex Baby Food Co., Ltd. as at 31 December 2021, and the financial performance and cash flows of Dumex Baby Food Co., Ltd. for the year then ended in accordance with Accounting Standards for Business Enterprises ("**ASBEs**").

(II) Basis for opinion

We conducted our audit in accordance with China Standards on Auditing ("**CSAs**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of Dumex Baby Food Co., Ltd. in accordance with *China Code of Ethics for Certified Public Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

(III) Responsibilities of the management and those charged with governance for the financial statements

The management of Dumex Baby Food Co., Ltd. is responsible for the preparation and fair presentation of the financial statements in accordance with ASBEs, and for designing, implementing and maintaining such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the ability of Dumex Baby Food Co., Ltd. to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the management either intends to liquidate Dumex Baby Food Co., Ltd. or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of Dumex Baby Food Co., Ltd.

AUDITOR'S REPORT (Continued)

Ernst & Young Hua Ming (2022) Shen Zi No. 61090074_A02
Dumex Baby Food Co., Ltd.

(IV) Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

(4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Dumex Baby Food Co., Ltd. to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Dumex Baby Food Co., Ltd. to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S REPORT (Continued)

Ernst & Young Hua Ming (2022) Shen Zi No. 61090074_A02
Dumex Baby Food Co., Ltd.

(No text on this page)

Ernst & Young Hua Ming LLP

Chinese Certified Public Accountant: Yang Jinglu

Chinese Certified Public Accountant: Zhang Chi

Beijing, the People's Republic of China

10 June 2022

DUMEX BABY FOOD CO., LTD.
BALANCE SHEET
Year ended 31 December 2021 **Expressed in Renminbi Yuan**

ASSETS	**Note V**	**31 December 2021**	**31 December 2020**
Current assets			
Currency funds	1	107,601,980	101,203,585
Financial assets held for trading	2	—	121,764,384
Accounts receivable	3	77,878,516	377,541,692
Prepayments	4	4,154,415	5,607,106
Other receivables	5	21,527,196	10,281,220
Inventories	6	29,724,691	31,373,997
Other current assets	7	7,706	4,521,254
Total current assets		240,894,504	652,293,238
Non-current assets			
Fixed assets	8	29,929,369	33,419,261
Intangible assets	9	6,559,060	6,029,959
Deferred tax assets	10	81,692,403	89,672,305
Total non-current assets		118,180,832	129,121,525
Total assets		359,075,336	781,414,763

The accompanying notes to financial statements form an integral part of these financial statements.

DUMEX BABY FOOD CO., LTD.
BALANCE SHEET (CONTINUED)
Year ended 31 December 2021 **Expressed in Renminbi Yuan**

LIABILITIES AND EQUITY	**Note V**	**31 December 2021**	**31 December 2020**
Current liabilities			
Short-term borrowings	11	40,555,933	196,663,731
Notes payable		2,515,930	1,830,891
Accounts payable		133,956,752	479,032,660
Receipts in advance		1,488	763
Employee benefits payable	12	5,197,226	14,435,538
Taxes and surcharges payable	13	3,368,179	424,191
Other payables		183,062,887	109,559,136
Other current liabilities	14	109,535	1,870,461
Total current liabilities		368,767,930	803,817,371
Non-current liabilities			
Deferred tax liabilities	10	1,273,975	739,203
Total non-current liabilities		1,273,975	739,203
Total liabilities		370,041,905	804,556,574
Equity			
Paid-in capital	15	2,226,000,000	2,226,000,000
Accumulated other comprehensive income	16	2,307,961	2,307,961
Surplus reserves	17	120,000,000	120,000,000
Accumulated deficit	18	(2,359,274,530)	(2,371,449,772)
Total equity		(10,966,569)	(23,141,811)
Total liabilities and equity		359,075,336	781,414,763

The financial statements have been signed by:

Legal representative: Financial controller:

The accompanying notes to financial statements form an integral part of these financial statements.

DUMEX BABY FOOD CO., LTD.
INCOME STATEMENT
Year ended 31 December 2021 **Expressed in Renminbi Yuan**

	Note V	2021	2020
Revenue	19	787,568,370	878,665,668
Less: Cost of sales		737,133,076	821,065,278
Taxes and surcharges		1,504,751	912,727
Selling expenses		10,072,264	2,538,244
Administrative expenses		3,937,904	351,871
Research and development expenses		9,872,995	5,488,927
Finance expenses	20	3,302,931	(226,802)
Including: Interest expenses		16,088,896	7,940,757
Interest income		14,280,466	8,173,337
Add: Other income	21	63,857	163,706
Impairment losses of assets	22	(576,227)	(585,245)
Credit impairment losses	23	500,000	—
Losses on disposal of non-current assets		(832,973)	—
Operating profit		20,899,106	48,113,884
Add: Non-operating income	24	395,440	300,919
Less: Non-operating expenses	25	604,630	1,650,492
Profit before income taxes		20,689,916	46,764,311
Less: Income tax expenses	27	8,514,674	7,110,563
Profit		12,175,242	39,653,748
Total comprehensive income		12,175,242	39,653,748

The accompanying notes to financial statements form an integral part of these financial statements.

DUMEX BABY FOOD CO., LTD.
STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2021

Expressed in Renminbi Yuan

2021	Attributable to owners of the parent				
	Paid-in capital	**Capital reserves**	**Surplus reserves**	**Unappropriated profit**	**Total equity**
I. Balance at end of prior year and beginning of year	2,226,000,000	2,307,961	120,000,000	(2,371,449,772)	(23,141,811)
II. Changes for the year					
1. Total comprehensive income	—	—	—	12,175,242	12,175,242
III. Balance at end of year	2,226,000,000	2,307,961	120,000,000	(2,359,274,530)	(10,966,569)

2020	Attributable to owners of the parent				
	Paid-in capital	**Capital reserves**	**Surplus reserves**	**Unappropriated profit**	**Total equity**
I. Balance at end of prior year and beginning of year	2,226,000,000	2,307,961	120,000,000	(2,411,103,520)	(62,795,559)
II. Changes for the year					
1. Total comprehensive income	—	—	—	39,653,748	39,653,748
III. Balance at end of year	2,226,000,000	2,307,961	120,000,000	(2,371,449,772)	(23,141,811)

The accompanying notes to financial statements form an integral part of these financial statements.

DUMEX BABY FOOD CO., LTD.
STATEMENT OF CASH FLOWS
Year ended 31 December 2021 **Expressed in Renminbi Yuan**

	Note V	2021	2020
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from the sale of goods and the rendering of services		1,185,745,730	819,062,573
Other cash receipts relating to operating activities		5,630,116	1,868,196
Subtotal of cash inflows		1,191,375,846	820,930,769
Cash payments for goods and services		1,074,715,750	869,785,672
Cash payments to and on behalf of employees		46,754,643	41,969,559
Payments of all types of taxes and surcharges		2,708,168	2,209,634
Other cash payments relating to operating activities		4,238,535	5,934,794
Subtotal of cash outflows		1,128,417,096	919,899,659
Net cash flows from/(used in) operating activities	28	62,958,750	(98,968,890)
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from returns of investments		547,000,000	—
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets		284,192	76,500
Other cash receipts relating to investing activities		11,211,531	5,803,676
Subtotal of cash inflows		558,495,723	5,880,176
Cash payments to acquire fixed assets, intangible assets and other long-term assets		3,099,474	4,543,881
Cash payments for investments		527,000,000	21,764,384
Subtotal of cash outflows		530,099,474	26,308,265
Net cash flows from/(used in) investing activities		28,396,249	(20,428,089)

The accompanying notes to financial statements form an integral part of these financial statements.

DUMEX BABY FOOD CO., LTD.
STATEMENT OF CASH FLOWS (CONTINUED)
Year ended 31 December 2021 **Expressed in Renminbi Yuan**

	Note V	2021	2020
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Cash from cash pool		6,823,750	39,714,547
Cash receipts from borrowings		558,000,000	493,340,689
Receipt of deposits pledged for bank borrowings		100,000,000	—
Subtotal of cash inflows		664,823,750	533,055,236
Cash to cash pool		21,131,404	6,823,750
Cash repayments for debts		714,663,731	196,676,957
Cash payments for distribution of dividends or profit and interest expenses		17,892,626	11,121,725
Payment of deposits pledged for bank borrowings		—	200,000,000
Subtotal of cash outflows		753,687,761	414,622,432
Net cash flows (used in)/from financing activities		(88,864,011)	118,432,804
4. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		3,936	1,654
5. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,494,924	(962,521)
Add: Cash and cash equivalents at beginning of year		11,154	973,675
6. CASH AND CASH EQUIVALENTS AT END OF YEAR	28	2,506,078	11,154

The accompanying notes to financial statements form an integral part of these financial statements.

DUMEX BABY FOOD CO., LTD.
NOTES TO FINANCIAL STATEMENTS
Year ended 31 December 2021 **Expressed in Renminbi Yuan**

I. General information

Dumex Baby Food Co., Ltd. (the "**Company**") is a limited liability company registered in Shanghai of the People's Republic of China (the "**PRC**") on 28 August 1992, with a term of operation of 50 years and uniform social credit code of 91310115607231489N. The headquarters of the Company is located in 188 Ningqiao Road, Shanghai, PRC.

