

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in the Company, you should at once hand this Composite Document and the accompanying Forms of Acceptance to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Document and the accompanying Forms of Acceptance, make no representation as to their accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Forms of Acceptance.



China Feihe Limited
中國飛鶴有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 6186)



YuanShengTai Dairy Farm Limited
原生態牧業有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1431)

COMPOSITE DOCUMENT
CONDITIONAL VOLUNTARY GENERAL OFFER BY
CLSA LIMITED ON BEHALF OF
CHINA FEIHE LIMITED
FOR ALL OF THE OUTSTANDING SHARES OF
YUANSHENGTAI DAIRY FARM LIMITED AND FOR
THE CANCELLATION OF ALL OF THE OUTSTANDING OPTIONS
OF YUANSHENGTAI DAIRY FARM LIMITED

Exclusive Financial Adviser to the Offeror



Independent Financial Adviser to the Independent Board Committee



Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

This Composite Document is jointly issued by the Company and the Offeror to the Shareholders. A letter from CLSA Limited containing, among other things, the terms of the Offers is set out on pages 7 to 26 of this Composite Document. A letter from the Board is set out on pages 27 to 33 of this Composite Document. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders and the Independent Optionholders in relation to the Offers is set out on pages 34 to 35 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in relation to the Offers is set out on pages 36 to 74 of this Composite Document.

The procedures for acceptance and settlement of the Offers are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance. Acceptances of the Offers should be received by the Registrar, by no later than 4:00 p.m. on Friday, 20 November 2020, being the Closing Date, or such later date and time as the Offeror may decide and announce and the Executive may approve.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Forms of Acceptance to any jurisdiction outside of Hong Kong should read the section headed "10. General matters relating to the Offers — Availability of the Offers" of the "Letter from CLSA Limited" to this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder wishing to accept the Offers to satisfy himself, herself or itself as to full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements. Overseas Shareholders and Overseas Optionholders are advised to seek professional advice on deciding whether to accept the Offers.

30 October 2020

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to changes. Any changes to the timetable will be jointly announced by the Offeror and the Company by way of announcement(s) as soon as possible. Unless otherwise expressly stated, all references to dates and times contained in this Composite Document refer to Hong Kong dates and times.

Despatch date of this Composite Document and
the accompanying Forms of Acceptance and
commencement of the Offers (*Note 1*) Friday, 30 October 2020

First Closing Date (*Note 2*) Friday, 20 November 2020

Latest time for acceptance of the
Offers on the first Closing Date (*Note 3*) 4:00 p.m. on
Friday, 20 November 2020

Announcement of the results of the Offers
on the first Closing Date 7:00 p.m. on
Friday, 20 November 2020

Latest date for posting of remittances to
Shareholders and Optionholders in
respect of valid acceptances received by the first
Closing Date, assuming the Share Offer and the
Option Offer become, or are declared, unconditional
in all respects on the first Closing Date (*Note 4*) Tuesday, 1 December 2020

Latest time and date for acceptance of the Offers
assuming the Share Offer and the Option
Offer become, or are declared, unconditional
in all respects on the first Closing Date (*Note 5*) 4:00 p.m. on
Friday, 4 December 2020

Latest time and date for declaring the Share Offer
unconditional as to acceptance (*Note 5*) 7:00 p.m. on
Tuesday, 29 December 2020

Latest time and date by which the Share Offer
and the Option Offer can become or
be declared unconditional
in all respects, assuming the Share Offer and
the Option Offer become, or are declared,
unconditional as to acceptance on the latest time and
date for declaring the Share Offer
unconditional as to acceptance (*Note 5*) 7:00 p.m. on
Tuesday, 19 January 2021

EXPECTED TIMETABLE

Notes:

1. The Offers are made on Friday, 30 October 2020, being the date of posting of this Composite Document, and are capable of acceptance from and on that date.
2. The Share Offer and the Option Offer will close for acceptances at 4:00 p.m. on Friday, 20 November 2020 unless the Offeror revises or extends the Offers in accordance with the Code. The Offeror has the right under the Takeovers Code to extend the Offers until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Closing Date or, if the Share Offer is at that time unconditional as to acceptances, a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Share Offer and the Option Offer are closed to those Shareholders and those Optionholders who have not accepted the Share Offer and the Option Offer, respectively.
3. Beneficial owners of the Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

Acceptances of the Offers are irrevocable and are not capable of being withdrawn, except in the circumstances as set out in the section headed "7 Right of Withdrawal" in Appendix I of this Composite Document.

4. Remittances in respect of the consideration for the Shares tendered under the Share Offer will be posted to those Shareholders accepting the Share Offer as soon as possible, but in any event within seven (7) Business Days following the later of (i) the Unconditional Date and (ii) the date on which the duly completed acceptance of the Share Offer and the relevant documents of title in respect of such acceptance are received by the Offeror (or its agent).

Remittances in respect of consideration for the Options tendered under the Option Offer will be posted to those Optionholders accepting the Option Offer as soon as possible, but in any event within seven (7) Business Days following the later of (i) the Unconditional Date and (ii) the date on which the duly completed acceptance of the Option Offer and the relevant documents of title in respect of such acceptance are received by the Offeror (or its agent).

5. In accordance with the Takeovers Code, when the Share Offer and the Option Offer become or are declared unconditional in all respects, at least 14 days' notice in writing must be given before the Share Offer and the Option Offer are closed to those Shareholders and Optionholders who have not accepted the Share Offer and the Option Offer, respectively. In accordance with the Takeovers Code, except with the consent of the Executive, the Share Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the day this Composite Document is posted. Accordingly, unless the Share Offer has previously become unconditional as to acceptances, the Share Offer and the Option Offer will lapse on Tuesday, 29 December 2020 unless extended with the consent of the Executive. The Option Offer is conditional on the Share Offer becoming or being declared unconditional in all respects and will remain open for so long as the Share Offer remains open for acceptance.

In accordance with Rule 15.7 of the Takeovers Code, except with the consent of the Executive, all conditions must be fulfilled, or the Offer must lapse within 21 days of the first Closing Date, or of the date the Offer becomes or is declared unconditional as to acceptances, whichever is later.

IMPORTANT NOTICES

NOTICE TO SHAREHOLDERS OUTSIDE OF HONG KONG

The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws and regulations of the relevant jurisdictions. Overseas Shareholders and Overseas Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe all applicable legal and regulatory requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required or the compliance with all necessary formalities and/or legal requirements and the payment of any transfer or other taxes and duties or other required payments due by such accepting Overseas Shareholders and Overseas Optionholders in respect of such jurisdiction in relation to the Offers.

