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

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優然牧業
YOURAN DAIRY

China Youran Dairy Group Limited

中國優然牧業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9858)

**PROPOSALS FOR GENERAL MANDATES TO ISSUE SHARES AND
REPURCHASE SHARES;
PROPOSED RE-ELECTION OF RETIRING DIRECTORS;
PROPOSED RE-APPOINTMENT OF AUDITORS;
PROPOSED DECLARATION OF FINAL DIVIDEND;
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN
RELATION TO THE RAW MILK PURCHASE
AND SALE FRAMEWORK AGREEMENT;
RENEWAL OF DISCLOSEABLE AND CONTINUING CONNECTED
TRANSACTIONS IN RELATION TO THE FINANCIAL SERVICES
FRAMEWORK AGREEMENT;
AND
NOTICE OF AGM**

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

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
溢博資本有限公司

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

A letter from the Board is set out on pages 5 to 21 of this circular. A letter from the Independent Board Committee is set out on pages 22 to 23 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 45 of this circular.

A notice convening the AGM of China Youran Dairy Group Limited to be held at No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, China on Wednesday, May 17, 2023, at 10:00 a.m. is set out on pages 56 to 62 of this circular. A form of proxy for use at the AGM is also enclosed. Such form of proxy is also set out on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yourandairy.com). Whether or not you are able to attend the AGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the AGM or any adjournment thereof if they so wish and, in such event, the form of proxy shall be deemed to be revoked.

April 25, 2023

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DEFINITIONS

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

“AGM”	the annual general meeting of the Company to be held at No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, China at 10:00 a.m. on Wednesday, May 17, 2023, or any adjournment thereof and notice of which is set out on pages 56 to 62 of this circular
“Articles of Association”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBIRC”	The China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“China” or “PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“Company”	China Youran Dairy Group Limited (中國優然牧業集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on August 21, 2020, whose Shares are listed on the Main Board of the Stock Exchange (stock code: 9858)
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meanings ascribed to it under the Listing Rules
“Convertible Note(s)”	the convertible notes issued by the Company to each of the noteholders, particulars of which are set out in the Prospectus, collectively the “Convertible Notes”
“Director(s)”	the director(s) of the Company
“Existing Financial Services Framework Agreement”	the financial services framework agreement entered into between Yili Finance Company and the Company on September 28, 2021 in respect of the provision of a range of financial services by Yili Finance Company to the Group

DEFINITIONS

“Existing Raw Milk Purchase and Sale Framework Agreement”	the raw milk purchase and sale framework agreement entered into between Yili and the Company on May 17, 2021 in respect of the provision of long-term supply of raw milk by the Group to Yili Group
“Financial Services Framework Agreement”	the financial services framework agreement renewed between Yili Finance Company and the Company on April 24, 2023 in respect of the provision of a range of financial services by Yili Finance Company to the Group
“2021”	the year ended December 31, 2021
“2022”	the year ended December 31, 2022
“General Mandate”	a general mandate proposed to be granted to the Directors at the AGM to allot, issue and/or deal with Shares not exceeding 20% of the total number of issued Shares as at the date of passing of the relevant resolution granting the General Mandate
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Ms. Xie Xiaoyan, Mr. Yao Feng, Mr. Shen Jianzhong, which has been formed to advise the Independent Shareholders on the Raw Milk Purchase and Sale Framework Agreement, the Financial Services Framework Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder

DEFINITIONS

“Independent Shareholders”	Shareholders who have no material interest in, and are not required to abstain from voting at the AGM to approve, the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder
“Inner Mongolia Youran”	Inner Mongolia Youran Dairy Co., Ltd. (內蒙古優然牧業有限責任公司), a company established under the laws of the PRC on August 1, 2007 and a wholly-owned subsidiary of the Company
“Jingang”	Hong Kong Jingang Trade Holding Co., Limited, a company incorporated in Hong Kong, and a wholly-owned subsidiary of Yili
“Latest Practicable Date”	April 17, 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Date”	June 18, 2021, being the date when the Shares were initially listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“PBOC”	The People’s Bank of China (中國人民銀行)
“Prospectus”	the prospectus of the Company dated June 7, 2021
“Raw Milk Purchase and Sale Framework Agreement”	the raw milk purchase and sale framework agreement renewed between Yili and the Company on April 24, 2023 in respect of the provision of long-term supply of raw milk by the Group to Yili Group
“Repurchase Mandate”	a general mandate proposed to be granted to the Directors at the AGM to repurchase Shares not exceeding 10% of the total number of the issued Shares as at the date of passing of the relevant resolution granting the Repurchase Mandate
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time

DEFINITIONS

“Share(s)”	ordinary share(s) of par value US\$0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“SKX”	Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd. (內蒙古賽科星繁育生物技术(集團)股份有限公司), a company established under the laws of the PRC and whose shares are listed on the National Equities Exchange and Quotations (stock code: 834179) which has been our subsidiary since January 8, 2020
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it in the Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission of Hong Kong (as amended from time to time)
“US\$”	US dollars, the lawful currency of the United States of America
“Yili”	Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a company established under the laws of the PRC in June 1993 and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of the Company’s controlling shareholders
“Yili Finance Company”	Yili Finance Company Limited* (伊利財務有限公司), a company established under the laws of the PRC and a wholly-owned subsidiary of Yili
“Yili Group”	Yili, its subsidiaries and associates
“%”	per cent.

LETTER FROM THE BOARD



優然牧業
YOURAN DAIRY

China Youran Dairy Group Limited

中國優然牧業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 9858)

Executive Directors:

Mr. Yuan Jun (*President*)
Mr. Dong Jiping

Non-executive Directors:

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

Independent non-executive Directors:

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

Registered office:

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

*Headquarter and principal place of
business in the PRC:*

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

*Principal place of business in
Hong Kong:*

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

April 25, 2023

To the Shareholders

Dear Sir or Madam,

**PROPOSALS FOR GENERAL MANDATES TO ISSUE SHARES
AND REPURCHASE SHARES;
PROPOSED RE-ELECTION OF RETIRING DIRECTORS;
PROPOSED RE-APPOINTMENT OF AUDITORS;
PROPOSED DECLARATION OF FINAL DIVIDEND;
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION
TO THE RAW MILK PURCHASE AND
SALE FRAMEWORK AGREEMENT;
RENEWAL OF DISCLOSEABLE AND CONTINUING CONNECTED
TRANSACTIONS IN RELATION TO THE FINANCIAL SERVICES
FRAMEWORK AGREEMENT;
AND
NOTICE OF AGM**

LETTER FROM THE BOARD

1. INTRODUCTION

The purpose of this circular is to give you notice of the AGM and further information on the following ordinary resolutions to be put forward at the AGM: (a) the proposed grant of the general mandates to issue Shares and repurchase Shares; (b) the proposed re-election of retiring Directors; (c) the proposed re-appointment of auditors of the Company and the proposed authorization for the Board to fix their remuneration for the year ending December 31, 2023; (d) the proposed declaration of final dividend for the year ended December 31, 2022; (e) the renewal of the Raw Milk Purchase and Sale Framework Agreement and the transactions contemplated thereunder; and (f) the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder.

2. GENERAL MANDATE TO ISSUE SHARES

At the AGM, an ordinary resolution numbered 5(a) as set out in the notice of AGM will be proposed to grant a general mandate to the Directors to exercise the powers of the Company to allot, issue and deal with the Shares up to 20% of the aggregate number of issued Shares of the Company as at the date of passing of the resolution approving the mandate to issue Shares. As at the Latest Practicable Date, the total number of issued Shares was 3,795,404,000. Subject to the passing of the ordinary resolution numbered 5(a) and assuming that the number of issued Shares remains unchanged following the Latest Practicable Date and prior to the date of the AGM, the Directors will be authorized to issue a maximum of 759,080,800 Shares under the General Mandate. An ordinary resolution numbered 5(c) as set out in the notice of the AGM will also be proposed at the AGM authorizing the number of Shares repurchased by the Directors under the proposed Repurchase Mandate to be added to the aggregate number of Shares to be allotted or agreed conditionally or unconditionally to be allotted under the proposed General Mandate.

3. REPURCHASE MANDATE TO REPURCHASE SHARES

An ordinary resolution numbered 5(b) as set out in the notice of the AGM will be proposed at the AGM to approve the grant of the Repurchase Mandate to the Directors to exercise the powers of the Company to repurchase Shares of an aggregate amount not exceeding 10% of the total number of issued Shares of the Company as at the date of passing of the resolution approving the Repurchase Mandate.

An explanatory statement required by the Listing Rules to be sent to the Shareholders in connection with the proposed Repurchase Mandate is set out in Appendix II to this circular.

4. RE-ELECTION OF RETIRING DIRECTORS

Pursuant to the Article 112 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first annual general meeting of the Company after his

LETTER FROM THE BOARD

appointment and be subject to re-election at such meeting. Accordingly, Mr. Yuan Jun, who was appointed as an executive Director and the president of the Company on July 22, 2022 will retire from office at the AGM and being eligible, has offered himself for re-election as an executive Director at the AGM.

Pursuant to the Article 108(a) of the Articles of Association, at each annual general meeting, one-third of the Directors (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation and be eligible for re-election and re-appointment provided that every Director shall be subject to retirement by rotation at least once every three years. Accordingly, at the AGM, Mr. Zhang Yujun, Mr. Xu, Zhan Kevin and Ms. Xie Xiaoyan shall retire and be eligible to offer themselves for re-election.

On March 30, 2023, the nomination committee of the Company reviewed the structure, size and composition of the Board and has considered the Board diversity from a number of aspects, including but not limited to gender, age, race, language, cultural and educational background, industry and professional experience, and skills and knowledge. The nomination committee and the Board have taken into account the profiles and the contributions of the above retiring Directors who have offered themselves for re-election at the AGM. The Company has also received the independence confirmation from Ms. Xie Xiaoyan pursuant to Rule 3.13 of the Listing Rules and was satisfied with her independence.

In view of the above, the nomination committee and the Board believes that the above independent non-executive Director is independent and the education, background and experience of each of the above retiring Directors will allow each of them to provide valuable insights and contribute to the diversity of the Board and therefore should be re-elected.

Details of the above retiring Directors who are subject to re-election at the AGM are set out in Appendix I to this circular in accordance with the relevant requirements of the Listing Rules.

5. RE-APPOINTMENT OF AUDITORS

Deloitte Touche Tohmatsu will retire as the auditors of the Company at the AGM and, being eligible, offer themselves for re-appointment.

The Board, upon the recommendation of the audit committee of the Company, proposed to re-appoint Deloitte Touche Tohmatsu as the auditors of the Company and to hold office until the conclusion of the next annual general meeting of the Company and to authorize the Board to fix its remuneration for the year ending December 31, 2023.

LETTER FROM THE BOARD

6. FINAL DIVIDEND

The Board has recommended a final dividend of RMB0.022 per Share to be payable around Thursday, June 15, 2023 to the Shareholders whose names appear on the register of members of the Company on Thursday, May 25, 2023, subject to approval by the Shareholders at the AGM. The final dividend shall be declared in RMB and paid in HK\$. The amount payable in HK\$ will be converted from RMB to HK\$ at the average exchange rate of HK\$ against RMB announced by the People's Bank of China on May 17, 2023 being the date of the AGM.

7. RENEWAL OF THE RAW MILK PURCHASE AND SALE FRAMEWORK AGREEMENT

On May 17, 2021, the Company entered into the Existing Raw Milk Purchase and Sale Framework Agreement with Yili in respect of the provision of long-term supply of raw milk by the Group to Yili Group, the term of which is three years commencing from the Listing Date. Further details of the Existing Raw Milk Purchase and Sale Framework Agreement are set out in the Prospectus. The Company intends to renew the Raw Milk Purchase and Sale Framework Agreement with Yili as the Existing Raw Milk Purchase and Sale Framework Agreement will expire in December 31, 2023 and the Group expects to carry on the transactions contemplated thereunder upon its expiry.

The principal terms of the Raw Milk Purchase and Sale Framework Agreement are set out below:

Date

April 24, 2023

Parties

- (i) the Company; and
- (ii) Yili.

Term

Unless terminated earlier in accordance with the terms of the Raw Milk Purchase and Sale Framework Agreement, the Raw Milk Purchase and Sale Framework Agreement shall be effective from January 1, 2024 to December 31, 2026.

Scope of services

- (i) Yili Group agreed to purchase raw milk that meets the relevant national standards and the quality requirements of Yili Group from the Group; and

LETTER FROM THE BOARD

- (ii) the Group agreed to sell no less than 70% of its annual raw milk production to Yili Group on the terms and subject to the conditions of the Raw Milk Purchase and Sale Framework Agreement. Yili also agreed to buy all of the remaining 30% of the Group's raw milk production volume so long as the Group is willing and able to supply raw milk to Yili.

Pricing guidelines

The minimum price and terms of raw milk to be supplied by the Group to Yili Group shall not be lower than the price of and comparable to the terms of raw milk to be supplied to Yili by dairy farms of a similar scale located in the same or nearby geographical location as the Group, or in the absence of such dairy farms, by similar dairy farms in other regions and/or shall be negotiated on an arm's length basis between both parties based on the type, quality, purchase volume and historical transaction price of raw milk. The purchase price of raw milk shall be determined and adjusted based on market conditions and seasonal factors (for example, the quality grade of raw milk may vary due to the weather conditions in different seasons). As agreed between both parties, the final purchase price of raw milk shall vary depending on the quality grade. In particular, the purchase price shall be no lower than the market average price with adjustments based on the quality grade of the milk. The market reference price refers to the average raw milk price, excluding the delivery fee and quality adjustments, of the preceding month of the top five dairy farms (the "**Top Five Dairy Farms**") in the same region as the Group's dairy farms which supply raw milk to Yili Group (the "**Base Milk Prices**") on a month-to-month basis in terms of the quantity of raw milk supply. The quality grade is determined with reference to physical and chemical specifications, including among others, the fat and protein content, color, taste, smell, texture, impurity level, bacteria content, and somatic cell count. In addition, the quality of raw milk supplied by the Group must satisfy the standards set by the government and the requirements of Yili Group. Based on the above, the Board considers the pricing guidelines under the Raw Milk Purchase and Sale Framework Agreement to be fair and reasonable.