The Company is engaged in food production, food distribution, electronic commerce (excluding financial business), import and export services of goods and technology, rental of properties in Blocks 1-8, 188 Ningqiao Road, technology development, technical services, technical consultation and technology transfer in the field of food technology, business management consulting, and sales of packaging materials and food additives.

The parent of the Company is Yashili International Group Ltd. ("**Guangdong Yashili**"), which is incorporated in PRC, and the ultimate parent of the Company is China Mengniu Dairy Company Limited, which is incorporated in the Cayman Islands.

II. Basis of preparation of the financial statements

These financial statements have been prepared in accordance with *Accounting Standards for Business Enterprises — Basic Standard* and specific accounting standards, implementation guidance, interpretations and other relevant provisions issued subsequently by the Ministry of Finance (the "**MOF**") (collectively referred to as "**ASBEs**").

The financial statements have been prepared on a going concern basis.

As at 31 December 2021, equity was negative RMB10,966,569 in the Company's financial statements and current liabilities exceeded current assets by approximately RMB127,873,000. We have obtained a financial support agreement from Guangdong Yashili to the Company. Management considers that the above financial support arrangement will enable the Company to meet its financial obligations as and when they fall due and will enable the Company to have sufficient liquidity for ordinary course of business in the foreseeable future without facing any problems in relation to going concern due to shortage of working capital, and therefore we consider that it is appropriate for the Company's financial statements as at 31 December 2021 to be prepared on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant requirements.

Statement of compliance with Accounting Standards for Business Enterprises

The financial statements present truly and completely the financial positions of the Company as at 31 December 2021, and the financial performance and the cash flows for the year then ended in accordance with ASBEs.

III. Significant accounting policies and estimates

The financial information presented in the 2021 annual financial statements was prepared based on the following significant accounting policies and estimates under ASBEs.

1. Accounting year

The accounting year of the Company is a calendar year, i.e., from 1 January to 31 December of each year.

2. Functional currency

The Company's functional and presentation currency is Renminbi ("**RMB**"). The currency unit is RMB Yuan unless otherwise stated.

3. Cash and cash equivalents

Cash comprises the Company's cash on hand and bank deposits that can be readily withdrawn on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash, and are subject to an insignificant risk of changes in value.

4. Foreign currency transactions and foreign currency translation

The Company translates foreign currency transactions into its functional currency.

Foreign currency transactions are initially recorded, on initial recognition in the functional currency using the spot exchange rates prevailing at the dates of transactions. Monetary items denominated in foreign currencies are translated at the spot exchange rates ruling at the balance sheet date. Differences arising on settlement or translation of monetary items are recognised in profit or loss, with the exception of those relating to foreign currency borrowings specifically for the construction and acquisition of qualifying assets, which are capitalised in accordance with the guidance for capitalisation of borrowing costs. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions, and the amount denominated in the functional currency is not changed. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The resulting exchange differences are recognised in profit or loss or other comprehensive income depending on the nature of the non-monetary items.

Foreign currency cash flows are translated using the average exchange rates for the period during which the cash flows occur (unless this is inappropriate due to exchange rate fluctuations, in which case the spot exchange rates prevailing on the dates of cash flows are used). The effect of exchange rate changes on cash is separately presented as an adjustment item in the statement of cash flows.

5. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition of financial instruments

The Company recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's consolidated balance sheet) when:

(1) the rights to receive cash flows from the financial asset have expired; or

(2) the Company has transferred its rights to receive cash flows from the financial asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (i) has transferred substantially all the risks and rewards of the financial asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the financial asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the period generally established by regulation or convention in the marketplace. The trade date is the date that the Company committed to purchase or sell a financial asset.

Classification and measurement of financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them: financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income.

Financial assets are measured at fair value on initial recognition, but accounts receivable or notes receivable arising from the sale of goods or rendering of services that do not contain significant financing components or for which the Company has applied the practical expedient of not adjusting the effect of a significant financing component due within one year, are initially measured at the transaction price.

For financial assets at fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss, and transaction costs relating to other financial assets are included in the initial recognition amounts.

The subsequent measurement of financial assets depends on their classification as follows:

Debt investments measured at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met: the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Debt investments at fair value through other comprehensive income

The Company measures debt investments at fair value through other comprehensive income if both of the following conditions are met: the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income is recognised using the effective interest method. The interest income, impairment losses and foreign exchange revaluation are recognised in profit or loss. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets at fair value through profit or loss

The financial assets other than the above financial assets measured at amortised cost and financial assets at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Such financial assets are subsequently measured at fair value with net changes in fair value recognised in profit or loss.

Classification and measurement of financial liabilities

The Company's financial liabilities are, on initial recognition, classified into financial liabilities at fair value through profit or loss, or other financial liabilities. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss, and transaction costs relating to other financial liabilities are included in the initial recognition amounts.

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading (including derivative instruments attributable to financial liabilities) and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities held for trading (including derivative instruments attributable to financial liabilities) are subsequently measured at fair value. All changes in fair value of such financial liabilities are recognised in profit or loss. Financial liabilities designated at fair value through profit or loss are subsequently measured at fair value and gains or losses are recognised in profit or loss, except for the gains or losses arising from the Company's own credit risk which are presented in other comprehensive income. If gains or losses arising from the Company's own credit risk which are presented in other comprehensive income will lead to or expand accounting mismatch in profit or loss, the Company will include all the changes in fair value (including the amount affected by changes in the Company's own credit risk) of such financial liabilities in profit or loss.

Other financial liabilities

After initial recognition, such financial liabilities are measured at amortised cost using the effective interest method.

Impairment of financial assets

Based on the expected credit losses ("**ECLs**"), the Company recognises an allowance for ECLs for the financial assets measured at amortised cost and debt investments at fair value through other comprehensive income.

For accounts receivable that do not contain a significant financing component, the Company applies the simplified approach to recognise a loss allowance based on lifetime ECLs.

Except for financial assets which apply the simplified approach as mentioned above, other financial assets, the Company assesses whether the credit risk has increased significantly since initial recognition at each balance sheet date. If the credit risk has not increased significantly since initial recognition (stage 1), the loss allowance is measured at an amount equal to 12-month ECLs by the Company and the interest income is calculated according to the carrying amount and the effective interest rate; if the credit risk has increased significantly since initial recognition but are not credit-impaired (stage 2), the loss allowance is measured at an amount equal to lifetime ECLs by the Company and the interest income is calculated according to the carrying amount and the effective interest rate; if such financial assets are credit-impaired after initial recognition (stage 3), the loss allowance is measured at an amount equal to lifetime ECLs by the Company and the interest income is calculated according to the amortised cost and the effective interest rate.

At each balance sheet date, the Company assesses whether the credit risk on the relevant financial instruments has increased significantly since initial recognition. The Company compares the risk of a default occurring of a single financial instrument or a group of financial instruments with similar credit risk characteristics as at the balance sheet date with the risk of a default as at the date of initial recognition, to determine changes in the risk of a default occurring of the financial instrument in the expected lifetime.

When there are one or more events that have adverse effects on the expected future cash flows of a financial asset, the financial asset is credit-impaired.

When the Company no longer reasonably expects to collect all or part of the contractual cash flows of the financial asset, the Company directly writes down the carrying amount of the financial asset.

Transfer of financial assets

A financial asset is derecognised when the Company has transferred substantially all the risks and rewards of the asset to the transferee. A financial asset is not derecognised when the Company retains substantially all the risks and rewards of the financial asset.

When the Company has neither transferred nor retained substantially all the risks and rewards of the financial asset, it either (i) derecognises the financial asset and recognises the assets and liabilities created in the transfer when it has not retained control of the asset; or (ii) continues to recognise the transferred asset to the extent of the Company's continuing involvement, in which case, the Company also recognises an associated liability.

Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the guarantee amount. The guarantee amount is the maximum amount of consideration that the Company could be required to repay.

6. Inventories

Inventories are initially carried at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Cost is determined on the weighted average basis. Turnover materials include low value consumables and packing materials, which are on the immediate write-off basis.

At the balance sheet date, inventories are stated at the lower of cost and net realisable value. The inventories are written down below cost to net realisable value and the write-down is recognised in profit or loss if the cost is higher than the net realisable value. When the circumstances that previously caused the inventories to be written down below cost no longer exist, in which case the net realisable value of inventories becomes higher than the carrying amount, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down, and is recognised in profit or loss.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. Raw materials are written down category by category, and finished goods are written down item by item.

7. Fixed assets

A fixed asset is recognised only when the economic benefits associated with the asset will probably flow into the Company and the cost of the asset can be measured reliably. Subsequent expenditures incurred for a fixed asset that meets the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognised. Otherwise, such expenditures are recognised in profit or loss as incurred.

Fixed assets are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use. Depreciation is calculated using the straight-line method. The useful lives, estimated residual value rates and annual depreciation rates of each category of the fixed assets are as follows:

	Useful life	Estimated residual value rate	Annual depreciation rate
Buildings	5–25 years	5%	4%–19%
Machinery	10–15 years	5%	6%–10%
Vehicles	5 years	5%	19%
Office equipment and other equipment	3–5 years	5%	19%–32%

The Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each year end, and make adjustments if necessary.

8. Construction in progress

The cost of construction in progress is determined according to the actual expenditures incurred for the construction, including all necessary construction expenditures incurred during the construction period and other relevant expenditures.