Any acceptance by any Shareholder or Optionholder will be deemed to constitute a representation and warranty from such Shareholder or Optionholder to the Offeror, CLSA Limited, CLSA Capital Markets and the Company that all local laws and requirements have been complied with and that the Offers can be lawfully accepted by such Shareholder or Optionholder under the laws of the relevant jurisdiction. Shareholders and Optionholders should consult their professional advisers if in doubt.

Notice to Shareholders in the United States

The Share Offer will be made for the securities of a Bermuda company and is subject to Hong Kong disclosure and other procedural requirements, which are different from those of the United States securities laws. In addition, US holders of the Shares should be aware that this Composite Document has been prepared in accordance with Hong Kong format and style, which differs from United States format and style. The Share Offer will be extended into the United States pursuant to the applicable US tender offer rules or certain available exemption therefrom and otherwise in accordance with the requirements of the SFO. Accordingly, the Share Offer will comply with the relevant Hong Kong disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments, which differ from those applicable under US tender offer procedures and law.

The receipt of cash pursuant to the Share Offer by a US holder of the Shares may be a taxable transaction for US federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of the Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of acceptance of the Share Offer.

IMPORTANT NOTICES

The financial information of the Group included in this Composite Document has been extracted from the audited financial statements of the Group for the three years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the unaudited financial statements of the Group for the six months ended 30 June 2020 which have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. Such financial information may not be wholly comparable to financial information of US companies or companies whose financial statements are solely prepared in accordance with Generally Accepted Accounting Principles in the United States.

It may be difficult for US holders of Shares to enforce their rights and claims arising out of the US federal securities laws, since CLSA Limited, CLSA Capital Markets, the Offeror and the Company are located in a country other than the United States, and some or all of their respective officers and directors may be residents of a country other than the United States. In addition, most of the assets of the CLSA Limited, CLSA Capital Markets, the Offeror and the Group are located outside the United States. US holders of Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the securities laws of the United States. Further, it may be difficult for US holders of Shares to effect service of process within the United States upon the Offeror or the Company or their respective officers or directors, or to enforce against them a judgment of a US Court predicated upon the federal or state securities laws of the United States.

In accordance with normal Hong Kong practice and pursuant to Rule 14e-5(b) of the US Exchange Act, the Offeror hereby discloses that it or its affiliates or its nominees, or their respective brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, other than pursuant to the Offers, before or during the period in which the Offers remain open for acceptance. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices provided that any such purchase or arrangement complies with applicable law, including but not limited to the Takeovers Code, and is made outside the United States. Any information about such purchases will be reported to the SFC and will be available on the SFC website at <http://www.sfc.hk/>.

Please refer to the section headed “10. General matters relating to the Offers — Availability of the Offers” of the “Letter from CLSA Limited” in this Composite Document for further information.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements.

The Offeror assumes no obligation and does not intend to update these forward-looking statements, except as required pursuant to applicable laws and the Takeovers Code.

DEFINITIONS

In this Composite Document, the following expressions have the meanings set out below, unless the context requires otherwise:

“Accepting Shareholders”	the Shareholders who accept the Share Offer
“Announcement”	the joint announcement dated 6 September 2020 jointly issued by the Offeror and the Company
“Anti-trust Clearance”	the submission of the formal notification and any related filings pursuant to the Anti-Monopoly Laws of the PRC to the SAMR, in connection with the Offers, and the obtaining of clearance or deemed clearance from the SAMR in respect of such filings
“associates”	has the meaning given to it in the Takeovers Code
“Beneficial Owner”	any beneficial owner of the Shares registered in the name of any nominee, trustee, depository or any other authorized custodian or third party
“Board”	the board of directors of the Company
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	the date stated in this Composite Document as the first closing date of the Share Offer or any subsequent closing date as may be announced by the Offeror and approved by the Executive
“CLSA Capital Markets”	CLSA Capital Markets Limited, a corporation licensed to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the exclusive financial adviser to the Offeror in respect of the Offers, an indirectly wholly-owned subsidiary of CITIC Securities Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6030)

DEFINITIONS

“CLSA Limited”	CLSA Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 7 (providing automated trading services) regulated activities under the SFO, being the agent making the Share Offer on behalf of the Offeror, an indirectly wholly-owned subsidiary of CITIC Securities Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6030)
“Company”	YuanShengTai Dairy Farm Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 1431)
“Composite Document”	this composite offer and response document dated 30 October 2020 in respect of the Offers jointly issued by the Offeror and the Company in accordance with the Takeovers Code, as may be revised or supplemented as appropriate
“Concert Party(ies)”	parties acting in concert with the person or party as specified as determined in accordance with the Takeovers Code
“Conditions”	the conditions of the Share Offer, as set out under the section headed “Conditions to the Offers” in the “Letter from CLSA Limited” of this Composite Document
“Despatch Date”	30 October 2020, the date of despatch of this Composite Document containing details of the Offers
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Forms of Acceptance”	the WHITE Form of Share Offer Acceptance and the PINK Form of Option Offer Acceptance, and “Form of Acceptance” shall mean any one of them
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited

DEFINITIONS

“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, namely, Mr. Meng Jingzong, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo
“Independent Financial Adviser” or “Shenwan Hongyuan”	Shenwan Hongyuan Capital (H.K.) Limited, a wholly owned subsidiary of Shenwan Hongyuan (H.K.) Limited (stock code: 218.hk) and a non-wholly owned subsidiary of Shenwan Hongyuan Group Co., Ltd. (stock codes: 000166.sz and 6806.hk), being the independent financial adviser retained by the Company to advise the Independent Board Committee in connection with the Offers pursuant to Rule 2.1 of the Takeovers Code, which is a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Optionholders”	the Optionholders other than the Offeror’s Concert Parties
“Independent Shareholders”	the Shareholders other than the Offeror’s Concert Parties
“Investor Participant”	the person admitted to participate in CCASS as investor participants
“Last Trading Date”	3 September 2020, being the last full trading date prior to the suspension of trading in the Shares on the Stock Exchange pending the publication of the Announcement
“Latest Practicable Date”	27 October 2020, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information for inclusion in this Composite Document
“Leng Family Trust”	the Leng Family Trust where Mr. Leng Youbin is its settlor and the only discretionary object