Historical amounts

The transaction amounts under the Existing Raw Milk Purchase and Sale Framework Agreement for the two years ended December 31, 2021 and 2022 amounted to approximately RMB8,756.7 million and RMB10,485.1 million, respectively. The annual caps under the Existing Raw Milk Purchase and Sale Framework Agreement for the two years ended December 31, 2021 and 2022 are RMB10,100 million and RMB12,500 million, respectively, representing approximately 86.7% and 83.9% of the total annual caps in 2021 and 2022, respectively.

LETTER FROM THE BOARD

Proposed annual caps and basis of determination

The annual caps under the Raw Milk Purchase and Sale Framework Agreement for the three years ending December 31, 2024, 2025 and 2026 are as follows:

	Year ending December 31,		
2024	2025	2026	
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	
19,900	22,400	24,000	

In determining the aforementioned annual caps, the Directors considered the following:

- (i) the historical and prevailing market price for raw milk, and potential fluctuations in the market price for raw milk in the future. In particular, the Board noted that the average unit price of raw milk increased slightly in 2021 and decreased slightly in 2022 due to the decline in demand for dairy products as affected by the pandemic. As the impact of the pandemic continues to ease in 2023, the Board expects that the unit price of raw milk would regain its growth momentum, and the average unit price of raw milk would increase moderately from 2023 to 2026;
- (ii) the historical transaction volume of raw milk purchased by Yili Group from the Group during the two years ended December 31, 2022. In particular, the historical transaction amounts of raw milk sold by the Group to Yili Group for the two years ended December 31, 2022 amounted to approximately 91.8% and 96.6% of the Group's total revenue from raw milk business for the corresponding year. Such large amount of sales of raw milk to Yili Group was primarily attributable to the deepened and long-standing collaboration between the Group and Yili Group, which is expected to continue for the three years ending December 31, 2026;
- (iii) the historical average milk yield per milkable cow (excluding Jerseys) of the Group for the years ended December 31, 2021 and 2022 which amounted to 10.9 tons and 11.4 tons, respectively. Specifically, the Group has been applying genetic testing and advanced breeding technologies to improve the breed of the Group's milkable cow, over the past years, which promoted a steady increase of average milk yield with the expansion of the proportion of high-yield dairy cows and its strict and excellent management, etc., thus it is expected that the average milk yield per milkable cow of the Group will see a steady growth and hence it is expected that the raw milk yield will continue to grow steadily in the coming years;
- (iv) the anticipated significant growth in the production of raw milk of the Group for the three years ending December 31, 2024, 2025 and 2026, having taken into account that the Group's newly constructed dairy farms will be put into production in succession, and the herd size of milkable cows will continue to grow steadily; and
- (v) the possible sustained growth of the PRC dairy industry in the future.

LETTER FROM THE BOARD

Based on the above, the estimated revenue generated from the sales to Yili Group are expected to be RMB17,300 million, RMB19,500 million and RMB20,900 million, representing approximately 87% of the proposed annual cap of each of the three years ending December 31, 2026, respectively. In addition, the determination of the aforementioned annual caps included buffer to cater for any unexpected increase in sales volume or price of raw milk to Yili Group. Specifically, the sales volume and price of raw milk may be impacted by the price of the feeds. Alfalfa and soybean meal are important sources of nutrition for dairy cows and are widely used by scaled dairy farms. The prices of alfalfa and soybean meal fluctuated significantly during 2021 and 2022. As disclosed by the Ministry of Agriculture and Rural Affairs of the PRC on December 21, 2022, the average price of soybean meal in China was RMB5.11/kg, representing a year-on-year growth of approximately 35.9%. According to the statistics of the General Administration of Customs of the PRC, in December 2022, the average CIF (i.e. cost, insurance and freight) price of imported alfalfa in China was US\$584.9/ton, representing a growth of approximately 38.8% as compared to that of US\$421.5/ton in December 2021. In light of the potential high fluctuation in cost of feeds for the Group's raw milk business and having considered the factors above, the Board is of the view that the annual caps of the Raw Milk Purchase and Sale Framework Agreement (including the aforementioned buffer) are fair and reasonable.

Reasons for and benefits of entering into the Raw Milk Purchase and Sale Framework Agreement

This purchase and sale arrangement is an indication of Yili's reliance on the Group's continuous supply of premium raw milk, which ensures its own operation and future growth with high quality and stable source of raw milk. On the other hand, Yili is one of the dominant dairy conglomerates in the PRC and a long-term purchase and sale arrangement with Yili ensures a stable demand of the Group's raw milk, which provides a stable and sustainable guarantee to the Group's business growth and future strategic and operational planning.

The Board is of the view that despite the Group's reliance on Yili Group, it is in line with industry practice and can be properly managed for the following reasons:

- (1) *Market concentration.* The PRC dairy retail market is dominated by a handful of conglomerates, who are major customers of raw milk suppliers (including the Company) in the PRC. Accordingly, it is the industry norm in the PRC for a raw milk supplier such as the Group to sell a majority of its raw milk to a single customer. In addition, due to the high entry barriers of the dairy retail industry and the market dominance of a few conglomerates such as Yili Group in the dairy retail market in the PRC, it is extremely hard for the Company to diversify or reduce its reliance on its major customer.
- (2) *Mutual reliance.* The Group is a leading integrated provider of products and services in the upstream dairy industry, and Yili Group, the world's fifth largest and fast-growing dairy manufacturer. The Group and Yili Group are complementary to each other and our business relationship is mutually beneficial. It is important for the Group to maintain a stable demand for its products as it is important for Yili

LETTER FROM THE BOARD

Group to secure a stable supply of high quality raw milk. As such, the relationship between Yili Group and the Group under the Raw Milk Purchase and Sale Framework Agreement is mutually dependent and stable, and not subject to any material adverse changes in the foreseeable future.

- (3) *No unilateral termination.* Pursuant to the terms of the Raw Milk Purchase and Sale Framework Agreement, the agreement may only be amended or terminated with both parties' consent and cannot be amended or terminated unilaterally by Yili Group. Accordingly, it is unlikely for the business relationship between the Group and Yili Group to terminate or materially or adversely change.

8. RENEWAL OF THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

On September 28, 2021, the Company entered into the Existing Financial Services Framework Agreement with Yili Finance Company in respect of the provision of a range of financial services by Yili Finance Company to the Group, the term of which is from September 28, 2021 to December 31, 2023. Further details of the Existing Financial Services Framework Agreement are set out in the announcement of the Company dated September 28, 2021. The Company intends to renew the Financial Services Framework Agreement with Yili Finance Company as the Existing Financial Services Framework Agreement will expire in December 31, 2023 and the Group expects to carry on the transactions contemplated thereunder upon its expiry.

The principal terms of the Financial Services Framework Agreement are set out below:

Date

April 24, 2023

Parties

- (i) the Company; and
- (ii) Yili Finance Company.

Term

Unless terminated earlier in accordance with the terms of the Financial Services Framework Agreement, the Financial Services Framework Agreement shall be effective from January 1, 2024 to December 31, 2026.

LETTER FROM THE BOARD

Scope of services

Yili Finance Company shall provide the following financial services to the Group:

- (i) deposit services, under which Yili Finance Company shall accept deposits from the Group of up to a maximum daily balance of deposits (including the interest accrued thereon) not exceeding RMB1,500 million (the “**Deposit Services**”);
- (ii) settlement services, including collection, payment or internal settlement services and other settlement services approved by the CBIRC or other applicable regulatory authorities (the “**Settlement Services**”); and
- (iii) other financial services, including financial and financing consulting services, credit certification and related consulting and agency services, and other services approved by the CBIRC or other applicable regulatory authorities (the “**Other Financial Services**”).

Pricing guidelines

The interest rates payable by Yili Finance Company and fees payable by the Group under the Financial Services Framework Agreement shall be determined according to the following guidelines:

- (i) the interest rates payable by Yili Finance Company to the Group for the Deposit Services shall not be lower than (a) the benchmark deposit rates prescribed by the PBOC; and (b) deposit rates payable by the major commercial banks in the PRC, including, inter alia, Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, Bank of Communications and China Construction Bank, etc.;
- (ii) Yili Finance Company will provide the Settlement Services for a fee which shall not be higher than the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and
- (iii) Yili Finance Company will provide the Other Financial Services at a fee equal to the lower of (i) the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and (ii) the pricing standard prescribed by the PBOC, the CBIRC or other applicable regulatory authorities for the same type of services.

For each of the Deposit Services, the Settlement Services and the Other Financial Services, the Company will obtain quotes from no less than five of major commercial banks in the PRC for comparison and will only engage Yili Finance Company if the terms offered by Yili Finance Company are no less favorable. Given that the terms offered by Yili Finance Company shall be no less favorable than major commercial banks in the PRC, the Board considers that the pricing guidelines under the Financial Services Framework Agreement to be fair and reasonable.

LETTER FROM THE BOARD

Historical amounts

The maximum amount of the Group's daily deposit balance under the Existing Financial Services Framework Agreement for the two years ended December 31, 2021 and 2022 amounted to approximately RMB612.2 million and RMB719.6 million, respectively. The annual caps amount of the Group's daily deposit balance under the Existing Financial Services Framework Agreement is RMB750 million, representing approximately 81.6% and 95.9% of the daily balance caps in 2021 and 2022, respectively.

Proposed annual caps and basis of determination

The maximum amount of daily deposit balance (including the interest accrued thereon) under the Deposit Services for the period from January 1, 2024 to December 31, 2026 shall not exceed RMB1,500 million.

In arriving at the maximum daily balance of deposits (including the interest accrued thereon) under the Deposit Services for the period from January 1, 2024 to December 31, 2026, the Directors considered the following:

- (i) the latest cash and current assets position of the Group. In particular, the Group had (a) bank balances and cash of approximately RMB1,015.3 million and RMB936.4 million; and (b) deposits placed with a related party of approximately RMB612.2 million and RMB515.9 million as at December 31, 2021 and December 31, 2022, respectively, which in aggregate amounted to approximately RMB1,627.4 million and RMB1,452.3 million, respectively. The proposed annual caps of RMB1,500 million represent approximately 92.2% and 103.3% of the Group's bank balances and cash and deposits placed with a related party as at December 31, 2021 and December 31, 2022, respectively. The utilization rate of the annual cap of the daily deposit balance of the Deposit Services under the Existing Financial Services Framework Agreement increased from approximately 81.6% for 2021 to approximately 95.9% for 2022;
- (ii) the increasing asset and operation scale and the expected amount of cash of the Group available for deposit. Driven by the continued expansion in business size and improvement in operational efficiency by leveraging its advantages in full industry chain and the advanced management, operation, research and development capability, the Group has recorded significant increase in revenue by approximately 30.3% and 17.6% in 2021 and 2022, respectively, which is expected to strengthen the Group's cash position by generating more operating cashflows. Since the deposit interest rate offered by Yili Finance Company to the Group is similar to or more favorable than those offered by other commercial banks, the Group plans to deposit more funds in Yili Finance Company to improve fund management efficiency and earn similar or more favorable interest income. In particular, the daily operating expenses of SKX will be paid through the account maintained in Yili Finance Company from 2023, which will lead to a higher requirement of deposit balance; and

LETTER FROM THE BOARD

- (iii) the expected amount of interest income from Yili Finance Company taking into account the interest income that could otherwise be obtained by placing such deposits with other major commercial banks in the PRC. As mentioned above, the deposit interest rate offered by Yili Finance Company to the Group is similar to or more favorable than those offered by other commercial banks, and as such, the Group plans to deposit more funds in Yili Finance Company to improve fund management efficiency and earn similar or more favorable interest income.

Based on the above, the Board considers that the significant increment of the proposed annual caps under the Financial Services Framework Agreement as compared to the historical transaction and/or deposit amounts and such proposed annual caps to be fair and reasonable.

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

- (i) The rates on deposits to be offered by Yili Finance Company to the Group under the Deposit Services will be similar to or more favorable than those offered by the major commercial banks in the PRC.
- (ii) The fees for the Settlement Services and Other Financial Services to be provided by Yili Finance Company will not be higher than the fees publicly quoted by the major commercial banks in the PRC for the same type of services.
- (iii) Yili Finance Company is regulated by the PBOC and the CBIRC or other applicable regulatory authorities, and provides its services in accordance with the rules and operational requirements of these regulatory authorities.
- (iv) By depositing majority of the cash that is temporarily not in use by the Group, the Group can earn a higher interest income and thereby maximize the interest income received by the Group and maximize the Shareholders' value at the same time.
- (v) The Group is expected to benefit from Yili Finance Company's better understanding of the operation of the Group, which will facilitate more expedient and efficient services than those rendered by the major commercial banks in the PRC.
- (vi) By entering into the Financial Services Framework Agreement with Yili Finance Company, the Group will be able to centralize its control and management over its financial resources, therefore improve the utilization and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilization. Meanwhile, the financial services to be provided under the Financial Services Framework Agreement are diversified and can meet the business needs of the Group.