An item of construction in progress is transferred to fixed assets when the asset is ready for its intended use.

9. Borrowing costs

Borrowing costs are interest and other costs incurred by the Company in connection with the borrowing of the funds. Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. The amounts of other borrowing costs incurred are recognised as an expense in the period in which they are incurred. Qualifying assets are assets that necessarily take a substantial period of time of acquisition, construction or production to get ready for their intended use or sale.

The capitalisation of borrowing costs commences only when all of the following conditions are satisfied:

(1) expenditures for the asset have been incurred;

(2) borrowing costs have been incurred; and

(3) activities that are necessary to acquire, construct or produce the asset for its intended use or sale have been undertaken.

Capitalisation of borrowing costs ceases when the qualifying asset being acquired, constructed or produced gets ready for its intended use or sale. Any borrowing costs subsequently incurred are recognised in profit or loss.

During the capitalisation period, the amount of interest eligible for capitalisation for each accounting period shall be determined as follows:

(1) where funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of interest eligible for capitalisation is the actual interest costs incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; or

(2) where funds are borrowed generally for the purpose of obtaining a qualifying asset, the amount of interest eligible for capitalisation is determined by applying a weighted average interest rate on the general borrowings to the weighted average of the excess of the cumulative expenditures on the asset over the expenditures on the asset funded by the specific borrowings.

Capitalisation of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally by activities other than those necessary to get the asset ready for its intended use or sale, when the suspension is for a continuous period of more than 3 months. Borrowing costs incurred during these periods are recognised as an expense in profit or loss until the acquisition, construction or production is resumed.

10. Intangible assets

An intangible asset shall be recognised only when it is probable that the economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost.

The useful life of an intangible asset is determined according to the period over which it is expected to generate economic benefits for the Company. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company.

The useful lives of the intangible assets are as follows:

	Useful life
Land use rights	50 years
Software	3–10 years

Land use rights that are purchased by the Company are accounted for as intangible assets. Buildings, such as plants that are developed and constructed by the Company, and relevant land use rights are accounted for as fixed assets and intangible assets, respectively. Payments for the land and buildings purchased are allocated between the land use rights and the buildings; they are accounted for as fixed assets if they cannot be reasonably allocated.

An intangible asset with a finite useful life is amortised using the straight-line method over its useful life. For an intangible asset with a finite useful life, the Company reviews the useful life and amortisation method at least at each year end and makes adjustment if necessary.

11. Research and development expenditures

The Company classifies the expenditures on an internal research and development project into expenditure on the research phase and expenditure on the development phase. Expenditure on the research phase is recognised in profit or loss as incurred.

Expenditure on the development phase is capitalised only when the Company can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) how the intangible asset will generate probable future economic benefits (among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset); (iv) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) the ability to measure reliably the expenditure attributable to the intangible asset during the development phase. Expenditure on the development phase which does not meet these above criteria is recognised in profit or loss when incurred.

12. Impairment of assets

The Company determines the impairment of assets, other than the impairment of inventories, deferred tax assets and financial assets, using the following methods:

The Company assesses at the balance sheet date whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Company estimates the recoverable amount of the asset and performs impairment testing. Intangible assets that have not been ready for their intended use are tested for impairment each year.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Company estimates the recoverable amount on an individual basis unless it is not possible to estimate the recoverable amount of the individual asset, in which case the recoverable amount is determined for the asset group to which the asset belongs. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups.

When the recoverable amount of an asset or asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount by the Company. The reduction in the carrying amount is treated as an impairment loss and recognised in profit or loss. A provision for impairment loss of the asset is recognised accordingly.

Once the above impairment loss is recognised, it cannot be reversed in subsequent accounting periods.

13. Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Company in exchange for services rendered by employees or for termination of employment. Employee benefits include short-term employee benefits, post-employment benefits and termination benefits. Benefits given by the Company to an employee's spouse, children and dependents, family members of deceased employees and other beneficiaries are also employee benefits.

Post-employment benefits (defined contribution plan)

The employees of the Company participate in a pension scheme and unemployment insurance managed by the local government, the corresponding expenses shall be included in the cost of related assets or profit or loss.

Termination benefits

The Company provides termination benefits to employees and recognises an employee benefits liability for termination benefits, with a corresponding charge to profit or loss, at the earlier of when the Company can no longer withdraw the offer of those benefits resulting from an employment termination plan or a curtailment proposal and when the Company recognise costs involving the payment of termination benefits.

14. Revenue from contracts with customers

Revenue from contracts with customers is recognised when the Company has fulfilled its performance obligations in the contracts, that is, when the customer obtains control of relevant goods or services. Control of relevant goods or services refers to the ability to direct the use of the goods, or the provision of the services, and obtain substantially all of the remaining benefits from the goods or services.

Contracts for the sale of goods

A contract for the sale of goods between the Company and the customer usually only includes the performance obligation to transfer goods. The revenue is recognised at a point in time based on the following indicators, which include: a present right to payment for goods, the transfer of significant risks and rewards of ownership of goods, the transfer of legal title to goods, the transfer of physical possession of goods, the customer’s acceptance of goods.

Contracts for the rendering of services

A contract for the rendering of services between the Company and the customer usually includes performance of research and development support services and sales services. Because the customer simultaneously receives and consumes the benefits provided by the Company’s performance as the Company performs, and the Company has an enforceable right to payment for performance completed to date, the revenue is recognised over time only if the Company can reasonably measure its progress towards the complete satisfaction of the performance obligation. The Company uses the output method and determines the progress towards the complete satisfaction of the rendering of services on the basis of resources consumed, labour hours expended, machine hours used, costs incurred and time elapsed. If the progress towards the complete satisfaction of the performance obligation cannot be reasonably measured, but the Company expects to recover the costs incurred in satisfying the performance obligation, the revenue is recognised only to the extent of the costs incurred until such time that the Company can reasonably measure the progress towards the complete satisfaction of the performance obligation.

15. Government grants

Government grants are recognised when all attaching conditions will be complied with and the grants will be received. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value; if fair value is not reliably determinable, it is measured at a nominal amount. A government grant related to income is accounted for as follows: (i) if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and released in profit or loss or offset against related expenses over the periods in which the related costs are recognised; or (ii) if the grant is a compensation for related expenses or losses already incurred, it is recognised immediately in profit or loss or offset against relevant expenses. A government grant relating to an asset shall be offset against the carrying amounts of relevant assets, or recognised as deferred income and amortised in profit or loss over the useful life of the related asset by annual instalments in a systematic and rational way (however, a government grant measured at a nominal amount is recognised directly in profit or loss). Where the assets are sold, transferred, retired or damaged before the end of their useful lives, the rest of the remaining deferred income is released to profit or loss for the period in which the relevant assets are disposed of.

16. Income tax

Income tax comprises current and deferred tax. Income tax is recognised as income or expense in profit or loss, or recognised directly in equity if it relates to a transaction or event which is recognised directly in equity.

Current tax liabilities or assets arising from the current and prior periods at the amount expected to be paid by the Company or returned by the tax authority calculated according to related tax laws.

Deferred tax is provided using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the tax bases and the carrying amounts of the items, which have a tax base according to related tax laws but are not recognised as assets and liabilities.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

When the taxable temporary difference arises from the initial recognition of goodwill, or an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax losses and any unused tax credits. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax losses and unused tax credits can be utilised, except:

When the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, in accordance with the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover the assets or settle the liabilities.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the balance sheet date and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if and only if the Company has a legally enforceable right to set off current tax assets and current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered

17. Leases

As Lessor-operating lease

Rental income from operating leases is recognised in profit or loss when occurs on a straight-line basis over the respective periods of the lease term.

18. Significant accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities at the balance sheet date. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

Business models

The classification of financial assets at initial recognition depends on the Company's business model for managing financial assets. When determining the business model, the Company considers the methods to include evaluation and report financial asset performance to key management, the risks affecting the performance of financial assets and the risk management, and the manner in which the relevant management receives remuneration. When assessing whether the objective is to collect contractual cash flows, the Company needs to analyse and judge the reason, timing, frequency and value of the sale before the maturity date of the financial assets.

Contractual cash flow characteristics

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics, and the judgements on whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, including when assessing the modification of the time value of money, the judgement on whether there is any significant difference from the benchmark cash flow and whether the fair value of the prepayment features is insignificant for financial assets with prepayment features, etc.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the future accounting periods, are described below.

Impairment of financial instruments

The Company uses the expected credit loss model to assess the impairment of financial instruments. The Company is required to perform significant judgement and estimation and take into account all reasonable and supportable information, including forward-looking information. When making such judgements and estimates, the Company infers the expected changes in the debtor's credit risk based on historical repayment data combined with economic policies, macroeconomic indicators, industry risks and other factors. The different estimates may impact the impairment assessment, and the provision for impairment may also not be representative of the actual impairment loss in the future.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Provision for write-down of inventories

In accordance with the Company's accounting policy for inventories, inventories are measured at the lower of cost or net realisable value, and a provision for write-down is made for inventories whose cost is higher than net realisable value and for obsolete and slow-moving inventories. The Company reassesses at the end of each year whether individual inventories are obsolete and slow-moving and whether the net realisable value is lower than the cost of the inventories. If the re-estimate differs from the existing estimate, the difference will affect the carrying value of the inventories in the period in which the estimate is changed.