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Offeror”	China Feihe Limited, an exempted company incorporated in Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6186)
“Offeror Group”	the Offeror and its subsidiaries
“Offers”	the Share Offer and the Option Offer
“Offer Period”	has the meaning ascribed thereto in the Takeovers Code and beginning on 6 September 2020, being the date of the Announcement, until the Closing Date, or such other time and/or date to which the Offeror may decide to extend or revise the Offers in accordance with the Takeovers Code
“Offer Shares”	all the Shares in issue, other than those Shares already owned by or agreed to be acquired by the Offeror
“Option Offer”	the proposal to be made by the Offeror in compliance with Rule 13 of the Takeovers Code to cancel all the outstanding Options in accordance with the terms and conditions set out in this Composite Document
“Optionholders”	the holders of the Options
“Options”	share options granted by the Company pursuant to the Share Option Scheme, whether vested or not
“Overseas Optionholder(s)”	Independent Optionholder(s) with registered address in jurisdictions outside Hong Kong
“Overseas Shareholder(s)”	Independent Shareholder(s) with registered address in jurisdictions outside Hong Kong
“PRC”	the People’s Republic of China (for the purpose of this Composite Document only, excluding Hong Kong, Macao and Taiwan)
“Property Valuer”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the independent property valuer appointed by the Company

DEFINITIONS

“Registrar”	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, the Share registrar and transfer office of the Company
“Relevant Authority(ies)”	any relevant government, governmental, quasi-governmental, statutory or regulatory authority, body, agency, tribunal, court or institution
“Relevant Period”	the period from 6 March 2020, being the date six months before the date of the Announcement, up to and including the Latest Practicable Date
“relevant securities”	has the meaning ascribed to it under Note 4 to Rule 22 of the Takeovers Code
“RMB”	Renminbi, the lawful currency of the PRC
“SAMR”	the State Administration for Market Regulation of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Share Offer”	the voluntary conditional cash offer by the Offeror to acquire all of the outstanding Shares in accordance with the terms and conditions set out in this Composite Document
“Share Offer Price”	being HK\$0.63 per Share
“Share Option Scheme”	the share option scheme adopted by the Company on 7 November 2013
“Share(s)”	ordinary share(s) in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers and Share Buy-backs published by the SFC

DEFINITIONS

“Unconditional Date”	the date on which the Offers become or are declared unconditional in all respects
“US” or “United States”	United States of America
“US Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“%”	per cent.



30 October 2020

To Shareholders and Optionholders

Dear Sir or Madam,

**CONDITIONAL VOLUNTARY GENERAL OFFER BY
CLSA LIMITED ON BEHALF OF
CHINA FEIHE LIMITED
FOR ALL OF THE OUTSTANDING SHARES OF
YUANSHENGTAI DAIRY FARM LIMITED AND FOR
THE CANCELLATION OF ALL OF THE OUTSTANDING OPTIONS
OF YUANSHENGTAI DAIRY FARM LIMITED**

1. INTRODUCTION

Reference is made to the Announcement pursuant to which the Offeror and the Company jointly announced on 6 September 2020 that CLSA Limited would, on behalf of the Offeror, make voluntary conditional cash offers (i) to acquire all of the outstanding Shares in the issued share capital of the Company; and (ii) to cancel all the outstanding Options.

This letter forms part of this Composite Document and sets out, amongst other things, certain background information of the Offeror, details of the Offers, the reasons for making the Offers and the intentions of the Offeror in relation to the Group. Further details on the terms of the Offers are set out in Appendix I — “Further Terms and Procedures for Acceptance of the Offers” to the Composite Document and in the accompanying Forms of Acceptance.

Your attention is further drawn to the “Letter from the Board” on pages 27 to 33, the “Letter from the Independent Board Committee” on pages 34 to 35 and the “Letter from the Independent Financial Adviser” on pages 36 to 74 in this Composite Document.

2. THE SHARE OFFER

As at the Latest Practicable Date, there were 4,690,496,400 Shares in issue. Subject to the Conditions, the Share Offer will be made by CLSA Limited on behalf of the Offeror on the following basis:

- i. Shareholders accepting the Share Offer will receive the Share Offer Price of HK\$0.63 per Share in cash.

LETTER FROM CLSA LIMITED

- ii. If, after the Despatch Date, any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the Shares, the Offeror reserves the right to reduce the Share Offer Price by all or any part of the amount of value of such dividend, distribution and/or, as the case may be, return of capital, in which case any reference in the Announcement, this Composite Document or any other announcement or document to the Share Offer Price will be deemed to be a reference to the Share Offer Price as so reduced.
- iii. The Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights and entitlements attaching or accruing thereto as at the Despatch Date or subsequently becoming attached or accrued thereto, including, without limitation, the right to receive in full all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the Despatch Date.
- iv. The Company confirms that as at the date of this Composite Document, (a) it has not declared any dividend, the record date of which falls on or after the expected Despatch Date; and (b) it does not have any intention to make, declare or pay any future dividend or make other distributions until the close of the Offers.

The Offeror will not increase the Share Offer Price for the Share Offer as set out above. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Share Offer Price and the Offeror does not reserve the right to increase the Share Offer Price.

The Share Offer Price

Comparisons of value

The Share Offer Price of HK\$0.63 per Share represents:

- a premium of approximately 6.8% to the closing price of the Shares of HK\$0.59 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 1.6% to the closing price of the Shares of HK\$0.62 per Share as quoted on the Stock Exchange on the Last Trading Date;

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- a premium of approximately 6.1% to the average closing price of the Shares of approximately HK\$0.59 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 8.4% to the average closing price of the Shares of approximately HK\$0.58 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 17.5% to the average closing price of the Shares of approximately HK\$0.54 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 39.4% to the average closing price of the Shares of approximately HK\$0.45 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Date;
- a discount of approximately 38.8% to the Group's audited net asset value per Share of approximately HK\$1.03 as at 31 December 2019; and
- a discount of approximately 39.2% to the Group's unaudited net asset value per Share of approximately HK\$1.04 as at 30 June 2020.

Highest and Lowest Share Prices

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.620 on 3 September, 4 September, 8 September, 9 September, 16 September, 18 September, and 8 October 2020, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.245 on 23 March 2020.