LETTER FROM THE BOARD

9. INTERNAL CONTROL MEASURES

The Company has adopted the following internal control measures to regulate the respective transactions to be conducted within those framework agreements with respect to the transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement and the Financial Services Framework Agreement in order to further safeguard the interests of the Shareholders:

- (i) in respect of the Raw Milk Purchase and Sale Framework Agreement, the operation management department and finance department of the Group have been reviewing the transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement on a monthly basis and issue relevant reports. In particular, the Group has been conducting monthly reviews on, among other things, the raw milk prices of the Top Five Dairy Farms and prepare the monthly price comparison reports to confirm the reasonableness and accuracy of the Base Milk Prices of the Top Five Dairy Farms as well as the comparability of the Base Milk Prices of the Top Five Dairy Farms to the Base Milk Prices of the Group;
- (ii) in respect of the Financial Services Framework Agreement, the Group would obtain quotations from the major independent third party service providers in the PRC for the same service scope it will request from Yili before it conducts business with Yili and compare the service fees with those quoted from Yili to ensure that the most favorable terms are obtained. In addition, the transactions will be reported to and approved by the head of the finance department of the Company;
- (iii) in respect of the Financial Services Framework Agreement, the Group has established a finance department, which operates without influence from Yili and Yili Finance Company. The Group has adopted a financial management system to guide and monitor its financial activities. The Group also maintains accounts with external independent banks, and does not share any bank accounts with Yili and Yili Finance Company. Yili and Yili Finance Company cannot control the use of any of the Group's bank accounts. The Group has an independent tax registration and has paid tax independently pursuant to applicable PRC laws and regulations;
- (iv) the Company's independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions conducted under the Raw Milk Purchase and Sale Framework Agreement and the Financial Services Framework Agreement. If a majority of the independent non-executive Directors reasonably consider that it would be in the Company's interests to reduce the level of transactions with Yili and/or Yili Finance Company, the Company will take appropriate steps to implement the decision of the independent non-executive Directors. Information on the transactions conducted under the Raw Milk Purchase and Sale Framework Agreement and the Financial Services Framework Agreement and the views of the independent non-executive Directors on the transactions conducted under the Raw Milk Purchase and Sale Framework Agreement, and the Financial Services Framework Agreement will be disclosed in the annual reports of the Company;

LETTER FROM THE BOARD

- (v) during its annual audit, the Company will engage its auditors to review the connected transactions to ensure that the transactions under the Raw Milk Purchase and Sale Framework Agreement, and the Financial Services Framework Agreement have been approved by the Board and conducted in accordance with the pricing policies, the terms of such agreement and the annual caps thereunder; and
- (vi) the Company will monitor the continuing connected transactions in accordance with its internal control procedures, in particular to ensure that the Company will monitor the Group's transaction amounts of raw milk with Yili Group and daily deposit balances with Yili Finance Company in a timely manner. The Group's responsible financial person shall promptly report to the Company's chief financial officer or the Board if they find that such daily balances are close to exceeding, or likely to exceed the proposed caps.

Having considered the aforesaid, the Board is of the view that appropriate and adequate procedures are in place to ensure that the transactions contemplated under the Financial Services Framework Agreement and Raw Milk Purchase and Sale Framework Agreement will be appropriately monitored and conducted on commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

10. INFORMATION ABOUT THE PARTIES

The Company and the Group

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

Yili and Yili Finance Company

Yili is a company established under the laws of the PRC in June 1993 whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of the Company's controlling shareholders and major customers. Yili is principally engaged in the processing, manufacturing and sales of various dairy products and health drinks in the PRC.

Yili Finance Company is a company established under the laws of the PRC on January 15, 2014 and is a non-bank financial institution approved by the CBIRC. It is a wholly-owned subsidiary of Yili and principally engaged in the provision of financial services in the PRC.

11. LISTING RULES IMPLICATIONS

Yili is a controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules. As Yili Finance Company is a subsidiary of Yili, Yili Finance Company is an associate of Yili and therefore also a connected person of the Company

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under the Listing Rules. Accordingly, the transactions contemplated under each of the renewal of the Raw Milk Purchase and Sale Framework Agreement, and the renewal of the Financial Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Raw Milk Purchase and Sale Framework Agreement

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Raw Milk Purchase and Sale Framework Agreement exceeds 5%, the transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Financial Services Framework Agreement

In respect of the Deposit Services under the Financial Services Framework Agreement to be renewed, as one or more of the applicable percentage ratios under the Listing Rules exceeds 5% but is less than 25%, the provision of the Deposit Services by Yili Finance Company to the Group under the Financial Services Framework Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. The Deposit Services under the Financial Services Framework Agreement to be renewed also constitutes a continuing connected transaction of the Company and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Settlement Services and the Other Financial Services to be provided by Yili Finance Company to the Group under the Financial Services Framework Agreement will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the Group to Yili Finance Company for each of the three years ending December 31, 2024, 2025 and 2026 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules. Accordingly, such transactions are fully exempt from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Both Mr. Zhang Yujun ("**Mr. Zhang**"), the Chairman and a non-executive Director, who is an assistant to the president of Yili and a general manager of the liquid milk division of Yili, and Mr. Xu Jun ("**Mr. Xu**"), a non-executive Director, who is an assistant to the president of Yili, are deemed to have a material interest in each of the renewal of the Raw Milk Purchase and Sale Framework Agreement and the renewal of the Financial Services Framework Agreement. Therefore, Mr. Zhang and Mr. Xu have abstained from voting on the Board resolutions in relation to the renewal of the Raw Milk Purchase and Sale Framework Agreement and the renewal of the Financial Services Framework Agreement. Save as disclosed above, none of the Directors had a material interest in the matters contemplated therein nor was any of them required to abstain from voting on the relevant Board resolutions approving the renewal of the Raw Milk Purchase and Sale Framework Agreement and the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

12. NOTICE OF AGM

Set out on pages 56 to 62 of this circular is the notice of the AGM at which, inter alia, ordinary resolutions will be proposed to Shareholders to consider and approve the granting of the General Mandate to issue Shares, the Repurchase Mandate to repurchase Shares, the re-election of the retiring Directors, the re-appointment of auditors of the Company, declaration of final dividend, the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder.

The register of members of the Company will be closed from Friday, May 12, 2023 to Wednesday, May 17, 2023, both days inclusive, in order to determine the eligibility of Shareholders to attend the AGM, during which period no Share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant Share certificates must be lodged with the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, May 11, 2023.

The register of members of the Company will be closed from Wednesday, May 24, 2023 to Thursday, May 25, 2023, both days inclusive, for the purpose of ascertaining Shareholders' entitlement to the final dividend. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant Share certificates must be lodged with the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, May 23, 2023.

13. FORM OF PROXY

A form of proxy is enclosed for use at the AGM. Such form of proxy is also set out on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yourandairy.com). Whether or not you intend to attend the AGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the AGM if they so wish and, in such event, the form of proxy shall be deemed to be revoked.

14. VOTING BY POLL

As at the Latest Practicable Date, Yili, through its wholly-owned subsidiaries, China Youran Dairy Holding Limited and Hongkong Jingang Trade Holding Co., Limited, was deemed to be interested in an aggregate of 1,320,800,000 Shares, representing approximately 34.80% of the total issued share capital of the Company. Accordingly, Yili is regarded as having a material interest in the renewal of the Raw Milk Purchase and Sale Framework

LETTER FROM THE BOARD

Agreement and the renewal of the Financial Services Framework Agreement and required to abstain from voting on the resolutions proposed to be passed at the AGM for approving the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder.

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

Pursuant to Rule 13.39(4) of the Listing Rules and Article 72 of the Articles of Association, any resolution put to the vote of the Shareholders at a general meeting shall be decided on a poll except where the chairman of the AGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, each of the resolutions set out in the notice of the AGM will be voted by way of a poll.

On a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorized representative, shall have one vote for every fully paid Share of which he/she is the holder. A Shareholder entitled to more than one vote needs not use all his/her votes or cast all the votes he/she uses in the same way.

15. RECOMMENDATION

The Directors consider that the proposed resolutions for the grant of the General Mandate to issue Shares, the Repurchase Mandate to repurchase Shares, the re-election of the retiring Directors, the re-appointment of auditors of the Company and declaration of final dividend are in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favor of all of the aforementioned resolutions to be proposed at the AGM.

Your attention is drawn to (i) the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder set out on pages 22 to 23 of this circular; and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder set out on pages 24 to 45 of this circular.

The Directors (including the members of the Independent Board Committee having considered the advice from the Independent Financial Adviser) consider that the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Accordingly, the Directors (including the members of the Independent Board Committee having considered the advice from the Independent Financial Adviser) recommend that the Independent Shareholders to vote in favor of the resolutions approving the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder at the AGM.

16. ADDITIONAL INFORMATION

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

Yours faithfully
By order of the Board
China Youran Dairy Group Limited
Zhang Yujun
Chairman and Non-executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the renewal of the Raw Milk Purchase and Sale Framework Agreement and the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder.



優然牧業
YOURAN DAIRY

China Youran Dairy Group Limited

中國優然牧業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9858)

April 25, 2023

To the Independent Shareholders

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN
RELATION TO THE RAW MILK PURCHASE AND
SALE FRAMEWORK AGREEMENT AND THE DISCLOSEABLE AND
CONTINUING CONNECTED TRANSACTIONS IN RELATION TO
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

We refer to the circular dated April 25, 2023 (the “**Circular**”) to the shareholders of the Company of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the Circular. The Independent Financial Adviser has been appointed to advise the Independent Shareholders and us in this regard.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of each of the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder and the advice of the Independent Financial Adviser, we are of the opinion that the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. We, therefore, recommend that you vote in favor of the resolutions to be proposed at the AGM to approve the renewal of the Raw Milk Purchase and Sale Framework Agreement, the renewal of the Financial Services Framework Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Independent Board Committee

Ms. Xie Xiaoyan

Mr. Yao Feng

Mr. Shen Jianzhong

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Rainbow Capital to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Agreements, which has been prepared for the purpose of inclusion in this circular.

Rainbow Capital (HK) Limited

April 25, 2023

To the Independent Board Committee and the Independent Shareholders

China Youran Dairy Group Limited
No. 169, Hexi Road, Saihan District
Hohhot, Inner Mongolia
China

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE RAW MILK PURCHASE AND
SALE FRAMEWORK AGREEMENT AND
DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the renewal of the Raw Milk Purchase and Sale Framework Agreement and the renewal of the Financial Services Framework Agreement (the “**Agreements**”) and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company dated April 25, 2023 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On May 17, 2021, the Company entered into the Existing Raw Milk Purchase and Sale Framework Agreement in respect of the provision of long-term supply of raw milk to Yili Group. To renew the Existing Raw Milk Purchase and Sale Framework Agreement, on April 24, 2023, the Company and Yili entered into the Raw Milk Purchase and Sale Framework Agreement to renew the term for the three years ending December 31, 2026.

On September 28, 2021, the Company entered into the Existing Financial Services Framework Agreement in respect of the provision of a range of financial services by Yili Finance Company to the Group. To renew the Existing Financial Services Framework Agreement, on April 24, 2023, the Company and Yili Finance Company entered into the Financial Services Framework Agreement to renew the term for the three years ending December 31, 2026.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Yili is a controlling Shareholder and therefore a connected person of the Company under the Listing Rules. As Yili Finance Company is a subsidiary of Yili, Yili Finance Company is an associate of Yili and therefore also a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the annual caps for the Raw Milk Purchase and Sale Framework Agreement exceed 5%, the transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement are subject to reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the Deposit Services under the Financial Services Framework Agreement, as one or more of the applicable percentage ratios under the Listing Rules exceed 5% but are less than 25%, the provision of the Deposit Services by Yili Finance Company to the Group under the Financial Services Framework Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. The Deposit Services under the Financial Services Framework Agreement also constitutes a continuing connected transaction of the Company and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Yili is considered to have a material interest in the Agreements, Yili and its associates will be required to abstain from voting on the relevant resolutions in relation to the Agreements to be proposed at the AGM.

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

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, Yili and Yili Finance Company that could reasonably be regarded as relevant to our independence. We have acted as (i) the independent financial adviser to the independent board committee and the independent Shareholders of the Company in relation to the acquisition of approximately 27.16% of the total issued share capital of a target company, details of which are set out in the circular of the Company dated March 4, 2022; and (ii) the independent financial adviser to the independent board committee of the Company in relation to the amendment to the terms and conditions of convertible notes of the Company, details of which are set out in the announcement of the Company dated November 28, 2022. Other than that, there was no engagement or connection between the Group, Yili or Yili Finance Company and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group, Yili or Yili Finance Company. Accordingly, we are independent from the Company pursuant to the requirements under Rule 13.84 and therefore are qualified to give independent advice in respect of the Agreements and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Agreements (including the proposed annual caps), we have taken into account the principal factors and reasons set out below:

1. Information of the Group, Yili and Yili Finance Company

(i) Information of the Group

The Group is primarily engaged in the production and sale of raw milk, and the trading, production and sale of feeds, ruminant farming products and breeding products in the PRC. With nearly 40 years of in-depth research and development, the Group's business has grown to cover the entire upstream dairy industry chain, including (a) provision of raw milk to large-scale dairy manufacturers; (b) provision of nutritious concentrated feed and forage grass for dairy farms and ancillary ruminant farming services; (c) provision of ruminant farming products purchased from selected suppliers through own online platform *Jumuc.com* and offline pick-up stores; and (d) provision of breeding products including high-quality frozen bovine semen and sex-sorted embryos for dairy cattle and beef cattle to dairy farms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the consolidated financial information of the Group for the three years ended December 31, 2022 as extracted from the annual report of the Company for the year ended December 31, 2021 and the annual results announcement of the Company for the year ended December 31, 2022:

Financial performance

	For the year ended December 31,		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	11,781,195	15,346,167	18,050,761
– Sales of raw milk	6,994,592	9,537,814	10,853,917
– Sales of feeds	4,395,724	5,328,139	6,576,398
– Sales of ruminant farming products	339,992	411,453	468,644
– Sales of breeding products	50,887	68,761	151,802
Gross profit	3,603,192	4,694,479	4,223,722
Loss arising from changes in fair value			
less costs to sell of biological assets	(413,784)	(407,440)	(1,617,116)
Other income	76,979	151,974	362,890
Impairment loss under expected credit			
loss model, net of reversal	(45,083)	(12,438)	(32,739)
Fair value loss on convertible notes	(10,769)	(132,910)	–
Selling and distribution expenses	(453,116)	(556,699)	(590,016)
Administrative expenses	(744,516)	(835,399)	(721,535)
Finance costs	(309,825)	(732,443)	(1,097,485)
Profit before tax	1,594,435	2,095,333	475,270
Profit attributable to the			
Shareholders	1,340,735	1,558,016	414,771

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group derives revenue primarily from the sales of raw milk and feeds. The Group's revenue increased by approximately 30.3% from approximately RMB11,781.2 million for the year ended December 31, 2020 (“FY2020”) to approximately RMB15,346.2 million for the year ended December 31, 2021 (“FY2021”), primarily attributable to the increases in (a) revenue generated from raw milk business by approximately 36.4% as a result of the steady increase in raw milk sales and prices as well as the acquisition of Fonterra (Yutian) Dairy Farm Co., Ltd. and Fonterra (Ying) Dairy Farm Co., Ltd. which are mainly engaged in dairy farming business and the expansion of dairy farms during the year; and (b) revenue generated from feed business by approximately 21.2% as the Group continuously enhanced the production scale of feed business and built high value-added premix feed production lines, resulting in the increased sales volume of its concentrated feed. Gross profit of the Group increased by approximately 30.3% from approximately RMB3,603.2 million for FY2020 to approximately RMB4,694.5 million for FY2021, which was consistent with the growth in revenue and the increase in milk price and was partially offset by the increase in raw material price. The Group recorded profit attributable to the Shareholders of approximately RMB1,558.0 million for FY2021, which represented an increase of approximately 16.2% from approximately RMB1,340.7 million for FY2020. This was primarily attributable to the increase in gross profit as aforementioned.