Depreciation of fixed assets

The Company depreciates fixed assets using the straight-line method in accordance with its accounting policy for fixed assets. The Company re-estimates the useful life, estimated net residual value and depreciation method of individual fixed assets at least at the end of each year. If the re-estimate differs from the existing estimate, the difference will affect the carrying value of the fixed assets in the period in which the estimate is changed.

19. Changes in accounting policies and estimates

The New Financial Instrument Standards

In 2017, the MOF issued the revised *Accounting Standard for Enterprises No. 22 — Financial Instruments: Recognition and Measurement*, *Accounting Standard for Business Enterprises No. 23 — Transfers of Financial Assets*, *Accounting Standard for Business Enterprises No. 24 — Hedging*, and *Accounting Standard for Business Enterprises No. 37 — Financial Instruments: Presentation* (collectively referred to as the "**New Financial Instrument Standards**"). The Company has conducted accounting treatment in accordance with these newly revised standards above since 1 January 2021. In accordance with the transition requirements, the information for comparable periods should not be adjusted, and the Company recognised the cumulative effect of initially applying these above standards as an adjustment to the opening balance of retained earnings or other comprehensive income.

The New Financial Instrument Standards have changed the classification and measurement of financial assets and identified three main measurement categories: amortised costs; financial assets at fair value through other comprehensive income; and financial assets at fair value through profit or loss. The Company considers its own business model, as well as the contractual cash flow characteristics of financial assets for the above classification. Equity investment shall be measured at fair value through profit or loss, but the investment in a non-trading equity instrument may be irrevocably designated as a financial asset at fair value through other comprehensive income at the initial recognition. As assessed by the Company, the initial adoption of the New Financial Instrument Standards have no significant impact on the Company.

The New Revenue Standard

In 2017, the MOF issued the revised *Accounting Standard for Business Enterprises No. 14 — Revenue* (the "**New Revenue Standard**"). The Company has conducted accounting treatment in accordance with these newly revised standards above since 1 January 2021. In accordance with the transition requirements, the information for comparable periods should not be adjusted, and the Company recognised the cumulative effect of initially applying these above standards as an adjustment to the opening balance of retained earnings.

The New Revenue Standard establishes a new revenue recognition model to account for revenue arising from contracts with customers. According to the New Revenue Standard, the pattern of revenue recognition shall reflect the way in which the entity transfers goods or renders services to customers, and the amount shall reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. At the same time, the New Revenue Standard provides guidance on judgements and estimates necessary for each step of the revenue recognition. As assessed by the Company, the initial adoption of the New Revenue Standard has no significant impact on the Company.

The New Leases Standard

In 2018, the MOF issued revised *Accounting Standard for Business Enterprises No. 21 — Leases* (the "**New Leases Standard**"). The New Leases Standard introduces a single model similar to the current accounting treatment of finance leases, requiring the lessor to recognise right-of-use assets and lease liabilities for all the leases, except for short-term leases and leases of low-value assets, and recognise depreciation and interest expense, respectively. The Company has accounted for leases under the revised leases standard since 1 January 2021. As assessed by the Company, the initial adoption of the New Leases Standard has no significant impact on the Company.

IV. Taxes

The Company is mainly subject to the following taxes and the respective tax rates for the current year are as follows:

Value-added tax (VAT)	—	VAT payable is the difference between VAT output and less deductible VAT input for the current period. VAT output has been calculated by applying a rate of 13% to the taxable value
Urban maintenance and construction tax	—	It is levied at 5% on the turnover taxes paid.
Education surcharge	—	It is levied at 3% on the turnover taxes paid.
Local education surcharge	—	It is levied at 2% on the turnover taxes paid.
Corporate income tax	—	It is levied at 25% on the taxable profit.

V. Notes to key items of the consolidated financial statements

1. Currency funds

	31 December 2021	31 December 2020
Cash at banks	107,601,980	101,203,585

At 31 December 2021, the carrying amount of the currency funds with restricted ownership was RMB105,095,902 (RMB101,192,431 as at 31 December 2020). Refer to Note V.30.

2. Financial assets held for trading

	31 December 2021	31 December 2020
Financial assets at fair value through profit or loss		
Debt investments	—	121,764,384

At 31 December 2021, the carrying amount of the financial assets held for trading with restricted ownership was nil (RMB100,000,000 as at 31 December 2020). Refer to Note V.30.

3. Accounts receivable

The Company generally grants customers specific credit lines and credit periods, which may be adjusted in certain circumstances. Accounts receivable are non-interest-bearing.

An ageing analysis of accounts receivable is as follows:

	31 December 2021	21 December 2020
Within 1 year	77,878,516	377,541,692

The movements in impairment allowance for accounts receivable are as follows:

	Opening balance	Provision	Write-off	Closing balance
2021	—	—	—	—
2020	—	205,785	205,785	—

4. Prepayments

An ageing analysis of prepayments is as follows:

	31 December 2021	31 December 2020
Within 1 year	4,154,415	5,607,106

5. Other receivables

An ageing analysis of other receivables is as follows:

	31 December 2021	31 December 2020
Within 1 year	21,456,196	10,281,220
1 to 2 years	71,000	—
Over 3 years	—	500,000
	21,527,196	10,781,220
Less: Impairment allowance on other receivables	—	500,000
	21,527,196	10,281,220

Changes in impairment allowance on other receivables are as follows:

	Opening balance	Accrual	Reversal	Closing balance
2021	500,000	—	(500,000)	—
2020	500,000	—	—	500,000

6. Inventories

	31 December 2021	31 December 2020
Raw materials	24,926,568	21,042,243
Work in process	6,707,536	4,071,482
Finished goods	1,305,286	9,281,628
Low-value consumables	1,201	1,200
	32,940,591	34,396,553
Less: Provision for write-down of inventories	3,215,900	3,022,556
	29,724,691	31,373,997

The movements in provision for write-down of inventories are as follows:

2021

	Opening balance	Provision	Decrease in transfer	Closing balance
Raw materials	2,716,913	487,070	(77,241)	3,126,742
Finished goods	305,643	89,157	(305,642)	89,158
	3,022,556	576,227	(382,883)	3,215,900

2020

	Opening balance	Provision	Decrease in transfer	Closing balance
Raw materials	5,361,003	77,241	(2,721,331)	2,716,913
Finished goods	520,957	302,219	(517,533)	305,643
	5,881,960	379,460	(3,238,864)	3,022,556

At 31 December 2021, the carrying amount of the inventories with restricted ownership was nil

7. Other current assets

	31 December 2021	31 December 2020
Input VAT to be credited	7,706	4,167,481
Prepaid expenses	—	353,773
	7,706	4,521,254

8. Fixed assets

2021

	Buildings	Machinery	Vehicles	Office equipment and other equipment	Total
Cost					
Opening balance	351,306,926	227,603,153	448,047	62,622,492	641,980,618
Transfers from construction in progress	—	1,347,221	—	—	1,347,221
Purchases	—	385,852	—	545,739	931,591
Disposals or retirements	—	(2,158,646)	—	(438,648)	(2,597,294)
Closing balance	351,306,926	227,177,580	448,047	62,729,583	641,662,136
Accumulated depreciation					
Opening balance	(208,253,135)	(120,437,124)	(332,644)	(49,001,285)	(378,024,188)
Depreciation provided during the year	(349,832)	(2,483,882)	(68,699)	(1,749,125)	(4,651,538)
Disposals or retirements	—	1,041,481	—	360,551	1,402,032
Closing balance	(208,602,967)	(121,879,525)	(401,343)	(50,389,859)	(381,273,694)
Provision for impairment					
Opening balance	(135,003,370)	(86,363,775)	—	(9,170,024)	(230,537,169)
Disposals or retirements	—	—	—	78,096	78,096
Closing balance	(135,003,370)	(86,363,775)	—	(9,091,928)	(230,459,073)
Carrying amount					
At end of year	7,700,589	18,934,280	46,704	3,247,796	29,929,369
At beginning of year	8,050,421	20,802,254	115,403	4,451,183	33,419,261

2020

	Buildings	Machinery	Vehicles	Office equipment and other equipment	Total
Cost					
Opening balance	349,312,489	225,206,518	448,047	62,366,741	637,333,795
Transfers from construction in progress	1,994,437	3,873,222	—	1,210,309	7,077,968
Purchases	—	—	—	480,299	480,299
Disposals or retirements	—	(1,476,587)	—	(1,434,857)	(2,911,444)
Closing balance	351,306,926	227,603,153	448,047	62,622,492	641,980,618
Accumulated depreciation					
Opening balance	(207,871,662)	(118,284,418)	(263,944)	(48,797,389)	(375,217,413)
Depreciation provided during the year	(381,473)	(2,634,517)	(68,700)	(1,514,743)	(4,599,433)
Disposals or retirements	—	481,811	—	1,310,847	1,792,658
Closing balance	(208,253,135)	(120,437,124)	(332,644)	(49,001,285)	(378,024,188)
Provision for impairment					
Opening balance	(135,003,370)	(87,282,950)	—	(9,290,759)	(231,577,079)
Disposals or retirements	—	919,175	—	120,735	1,039,910
Closing balance	(135,003,370)	(86,363,775)	—	(9,170,024)	(230,537,169)
Carrying amount					
At end of year	8,050,421	20,802,254	115,403	4,451,183	33,419,261
At beginning of year	6,437,457	19,639,150	184,103	4,278,593	30,539,303

At 31 December 2021, the carrying amount of the fixed assets with restricted ownership was nil (31 December 2020: nil).