LETTER FROM CLSA LIMITED

3. THE OPTION OFFER

As at the Latest Practicable Date, there were 190,900,000 outstanding Options.

CLSA Limited will make an offer on behalf of the Offeror to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all of the outstanding Options (whether vested or not) in exchange for cash on the following basis:

In respect of Options with an exercise price of HK\$0.240:

For cancellation of each such Option HK\$0.39 in cash

In respect of Options with an exercise price of HK\$0.590:

For cancellation of each such Option HK\$0.04 in cash

In respect of Options with an exercise price of HK\$1.462:

For cancellation of each such Option HK\$0.0001 in cash

As at the Latest Practicable Date, there were 190,900,000 outstanding Options, carrying rights to subscribe for 190,900,000 new Shares. 161,500,000 of the outstanding Options have an exercise price of HK\$0.240 per Share, 22,800,000 of the outstanding Options have an exercise price of HK\$0.590 per Share, and the remaining 6,600,000 outstanding Options have an exercise price of HK\$1.462 per Share.

The price for the cancellation of each Option accepted under the Option Offer should normally be the see-through price which represents the excess of the Share Offer Price over the exercise price of each Option. As the Share Offer Price, which is HK\$0.63 per Share, is lower than the exercise prices of 6,600,000 outstanding Options with the exercise price of HK\$1.462, the 6,600,000 outstanding Options are currently out-of-the-money. As such, the Option Offer for each of such Options will be made with HK\$0.0001 in cash for the cancellation of each of such outstanding Options.

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

4. VALUE OF THE OFFERS

As at the Latest Practicable Date, there were 4,690,496,400 Shares in issue and 190,900,000 outstanding Options.

- i. Based on the Share Offer Price of HK\$0.63 per Share and assuming that there is no change in the issued share capital of the Company, no outstanding Options are exercised and the Share Offer and the Option Offer are accepted in full:

LETTER FROM CLSA LIMITED

- (a) the value of the Share Offer will be HK\$2,955,012,732; and
 - (b) the total amount to satisfy the cancellation of all outstanding Options will be HK\$63,897,660.
- ii. Based on the Share Offer Price of HK\$0.63 per Share and assuming that there is no change in the issued share capital of the Company, all in-the-money Options are exercised in full and the Share Offer is accepted in full (including all Shares issued and allotted as a result of the exercise of the Options):
- (a) the value of the Share Offer will be HK\$3,071,121,732; and
 - (b) the total amount to satisfy the cancellation of all out-of-the-money Options will be HK\$660.

Settlement of consideration

Settlement of consideration in respect of acceptances of the Offers will be made as soon as possible but in any event within seven (7) Business Days following the later of (i) the Unconditional Date and (ii) the date on which the duly completed acceptance of the Offers and the relevant documents of title in respect of such acceptance are received by the Offeror (or its agent).

No fraction of a cent will be payable and the amount of cash consideration payable to a Shareholder or Optionholder (as the case may be) who accepts the Share Offer or the Option Offer (as applicable) will be rounded up to the nearest cent.

Financial Resources Available to the Offeror

Assuming all in-the-money Options will be exercised, the financial resources required from the Offeror to satisfy the consideration for the Offers are HK\$3,071,122,392.

The Offeror intends to finance the consideration payable by the Offeror through its internal resources (including HK\$1,310,940,000 from the proceeds of the initial public offering and listing of the Offeror's shares on the Stock Exchange). CLSA Capital Markets, being the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offers.

Others

Save as disclosed in the sections headed "The Share Offer" and "The Option Offer" in this "Letter from CLSA Limited", there are no other outstanding Shares, Options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other types of securities in the Company.

5. CONDITIONS OF THE OFFERS

The Share Offer

The Share Offer is subject to the following Conditions:

- (a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which will result in the Offeror and its Concert Parties holding at least 50% of the voting rights in the Company;
- (b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date (or, if earlier, the Unconditional Date) save for any temporary suspension(s) of trading of the Shares as a result of the Offers and no indication being received on or before the Closing Date (or, if earlier, the Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn;
- (c) no event having occurred which would make the Offers or the acquisition of any of the Shares under the Share Offer void, unenforceable or illegal or prohibit implementation of the Offers; and
- (d) no Relevant Authority(ies) in the PRC, Hong Kong, Cayman Islands and Bermuda having taken or instigated any action, proceeding, suit, investigation or enquiry, or enacted or made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Offers or the acquisition of any of the Shares under the Offers void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions, limitations or obligations with respect to, the Offers (other than such items or events above as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offers).

As part of Conditions (c) and (d) above, the Anti-trust Clearance is required for the Share Offer to become or be declared unconditional in all respects and for the Offers to complete as completion of the Offers without first obtaining the Anti-trust Clearance would constitute a violation of the Anti-Monopoly Laws of the PRC.

The Offeror has submitted PRC domestic anti-trust filings with the SAMR in respect of the Offers and obtained the Anti-trust Clearance as of the Latest Practicable Date.

The Offeror reserves the right to waive, in whole or in part, all or any of the Conditions set out above save that Condition (a) cannot be waived.

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Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror should not invoke any of the Conditions so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Offers.

The Option Offer

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects.

In accordance with Rule 15.3 of the Takeovers Code, the Offeror will publish an announcement when the Share Offer becomes or is declared unconditional as to acceptances and when the Share Offer becomes or is declared unconditional in all respects. The Offers must also remain open for acceptance for at least fourteen (14) days after the Offers become unconditional (whether as to acceptance or in all respects). Shareholders and Optionholders are reminded that the Offeror does not have any obligation to keep the Offers open for acceptance beyond this minimum 14-day period and there is no obligation of the Offeror to extend the Offers if the conditions of the Offers are not met by the first Closing Date or any subsequent closing date.

WARNING

Shareholders, Optionholders and potential investors should be aware that the Share Offer is subject to the satisfaction or waiver (where applicable) of the Conditions (including obtaining the Anti-trust Clearance), and the Option Offer is subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

Accordingly, the Offers may or may not become unconditional. Shareholders, Optionholders and potential investors should therefore exercise caution when dealing in the Shares, exercising the Options or other rights in respect of any of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

6. REASONS FOR AND BENEFITS OF THE OFFERS

Reasons and benefits for the Offeror

(1) To further strengthen the Offeror's leading position in high-end infant milk formula market

The Offeror is a leading and highly recognized Chinese brand infant milk formula company. The success of the Offeror Group's products is largely attributable to its persistency in producing the freshest and highest quality proprietary infant milk formula products.