For the year ended December 31, 2022 (“FY2022”), the Group record revenue of approximately RMB18,050.8 million, representing an increase of approximately 17.6% as compared to approximately RMB15,346.2 million for FY2021, primarily attributable to the increases in (a) revenue generated from raw milk business by approximately 13.8% as a result of the increase in raw milk sales volume offset by the decrease in raw milk price; and (b) revenue generated from feed business by approximately 23.4% as a result of the increase in sales volume of concentrated feed. Gross profit of the Group decreased by approximately 10.0% from approximately RMB4,694.5 million for FY2021 to approximately RMB4,223.7 million for FY2022, which was primarily due to the increase in the prices of raw materials such as protein feed, corn and forage grass and the slight decrease in the sales price of raw milk in 2022 as a result of the impact of the pandemic and the international situation. The Group recorded profit attributable to the Shareholders of approximately RMB414.8 million for FY2022, which represented a significant decrease of approximately 73.4% from approximately RMB1,558.0 million for FY2021. This was primarily attributable to (a) the increase in the loss arising from changes in fair value less costs to sell of biological assets from approximately RMB407.4 million for FY2021 to approximately RMB1,617.1 million for FY2022, mainly due to the decrease in the valuation of a single milkable cow resulted from various market factors such as the increase in raw material prices and the decline in the sales price of raw milk as well as the increase in feeding cost of reserve cows; (b) the decrease in gross profit as mentioned above; and (c) the increase in the investment in the short term based on the strategic layout of the Group, resulting in the increase in finance cost.

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Financial position

	As at December 31,		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Non-current assets, including:	15,795,647	24,507,476	31,877,107
– Property, plant and equipment	6,183,940	10,131,630	12,965,610
– Right-of-use assets	1,321,296	2,186,585	2,455,583
– Biological assets	7,038,112	10,408,379	13,221,418
Current assets, including:	6,405,296	7,454,163	11,569,210
– Inventories	1,972,145	3,326,130	4,692,784
– Trade receivables	834,521	1,189,240	1,312,099
– Pledged and restricted bank deposits	128,367	33,544	401,097
– Bank balances and cash	2,619,113	1,015,261	936,358
– Deposits placed with a related party	–	612,159	515,895
– Financial assets at fair value through profit or loss	–	–	1,919,338
Total assets	22,200,943	31,961,639	43,446,317
Current liabilities, including:	6,944,108	11,307,986	19,896,284
– Trade and bills payables	1,438,505	1,878,597	2,688,578
– Other payables and accruals	1,149,490	1,397,550	1,893,511
– Bank and other borrowings	4,224,527	5,412,175	13,827,675
– Convertible notes	–	2,407,292	1,206,200
Non-current liabilities, including:	6,195,299	5,773,742	8,798,904
– Bank and other borrowings	1,971,606	4,043,939	6,731,381
– Convertible notes	3,043,648	–	–
Total liabilities	13,139,407	17,081,728	28,695,188
Equity attributable to the Shareholders	7,820,208	13,180,911	13,063,746

As at December 31, 2022, total assets of the Group were approximately RMB43,446.3 million, which mainly consisted of (a) property, plant and equipment of approximately RMB12,965.6 million, mainly representing buildings, machinery and equipment and construction in progress of the Group as the Group continued to expand its business operation scale; (b) right-of-use assets of approximately RMB2,455.6 million, mainly representing the lands, properties and machinery and equipment leased by the Group to operate its business; (c) biological assets of approximately RMB13,221.4 million, including calves and heifers,

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milkable cows, feeder cattle and breeding stock; (d) inventories of approximately RMB4,692.8 million; (e) trade receivables of approximately RMB1,312.1 million; and (f) financial assets at fair value through profit or loss of approximately RMB1,919.3 million.

As at December 31, 2022, total liabilities of the Group were approximately RMB28,695.2 million, which mainly consisted of (a) trade and bills payables of approximately RMB2,688.6 million; (b) other payables and accruals of approximately RMB1,893.5 million, mainly including payables for purchase of property, plant and equipment and salaries and welfare payables; (c) bank and other borrowings of approximately RMB20,559.1 million; and (d) convertible notes of approximately RMB1,206.2 million which were issued by the Company to several pre-IPO investors with cash interest of 4% per annum and pay-in-kind interest of 6% per annum.

(ii) Information of Yili

Yili is a company established under the laws of the PRC in June 1993 whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of the Company's controlling Shareholders and major customers. Yili is principally engaged in the processing, manufacturing and sales of various dairy products and health drinks in the PRC.

(iii) Information of Yili Finance Company

Yili Finance Company is a company established under the laws of the PRC on 15 January 2014 and is a non-bank financial institution approved by the CBIRC. It is a wholly-owned subsidiary of Yili and principally engaged in the provision of financial services in the PRC.

As at December 31, 2021, Yili Finance Company had a registered and fully-paid capital of RMB1.0 billion. According to the audit report of Yili Finance Company for FY2021, it generated net interest income of approximately RMB87.3 million, net handling charge and commission income of approximately RMB7.2 million, and recorded net profit of approximately RMB98.0 million. Its total assets and net assets amounted to approximately RMB9.0 billion and RMB1.4 billion as at December 31, 2021, respectively, among which cash and deposits amounted to approximately RMB392.0 million and deposits from peers amounted to approximately RMB8.2 billion.

The banking industry of the PRC is regulated by the CBIRC. According to the relevant requirements under the "Measures for the Administration of Finance Companies of Enterprise Group" promulgated by CBIRC, finance companies of enterprise groups are not allowed to engage in non-financial services business, including property investment or trading. Finance companies of enterprise groups are also required to meet certain ratio requirements under the measures promulgated by CBIRC.

We are advised by the management of the Group that the regulation imposed on finance companies of enterprise groups such as Yili Finance Company are no less stringent than the regulations imposed on commercial banks. In addition, CBIRC monitors Yili Finance

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Company's compliance with relevant regulators and conducts on-site visits from time to time, and may issue opinions on corrective measures to Yili Finance Company. Based on our discussion with the management of the Group, CBIRC has not issue any opinions on corrective measures or taken any disciplinary actions, or imposed penalties or fines on Yili Finance Company since its incorporation. We have also reviewed the information relating to Yili Finance Company provided by the Group, including but not limited to its financial information as at December 31, 2022, and noted that it had met its major regulatory ratios requirements such as liquidity ratio, loan ratio and capital adequacy ratio, and no material irregularities were noted.

2. Reasons for and benefits of entering into the Agreements

As stated in the section headed "1. Information of the Group, Yili and Yili Finance Company" above, the Group is principally engaged in, among others, providing raw milk to large-scale dairy manufacturers. The raw milk business is one of the major operating business segments of the Group and recorded substantial revenue growth in FY2021 and FY2022. As Yili is principally engaged in the processing, manufacturing and sales of various dairy products and health drinks in the PRC, Yili requires an uninterrupted supply of raw milk. As such, Yili entered into raw milk supply agreement with the Group since 2015 for long-term supply of raw milk to Yili Group and the provision of which is in the ordinary and usual course of business of the Group. To meet the requirements of the Listing Rules, on May 17, 2021, the Company entered into the Existing Raw Milk Purchase and Sale Framework Agreement with Yili in respect of the provision of long-term supply of raw milk to Yili Group, for a term of three years commencing from the Listing Date.

As stated in the Letter from the Board, the arrangement of provision of raw milk by the Group to Yili Group is an indication of Yili's recognition of the importance of the Group as Yili relies on the Group's output of raw milk for Yili's own operation and future growth. Since the raw milk produced by the Group has short shelf life, it is utmost important for the Group to maintain long term and stable relationships with top dairy companies. As Yili is one of the dominant dairy conglomerates in the PRC, a long-term purchase and sale arrangement with Yili will ensure a stable demand of the Group's raw milk, which promotes the Group's business growth and future strategic and operational planning.

As the Existing Raw Milk Purchase and Sale Framework Agreement will expire in December 31, 2023 and the Group expects to continue to carry on the transactions contemplated thereunder upon its expiry, the Directors consider it is beneficial to renew the Existing Raw Milk Purchase and Sale Framework Agreement to facilitate the continuous provision of long-term supply of raw milk to Yili Group for securing a stable demand for the raw milk produced by the Group and thereby a stable income stream, which could further promote the business growth of the Group.

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In respect of the Financial Services Framework Agreement, the Directors consider that the entering of which will enable the Group to centralize its control and management over its financial resources. As stated in the sub-section headed “1. Information of the Group, Yili and Yili Finance Company – (i) Information of the Group” above, the Group’s bank balances and cash and deposits placed with a related party amounted to approximately RMB936.4 million and RMB515.9 million as at December 31, 2022, respectively. As advised by the management of the Group, these cash balances and deposits represented the deposits placed by the Group in independent commercial banks and Yili Finance Company respectively for treasury management. The rates on deposits to be offered by Yili Finance Company to the Group under the Deposit Services will be similar to or more favorable than those offered by the major commercial banks in the PRC. By depositing majority of the cash that is temporarily not in use by the Group, the Group can earn similar or more favorable interest income and thereby maximize the fund management efficiency and interest income of the Group and enhance the Shareholders’ value at the same time.

As disclosed in the Letter from the Board, Yili Finance Company is a non-bank financial institution regulated by the PBOC and the CBIRC, and provides its services in accordance with the rules and operational requirements of these regulatory authorities. As a wholly-owned subsidiary of Yili, Yili Finance Company is relatively more familiar with the Group’s operations, financial needs and cashflow patterns. On the other hand, Yili Finance Company has been providing the Deposit Services, Settlement Services and Other Financial Services to the Group under the Existing Financial Services Framework Agreement entered into between the Company and Yili Finance Company on September 28, 2021. The Group is expected to continue to benefit from Yili Finance Company’s such better understanding of the operation of the Group, which will facilitate more expedient and efficient services than those rendered by the major commercial banks in the PRC.

As the Existing Financial Services Framework Agreement will expire on December 31, 2023 and the Group expects to continue to require the financial services provided by Yili Finance Company, the Directors consider it beneficial to renew the Existing Financial Services Framework Agreement. Given the background of Yili Finance Company and it has been providing the financial services to the Group and thus has a better understanding of the Group’s financial needs, the Directors consider that the continuous provision of the financial services by Yili Finance Company to the Group would enable the Group to centralize its control and management over its financial resources, therefore improve the utilization and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilization.

Based on the above, we concur with the Directors that the entering into of the Agreements and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

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3. Principal terms of the Agreements

Details of the terms of the Agreements are set out in the sections headed “7. Renewal of the Raw Milk Purchase and Sale Framework Agreement” and “8. Renewal of the Financial Services Framework Agreement” in the Letter from the Board. Set out below are the principal terms of the Agreements:

(i) *The Raw Milk Purchase and Sale Framework Agreement*

- Date : April 24, 2023
- Parties : (a) The Company; and
(b) Yili.
- Term : Three years from January 1, 2024 to December 31, 2026
- Scope of services: (a) Yili Group agreed to purchase raw milk that meets the relevant national standards and the quality requirements of Yili Group from the Group; and
(b) the Group agreed to sell no less than 70% of its annual raw milk production to Yili Group on the terms and subject to the conditions of the Raw Milk Purchase and Sale Framework Agreement. Yili also agreed to buy all of the remaining 30% of the Group’s raw milk production volume so long as the Group is willing and able to supply raw milk to Yili.
- Pricing guidelines : The minimum price and terms of raw milk to be supplied by the Group to Yili Group shall in principle not be lower than the price of and comparable to the terms of raw milk to be supplied to Yili by dairy farms of similar scale located in the same or nearby geographical locations as the Group, or in the absence of such dairy farms in such region, by similar dairy farms in other regions and/or shall be negotiated on an arm’s length basis between both parties based on the type, quality, purchase volume and historical transaction price of raw milk. The purchase price of raw milk shall be determined and adjusted based on market conditions and seasonal factors (for example, the quality grade of raw milk may vary due to the weather conditions in different seasons). As agreed between both parties, the final purchase price of raw milk shall vary depending on the quality grade. In particular, the purchase price shall be determined with reference to a market average price with adjustments based on the quality grade of the milk. The market reference price refers to the average raw milk price, excluding the delivery fee and quality adjustments, of the preceding month of the top five dairy farms in the same region as the Group’s dairy farms which supply raw milk to Yili Group (the “**Base Milk Prices**”) on a month-to-month basis in terms of the quantity of raw milk supply. The quality grade is determined with reference to physical and chemical specifications, including, among others, the fat and protein content, color, taste, smell, texture, impurity level, bacteria content, and somatic cell count. In addition, the quality of raw milk supplied by the Group must satisfy the standards set by the government and the requirements of Yili Group.