9. Intangible assets

2021

	Land use rights	Software	Total
Cost			
Opening balance	13,440,934	203,749	13,644,683
Purchases	—	816,764	816,764
Closing balance	13,440,934	1,020,513	14,461,447
Accumulated amortisation			
Opening balance	(7,526,923)	(87,801)	(7,614,724)
Amortisation provided during the year	(268,819)	(18,844)	(287,663)
Closing balance	(7,795,742)	(106,645)	(7,902,387)
Carrying amount			
At end of year	5,645,192	913,868	6,559,060
At beginning of year	5,914,011	115,948	6,029,959

2020

	Land use rights	Software	Total
Cost			
Opening balance	13,440,934	135,178	13,576,112
Purchases	—	68,571	68,571
Closing balance	13,440,934	203,749	13,644,683
Accumulated amortisation			
Opening balance	(7,258,104)	(75,242)	(7,333,346)
Amortisation provided during the year	(268,819)	(12,559)	(281,378)
Closing balance	(7,526,923)	(87,801)	(7,614,724)
Carrying amount			
At end of year	5,914,011	115,948	6,029,959
At beginning of year	6,182,830	59,936	6,242,766

10. Deferred tax assets/liabilities

Recognised deferred tax assets:

	31 December 2021	31 December 2020
Accrued expenses	61,737,978	64,502,445
Provision for impairment of fixed assets	19,150,450	24,289,221
Provision for write-down of inventories	803,975	755,639
Impairment allowance	—	125,000
	81,692,403	89,672,305

The Company expects that it is probable that future taxable income will be available against which the above deductible temporary differences and deductible losses can be utilized and therefore recognizes the resulting deferred tax asset.

At 31 December 2021, deductible temporary differences in respect of which no deferred tax assets have been recognized were nil (31 December 2020: nil); deferred tax assets have not been recognised in respect of the deductible losses of RMB728,352,377 (31 December 2020: RMB1,303,815,908), with their respective expiry dates and amounts presented as follows:

Expiry date of deductible loss	**2021**	**2020**
2020	—	689,999,853
2021	145,326,023	145,326,023
2022	169,376,096	169,376,096
2023	79,730,629	79,730,629
2024	108,667,327	108,667,327
2025	111,156,447	110,715,980
2026	114,095,855	—
	728,352,377	1,303,815,908

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Recognised deferred tax liabilities:

	31 December 2021	**31 December 2020**
Accrued interest income	1,273,975	739,203

11. Short-term borrowings

	2021	**2020**
Pledged borrowings	40,555,933	196,663,731

At 31 December 2021, the annual interest rate for the above pledged borrowings was 2.60% (31 December 2020: 2.60%–3.22%).

12. Employee benefits payable

	2021 Amount payable	31 December 2021 Outstanding amount	2020 Amount payable	31 December 2020 Outstanding amount
Wages or salaries, bonus, allowances and subsidies	29,546,944	1,170,571	26,546,616	6,390,224
Staff welfare	1,947,012	—	114,291	—
Social security contributions	1,912,921	1,694,058	1,396,228	2,693,484
Including: Medical insurance	1,612,131	1,385,413	1,207,373	2,308,844
Work injury insurance	97,109	138,820	7,883	162,320
Maternity insurance	203,681	169,825	180,972	222,320
Housing funds	1,343,996	602,144	1,249,673	1,336,424
Union running costs and employee education costs	745,474	54,417	777,327	216,690
	35,496,347	3,521,190	30,084,135	10,636,822
Defined contribution plan	2,381,169	1,676,036	359,822	3,798,716
Including: Basic pension insurance	2,292,022	1,553,807	383,714	3,623,992
Unemployment insurance	89,147	122,229	(23,892)	174,724
Termination indemnities	2,879,813	—	(7,323,661)	—
	40,757,329	5,197,226	23,120,296	14,435,538

13. Taxes and surcharges payable

	31 December 2021	31 December 2020
VAT	2,832,277	—
Personal income tax withheld	230,613	147,530
Education surcharge	141,394	321
Urban maintenance and construction tax	141,394	64
Stamp duty	—	252,276
Others	22,501	24,000
	3,368,179	424,191

14. Other current liabilities

	31 December 2021	31 December 2020
Accrued expenses	109,535	1,870,461

15. Paid-in capital

Registered capital and paid-in capital

	31 December 2021		31 December 2020	
	RMB	*Percentage*	*RMB*	*Percentage*
Guangdong Yashili	2,226,000,000	100%	2,226,000,000	100%

16. Other comprehensive income

	Exchange difference on translation of financial currency financial statements
Balance at beginning and end of year	2,307,961

Exchange difference on translation of foreign currency financial statement is the difference arising from the difference between the translation rate adopted when capital contribution is received under the capital account in installments and the translation rate used for the paid-in capital account.

17. Surplus reserves

2021

	Opening balance	**Closing balance**
Statutory surplus reserves	120,000,000	120,000,000

2020

	Opening balance	**Closing balance**
Statutory surplus reserves	120,000,000	120,000,000

According to the provisions of the *Company Law* and the Company's Articles of Association, the Company appropriates 10% of the profit to the statutory surplus reserves. Where the accumulated amount of the surplus reserves reaches 50% or more of the Company's registered capital, further appropriation is not required.

After the appropriation to the statutory surplus reserves, the Company may appropriate the discretionary surplus reserves. When approved, the discretionary surplus reserves can be used to make up for accumulated losses or converted to the paid-in capital.

18. Accumulated deficit

	31 December 2021	**31 December 2020**
Balance at beginning of year	(2,371,449,772)	(2,411,103,520)
Profit attributable to owners of the parent	12,175,242	39,653,748
Balance at end of year	(2,359,274,530)	(2,371,449,772)

19. Revenue

	2021	**2020**
Primary business	766,611,788	854,920,323
Other businesses	20,956,582	23,745,345
	787,568,370	878,665,668

Revenue is as follows:

	2021	**2020**
Sales of goods	766,611,788	855,649,328
Rendering of services	20,956,582	23,016,340
	787,568,370	878,665,668

Disaggregation of revenue from contracts with customers is as follows:

	2021
Timing of revenue recognition	
Sales of goods recognised at a point to time	766,611,788
Rendering of services recognised over time	20,956,582
	787,568,370

20. Finance expense

	2021	2020
Interest expenses	17,570,262	7,940,757
Less: Interest income	14,280,466	8,173,337
Foreign exchange differences	9,353	(1,654)
Others	3,782	7,432
	3,302,931	(226,802)

21. Other income

	2021	2020
Fees refunded for individual income tax withheld	38,857	162,122
Government grants related to the ordinary course of business	25,000	1,584
	63,857	163,706

Government grants related to the ordinary course of business are as follows:

	2021	2020
Government grants related to income	25,000	1,584

22. Impairment losses of assets

	2021	2020
Loss for write-down of inventories	(576,227)	(379,460)
Impairment loss for bad debts	—	(205,785)
	(576,227)	(585,245)

23. Credit impairment losses

	2021
Reversal of impairment allowance for other receivables	500,000

24. Non-operating income

	2021	2020
Exempted accounts payable	—	109,091
Compensation income	317,757	—
Others	77,683	191,828
	395,440	300,919

25. Non-operating expenses

	2021	2020
Loss on retirement of inventories	538,792	1,645,770
Loss on retirement of fixed assets	—	2,375
Penalty expense	65,838	2,347
	604,630	1,650,492

26. Expenses by nature

Supplementary information on the cost of sales, selling expenses, administrative expenses, and research and development expenses by nature is as follows:

	2021	**2020**
Raw materials	665,178,365	750,968,195
Employee benefits	40,757,329	23,120,296
Depreciation and amortization	4,939,201	4,880,811
Research and development expenses	9,872,995	5,488,927
Others	40,268,349	44,986,091
	761,016,239	829,444,320

27. Income tax expenses

	2021	**2020**
Deferred tax	8,514,674	7,110,563

The reconciliation between income tax expenses and profit before income taxes is as follows:

	2021	**2020**
Profit before income tax	20,689,916	46,764,311
Tax at applicable tax rate of 25%	5,172,479	11,691,078
Expenses not deductible for tax	7,738	119,494
Adjustments in respect of income tax expense of previous periods	3,334,457	—
Deductible temporary difference utilised from previous periods	—	(4,700,009)
Tax charge for the year	8,514,674	7,110,563

28. Cash flows from operating activities

	2021	2020
Profit	12,175,242	39,653,748
Add: Provisions for asset impairment	76,227	585,245
Depreciation of fixed assets	4,651,538	4,599,433
Amortisation of intangible assets	287,663	281,378
Losses on disposal of fixed assets	832,973	2,375
Finance expenses	3,356,598	(186,978)
Decrease in deferred tax assets	7,979,902	6,371,360
Increase in deferred tax liabilities	534,772	739,203
(Increase)/Decrease in inventories	1,455,962	(5,996,290)
Decrease/(Increase) in operating receivables	306,867,346	(175,609,568)
(Decrease)/Increase in operating payables	(275,259,473)	30,591,204
Net cash flows from operating activities	62,958,750	(98,968,890)

29. Cash and cash equivalents

	2021	2020
Cash	2,506,078	11,154
Including: Bank deposits on demand	2,506,078	11,154
Closing balance of cash and cash equivalents	2,506,078	11,154

	2021	2020
Closing balance of cash	2,506,078	11,154
Less: Opening balance of cash	11,154	973,675
Net increase/(decrease) in cash and cash equivalents	2,494,924	(962,521)

30. Assets with restricted ownership

	2021	2020	
Currency funds	105,095,902	101,192,431	Notes 1, 2 and 3
Financial assets held for trading	—	100,000,000	Note 3
	105,095,902	201,192,431	

Note 1: On 29 June 2021, the Company obtained bank borrowings of RMB40,555,933 by pledging term deposits of RMB52,796,598 (31 December 2020: the Company obtained bank borrowings of RMB48,450,000 by pledging Certificate of Deposit of RMB50,364,417) for a term of 1 year.