The Offeror Group is one of the few infant milk formula providers in China to use fresh milk as the main ingredient in all of its infant milk formula products, in

contrast to major brands sold in China, which generally use imported milk powder as the primary raw material to manufacture their products, to preserve the freshness and nutrients distribution which is crucial to the quality of its infant milk formula products. High quality and stable fresh milk supply is therefore essential to the continued success of the Offeror Group's infant milk formula products.

The Company is one of the leading dairy farming companies in the PRC in terms of herd size and production volume. As one of the largest fresh milk suppliers of the Offeror, the Group has excellent geographical advantages given its farms are in close proximity of the Offeror Group's downstream processing plants enabling the freshness of the fresh milk supplied to be optimally preserved. Through the Offers, the Offeror Group will be able to secure stable supply of high-quality fresh milk from the Group to satisfy consumers' growing demand for its infant milk formula products. Furthermore, the Offeror Group will be able to drive improved performance and strategic development of the Group in line with the Offeror Group's future growth plans. This in turn will provide strong support for the growth of the Offeror Group's infant milk formula production, strengthening the Offeror Group's leading position in the infant milk formula market.

(2) To provide enhanced protection and security on the Offeror's future raw milk supplies in light of future policy trend and recent acquisition transactions in China's dairy farming industry

According to the "Implementation Rules on the Examination and Permission of Production of Infant Milk Formula Products" (嬰幼兒配方乳粉生產許可審查細則) promulgated by China Food and Drug Administration in December 2013, infant milk formula companies using raw cow milk as the main ingredient would need to have acceptable level of secured raw milk supplies before the local market supervision administration would issue production licenses under the Measures for the Administration of Food Production Licensing (食品生產許可管理辦法) to permit them to produce infant formula products in China. Furthermore, the "Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening the Reform to Strengthen Food Safety" 《中共中央、國務院關於深化改革加強食品安全工作的意見》 issued in May 2019 also supports infant milk formula companies to undergo mergers and acquisitions and restructurings, and to construct self-owned/self-controlled raw milk sources. In light of the above rules and policy issued by the PRC government, the Offeror is of the view that the future policy trend from the PRC government may potentially involve imposing more stringent requirements on raw milk supplies for dairy companies in China.

It is also noted by the Offeror that several leading dairy companies have conducted acquisition transactions in China's dairy farming industry to secure raw milk supplies. Some of the recent acquisition transactions in China's dairy farming industry include: (i) the acquisition by Meiji Holdings Co. Ltd. of 25% interest in Japfa Ltd.'s dairy farming business in China announced on 15 April 2020; (ii) the acquisition by New Hope Dairy Co., Ltd. of 100% interest in Ningxia Huanmei Dairy Development Co. Ltd. announced on 5 May 2020; (iii) the acquisition by China Mengniu Dairy Company Limited of 17.8% interest in China Shengmu Organic Milk

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Limited to become its largest shareholder announced on 28 July 2020; and (iv) the acquisition by Inner Mongolia Yili Industrial Group Company Limited of 16.6% interest in China Zhongdi Dairy Holdings Company Limited announced on 31 July 2020, and the possible mandatory conditional cash offer to acquire all the issued shares of China Zhongdi Dairy Holdings Company Limited subsequently announced on 27 September 2020.

Based on the above, the Offeror is of the view that sizeable and suitable raw milk supplies will become limited in China and the potential acquisition targets which are suitable for the Offeror's scale and operation are becoming fewer in the market. Therefore, the Offeror believes that now is a good time for it to effect the Offers to better position itself for future policy trend in China's dairy industry as well as to provide enhanced protection and security on the Offeror's future raw milk supplies.

(3) To become an integrated market leader with demonstrated ability to control the entire value chain and further enhance operation efficiency

The Offeror Group started procuring fresh milk from the Group in 2010 and has established a long-term strategic cooperation relationship with the Company to ensure the priority in obtaining sufficient high-quality fresh milk. On 23 September 2019, the Offeror Group and the Group entered into a master agreement (the "Master Supply Agreement") to confirm the priority arrangement of the Group's supply of raw milk to the Offeror Group. The Master Supply Agreement has an initial term ending on 31 December 2022, which may be extended for a period of three years upon the expiry of the initial term, subject to the approvals of the independent Shareholders of the Company in accordance with the Listing Rules. In addition to the existing contractual arrangement under the Master Supply Agreement, the Offers, which allow the Offeror Group to obtain a controlling interest in the Group, will further enhance and secure current business collaboration between the Group and the Offeror Group and will ensure the continuity of high quality and safe fresh milk supply to the Offeror Group.

In addition, the Group's expertise in farming and quality management will help the Offeror Group in quality control of raw milk purchased from smaller dairy farmers, which will further improve the Offeror Group's operational capabilities.

While the market prices of the Shares have increased in recent months, the Share Offer Price remains at a premium to such market prices. Given the low trading liquidity of the Shares as discussed in the section headed "Reasons and benefits for the Company and its Shareholders" below, the directors of the Offeror believe that the Share Offer Price is fair to the shareholders of both the Offeror and the Company, as it represents the fair value of the Shares from the perspective of the Offeror despite the premium considering the benefits discussed above, and at the same time the Share Offer presents an immediate opportunity for holders of the Offer Shares to realise their investments in the Offer Shares. Based on the foregoing and having carefully reviewed and considered the terms and conditions of the Offers, the directors of the Offeror consider that the Offers are on normal commercial terms, the

terms of which are fair and reasonable and in the interests of the Offeror and the shareholders of the Offeror as a whole.

Reasons and benefits for the Company and its Shareholders

(1) For the Company: to implement its long-term development plans while maintaining its listing status

The Offers will enhance the Company's performance by vertical integration with one of its largest customers. Such vertical integration shall enable the Company to better produce its raw milk catering specifically for the Offeror Group's needs for raw milk. By doing so, the Company shall be able to strategically utilize its resources and achieve higher production volume. Further, with closer business collaboration between the Company and the Offeror Group, the Company shall be able to better predict changes in demand for its raw milk in order to avoid waste and price fluctuations arising from product surplus and deficit caused by movements in market demand.

Also, the Company will be able to leverage the Offeror Group's good reputation in the dairy milk industry to expand the Company's business. With closer business collaboration with the Offeror Group, the Company shall be able to benefit from the Offeror Group's goodwill and expertise to enhance the Company's research and development capacities and receive technical support to develop high value-added raw milk.