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In assessing whether the terms of the Raw Milk Purchase and Sale Framework Agreement are fair and reasonable, we have selected in a random basis and obtained and reviewed the sale agreements (the “**Independent Agreements**”) entered into between the Group as the supplier and two independent customers as the purchaser for the provision of raw milk in 2022. As advised by the management of the Group, the terms of the annual sale agreements do not have material variations from year to year, hence we obtained the Independent Agreements in the latest year for assessment purpose and we consider to be representative. As advised by the management of the Group, as the Group supplied a majority of the raw milk produced to Yili in 2022, there is no other supply contracts entered into between the Group and other customers with similar scale. For comparison purpose, we have also obtained and reviewed the sale agreement (the “**Yili Agreement**”) entered into between the Group and Yili for the supply of raw milk in 2022 under the Existing Raw Milk Purchase and Sale Framework Agreement. Based on our review of the Independent Agreements and the Yili Agreement, we noted that (a) the payment term for purchase of raw milk by Yili and the independent customers are the same that both shall be settled within the following month after the purchase; (b) the delivery term are the same such that the Group shall be responsible for delivering raw milk to the locations designated by Yili or the independent customers; and (c) the quality of raw milk supplied by the Group shall comply with the standards set by the government and the requirements agreed by the Group and Yili or the independent customers, and similar quality requirements were in place in the agreements. As such, we consider the terms of the Yili Agreement were similar to those of the Independent Agreements.

As advised by the management of the Group, in order to ensure that the purchase price of raw milk supplied by the Group to Yili Group is comparable to the market price, the operation management department of the Group will collect the prices of raw milk supplied to Yili Group by the top five dairy farms (“**Top Five Dairy Farms**”) based on the monthly sale volume to Yili Group in the same region as the Group’s dairy farms. We have randomly obtained and reviewed two monthly price comparison reports prepared by the Group in 2021 and 2022, being the latest two years, to assess whether the internal control measure for the Existing Raw Milk Purchase and Sale Framework Agreement has been effectively implemented since the listing of the Company in 2021, and we noted that excluding the delivery fee and quality adjustments, the purchase price of raw milk supplied by the Group to Yili Group is within the range and generally being the same as the average price of raw milk supplied by the Top Five Dairy Farms in the last month.

Based on the review of the documents as stated above, we noted that the terms of the Yili Agreement and the Independent Agreements were similar and hence we consider that the terms, including the pricing basis, of the Yili Agreement are on normal commercial terms which are fair and reasonable and are equal to or no less favorable to the Group than the terms for similar transactions entered into between the Group and independent third parties purchasers. Given that terms of the Raw Milk Purchase and Sale Framework Agreement will be generally consistent with the Existing Raw Milk Purchase and Sale Framework Agreement, we consider that the terms of the Raw Milk Purchase and Sale Framework Agreement to be on normal commercial terms which are fair and reasonable. Please refer to the section headed “4. Internal Control Measures of the Group” below for our analyses of further safeguards imposed by the Group.

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(ii) *The Financial Services Framework Agreement*

- Date : April 24, 2023
- Parties : (a) The Company; and
(b) Yili Finance Company.
- Term : Three years from January 1, 2024 to December 31, 2026
- Scope of services : Yili Finance Company shall provide the following financial services to the Group:
- (a) the Deposit Services, under which Yili Finance Company shall accept deposits from the Group of up to a maximum daily balance of deposits (including the interest accrued thereon) not exceeding RMB1,500 million;
 - (b) the Settlement Services, including collection, payment or internal settlement services and other settlement services approved by the CBIRC or other applicable regulatory authorities; and
 - (c) the Other Financial Services, including financial and financing consulting services, credit certification and related consulting and agency services, and other services approved by the CBIRC or other applicable regulatory authorities.
- Pricing guidelines : The interest rates payable by Yili Finance Company and fees payable by the Group under the Financial Services Framework Agreement shall be determined according to the following guidelines:
- (a) the interest rates payable by Yili Finance Company to the Group for the Deposit Services shall not be lower than (1) the benchmark deposit rates prescribed by the PBOC; and (2) deposit rates payable by the major commercial banks in the PRC including, inter alia, Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, Bank of Communications, and China Construction Bank, etc.;
 - (b) Yili Finance Company will provide the Settlement Services for a fee which shall not be higher than the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and
 - (c) Yili Finance Company will provide the Other Financial Services at a fee equal to the lower of (1) the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and (2) the pricing standard prescribed by the PBOC, the CBIRC or other applicable regulatory authorities for the same type of services.

For each of the Deposit Services, the Settlement Services and the Other Financial Services, the Company will obtain quotes from no less than five of major commercial banks in the PRC for comparison and will only engage Yili Finance Company if the terms offered by Yili Finance Company are no less favourable.

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Based on our review of the Existing Financial Services Framework Agreement and the Financial Services Framework Agreement, except for the term and the maximum daily balance of deposits (including the interest accrued thereon), other terms under the Financial Services Framework Agreement generally remain the same as those of the Existing Financial Services Framework Agreement. As stipulated in the above, the terms offered by Yili Finance Company will be equal to or no less favorable than the terms offered by independent financial institutions in the PRC as the Company would obtain quotations from the major commercial banks in the PRC for the same type of services it will request from Yili Finance Company before it conducts business with Yili Finance Company so as to ensure that the most favorable terms are obtained. In particular, the interest rates payable by Yili Finance Company to the Group for the Deposit Services shall not be lower than (1) the benchmark deposit rates prescribed by the PBOC; and (2) deposit rates payable by the major commercial banks in the PRC, for the same period and of similar nature. The Group has adopted internal control measures to ensure the pricing terms of individual transactions under the Financial Services Framework Agreement will be made in accordance with the pricing principles, please refer to the section headed “4. Internal Control Measures of the Group” below for our analyses on the safeguard measures adopted by the Group.

As confirmed by the management of the Group, the Group’s deposits in Yili Finance Company were mainly agreement deposits. As part of our due diligence on the Deposit Services under the Financial Services Framework Agreement, we have randomly obtained and reviewed five quotations of agreement deposit services provided by independent major commercial banks to the Group, and compared to three contracts of agreement deposits (the “**Deposit Contracts**”) offered by Yili Finance Company to the Group in 2021 and 2022 because Yili Finance Company only started to provide Deposit Services to the Group since 2021, and we noted that the agreement deposit interest rates offered by Yili Finance Company were not lower than that offered by independent commercial banks. Further, we have reviewed the latest annual RMB benchmark deposit rates prescribed by the PBOC. According to the “Notice of the PBOC on Lowering the RMB Benchmark Loan and Deposit Interest Rates for Financial Institutions and Further Promoting the Interest Rate Liberation Reform (Yin Fa [2015] No. 325)” (中國人民銀行關於下調金融機構人民幣貸款和存款基準利率並進一步推進利率市場化改革的通知(銀發[2015]325號) prescribed by the PBOC on 24 October 2015, the latest annual RMB benchmark deposit rates are set out in the below:

	Agreement deposit	Term deposit		Fixed deposit		
		1-day	7-day	Three- month	Six-month	One-year
Current deposit	1.15%	0.80%	1.35%	1.10%	1.30%	1.50%

Based on our review of the Deposit Contracts, the deposit interest rate offered by Yili Finance Company to the Group is being the same as the listed deposit interest rate of Yili Finance Company as available to the public, which is 1.9% since 21 June 2021. We noted that the deposit interest rate of 1.9% offered by Yili Finance Company was 75 basis points higher than the annual RMB benchmark agreement deposit rate of 1.15% as set out in the table above. As such, we consider the pricing policy has been adherence in accordance with the Group’s internal control procedures.

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Given that the agreement deposit interest rates offered by Yili Finance Company were not lower than that offered by independent commercial banks and higher than the RMB benchmark agreement deposit rate prescribed by the PBOC, and that the interest rate offered by Yili Finance Company is no less favorable than the rate they offered for independent third parties, we consider that the terms of the Deposit Services under the Financial Services Framework Agreement are on normal commercial terms which are fair and reasonable.

4. Internal control measures of the Group

In order to protect the interests of the Shareholders, the Group has adopted the following internal control measures to regulate the respective transactions to be conducted within the framework of the Agreements:

- (i) in respect of the Raw Milk Purchase and Sale Framework Agreement, the operation management department and finance department of the Group review the transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement on a monthly basis and issue relevant reports. In particular, the Group conducts monthly review on, among other things, the raw milk prices of the Top Five Dairy Farms and prepare the monthly price comparison reports to confirm the reasonableness and accuracy of the Base Milk Prices of Top Five Dairy Farms as well as the comparability of their Base Milk Prices to the Base Milk Prices of the Group;
- (ii) in respect of the Financial Services Framework Agreement, the Company would obtain quotations from the major independent third party service providers in the PRC for the same service scope it will request from Yili Finance Company before it conducts business with Yili Finance Company and compare the service fees with those quoted from Yili Finance Company to ensure that the most favorable terms are obtained. In addition, the transactions will be reported to and approved by the head of the finance department of the Company;
- (iii) in respect of the Financial Services Framework Agreement, the Group has established a finance department, which operates without influence from Yili and Yili Finance Company. The Group has adopted a financial management system to guide and monitor its financial activities. The Group also maintains accounts with external independent banks, and does not share any bank accounts with Yili or Yili Finance Company. Yili and Yili Finance Company cannot control the use of any of the Group's bank accounts. The Group has an independent tax registration and has paid tax independently pursuant to applicable PRC laws and regulations;
- (iv) the Company's independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions conducted under the Agreements. If a majority of the independent non-executive Directors reasonably consider that it would be in the Company's interests to reduce the transaction amounts with Yili and/or Yili Finance Company, the Company will take appropriate steps to implement the decision of the independent non-executive Directors. Information on the transactions conducted under the Agreements and the views of the independent non-executive Directors on the transactions conducted under the Agreements will be disclosed in the annual reports of the Company;

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- (v) during its annual audit, the Company will engage its auditor to review connected transactions to ensure that the transactions under the Agreements have been approved by the Board and conducted in accordance with the pricing policies, the terms of such agreement and the annual caps thereunder; and
- (vi) the Company will monitor the continuing connected transactions in accordance with its internal control procedures, in particular to ensure that the Company will monitor the Group's transaction amounts of raw milk with Yili Group and daily deposit balances with Yili Finance Company in a timely manner. The Group's responsible financial person shall promptly report to the Company's chief financial officer or the Board if such transaction amounts under the Agreements are close to exceeding, or likely to exceed the proposed annual caps.

In assessing whether the above internal control measures are put in place and effectively implemented, we have reviewed the relevant recent documentation of internal processes regarding the approval of the Yili Agreement in 2022 and the three Deposit Contracts in 2021 and 2022 which were selected on a random basis, and we noted that the documents include review comments from the deputy general managers in charge of the business department, the finance department and the legal department, and the executive Director and president of the Company, and hence the transactions were properly authorized and monitored. As stated in the above, the Group's daily balances with Yili Finance Company will be monitored in a timely manner. In this respect, we have randomly obtained and reviewed six monthly reports in 2021 and 2022 prepared by the Company and noted that the balances had been checked such that the annual caps were not exceeded. In respect of the sales of raw milk to Yili Group, we have also randomly obtained and reviewed three quarterly reports in 2021 and 2022 prepared by the Company and noted the transaction amount had been monitored and the annual caps were not exceeded. In addition, as discussed in the section headed "3. Principal terms of the Agreements" above, we have obtained and reviewed (i) the quotations (a total of 5 samples obtained on random basis) for deposit interest rates obtained by the Group from independent commercial banks; and (ii) price comparison report for the similar products to be provided under the Raw Milk Purchase and Sale Framework Agreement and noted that (i) the deposit interest rates offered by Yili Finance Company to the Group were not less favorable than that offered by independent commercial banks; and (ii) the purchase prices of raw milk supplied by the Group to Yili Group were not lower than those offered by other dairy farms. As such, we are of the view that the internal control measure for monitoring the transactions contemplated under the Agreements have been effectively implemented.

Having considered the above, in particular (i) that the above internal control procedures which include price comparison by the Group with the prevailing price/rate level in the market; (ii) the ongoing monitoring of the transactions under the Agreements; and (iii) the requirements under the Listing Rules for the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the transactions under the Agreements and the annual caps thereunder, we concur with the Directors that appropriate and adequate procedures are in place to ensure that the transactions contemplated under the Agreements will be appropriately monitored and conducted on commercial terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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5. Assessment of the proposed annual caps

(i) Review of the historical figures

Set out below are the historical annual caps and actual transaction amounts regarding the transactions contemplated under the Existing Raw Milk Purchase and Sale Framework Agreement and the Existing Financial Services Framework Agreement:

	For the year ended December 31, 2021 RMB million (audited)	For the year ended December 31, 2022 RMB million (audited)
The Existing Raw Milk Purchase and Sale Framework Agreement		
Actual transaction amounts	8,756.7	10,485.1
Historical annual caps	10,100.0	12,500.0
Utilization rate	86.7%	83.9%
The Existing Financial Services Framework Agreement – Deposit Services		
The maximum amount of the Group’s daily deposit balance (including the interest accrued thereon)	612.2	719.6
Daily deposit balance caps (including the interest accrued thereon)	750.0	750.0
Utilization rate	81.6%	95.9%

As shown in the table above, the actual transaction amounts paid by Yili Group to the Group regarding the transactions contemplated under the Existing Raw Milk Purchase and Sale Framework Agreement were approximately RMB8,756.7 million and RMB10,485.1 million for FY2021 and FY2022, respectively, representing approximately 86.7% and 83.9% of the total annual caps in 2021 and 2022, respectively. The decrease in utilization rate in 2022 was due to the fact that the actual growth in sales to Yili Group was lower than expected as a result of the impact of the pandemic.