Note 2: On 27 October 2021, the pledged borrowings obtained by the Company in 2020 matured and the pledged bank deposits of RMB52,299,304 had not been released as at 31 December 2021 due to the consideration of future financing needs.

Note 3: As at 31 December 2021, no structured bank deposits were pledged (31 December 2020: bank borrowings of RMB148,213,731 were obtained by pledging Certificate of Deposits of RMB50,828,014 and structured bank deposits with a carrying value of RMB100,000,000).

VI. Financial instruments and related risks

1. Financial instruments by category

Carrying amounts of each category of financial instruments at the balance sheet date are as follows:

31 December 2021

Financial assets

	Financial assets at amortised cost
Currency funds	107,601,980
Accounts receivable	77,878,516
Other receivables	21,527,196
	207,007,692

Financial liabilities

	Financial liabilities at amortised cost
Short-term borrowings	40,555,933
Notes payable	2,515,930
Accounts payable	133,956,752
Other payables	183,062,887
	360,091,502

31 December 2020

Financial assets

	Loans and receivables
Currency funds	101,203,585
Accounts receivable	377,541,692
Financial assets held for trading	121,764,384
Other receivables	10,281,220
	610,790,881

Financial liabilities

	Other financial liabilities
Short-term borrowings	196,663,731
Notes payable	1,830,891
Accounts payable	479,032,660
Other payables	109,559,136
	787,086,418

2. Risks of financial instruments

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company's policies are summarised below.

Credit risk

The Company has policies in place to evaluate credit risk when accepting new businesses and to limit its credit exposure to individual customers. At 31 December 2021, the Company had certain concentrations of credit risk as 56% (31 December 2020: 54%) and 99% (31 December 2020: 99%) of the Company's accounts receivable were due from the Company's largest debtor and five largest debtors, respectively.

The maximum exposure to credit risk of the Company's financial assets is equal to the carrying amounts.

Liquidity risk

The Company aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Company finances its working capital requirements through a combination of funds generated from operations and other borrowings.

The tables below summarise the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

2021

	Within 1 year
Short-term borrowings	40,555,933
Notes payable	2,515,930
Accounts payable	133,956,752
Other payables	183,062,887
	360,091,502

2020

	Within 1 year
Short-term borrowings	196,663,731
Notes payable	1,830,891
Accounts payable	479,032,660
Other payables	109,559,136
	787,086,418

3. Transfers of financial assets

Transferred financial assets that are derecognised in their entirety in which continuing involvement exists

At 31 December 2021, the Company endorsed certain bills receivable accepted by banks (the "**Derecognised Bills**") to certain of its suppliers in order to settle the accounts payable due to such suppliers with a carrying amount in aggregate of RMB771,248. The Derecognised Bills had a maturity of 1 to 12 months at 31 December 2021. In accordance with the *Law of Negotiable Instruments*, the holders of the Derecognised Bills may exercise the right of recourse against any, several or all of the persons, including the Company, liable for the Derecognised Bills regardless of the order of precedence (the "**Continuing Involvement**"). In the opinion of the Company, the Company has transferred substantially all the risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated accounts payable. The maximum exposure to loss from the Company's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Company, the fair values of the Company's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2021, the Company has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

VII. Fair value

Management has assessed currency funds, accounts receivable, financial assets held for trading, other receivables, short-term borrowings, notes payable, accounts payable and other similar instruments. Given the short term maturities, the fair values approximate to the carrying values.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

VIII. Related party relationships and transactions

1. Definition of related parties

If a party has the power to control, jointly control or exercise significant influence over another party, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control or joint control from the same party.

The following parties are the related parties of the Company:

(1) Parent of the Company;

(2) Subsidiaries of the Company;

(3) Other entities controlled by the parent of the Company;

(4) Investors that have joint control over the Company;

(5) Investors that have significant influence over the Company;

(6) Joint ventures of the Company;

(7) Associates of the Company;

(8) Principal individual investors of the Company and close family members of such individuals;

(9) Key management personnel of the Company or of the parent and close family members of such individuals;

(10) Other entities controlled or jointly controlled by the Company's principal individual investors, key management personnel or close family members of such individuals;

(11) Joint ventures or associates of other members (including a parent and subsidiary) of a group of which the Company is a member;

(12) Joint ventures or associates of an entity that has joint control over the Company; and

(13) Joint ventures of an entity that has significant influence over the Company.

2. Parent

Name of the parent	Registered address	Nature of business	Proportion of ownership interest and voting power in the Company	Registered capital *RMB*
Guangdong Yashili	Guangdong, PRC	Production and sales of dairy products	100%	2,176,105,300

The ultimate holding company of the Company is China Mengniu Dairy Company Limited incorporated in the Cayman Islands.

3. Other related parties

Main related parties having business dealings with the Company are as follows:

Name of related party	Related party relationship
Yashili International Group Ltd. (雅士利國際集團有限公司)	The parent
Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. (內蒙古歐世蒙牛乳製品有限責任公司)	Entity controlled by the same parent

Name of related party	Related party relationship
Yashili Dairy (Maanshan) Trading Limited (雅士利乳業(馬鞍山)銷售有限公司)	Entity controlled by the same parent
Ya Ou Duo (Inner Mongolia) Nutrition & Food Co., Ltd. (內蒙古雅歐多營養食品有限公司)	Entity controlled by the same parent
Shanxi Yashili Dairy Co., Ltd. (山西雅士利乳業有限公司)	Entity controlled by the same parent
Yashili (Inner Mongolia) Nutrition Co., Ltd. (內蒙古雅士利營養食品有限公司)	Entity controlled by the same parent
Guangdong Mengya Infant Nutrition Co., Ltd. (廣東蒙雅嬰幼兒營養品有限公司)	Entity controlled by the same ultimate holding company
Newou Hong Kong International Co., Limited (新歐香港國際有限公司)	Entity controlled by the same ultimate holding company
Mengniu Oushi Nutrition Food Co., Ltd. (蒙牛歐世營養食品有限公司)	Entity controlled by the same ultimate holding company
Yashili International Baby Nourishment Co., Ltd. (雅士利國際嬰幼兒營養品有限公司)	Entity controlled by the same ultimate holding company
Tianjin Tongrui Supply Chain Co., Ltd. (天津通瑞供應鏈有限公司)	Entity controlled by the same ultimate holding company
Hangzhou COFCO-MC Packaging Co., Ltd. (杭州中糧美特容器有限公司)	Entity controlled by a substantial shareholder of the ultimate holding company
COFCO Sugar Holding Co., Ltd. (中糧屯河糖業股份有限公司)	Entity controlled by a substantial shareholder of the ultimate holding company
CPMC (Tianjin) Co., Ltd. (中糧包裝(天津)有限公司)	Entity controlled by a substantial shareholder of the ultimate holding company
Shanghai Nutri Go Food Co. Ltd. (上海起跑營養食品有限公司)	Subsidiary of an entity that exercises significant influence on the Company
Nutricia Early Life Nutrition (Shanghai) Co., Ltd. (紐迪希亞生命早期營養品(上海) 有限公司)	Subsidiary of an entity that exercises significant influence on the Company

4. Major transactions between the Company and its related parties

(1) Sales of goods to related parties

	2021	2020
Yashili Dairy (Maanshan) Trading Limited (雅士利乳業(馬鞍山)銷售有限公司)	349,731,813	352,145,016
Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. (內蒙古歐世蒙牛乳製品有限責任公司)	263,534,938	313,654,809
Shanxi Yashili Dairy Co., Ltd. (山西雅士利乳業有限公司)	72,831,395	90,260,288
Yashili International Group Ltd. (雅士利國際集團有限公司)	46,922,997	94,004,982
Mengniu Oushi Nutrition Food Co., Ltd. (蒙牛歐世營養食品有限公司)	23,982,272	—
Shanghai Nutri Go Food Co. Ltd. (上海起跑營養食品有限公司)	446,545	943,844
	757,449,960	851,008,939

All of the above sales to related parties were carried out at prices agreed between the parties by reference to market pricing.