After the completion of the Offers, it is expected that the business collaboration between the Company and the Offeror Group will be enhanced and enable the Company to secure steady demand for its raw milk and products. This in turn will generate reliable cash flow for the Company to improve its farms and facilities to implement long-term development plans such as purchase of new farms and development of organic and functional dairy products.

(2) For the Shareholders: to monetize Shareholders investment in the Company at a premium to the recent closing prices of the Shares

As set out in the section headed "The Share Offer" in this "Letter from CLSA Limited", during the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.620 on 3 September, 4 September, 8 September, 9 September, 16 September, 18 September, and 8 October 2020, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.245 on 23 March 2020. The average closing prices of the Shares for the 5, 10, 30, and 90 consecutive trading days up to and including the Last Trading Date were approximately HK\$0.59, HK\$0.58, HK\$0.54, and HK\$0.45 per Share respectively. The average daily trading volume of the Shares for the 6-month period, 12-month period and 24-month period up to and including the Last Trading Date were approximately 13.64 million Shares, 9.63 million Shares and 6.06 million Shares per day, representing only approximately 0.29%, 0.21% and 0.13% respectively of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the

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Shares could make it difficult for Shareholders to divest scalable on-market disposals without adversely affecting the price of the Shares.

As such, the Share Offer presents an immediate opportunity for holders of the Offer Shares to realise their investments in the Offer Shares for cash and redeploy the cash received from accepting the Offer into other investment opportunities.

With the strong synergies between the Company and the Offeror Group to be realised from vertical integration, the Company believes that its performance and operation will be greatly enhanced. For Shareholders who do not wish to realise their investment through the Offers, they will also be able to participate in the expected future growth of the Company and enjoy any resulting enhanced value and higher share price after completion of the Offers.

Based on the foregoing and having carefully reviewed and considered the terms and conditions of the Offers, the Directors consider that the Offers are on normal commercial terms, the terms of which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

7. INTENTION OF THE OFFEROR ON THE GROUP

The Offeror intends that the Group will continue to operate its business in substantially its current state. Upon close of the Offers, the Offeror will conduct a detailed review of the business operations and financial position of the Group for the purpose of formulating a sustainable business plan or strategy for the Group's long-term development. Subject to the results of the review, the Offeror may explore other business opportunities and consider whether any asset disposals, asset acquisitions, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company.

Notwithstanding the above, as at the Latest Practicable Date, no investment or business opportunity had been identified nor has the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group, and the Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

As at the Latest Practicable Date, the Offeror had not decided on the future composition of the Board. Any changes to the Board will be made in compliance with the Takeovers Code, the Listing Rules and the by-laws of the Company and further announcement will be made by the Company as and when appropriate.

Maintaining the listing status of the Company

The Offeror has no intention to privatize the Company and intends the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers.

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The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange after close of the Offers. The directors of the Offeror will jointly and severally undertake to take appropriate steps (including but not limited to selling the Shares to be held by the Offeror after the close of the Offer to independent third parties and/or procuring the Company to place new shares to independent third parties) to ensure that sufficient public float exists in the Company's Shares following the close of the Offer. Further announcement(s) will be made in this regard as and when appropriate in compliance with the Listing Rules.

Compulsory Acquisition

The Offeror does not intend to exercise any right which may be available to it under the provisions of the laws of Bermuda to compulsorily acquire any outstanding Offer Shares not acquired pursuant to the Share Offer after the close of the Offers.

8. INFORMATION OF THE OFFEROR AND THE COMPANY

Information of the Offeror

The Offeror is a company incorporated in the Cayman Islands with limited liability and listed on the Stock Exchange (stock code: 6186), with Mr. Leng Youbin being its ultimate controlling shareholder, and mainly engages in the production and sales of infant milk formula products and the retailing of nutritional supplements. Mr. Leng Youbin, being the chairman and a controlling shareholder of the Offeror, holds in aggregate 4,267,237,635 shares (including 3,869,911,881 shares held by Harneys Trustees Limited as the trustee for Leng Family Trust and 397,325,754 shares through Dasheng Limited, a company in which each of Mr. Leng Youbin, Mr. Liu Hua (an executive director of the Offeror) and Mr. Liu Shenghui (a former executive director of the Offeror) holds one third of the equity interest), representing approximately 47.77% of the total issued capital of the Offeror as at the Latest Practicable Date. Mr. Leng Youbin has over 30 years of experiences in the dairy industry. The second largest shareholder of the Offeror is North Haven Private Equity Asia IMF Holding Limited (with Morgan Stanley being its ultimate beneficial owner), holding 1,084,066,860 shares, representing approximately 12.14% of the total issued capital of the Offeror as at the Latest Practicable Date.

Information of the Company

The Company is a company incorporated in Bermuda with limited liability and listed on the Stock Exchange (stock code: 1431), mainly engaging in dairy farming business. As at the Latest Practicable Date, the Company had six dairy farms in Heilongjiang Province and one dairy farm in Jilin Province. Mr. Zhao Hongliang is the ultimate single largest Shareholder, interested in aggregate in 1,321,100,000 Shares (including 1,150,900,000 Shares beneficially owned by himself, and 170,200,000 Shares beneficially owned by Mr. Zhao Hongyu, the brother of Mr. Zhao Hongliang), representing approximately 28.17% of the total issued capital of the Company as at the Latest Practicable Date.

Relationship and transactions between the Offeror Group and the Group

The Offeror's historical relationship with the Group prior to listing of the Shares on the Stock Exchange

The Offeror has developed a stable, mutually beneficial business relationship with the Company since it commenced production operations in 2010. The Offeror's controlling shareholder, Chairman and Chief Executive Officer, Mr. Leng Youbin, is a long time business partner of Mr. Zhao Hongliang, the founder of the Company. Early in the development of the Company, Mr. Zhao Hongliang sought advice and assistance from the Offeror with respect to various matters in relation to the Company's business operations such as the choice of farm location, construction and operation of dairy farms primarily due to the Offeror's experience, reputation and business network in the dairy market in Heilongjiang province.