As for the Deposit Services under the Existing Financial Services Framework Agreement, the actual maximum daily balance of deposits (including the interest accrued thereon) during FY2021 and FY2022 were approximately RMB612.2 million and RMB719.6 million, respectively, representing approximately 81.6% and 95.9% of the total annual caps of maximum daily deposit balance in 2021 and 2022, respectively.

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(ii) Assessment of the proposed annual caps

Pursuant to the Agreements, the proposed annual caps for the transactions under the Agreements for each of the three years ending December 31, 2026 are set out below:

	For the year ending December 31, 2024 <i>RMB million</i>	For the year ending December 31, 2025 <i>RMB million</i>	For the year ending December 31, 2026 <i>RMB million</i>
The Raw Milk Purchase and Sale Framework Agreement	19,900	22,400	24,000
The Financial Services Framework Agreement			
The maximum amount of the Group's daily deposit balance (including the interest accrued thereon)	1,500	1,500	1,500

The Raw Milk Purchase and Sale Framework Agreement

In assessing the reasonableness of the proposed annual caps under the Raw Milk Purchase and Sale Framework Agreement, we have discussed with the management of the Group on the basis and assumption underlying the projections for the raw milk supply services to be provided by the Group. As advised by the management of the Group, in determining the proposed annual caps for the three years ending December 31, 2026, they have taken into account, among others, (a) the historical and prevailing market price for raw milk, and potential fluctuations in the market price for raw milk in the future; (b) the historical transaction volume of raw milk purchased by Yili Group from the Group during the two years ended December 31, 2022; (c) the historical average milk yield per milkable cow (excluding Jerseys) of the Group of 10.9 tons and 11.4 tons for FY2021 and FY2022, respectively; (d) the anticipated significant growth in the production of raw milk of the Group for the three years ending December 31, 2026, having taken into account the expected increase in the number of dairy cows and the annualized average milk yield per milkable cow; (e) estimated percentage of the projected production of raw milk to be sold to Yili Group; and (f) the possible sustained growth of the PRC dairy industry.

We have discussed with the management of the Group on each of the above factors and their potential impacts on the proposed annual caps and reviewed the relevant calculations. Based on the annual report of the Company for FY2021 and FY2022, the prospectus (the “**Prospectus**”) of the Company dated June 7, 2021 and as advised by the management of the Group, we noted that the average unit price of raw milk of the Group increased from RMB4.67 per kg in 2019 to RMB4.9 per kg in 2021 and slightly decreased to RMB4.66 per kg in 2022 due to the decline in demand for dairy products as affected by the pandemic, representing a compound annual growth rate (“**CAGR**”) of approximately 2.4% from 2019 to 2021. As the impact of the pandemic continue to ease in 2023, the Directors expect that the unit price of raw milk would regain its growth momentum. Based on our review of calculation of the proposed annual caps, it is projected that the average unit price of raw milk will increase moderately from 2023 to 2026. Taking into account the historical growth of the average unit price of the Group's

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raw milk from 2019 to 2021 and the weakening of the impact of the pandemic, we consider the estimated average unit prices of raw milk for the three years ending December 31, 2026 to be fair and reasonable.

As at December 31, 2019, 2020, 2021 and 2022, the Group had 152,037, 308,195, 416,196 and 499,451 heads of dairy cows, among which 77,955, 157,316, 204,545 and 231,709 heads were milkable cows, respectively, representing a CAGR of approximately 43.8% from December 31, 2019 to December 31, 2022. As stated in the section headed “1. Information of the Group, Yili and Yili Finance Company” above, the Group continued to expand its business operation scale and production capacity during 2022, and hence it is expected that the number of dairy cows will continue to grow in the coming years. As advised by the management of the Group and for the purpose of determining the proposed annual caps, it is estimated that the herd size of milkable cows will grow at a CAGR of approximately 11.9% from 2022 to 2026, based on actual number of milkable cows as at December 31, 2022. Such expected higher growth is driven by, among others, several of the Group’s new dairy cow farms are expected to complete construction and commence operation in 2023 and 2024, and that the Group would continue to expand its operation scale in 2025 and 2026. In terms of average milk yield, the annualized average milk yield per milkable cow (excluding Jerseys) of the Group amounted to approximately 10.4 tons, 10.5 tons, 10.9 tons and 11.4 tons for the four years ended December 31, 2022, respectively, representing a CAGR of approximately 3.1% from 2019 to 2022. As advised by the Directors, the Group has been applying genetic testing and advanced breeding technologies to improve the breed of the Group’s milkable cow and expand the proportion of high-yield dairy cows, and the Group had observed steady increase in the average milk yield over the past years and hence it is expected that the average milk yield will continue to grow steadily in the coming years. In determining the proposed annual caps, we noted that the annualized average milk yield per milkable cow is anticipated to grow at a CAGR of approximately 4% from 2022 to 2026 based on annualized average milk yield per milkable cow in 2022. In light of the implementation of the technology to improve the average milk yield which proven to be successful over the past years, we consider the growth rate to be acceptable.

In addition, the management of the Group estimates that approximately 95% of the volume of raw milk to be produced by the Group will be sold to Yili Group. As disclosed in the paragraph headed “(i) Review of the historical figures” above, the historical transaction amounts of raw milk sold by the Group to Yili Group for the two years ended December 31, 2022 amounted to approximately RMB8,756.7 million and RMB10,485.1 million, respectively, representing approximately 91.8% and 96.6% of the Group’s total revenue generated from raw milk business for the corresponding year. As advised by the management of the Group, such significant majority of sales of raw milk to Yili Group was primarily attributable to the deepened and long-standing collaboration between the Group and Yili Group which was expected to continue for the three years ending December 31, 2026, which is in the interests of the Group as the stable demand from Yili would ensure the raw milk could be sold within its short shelf life. Having considered that (a) the highest percentage of revenue generated from raw milk sold to Yili Group by the

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Group was up to approximately 96.6% in the past two years; (b) the requirement of no less than 70% of the Group's annual raw milk production have to be sold to Yili Group pursuant to the Raw Milk Purchase and Sale Framework Agreement and Yili also agreed to buy all of the remaining 30% of the Group's raw milk production volume so long as the Group is willing and able to supply raw milk to Yili; and (c) the deepened and long-standing collaboration between the Group and Yili Group, we are of the view that the estimated percentage of approximately 95% of the projected production of raw milk to be sold to Yili Group is acceptable. The Board is of the view that despite the Group's reliance on Yili Group, it is in line with industry practice and can be properly managed in view of (a) the dairy retail market is highly concentrated with only a few conglomerate market players so it is the industry norm in China for a raw milk supplier such as the Group to sell a majority of its raw milk to a single customer; (b) there is mutual reliance relationship between the Group and Yili Group in respect of raw milk supply; and (c) the agreements to be entered under the Raw Milk Purchase and Sale Framework Agreement cannot be unilaterally terminated and hence it is unlikely for the business relationship between the Group and Yili Group to terminate. On the other hand, although the sales to Yili Group represented the vast majority of the Group's raw milk business, the Group is also engaged in the comprehensive ruminant farming solutions businesses which contributed to approximately 37.8% and 39.9% of the Group's total revenue in 2021 and 2022, respectively, of which the major customers are generally independent third parties.

After considering the following factors: (a) the Raw Milk Purchase and Sale Framework Agreement only requires the Group to sell no less than 70% of its annual raw milk production to Yili Group and the Group has discretion on whether to sell the remaining 30% to Yili Group; (b) as disclosed in the paragraph headed "Reasons for and benefits of entering into the Agreements" above, it is utmost important for the Group to maintain long term and stable relationships with top dairy companies due to the business nature of the raw milk business as the raw milk has a short shelf life, and the entering into Raw Milk Purchase and Sale Framework Agreement will secure a stable demand for the raw milk produced by the Group; and (c) the Group's business is diversified with Yili Group not being the major customer in the comprehensive ruminant farming solutions business of the Group, we concur with the Board that the reliance on Yili Group is properly managed.

As a result of the estimated increase in the herd size of milkable cows at a CAGR of approximately 11.9% and the annualized average milk yield per milkable cow at a CAGR of approximately 4% as well as the estimated percentage of the projected production of raw milk to be sold to Yili Group would remain stable, the estimated sales volume of raw milk to Yili Group is estimated to grow at a CAGR of approximately 16.5% from 2022 to 2026. As disclosed in the Prospectus, according to Frost & Sullivan, the market supply of raw milk in China is expected to grow at a CAGR of 11.0% from 2020 to 2025. Taking into account (a) the leading position of the Group in the raw milk market in China; (b) according to Frost & Sullivan, large-scale dairy farms generally have higher milk yield leveraging their significant operational efficiency; (c) as disclosed in the annual results announcement of the Company for FY2022, the Group had utilized net

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proceeds of RMB442 million from the global offering during FY2022, and will apply the remaining unutilised net proceeds of RMB460 million, for investment in construction projects, including dairy farms under construction, new dairy farms and new feed mills. As at December 31, 2022, the Group had commenced the construction of dairy farms in several provinces; and (d) the Group has been applying genetic testing and advanced breeding technologies to improve the breed of the Group's milkable cow, which may not be adopted by other smaller scale dairy farms, we consider the Group's estimated higher growth in the sales volume of raw milk as compared to the industry peers to be fair and reasonable.

Based on the above estimated increase in average unit price and sales volume of raw milk to Yili Group, the estimated revenue generated from the sales of Yili Group are expected to be RMB17,300 million, RMB19,500 million and RMB20,900 million, representing approximately 87% of the proposed annual cap of each of the three years ending December 31, 2026, respectively. As advised by the management of the Group, the Company included a buffer in determining the annual caps under the Raw Milk Purchase and Sale Framework Agreement so to cater for any unexpected increase in sales volume or price of raw milk to Yili Group, which may also be impacted by the price of the feeds. Alfalfa and soybean meal are important sources of nutrition for dairy cows and are widely used by scaled dairy farms. The prices of alfalfa and soybean meal had fluctuated significantly during 2021 and 2022. As disclosed by the Ministry of Agriculture and Rural Affairs of the PRC, on December 21, 2022, the average price of soybean meal in China was RMB5.11 per kg, which had grew by approximately 35.9% as compared to the corresponding period in 2021. According to the statistics of the General Administration of Customs of the PRC, in December 2022, the average CIF (i.e. cost, insurance and freight) price of imported alfalfa in China was US\$584.9 per ton, representing a growth of 38.8% as compared to that of US\$421.5 per ton in December 2021. Taking into account the high fluctuation in cost of feeds for the Group's raw milk business, we consider that it is reasonable to include buffer for the Group to increase the selling price of raw milk to cater for the potential increase in feed costs, and hence we consider the buffer and the annual caps of the Raw Milk Purchase and Sale Framework Agreement to be fair and reasonable.

The Financial Services Framework Agreement

In assessing the reasonableness of the proposed annual caps of the Deposit Services under the Financial Services Framework Agreement, we have discussed with the management of the Group on the basis and assumption underlying the projections for the maximum amount of the Group's daily deposit balance (including the interest accrued thereon). As advised by the management of the Group, in determining the proposed annual caps for the three years ending December 31, 2026, they have taken into account, among others, (a) the latest cash and current assets position of the Group; (b) the increasing asset and operation scale and the expected amount of cash of the Group available for deposit; and (c) the expected amount of interest income from Yili Finance Company taking into account the interest income that could otherwise be obtained by placing a comparable amount of deposits with other major commercial banks in the PRC.

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We have discussed with the management of the Group on each of the above factors and their potential impacts on the proposed annual caps and reviewed the relevant calculations. As stated in sub-section headed “1. Information of the Group, Yili and Yili Finance Company – (i) Information of the Group” above, the Group had (a) bank balances and cash of approximately RMB1,015.3 million and RMB936.4 million; and (b) deposits placed with a related party of approximately RMB612.2 million and RMB515.9 million as at December 31, 2021 and 2022, respectively, which in aggregate amounted to approximately RMB1,627.4 million and RMB1,452.3 million, respectively. The proposed annual caps of RMB1,500 million represent approximately 92.2% and 103.3% of the Group’s bank balances and cash and deposits placed with a related party as at December 31, 2021 and 2022, respectively. With reference to the sub-section headed “(i) Review of the historical figures” above, the utilization rate of the annual cap of the Deposit Services under the Existing Financial Services Framework Agreement increased from approximately 81.6% for FY2021 to approximately 95.9% for FY2022. Driven by the continued expansion in business size and improvement in operational efficiency by leveraging its advantages in full industry chain and the advanced management, operation, research and development capability, the Group has recorded significant increase in revenue by approximately 30.3% and 17.6% in FY2021 and FY2022, respectively, which is expected to strengthen the Group’s cash position by generating more operating cashflows. As advised by the management of the Group, since the deposit interest rate offered by Yili Finance Company to the Group is similar to or more favorable than those offered by other commercial banks, the Group plans to deposit more funds in Yili Finance Company to improve fund management efficiency and earn similar or more favorable interest income. In particular, the daily operating expenses of SKX, which is a subsidiary of the Company and is engaged in dairy farming and dairy breeding will be paid through the account maintained in Yili Finance Company from 2023, which will lead to a higher requirement of deposit balance. Given the above, the Group proposes to adopt higher annual caps for the Deposit Services under the Financial Services Framework Agreement.