(2) Purchases of goods from related parties

	2021	2020
Newou Hong Kong International Co., Limited (新歐香港國際有限公司)	565,504,645	587,134,464
Tianjin Tongrui Supply Chain Co., Ltd. (天津通瑞供應鏈有限公司)	7,567,097	47,214,537
Hangzhou COFCO-MC Packaging Co., Ltd. (杭州中糧美特容器有限公司)	4,746,932	6,645,516
Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. (內蒙古歐世蒙牛乳製品有限責任公司)	459,220	8,690,611
Yashili Dairy (Maanshan) Trading Limited (雅士利乳業(馬鞍山)銷售有限公司)	96,563	271
Shanxi Yashili Dairy Co., Ltd. (山西雅士利乳業有限公司)	—	8,019,112
CPMC (Tianjin) Co., Ltd. (中糧包裝(天津)有限公司)	—	2,836,307
COFCO Sugar Holding Co., Ltd. (中糧屯河糖業股份有限公司)	—	298,596
Mengniu Oushi Nutrition Food Co., Ltd. (蒙牛歐世營養食品有限公司)	—	38,736
Ya Ou Duo (Inner Mongolia) Nutrition & Food Co., Ltd. (內蒙古雅歐多營養食品有限公司)	—	2,534
	578,374,457	660,880,684

All of the above purchases from related parties were carried out at prices agreed between the parties by reference to market pricing.

(3) Rendering of services to related parties

	2021	2020
Yashili Dairy (Maanshan) Trading Limited (雅士利乳業(馬鞍山)銷售有限公司)	7,759,406	11,000,000
Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. (內蒙古歐世蒙牛乳製品有限責任公司)	6,645,137	5,935,953
Shanxi Yashili Dairy Co., Ltd. (山西雅士利乳業有限公司)	3,269,220	2,699,820
Yashili International Group Ltd. (雅士利國際集團有限公司)	1,564,830	1,600,437
Nutricia Early Life Nutrition (Shanghai) Co., Ltd. (紐迪希亞生命早期營養品(上海)有限公司)	47,170	50,297
Ya Ou Duo (Inner Mongolia) Nutrition & Food Co., Ltd. (內蒙古雅歐多營養食品有限公司)	—	141,251
Guangdong Mengya Infant Nutrition Co., Ltd. (廣東蒙雅嬰幼兒營養品有限公司)	—	96,045
	19,285,763	21,523,803

All of the above services to related parties were provided at prices agreed between the parties by reference to market pricing.

(4) Other major related party transactions

	2021	2020
Cash at related parties	21,131,404	7,449,762
Interest income	876,180	1,137,406
Interest expense	4,309,639	2,300,839
Management fees	3,747,708	3,156,284

5. Amounts due from/to related parties

	2021	2020
Accounts receivable		
Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. (內蒙古歐世蒙牛乳製品有限責任公司)	43,280,542	120,930,889
Yashili Dairy (Maanshan) Trading Limited (雅士利乳業(馬鞍山)銷售有限公司)	15,965,957	203,653,188
Mengniu Oushi Nutrition Food Co., Ltd. (蒙牛歐世營養食品有限公司)	8,365,594	—
Yashili International Group Ltd. (雅士利國際集團有限公司)	7,013,373	11,578,964
Shanxi Yashili Dairy Co., Ltd. (山西雅士利乳業有限公司)	2,836,791	38,802,490
Shanghai Nutri Go Food Co. Ltd. (上海起跑營養食品有限公司)	111,670	521,673
Nutricia Early Life Nutrition (Shanghai) Co., Ltd. (紐迪希亞生命早期營養品管理(上海)有限公司)	1,200	4,200
	77,575,127	375,491,404
Other receivables		
Yashili International Baby Nourishment Co., Ltd. (雅士利國際嬰幼兒營養品有限公司)	21,132,749	7,449,762
Newou Hong Kong International Co., Limited (新歐香港國際有限公司)	—	2,708,545
Mengniu Oushi Nutrition Food Co., Ltd. (蒙牛歐世營養食品有限公司)	—	3,172
	21,132,749	10,161,479

	2021	2020
Accounts payable		
Newou Hong Kong International Co., Limited (新歐香港國際有限公司)	115,991,196	434,965,969
Hangzhou COFCO-MC Packaging Co., Ltd. (杭州中糧美特容器有限公司)	2,750,963	3,749,077
Tianjin Tongrui Supply Chain Co., Ltd. (天津通瑞供應鏈有限公司)	1,880,820	—
Yashili (Inner Mongolia) Nutrition Co., Ltd. (內蒙古雅士利營養食品有限公司)	111,787	—
Mengniu Oushi Nutrition Food Co., Ltd. (蒙牛歐世營養食品有限公司)	—	39,360
Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. (內蒙古歐世蒙牛乳製品有限責任公司)	—	32,236
	120,734,766	438,786,642
Other payables		
Yashili International Baby Nourishment Co., Ltd. (雅士利國際嬰幼兒營養品有限公司)	100,000,000	—
Yashili Dairy (Maanshan) Trading Limited (雅士利乳業(馬鞍山)銷售有限公司)	80,000,000	100,000,000
	180,000,000	100,000,000

	2021	2020
Currency funds at related parties	21,131,404	7,449,762

Except other payables to Yashili Dairy (Maanshan) Trading Limited and Yashili International Baby Nourishment Co., Ltd. as well as other receivables from Yashili International Baby Nourishment Co., Ltd., amounts due from and to related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

IX. Events after the balance sheet date

As at the date of approval of these financial statements, there are no post balance sheet events requiring disclosure.

X. Approval of the financial statements

The financial statements were approved by the board of directors on 10 June 2022.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following unaudited pro forma financial information of the Group excluding Dumex China Target Business (as defined in the circular of the Company dated July 29, 2022) (the "**Circular**") (the "**Remaining Group**") is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited to illustrate the effect of the proposed disposal of the Dumex China Target Business on the consolidated net assets of the Group as at December 31, 2021 as if the disposal of the Dumex China Target Business (the "**Dumex China Disposal**") had taken place on December 31, 2021.

The pro forma financial information has been prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purpose only. Accordingly, as a result of the nature of the pro forma financial information, it may not give a true picture of the actual financial position of the Remaining Group that would have been attained had the Dumex China Disposal actually occurred on the date indicated herein. Furthermore, the pro forma financial information does not purport to predict the Remaining Group's future financial position.

The unaudited pro forma statement of adjusted consolidated net assets of the Remaining Group has been prepared based on the consolidated statement of financial position of the Group at December 31, 2021, as extracted from the annual report of the Company for the year ended December 31, 2021 and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Dumex China Disposal had been completed on December 31, 2021 ("**Unaudited Pro Forma Financial Information**").

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the annual report of the Company for the year ended December 31, 2021 and other financial information included elsewhere in the Circular.

B. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET ASSETS OF THE REMAINING GROUP

	The Group as at December 31, 2021 (Audited)	Pro forma adjustments					Pro forma of the Remaining Group as at December 31, 2021 (Unaudited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g=a+d+e+f*
Net assets	5,528,059	(126,644)	(343,356)	(470,000)	883,000	(10,000)	5,931,059

C. NOTES TO THE PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

(1) The financial information of the Group as at December 31, 2021 was extracted from the audited consolidated financial statements included in the annual report of the Company for the year ended December 31, 2021.

(2) The adjustment represents the exclusion of net assets of the Dumex China Target Business as at December 31, 2021, assuming the Dumex China Disposal had taken place on December 31, 2021.

Pursuant to the Dumex China SPA entered into by Yashili Guangdong and Danone APAC in relation to Yashili Guangdong's disposal of 100% equity interest in Dumex Baby Food Co., Ltd. ("**Dumex China**") to Danone APAC, Dumex China should complete certain customary closing accounts adjustments of the business of Dumex China prior to the completion date of Dumex China Disposal and the business scope of Dumex China will be adjusted to only include the Dumex China Target Business. The total consideration for the Dumex China Disposal is RMB870 million on a cash free and debt free basis (subject to the customary closing accounts adjustments).

The carrying amounts of the net assets of the Dumex China Target Business is derived from a reconciliation included in the Dumex China SPA, which has been prepared based on the audited financial statements for the year ended December 31, 2021 of Dumex China and has taken into account the customary closing adjustments. A summary of the reconciliation of the net assets of the Dumex China Target Business is set out below.

	Dumex China as at December 31, 2021 (Audited)	Customary closing accounts adjustments included in the Dumex China SPA		Dumex China Target Business as at December 31, 2021 (Unaudited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		Note (i)	*Note (ii)*	
Net assets	(10,966)	(100)	137,710	126,644

Notes:

(i) Elimination of unrealized profit or loss for intra-group transactions with other entities within the Group.

(ii) Additional capital injection of approximately RMB137 million provided by the Company to Dumex China, of which approximately RMB129 million is related to the settlement of intra-group payables by the Yashili Trade Business to other entities of the Group as a result of the split-off of the Yashili Trade Business by way of capitalization and approximately RMB8 million is the balancing figure to meet the agreed minimum cash and bank balance level to be maintained by Dumex China at completion of the Dumex China Disposal of RMB13 million.

(iii) No adjustment on the net asset value of the Dumex China Target Business is required for ALL IN ONE, DIAMOR and Dumex Goat on the ground that these brands are already owned by Dumex China and will form part of the Dumex China Target Business. Dumex China will acquire from other subsidiaries of the Company the assets and relevant liabilities in relation to the production and distribution of ALL IN ONE products and the distribution of DIAMOR infant milk formula products and Dumex Goat infant milk formula products. The net amount of these assets and liabilities is approximately RMB2 million, which will be settled by existing cash of Dumex China. Therefore, no adjustment on the net asset value of the Dumex China Target Business is required for ALL IN ONE, DIAMOR and Dumex Goat.