Prior to 2011, the Offeror built two dairy farms near its plants to produce and supply fresh milk for its infant milk formula production business. Considering the Offeror's then strategic decision to focus on the production and sales of infant milk formula products, the relationship between the Offeror and the Company and the Company's expansion strategy at the time, the Offeror entered into a sale and purchase agreement with a member of the Group on August 1, 2011 (the "**YST Sales Agreement**") to sell the two dairy farms to the Group for a total consideration of RMB849.0 million, which has been settled in the form of cash payment of RMB114.5 million, and in the form of fresh milk supplies valued at RMB734.5 million to be provided by the Group to the Offeror for a period of 18 months.

To ensure that the Offeror is able to continue to procure the level of fresh milk supplies required for its operations, on 1 August 2011, the Offeror entered into an exclusive fresh milk supply contract with the Group (the "**Exclusive Fresh Milk Supply Contract**"), pursuant to which the Group agreed to provide fresh milk supplies valued at RMB122.4 million in total on a quarterly basis for 18 months. During this 18-month period, before the Group satisfies its fresh milk supply obligation to the Offeror each quarter, it shall not provide fresh milk to any other third party.

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On 25 April, 2013, the Offeror entered into a supplemental milk supply agreement with the Group (the “**Supplemental Milk Supply Agreement**”), which replaced the Exclusive Fresh Milk Supply Contract and gave the Offeror priority to purchase fresh milk from the Group under the same conditions as those governing its agreements with other dairy products manufacturers. Under the Supplemental Milk Supply Agreement, the then-outstanding consideration of RMB532.3 million shall be satisfied in the form of fresh milk supplies valued at RMB48.4 million in total on a quarterly basis for 33 months starting 1 April, 2013 until 31 December, 2015, or cash payments.

Due to the Group’s past relationship and transactions with the Offeror Group as disclosed in the section headed “History, Development and Reorganization — our Relationship with Feihe Dairy Group” in the prospectus of the Company dated 14 November 2013, the Offeror Group has been deemed by the Stock Exchange as a connected person pursuant to Rule 14A.19 (or the then Rule 14A.06) of the Listing Rules from 26 November 2013, being the date when dealings in the Shares first commenced on the Main Board of the Stock Exchange.

Connected transactions between the Offeror Group and the Group after listing of the Shares on the Stock Exchange

As of 31 December 2015, the Group had performed all of its obligations under the YST Sales Agreement, the Exclusive Fresh Milk Supply Contract and the Supplemental Milk Supply Agreement. On 14 December 2015, the Offeror entered into a three-year master framework supply agreement with YST Group (the “**Three-Year Framework Agreement**”) to continue its strategic business relationship with the Group. This framework agreement is effective from 2016 to 2018.

On 12 May 2017, the Offeror entered into a new three-year legally binding master framework supply agreement with the Group (the “**New Framework Agreement**”) to replace the Three-Year Framework Agreement, with a view to securing long-term and stable supplies of high-quality fresh milk for the Offeror’s operations. This New Framework Agreement was approved by the independent shareholders of the Company on 17 July 2017.

On 23 September 2019, the Offeror entered into the Master Supply Agreement with the Company, to confirm the priority arrangement of the Group’s supply of raw milk to the Offeror Group for a term commencing from date when the Master Supply Agreement is approved by the independent shareholders of the Company and ending on 31 December 2022. This Master Supply Agreement was approved by the independent shareholders of the Company on 5 November 2019.

For the year ended 31 December 2019 the Offeror Group’s purchases from the Company amounted to RMB835.3 million, representing 83.95% of the Offeror’s total fresh milk procurement costs and 60.1% of the Company’s total revenue.

There is no other relationship between the Offeror (and its connected persons including Mr. Leng Youbin) and the Company (and its connected persons including Mr. Zhao Hongliang) and each of their respective associates, save as disclosed above.

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9. SHAREHOLDING STRUCTURE OF THE COMPANY

The following tables sets out the shareholding structure of the Company as at the Latest Practicable Date:

	<i>Shares</i>	As at the Latest Practicable Date <i>Approximate %</i>
Offeror	0	0.00
Offeror's Concert Parties		
Mr. Gao Yu ⁽¹⁾	500,000	0.01
Mr. Liu Gang ⁽²⁾	5,621,000	0.12
Aggregate number of Shares held by Offeror and its Concert Parties	6,121,000	0.13
Mr. Zhao Hongliang ⁽³⁾⁽⁴⁾	1,321,100,000	28.17
Mr. Chen Xiangqing ⁽⁴⁾⁽⁵⁾	3,165,000	0.06
Public Shareholders	<u>3,360,110,400</u>	<u>71.64</u>
Total	<u><u>4,690,496,400</u></u>	<u><u>100.00</u></u>

Notes:

- 1) Mr. Gao Yu is a non-executive director of the Offeror. Therefore, Mr. Gao Yu is presumed to be the Offeror's Concert Party pursuant to the Takeovers Code.
- 2) Mr. Liu Gang, being a brother of Mr. Liu Hua who is an executive director of the Offeror, is presumed to be the Offeror's Concert Party pursuant to the Takeovers Code. As at the Latest Practicable Date, other than his interest in the 5,621,000 Shares, Mr. Liu Gang is also interested in 15,000,000 Options.
- 3) As at the Latest Practicable Date, 1,150,900,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao Hongliang, and 170,200,000 Shares were beneficially owned by ZHY Asia Limited which is solely owned by Mr. Zhao Hongyu, the brother of Mr. Zhao Hongliang. ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao Hongliang and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao Hongliang was also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu. As at the Latest Practicable Date, other than his interest in the 1,321,100,000 Shares, Mr. Zhao Hongliang is also interested in 4,500,000 Options.
- 4) As at the Latest Practicable Date, Mr. Zhao Hongliang and Mr. Chen Xiangqing are both executive Directors of the Company.
- 5) As at the Latest Practicable Date, 1,115,000 Shares were beneficially owned by Mr. Chen Xiangqing. Ms. Zhang Yanxia, the wife of Mr. Chen Xiangqing, was interested in 2,050,000 Shares as at the Latest Practicable Date. As such, Mr. Chen Xiangqing was deemed to be interested in all the Shares beneficially owned by Ms. Zhang Yanxia by virtue of the SFO. As at the Latest Practicable Date, other than his interest in the 3,165,000 Shares, Mr. Chen Xiangqing was also interested in 13,500,000 Options.