Taking into account (a) the expected cash flow generated from the Group’s operating activities; (b) the Group’s cash position as at December 31, 2022; (c) the utilization rate of the annual cap of the Existing Financial Services Framework Agreement was over 95% for FY2022; (d) the deposit interest rate offered by Yili Finance Company is similar to or more favorable than those offered by other commercial banks and hence the Group could generate similar or more favorable interest income; and (e) that the risk relating to conducting the Deposit Services with Yili Finance Company would be controlled by the internal control measures stipulated under the section headed “4. Internal control measures of the Group” above, we consider that it is reasonable to have larger proposed annual caps on the Deposit Services under the Financial Services Framework Agreement as compared to the historical annual caps of RMB750 million under the Existing Financial Services Framework Agreement.

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OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the Agreements and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Agreements (including the proposed annual caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned 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 favor of the relevant resolutions to be proposed at the AGM to approve the Agreements (including the proposed annual caps) and the transactions contemplated thereunder.

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

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

The following are the particulars of the retiring Directors (as required by the Listing Rules) proposed to be re-elected at the AGM.

As at the Latest Practicable Date, none of the following Directors had any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, as at the Latest Practicable Date, none of the following Directors held any position in the Company or any other member of the Group, or any directorships in other public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years; and the following Directors did not have any other relationship with any Directors, senior management, substantial Shareholders or controlling shareholder (as defined in the Listing Rules).

Save as disclosed herein, there is no other matter in relation to the re-election of following Directors that needs to be brought to the attention of the Shareholders and there is no other information relating to the following Directors which is required to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to (v) of the Listing Rules.

EXECUTIVE DIRECTOR

Mr. Yuan Jun (袁軍) (“Mr. Yuan”)

Mr. Yuan, aged 43, was appointed as an executive Director and the president of the Company on July 22, 2022. He joined Yili in July 1998 and has over 24 years of experience in the dairy industry. He started his career in the liquid milk division (液態奶事業部) of Yili, and then served as the production manager, assistant to the factory head, assistant to the general manager and general manager of various subsidiaries under the liquid milk division and the cold drink division (冷飲事業部) of Yili from May 2000 to February 2011. Mr. Yuan successively served as the production manager, assistant to the general manager and deputy general manager of the production management department under the cold drink division of Yili from February 2011 to July 2016. He successively served as the deputy general manager of the raw milk division, deputy general manager and senior deputy general manager of the liquid milk division of Yili (in charge of the overall raw milk business of Yili) from August 2016 to July 2022. Mr. Yuan has also served as a director and president of Inner Mongolia Youran, the Company’s major operating subsidiary in the PRC since July 22, 2022, and he also serves as a non-executive director of SKX, a subsidiary of the Company since February 2020. Mr. Yuan graduated from Tianjin University of Science & Technology (天津科技大學) in 2005, majoring in food science and engineering.

Mr. Yuan has entered into a service contract with the Company for a term of three years commencing from July 22, 2022, subject to retirement by rotation and re-election in accordance with the Articles of Association and the corporate governance code as set out in Appendix 14 to the Listing Rules. The service contract may be terminated in accordance with the provisions in the service contract by either party giving to the other party not less than three months’ written notice. According to the terms of Mr. Yuan’s appointment, Mr. Yuan is not entitled to any remuneration in his capacity as a Director save for any discretionary bonus and share-based compensation which the Company may, in its sole discretion, determine with reference to the Company’s business performance and his individual performance.

NON-EXECUTIVE DIRECTORS**Mr. Zhang Yujun (張玉軍) (“Mr. Zhang”)**

Mr. Zhang, aged 53, was appointed as a Director of the Company on August 24, 2020 and designated as a non-executive Director and appointed as the chairman of the Board on November 15, 2020. Mr. Zhang has over 27 years of experience in dairy industry and is primarily responsible for strategic planning of the Group and the management of the Board.

Mr. Zhang joined Yili in July 1995. He started his career in the frozen products division (冷凍公司) of Yili and served as a squad leader from July 1995 to September 1996. He served as the department head of production department at the mineral drink division (礦飲公司) of Yili from October 1996 to December 1999. He further served as the general manager of mineral drinking division (礦飲公司) of Yili from January 2000 to September 2001. Subsequently, he worked at the powdered milk division (奶粉事業部) of Yili, served as the assistant to general manager from October 2001 to December 2005 and the vice general manager in the sales and marketing department of milk powder division (奶粉事業部) from December 2005 to June 2007. Mr. Zhang worked as the vice general manager in sales and marketing department directly under the liquid milk division (液態奶事業部) from July 2007 to June 2016. He further served as the vice general manager in sales and marketing department at yogurt division (酸奶事業部) of Yili from June 2016 to July 2017. From July 2017 to August 2019, he served as the general manager of liquid milk division (液態奶事業部) of Yili. Since August 2019, Mr. Zhang has worked as the assistant to the president of Yili and the general manager of liquid milk division (液態奶事業部) of Yili.

Mr. Zhang is also a director and the chairman of Inner Mongolia Youran, a principal operating subsidiary of the Company in the PRC. He has also served as the chairman of SKX, a subsidiary of the Company in the PRC, since February 2020.

Mr. Zhang obtained his bachelor’s degree in philosophy from Inner Mongolia University (內蒙古大學) in July 1995. Mr. Zhang was awarded the qualification as an intermediate economist (中級經濟師) in December 2003.

Mr. Zhang has entered into a service contract with the Company for a term of three years which commenced from May 17, 2021. The service contract may be terminated in accordance with the provisions in the service contract by either party giving to the other party not less than three months’ written notice. He is also subject to retirement by rotation and re-election requirements at the general meetings of the Company pursuant to the Articles of Association. Mr. Zhang is not entitled to receive any emolument.

Mr. Xu, Zhan Kevin (許湛) (“Mr. Xu”)

Mr. Xu, aged 41, was appointed as a Director of the Company on August 24, 2020 and designated as a non-executive Director on November 15, 2020. Mr. Xu is primarily responsible for providing strategic advice on corporate development and making recommendations on the Company’s major operational and management decisions. Mr. Xu served at Morgan Stanley Asia Limited from January 2006 to August 2007. He served as an associate at TPG Capital Limited from August 2007 to June 2009, a senior associate at Apax Partners Hong Kong Limited from November 2009 to August 2011, and a managing director at PAG Asia Capital since September 2011. Mr. Xu serves as a non-executive director of Alphamab Oncology (康寧傑瑞生物製藥), a company listed on the Stock Exchange (stock code: 9966) since November 2018. Mr. Xu is also a director of Inner Mongolia Youran, a principal operating subsidiary of our Company in the PRC. Mr. Xu obtained his bachelor’s degree in electronic engineering from Zhejiang University (浙江大學) in June 2003 and his master’s degree of management science and engineering from Stanford University in January 2006.

Mr. Xu has entered into a service contract with the Company for a term of three years which commenced from May 17, 2021. The service contract may be terminated in accordance with the provisions in the service contract by either party giving to the other party not less than one month’s written notice. He is also subject to retirement by rotation and re-election requirements at the general meetings of the Company pursuant to the Articles of Association. Mr. Xu is not entitled to receive any emolument.

INDEPENDENT NON-EXECUTIVE DIRECTOR**Ms. Xie Xiaoyan (謝曉燕) (“Ms. Xie”)**

Ms. Xie, aged 52, has been an independent non-executive Director since June 7, 2021. Ms. Xie is primarily responsible for supervising and providing independent judgment to the Board.

Ms. Xie worked at Inner Mongolia Dahua Certified Public Accountant (內蒙古大華會計師事務所, previously known as Inner Mongolia Certified Public Accountant (內蒙古會計師事務所)) as auditor, project manager, principal accountant and senior accounting manager from January 1997 to July 2006. Ms. Xie has been working at Inner Mongolia University of Technology (內蒙古工業大學) responsible for the teaching and research works for undergraduate and graduate students since August 2006 and is currently a professor of the Department of Accounting of School of Economic and Management of Inner Mongolia University of Technology (內蒙古工業大學).

Ms. Xie has entered into an appointment letter with the Company for a term of three years which commenced from May 17, 2021. The appointment letter may be terminated in accordance with the provisions in the appointment letter by either party giving to the other party not less than one month’s written notice. She is also subject to retirement by rotation and re-election requirements at the general meetings of the Company pursuant to the Articles of Association. Ms. Xie is entitled to receive a Director’s fee of RMB200,000 per annum. Her Director’s fee is determined by the Board based on the recommendation of the remuneration committee of the Company taking into account, among other factors, her qualifications and experience, responsibilities undertaken, contribution to the Company.

The following is an explanatory statement required to be sent to the Shareholders under the Listing Rules in connection with the proposed Repurchase Mandate.

SHARE CAPITAL

As at the Latest Practicable Date, the total number of issued Shares was 3,795,404,000. Subject to the passing of the resolution granting the Repurchase Mandate and on the basis that no further Shares are issued or repurchased before the AGM, the Company will be allowed to repurchase a maximum of 379,540,400 Shares which represents 10% of the issued Shares of the Company as at the date of the AGM during the period from the passing of the above resolution and ending on the earliest of the conclusion of the next annual general meeting of the Company, or the expiry of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles of Association to be held or the passing of an ordinary resolution by Shareholders in the general meeting of the Company revoking or varying such mandate.

REASONS FOR AND FUNDING OF REPURCHASES

The Directors believe that it is in the best interests of the Company and the Shareholders to have a general authority from the Shareholders to enable the Company to repurchase its Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the Company's net asset value and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole.

In repurchasing Shares, the Company may only apply funds entirely from the Company's available cash flow or working capital, which will be funds legally available for such purpose in accordance with the Listing Rules, its memorandum and Articles of Association and the applicable laws of the Cayman Islands. Such funds include but are not limited to the Company's profits available for distribution.

The Directors believe that if the Repurchase Mandate is exercised in full, it may not have a material adverse impact on the working capital and gearing position of the Company, as compared with the positions disclosed in the audited consolidated financial statements of the Company as at December 31, 2022, being the date to which the latest published audited consolidated financial statements of the Company were made up. The Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels.

GENERAL

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, their respective close associates (as defined in the Listing Rules), have any present intention, if the Repurchase Mandate is approved by the Shareholders, to sell any Shares to the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles of Association and the applicable laws of the Cayman Islands.

TAKEOVERS CODE

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition of voting rights for the purposes of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of the Company and thereby become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, to the best knowledge and belief of the Directors, PAG Capital Limited, Pacific Alliance Group Limited, Mr. Shan Weijian and PAG were deemed to be interested in 1,416,134,393 Shares under the SFO through its/his controlled corporations, representing approximately 37.31% of the total number of issued Shares. In the event that the Directors exercise the Repurchase Mandate in full, such interests will be increased to approximately 41.46% of the total number of issued Shares, which would trigger an obligation to make a mandatory offer under the Takeovers Code. As at the Latest Practicable Date, to the best knowledge and belief of the Directors, Yili was deemed to be interested in 1,320,800,000 Shares under the SFO through its controlled corporations, representing approximately 34.80% of the total number of issued Shares. In the event that the Directors exercise the Repurchase Mandate in full, such interests will be increased to approximately 38.67% of the total number of issued Shares, which would trigger an obligation to make a mandatory offer under the Takeovers Code. The Directors have no present intention to repurchase the Shares to the extent that will trigger the obligations under the Takeovers Code for any Shareholder to make a mandatory offer. Save as disclosed herein, the Directors are not aware of any consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised.

The Listing Rules prohibit a company from making repurchases of Shares on the Stock Exchange if the result of the repurchase would be that less than 25% (or such other prescribed minimum percentage as determined by the Stock Exchange) of the total number of issued shares would be in public hands. As disclosed in the Prospectus, the Stock Exchange has granted the Company a waiver (the "**Waiver**") from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules, which requires that at least 25% of an issuer's total issued share capital must be held by the public. Pursuant to the Waiver, the Company's minimum

public float shall be 18.85% of the Company's total issued share capital (the "**Prescribed Minimum Percentage**"). Accordingly, the Company shall be prohibited from making repurchases of Shares on the Stock Exchange if the result of the repurchase would be less than the Prescribed Minimum Percentage of the shares would be in public hands. For further information on the Waiver, please refer to pages 101 and 102 of the Prospectus. The Directors do not propose to repurchase Shares which would result in less than the Prescribed Minimum Percentage of Shares in public hands.

SHARE REPURCHASE MADE BY THE COMPANY

No repurchases of Shares have been made by the Company during the six months prior to the Latest Practicable Date (whether on the Stock Exchange or otherwise).

SHARE PRICES

The highest and lowest prices at which the Shares of the Company were traded on the Stock Exchange in each of the twelve months immediately prior to the Latest Practicable Date were as follows:

Month	Highest prices HK\$	Lowest prices HK\$
2022		
April	3.82	3.19
May	3.50	2.90
June	3.28	2.92
July	3.28	2.85
August	2.89	2.37
September	2.40	1.78
October	2.23	1.53
November	2.03	1.53
December	2.36	1.96
2023		
January	2.30	2.07
February	2.32	1.87
March	2.13	1.83
April (up to the Latest Practicable Date)	2.28	1.88

1. RESPONSIBILITY STATEMENT

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

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

Interests of Directors and chief executive in the Company

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or which (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules.