(iv) No adjustment on the net asset value of the Dumex China Target Business is required for the Retained Brands because the Retained Brands have nil value at the book of Dumex China as of December 31, 2021.

(3) The adjustment represents that the derecognition of allocated goodwill of RMB189 million to the Dumex China Target Business, which was allocated in accordance with applicable accounting principles, and unamortised fair value adjustments of the identifiable assets of RMB154 million arising from the acquisition of Dumex China by the Company in 2016.

(4) The adjustment represents that the collection of the cash consideration of RMB883 million, representing the sum of (i) the consideration of RMB870 million (on a cash free and debt free basis), and (ii) the minimum cash and bank balances of RMB13 million at closing as required in the Dumex China SPA.

Assuming the Chilled Business JVs Acquisition and the Dumex China Disposal had completed on December 31, 2021, Inner Mongolia Mengniu would derecognise the financial liability arising from a put option granted to Danone Shanghai for the sale of the Chilled Business Sale Shares of RMB1,204 million and record an investment in the Company of RMB396 million, which represents the difference between the final consideration for the Chilled Business Sale Shares of RMB1,600 million and the book value of the relevant interest in the Chilled Business of RMB1,204 million. The Company would record a capital contribution from Inner Mongolia Mengniu of RMB396 million in its statement of change in equity directly.

(5) The amount represents the estimated transaction costs and other legal and professional fee of RMB10 million expected to be incurred for the Dumex China Disposal.

(6) No adjustment has been made to the pro forma financial information to reflect any trading results or other transactions of the Remaining Group entered into subsequent to December 31, 2021.

2. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose of inclusion in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF YASHILI INTERNATIONAL HOLDINGS LTD

We have completed our assurance engagement to report on the compilation of pro forma financial information of Yashili International Holdings Ltd (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net assets excluding the Dumex China Target Business (as defined in the circular of the Company dated July 29, 2022) (the "**Circular**") (the "**Remaining Group**") as at December 31, 2021 and related notes as set out on pages VII-1 to VII-4 of the Circular. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages VII-1 to VII-4 of the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed disposal of Dumex China Target Business (the "**Dumex China Disposal**") on the adjusted consolidated net assets of the Group as at December 31, 2021 as if the Dumex China Disposal had taken place at December 31, 2021. As part of this process, information about the Group's financial position as at December 31, 2021 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in the Circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at December 31, 2021 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
July 29, 2022

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 Group. 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.

All Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

Information relating to the Mengniu Group (other than the Group), the Offeror or any of their associates or parties acting in concert with it set out in this circular were primarily extracted from the information in the Joint Announcement. The Directors jointly and severally accept responsibility for the correctness and fairness of reproduction or presentation of such information.

2. DISCLOSURE OF DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As of the Latest Practicable Date, the Directors and the chief executive of the Company 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 SFO, which have been notified to the Company and 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 executive 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:

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[(2)]
Mr. Yan Zhiyuan	Beneficial owner	15,924,640[(L)(1)]	0.34%

Notes:

(1) Grant of 25,427,020 phantom shares by the Company to Mr. Yan Zhiyuan, in which 7,623,780 phantom shares were realized and 1,878,600 phantom shares were canceled, pursuant to the phantom share incentive scheme adopted by the Company on July 15, 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 by virtue of holding the phantom shares.

(2) The calculation is based on the number of shares as a percentage of the total number of issued Shares of the Company as at the Latest Practicable Date (being 4,745,560,296 Shares).

(L) The interest is held in long position.

Directors' interests in the shares of Mengniu (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	21,186,046	0.54%
Mr. Zhang Ping	Beneficial owner	3,090,357	0.08%
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 as at the Latest Practicable Date (being 3,955,106,662 shares).

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

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or the chief executive 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 the chief executive 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 the chief executive 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(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(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%

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

Notes:

(1) As at the Latest Practicable Date, Mengniu held 99.95% interest in Mengniu International, which directly held the relevant 2,422,117,713 Shares.

(2) On May 6, 2022, Mengniu and Danone Nutrition entered into the 25% Yashili Acquisition SPA, pursuant to which Danone Nutrition has conditionally agreed to sell, and Mengniu has conditionally agreed to acquire (or procure the acquisition of), the Yashili Sale Shares, being 1,186,390,074 Shares, subject to the terms and conditions therein.

(3) As at the Latest Practicable Date, Danone 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 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. MATERIAL CONTRACTS

Save for the Dumex China SPA, the Company has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date.

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

As of the Latest Practicable Date, none of the Directors or the experts described in the paragraph headed "9. EXPERTS AND CONSENT" in this Appendix had any direct or indirect interest in any assets which had been, since December 31, 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, save for the Proposed Transactions and the Privatization Proposal, none of the Directors was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping holds offices in the Mengniu Group. Mengniu 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) holds offices in the Danone Group. 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.

8. 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.

9. EXPERTS AND CONSENT

The following is the respective name and qualification of the experts who have 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
KPMG	Certified Public Accountants
RHL Appraisal Limited	Independent qualified valuer
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent valuer
Ernst & Young Hua Ming LLP	PRC Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter(s), report(s) and/or opinion as set out in this circular and references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, each of the above experts:

(1) had no direct or indirect shareholdings in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and

(2) had no interests, direct or indirect, in any assets which had been, since December 31, 2021 being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to 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	Executive director and chief financial officer
	Mengniu International	Director
Jeffrey, Minfang Lu	Mengniu	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 the Danone Group that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

11. MISCELLANEOUS INFORMATION

(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 office 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.

12. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange (**http://www.hkexnews.hk**), the website of the Securities and Futures Commission (**http://www.sfc.hk/**) and the website of the Company (**http://www.yashili.hk**) for the period of not less than 14 days from the date of this circular until the date of the EGM:

(a) the Chilled Business SPA;

(b) the Dumex China SPA;

(c) the 25% Yashili Acquisition SPA;

(d) the letter from the Board in respect of the Proposed Transactions, the text of which is set out in the section headed "LETTER FROM THE BOARD" of this circular;

(e) the letter from the Independent Board Committee to the Independent Shareholders in respect of the Proposed Transactions, the text of which is set out in the section headed "LETTER FROM THE INDEPENDENT BOARD COMMITTEE" of this circular;

(f) the letter from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Transactions, the text of which is set out in the section headed "LETTER FROM THE INDEPENDENT FINANCIAL ADVISER" of this circular;

(g) the Chilled Business JVs Valuation Report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited and the report thereon from the Independent Financial Adviser, the text of which is set out in Appendix II to this circular;

(h) the property valuation report prepared by RHL Appraisal Limited, the text of which is set out in Appendix III to this circular;

(i) the letter/report on the Profit Warning Announcement from KPMG and Somerley, the text of which is set out in Appendix IV to this circular;

(j) the letter/report on the Dumex China Adjusted Profits Information from KPMG and Somerley, the text of which is set out in Appendix V to this circular;

(k) the audited financial information of Dumex China, the text of which is set out in Appendix VI to this circular;

(l) the report from KPMG on the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix VII to this circular;

(m) the written consents of the experts as referred to in the paragraph headed "9. EXPERTS AND CONSENT" in this Appendix; and

(n) 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)

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 Tuesday, August 16, 2022 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company.

Unless otherwise indicated, expressions used herein shall have the same meaning as those defined in the circular of the Company dated July 29, 2022 (the "**Circular**").

ORDINARY RESOLUTIONS

1. "**THAT** the Chilled Business JVs Acquisition (which constitutes a special deal) pursuant to the Chilled Business SPA, the transactions contemplated thereunder, and all actions taken or to be taken by the Company and/or its subsidiaries pursuant to or incidental to the Chilled Business SPA, be and are hereby approved; and 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 authorized 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, or to implement or give effect to, the Chilled Business SPA and the transactions contemplated thereunder, including, without limitation, the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements."

2. "**THAT** the Dumex China Disposal (which constitutes a major and connected transaction of the Company under the Listing Rules and a special deal) pursuant to the Dumex China SPA, the transactions contemplated thereunder, and all actions taken or to be taken by the Company and/or its subsidiaries pursuant to or incidental to the Dumex China SPA, be and are hereby approved; and 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 authorized 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, or to implement or give effect to, the Dumex China SPA and the transactions contemplated thereunder, including, without limitation, the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements."

3. "**THAT** the 25% Yashili Acquisition (which constitutes a special deal) pursuant to the 25% Yashili Acquisition SPA, the transactions contemplated thereunder, and all actions taken or to be taken by the Company and/or its subsidiaries pursuant to or incidental to the 25% Yashili Acquisition SPA, be and are hereby approved; and 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 authorized 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, or to implement or give effect to, the 25% Yashili Acquisition SPA and 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
Yan Zhiyuan
Chief Executive Officer and
Executive Director

Hong Kong, July 29, 2022

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 Takeovers Code 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 and the Takeovers Code.

(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 scheduled for the holding of the EGM or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(iv) The register of members of the Company will be closed from Thursday, August 11, 2022 to Tuesday, August 16, 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 Wednesday, August 10, 2022. The record date for determining eligibility to attend and vote at the EGM will be August 16, 2022.

(v) A form of proxy for use at the EGM is enclosed herewith. Such form is also published on the website of the Stock Exchange at **www.hkexnews.hk** and on the Company's website at **www.yashili.hk**.

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.