Interests of substantial Shareholders in the Company

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

Name of Shareholder	Nature of interest	Number of Shares ⁽¹⁾	Percentage of issued share capital (%) ⁽²⁾
Yili ⁽³⁾	Interest in controlled Corporations	1,320,800,000(L)	34.80(L)
China Youran Dairy Holding Limited ⁽³⁾	Beneficial interest	800,000,000(L)	21.08(L)
Jingang ⁽³⁾	Beneficial interest	520,800,000(L)	13.72(L)

Name of Shareholder	Nature of interest	Number of Shares ⁽¹⁾	Percentage of issued share capital (%) ⁽²⁾
PAG ⁽⁴⁾	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
Pacific Alliance Group Limited ⁽⁴⁾	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
Shan Weijian ⁽⁴⁾	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
PAG Capital Limited ⁽⁴⁾	Interest in controlled corporations	1,416,134,393(L)	37.31(L)
PAG Dairy GP I Limited ⁽⁴⁾	Interest in controlled corporations	1,044,550,742(L)	27.52(L)
PAG Dairy I LP ⁽⁴⁾	Interest in controlled corporations	1,044,550,742(L)	27.52(L)
PAG II ⁽⁴⁾	Beneficial interest	822,602,530(L)	21.67(L)
PAG III ⁽⁴⁾	Beneficial interest	221,948,212(L)	5.85(L)
PAG Asia Capital GP I Limited ⁽⁴⁾	Interest in controlled corporations	371,583,651(L)	9.79(L)
PAG Asia I LP ⁽⁴⁾	Interest in controlled corporations	371,583,651(L)	9.79(L)
PAG I ⁽⁴⁾	Beneficial interest	371,583,651(L)	9.79(L)
Meadowland Investment Limited Partnership ⁽⁵⁾	Beneficial interest	564,982,819(L)	14.89(L)

Notes:

1. The letter “L” denotes the Shareholder’s long position in such Shares.
2. The percentages are calculated on the basis of 3,795,404,000 Shares in issue as at the Latest Practicable Date.
3. China Youran Dairy Holding Limited directly held 800,000,000 Shares and Jingang directly held 520,800,000 Shares. Each of China Youran Dairy Holding Limited and Jingang is a wholly-owned subsidiary of Yili. Accordingly, Yili was deemed to be interested in an aggregate of 1,320,800,000 Shares.
4. PAGAC Yogurt Holding I Limited (“**PAG I**”) directly held 371,583,651 Shares in the long position, and PAGAC Yogurt Holding II Limited (“**PAG II**”) held 822,602,530 Shares in the long position. In addition, PAGAC Yogurt Holding III Limited (“**PAG III**”) was interested in 221,948,212 Shares by way of subscription of convertible notes in the amount of US\$99 million. PAG I, PAG II and PAG III are each wholly-owned subsidiaries of funds managed by PAG Capital Limited. PAG I is a wholly-owned subsidiary of PAG Asia I LP, whose general partner is PAG Asia Capital GP I Limited. Accordingly, PAG Asia I LP and PAG Asia Capital GP I Limited were deemed to be interested in 371,583,651 Shares. PAG II and PAG III are each wholly-owned subsidiary of PAG Dairy I LP, whose general partner is PAG Dairy GP I Limited. Accordingly, PAG Dairy I LP and PAG Dairy GP I Limited were deemed to be interested in an aggregate of 1,044,550,742 Shares. PAG Capital Limited is indirectly held as to 100% by Pacific Alliance Group Limited, which is in turn indirectly held as to 100% by PAG. PAG is indirectly held as to 35.21% by Mr. Shan Weijian. Accordingly, PAG Capital Limited, Pacific Alliance Group Limited, Mr. Shan Weijian and PAG were deemed to be interested in an aggregate of 1,416,134,393 Shares in the long position.
5. Meadowland Investment Limited Partnership is an exempted limited partnership established under the laws of the Cayman Islands.

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

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

None of the Directors has, or has had, any direct or indirect interest in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Group since December 31, 2022, the date to which the latest published audited financial statements of the Group were made up, and none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' COMPETING INTERESTS

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

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there has not been any material adverse change in the financial or trading position of the Group since December 31, 2022, being the date to which the latest published audited financial statements of the Company were made up.

7. EXPERT QUALIFICATION AND CONSENT

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

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

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

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

As at the Latest Practicable Date, the Independent Financial Adviser had no direct or indirect interest in any assets which had been since December 31, 2022 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.

8. DOCUMENTS ON DISPLAY

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

- (a) the Raw Milk Purchase and Sale Framework Agreement; and
- (b) the Financial Services Framework Agreement.

NOTICE OF ANNUAL GENERAL MEETING



優然牧業
YOURAN DAIRY

China Youran Dairy Group Limited

中國優然牧業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 9858)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of China Youran Dairy Group Limited will be held at No. 169, Hexi Road, Saihan District, Hohhot, Inner Mongolia, China at 10:00 a.m. on Wednesday, May 17, 2023 for the following purposes:

1. To receive and adopt the audited consolidated financial statements and the reports of the Directors and auditors of the Company for the year ended December 31, 2022.
2. (a) To re-elect the following retiring Directors:
 - (i) to re-elect Mr. Yuan Jun as an executive Director;
 - (ii) to re-elect Mr. Zhang Yujun as a non-executive Director;
 - (iii) to re-elect Mr. Xu, Zhan Kevin as a non-executive Director;
 - (iv) to re-elect Ms. Xie Xiaoyan as an independent non-executive Director;
and
- (b) To authorize the Board to fix the remuneration of the Directors of the Company.
3. To re-appoint Deloitte Touche Tohmatsu as the auditors of the Company to hold office until the conclusion of the next annual general meeting of the Company and to authorize the Board to fix their remuneration for the year ending December 31, 2023.
4. To declare a final dividend of RMB0.022 per Share for the year ended December 31, 2022.

NOTICE OF ANNUAL GENERAL MEETING

5. To consider and, if thought fit, to pass, with or without modification, the following resolutions as ordinary resolutions:

(a) **“THAT:**

- (i) subject to paragraph (iii) below, the exercise by the Directors during the Relevant Period (as defined hereinafter) of all the powers of the Company to allot, issue and/or otherwise deal with additional Shares or securities convertible into such Shares, or options, warrants or similar rights to subscribe for Shares or such convertible securities of the Company and to make or grant offers, agreements and/or options (including bonds, warrants and debentures convertible into Shares) which may require the exercise of such powers be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period (as defined hereinafter) to make or grant offers, agreements and/or options which may require the exercise of such power after the end of the Relevant Period;
- (iii) the aggregate number of Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors during the Relevant Period (as defined hereinafter) pursuant to paragraph (i) above, otherwise than pursuant to:
 - (1) any Rights Issue (as defined hereinafter);
 - (2) the grant or exercise of any option under any share option scheme of the Company (if applicable) or any other option scheme or similar arrangements for the time being adopted for the grant or issue to the Directors, officers and/or employees of the Company and/or any of its subsidiaries and/or other eligible participants specified thereunder of options to subscribe for Shares or rights to acquire Shares;
 - (3) any scrip dividend or similar arrangements providing for the allotment and issuance of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association;or

NOTICE OF ANNUAL GENERAL MEETING

(4) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any existing convertible notes issued by the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into Shares, shall not exceed the aggregate of:

(a) 20 % of the aggregate number of issued Shares of the Company as at the date of passing this resolution; and

(b) (if the Board is so authorized by resolution numbered 5(c)) the aggregate number of Shares repurchased by the Company subsequent to the passing of resolution numbered 5(b) (up to a maximum equivalent to 10% of the aggregate number of issued Shares of the Company as at the date of passing resolution numbered 5(b)),

and the approval shall be limited accordingly; and

(iv) for the purpose of this resolution:

(a) “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

(1) the conclusion of the next annual general meeting of the Company;

(2) the expiry of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles of Association to be held; or

(3) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors by this resolution; and

(b) “Rights Issue” means an offer of Shares or an issue of warrants, options or other securities giving rights to subscribe for Shares, open for a period fixed by the Directors to holders of Shares on the register of members on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or, having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the exercise or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, any recognized regulatory body or any stock exchange applicable to the Company).”

NOTICE OF ANNUAL GENERAL MEETING

(b) **“That:**

- (i) subject to paragraph (ii) of this resolution, the exercise by the Directors during the Relevant Period (as defined hereinafter) of all the powers of the Company to repurchase Shares of the Company on the Stock Exchange or on any other stock exchange on which the Shares of the Company may be listed and which is recognized for this purpose by the Securities and Futures Commission and the Stock Exchange under the Takeovers Code and, subject to and in accordance with all applicable laws and the Listing Rules, be and is hereby generally and unconditionally approved;
- (ii) the aggregate number of the Shares to be repurchased pursuant to the approval in paragraph (i) of this resolution shall not exceed 10% of the aggregate number of issued Shares as at the date of passing of this resolution, and the said approval shall be limited accordingly;
- (iii) subject to the passing of each of the paragraphs (i) and (ii) of this resolution, any prior approvals of the kind referred to in paragraphs (i) and (ii) of this resolution which had been granted to the Directors and which are still in effect be and are hereby revoked; and
- (iv) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiry of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles of Association to be held; or
- (c) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors by this resolution.”

NOTICE OF ANNUAL GENERAL MEETING

- (c) “**That** conditional upon the resolutions numbered 5(a) and 5(b) set out in this notice being passed, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and/or otherwise deal with new Shares and to make or grant offers, agreements and options which might require the exercise of such powers pursuant to the resolution numbered 5(a) set out in this notice be and is hereby extended by the addition to the total number of the issued Shares which may be allotted or agreed conditional or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the total number of the issued Shares repurchased by the Company under the authority granted pursuant to resolution numbered 5(b) set out in this notice, provided that such extended amount shall represent up to 10% of the total number of issued Shares as at the date of passing of the said resolutions.”
6. To consider and, if thought fit, to pass, with or without modification, the following resolutions as an ordinary resolution:

“THAT

- (a) the renewal of the Raw Milk Purchase and Sale Framework Agreement and the transactions contemplated (including the annual caps) thereunder, details of which are set out in the circular (the “Circular”) of the Company dated April 25, 2023, be and are hereby approved, confirmed and ratified; and
- (b) any one or more Directors of the Company be and are hereby authorized to do all such acts and things as they consider necessary and to sign and execute all such documents (including under the seal of the Company), and to take all such steps which in their opinion may be necessary, appropriate, desirable or expedient for the purpose of giving effect to the Raw Milk Purchase and Sale Framework Agreement and completing the transactions contemplated thereunder.”

NOTICE OF ANNUAL GENERAL MEETING

7. To consider and, if thought fit, to pass, with or without modification, the following resolutions as an ordinary resolution:

“THAT

- (a) the renewal of the Financial Services Framework Agreement and the transactions contemplated (including the annual caps) thereunder, details of which are set out in the Circular, be and are hereby approved, confirmed and ratified; and
- (b) any one or more directors of the Company be and are hereby authorized to do all such acts and things as they consider necessary and to sign and execute all such documents (including under the seal of the Company), and to take all such steps which in their opinion may be necessary, appropriate, desirable or expedient for the purpose of giving effect to the Financial Services Framework Agreement and completing the transactions contemplated thereunder.”

By order of the Board
China Youran Dairy Group Limited
Zhang Yujun
Chairman and Non-Executive Director

Hong Kong, April 25, 2023

Registered office:
89 Nexus Way Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

*Headquarter and principal place of
business in the PRC:*
No. 169, Hexi Road, Saihan District
Hohhot, Inner Mongolia
China

Principal place of business in Hong Kong:
31/F, Tower Two
Times Square
1 Matheson Street, Causeway Bay
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notes:

- (i) Resolution numbered 5(c) will be proposed to the Shareholders for approval provided that resolutions numbered 5(a) and 5(b) are passed by the Shareholders.
- (ii) A Shareholder entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. The proxy does not need to be a Shareholder.
- (iii) Where there are joint registered holders of any Shares, any one of such persons may vote at the AGM (or at any adjournment of it), either personally or by proxy, in respect of such Shares as if he/she were solely entitled thereto but the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (iv) In order to be valid, the completed form of proxy, must be deposited at the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong 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 (such certification to be made by either a notary public or a solicitor qualified to practice in Hong Kong), at least 48 hours before the time appointed for holding the above meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the AGM or any adjournment thereof if they so wish.
- (v) The register of members of the Company will be closed from Friday, May 12, 2023 to Wednesday, May 17, 2023, both days inclusive, in order to determine the eligibility of Shareholders to attend the above meeting, during which period no Share transfers will be registered. To be eligible to attend the above meeting, all properly completed transfer forms accompanied by the relevant Share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, May 11, 2023.

The register of members of the Company will be closed from Wednesday, May 24, 2023 to Thursday, May 25, 2023, both days inclusive, for the purpose of ascertaining Shareholders' entitlement to the final dividend. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant Share certificates must be lodged with the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Tuesday, May 23, 2023.

- (vi) In respect of resolution numbered 2 above, Mr. Yuan Jun, Mr. Zhang Yujun, Mr. Xu, Zhan Kevin and Ms. Xie Xiaoyan will retire, and being eligible to offer themselves for re-election. Details of the retiring Directors above are set out in Appendix I to the circular of the Company dated April 25, 2023 (the "**Circular**").
- (vii) In respect of the resolution numbered 5(a) above, the Directors wish to state that they have no immediate plans to issue any new Shares referred therein. Approval is being sought from the Shareholders as a general mandate for the purposes of the Listing Rules.
- (viii) In respect of the resolution numbered 5(b) above, the Directors wish to state that they will exercise the powers conferred by the general mandate to repurchase Shares of the Company in circumstances which they deem appropriate and for the benefits of Shareholders. The explanatory statement containing the information necessary to enable Shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own Shares, as required by the Listing Rules, is set out in Appendix II to the Circular.
- (ix) Pursuant to Rule 13.39(4) of the Listing Rules, voting for all the resolutions set out in this notice will be taken by poll at the AGM.
- (x) Unless the context otherwise requires, capitalized terms used in this notice shall have the same meanings as those defined in the Circular.
- (xi) As at the date of this notice, the Company's executive Directors are Mr. Yuan Jun and Mr. Dong Jiping; non-executive Directors are Mr. Zhang Yujun, Mr. Xu Jun, Mr. Xu, Zhan Kevin and Mr. Qiu Zhongwei; and independent non-executive Directors are Ms. Xie Xiaoyan, Mr. Yao Feng and Mr. Shen Jianzhong.