10. GENERAL MATTERS RELATING TO THE OFFERS

Further Terms of the Offers

In addition to the conditions set out in the section headed “Conditions of the Offers” in this “Letter from CLSA Limited”, the Share Offer is made on the basis that acceptance of the Share Offer by any person will constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Share Offer are sold by such person or persons free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights and entitlements attaching or accruing thereto as at the Despatch Date or subsequently becoming attached or accrued thereto, including, without limitation, the right to receive all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the Despatch Date. In addition, the Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offers will be made in compliance with the Takeovers Code which is administered by the Executive. Sellers’ ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by each Accepting Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of (i) the market value of the Shares; or (ii) the consideration payable by the Offeror for such person’s Shares, whichever is higher, and will be deducted from the cash amount due to such Accepting Shareholder. The Offeror will pay the buyer’s ad valorem stamp duty in relation to the Share Offer on its own behalf and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong). No stamp duty is payable in connection with the Option Offer.

Availability of the Offers

The making of the Offers to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws and regulations of the relevant jurisdictions. Overseas Shareholders and Overseas Optionholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe all applicable legal and regulatory requirements. It is the responsibility of any such person who wishes to accept the Offers to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including but not limited to the obtaining of any governmental, exchange control or other consents and any registration or filing which may be required or the compliance with all necessary formalities and/or legal requirements and the payment of any transfer and/or other taxes and duties or other required payments due by such accepting Overseas Shareholders and Overseas Optionholders in respect of such jurisdiction in relation to the Offers.

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Any acceptance by any Shareholder or Optionholder will be deemed to constitute a representation and warranty from such Shareholder or Optionholder to the Offeror, CLSA Limited, CLSA Capital Markets and the Company that all local laws and requirements have been complied with and that the Offers can be lawfully accepted by such Shareholder or Optionholder under the laws of the relevant jurisdiction. Shareholders and Optionholders should consult their professional advisers if in doubt.

The Share Offer will be made for the securities of a Bermuda company and is subject to Hong Kong disclosure and other procedural requirements, which are different from those of the United States securities laws. In addition, US holders of the Shares should be aware that this Composite Document has been prepared in accordance with Hong Kong format and style, which differs from United States format and style. The Share Offer will be extended into the United States pursuant to the applicable US tender offer rules or certain available exemption therefrom and otherwise in accordance with the requirements of the SFO. Accordingly, the Share Offer will comply with the relevant Hong Kong disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments, which differ from those applicable under US tender offer procedures and law.

The receipt of cash pursuant to the Share Offer by a US holder of the Shares may be a taxable transaction for US federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of the Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of acceptance of the Share Offer.

The financial information of the Group included in this Composite Document has been extracted from the audited financial statements of the Group for the three years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the unaudited financial statements of the Group for the six months ended 30 June 2020 which have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. Such financial information may not be wholly comparable to financial information of US companies or companies whose financial statements are solely prepared in accordance with Generally Accepted Accounting Principles in the United States.

It may be difficult for US holders of Shares to enforce their rights and claims arising out of the US federal securities laws, since CLSA Limited, CLSA Capital Markets, the Offeror and the Company are located in a country other than the United States, and some or all of their respective officers and directors may be residents of a country other than the United States. In addition, most of the assets of CLSA Limited, CLSA Capital Markets, the Offeror and the Group are located outside the United States. US holders of Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the securities laws of the United States. Further, it may be difficult for US holders of Shares to effect service of process within the United States upon the Offeror or the Company or their respective officers or directors, or to enforce against them a judgment of a US Court predicated upon the federal or state securities laws of the United States.

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In accordance with normal Hong Kong practice and pursuant to Rule 14e-5(b) of the US Exchange Act, the Offeror hereby discloses that it or its affiliates or its nominees, or their respective brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, other than pursuant to the Offers, before or during the period in which the Offers remain open for acceptance. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices provided that any such purchase or arrangement complies with applicable law, including but not limited to the Takeovers Code, and is made outside the United States. Any information about such purchases will be reported to the SFC and will be available on the SFC website at <http://www.sfc.hk/>.

Further agreements or arrangements

As at the Latest Practicable Date:

- i. the Offeror and its Concert Parties have not received any irrevocable commitment to accept or reject the Offers;
- ii. save as disclosed in the section headed "Shareholding Structure of the Company" in this letter, the Offeror and its Concert Parties do not own or have control or direction over any voting rights or rights over the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;
- iii. there is no outstanding derivative in respect of the securities in the Company which has been entered into by the Offeror or any of its Concert Parties;
- iv. there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror or the Company and which might be material to the Offers;
- v. there is no agreement or arrangement to which the Offeror or its Concert Parties is a party which relates to circumstances in which the Offeror may or may not invoke or seek to invoke a condition to the Offers; and
- vi. there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or its Concert Parties have borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

None of the Offeror or its Concert Parties has dealt in relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

LETTER FROM CLSA LIMITED

As at the Latest Practicable Date, there is no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder; and (ii) (a) the Offeror and its Concert Parties, or (b) the Company, its subsidiaries or associated companies.

Acceptance of the Offers

Acceptance of the Share Offer or the Option Offer by Shareholders or Optionholders, respectively, will be deemed to constitute a warranty by such person(s) to the Offeror that such Shares acquired under the Share Offer or Options tendered under the Option Offer (as the case may be) are sold or tendered by the Shareholders or Optionholders (as the case may be) free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights and entitlements attaching or accruing thereto as at the Despatch Date or subsequently becoming attached or accrued thereto, including, without limitation, the right to receive in full all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the Despatch Date.

Close of the Offers

The latest time on which the Offeror can declare the Share Offer unconditional as to acceptances is 7:00 p.m. on the 60th day (i.e. 29 December 2020) after the posting of this Composite Document (or such later date to which the Executive may consent). If all the Conditions are satisfied (or, if permissible, waived), Shareholders and Optionholders will be notified by way of an announcement in accordance with the Takeovers Code and the Listing Rules as soon as practicable thereafter.

Taxation Advice

The Shareholders or Optionholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offers. It is emphasised that none of the Offeror, the Company, CLSA Limited, CLSA Capital Markets or any of their respective directors, officers or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

Further details of the Offers

Further details regarding the Offers, including the terms of the Offers and procedures for acceptance, are set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

LETTER FROM CLSA LIMITED

Additional information

Your attention is drawn to the “Letter from the Board” on pages 27 to 33 of this Composite Document, the “Letter from the Independent Board Committee” on pages 34 to 35 of this Composite Document and the “Letter from the Independent Financial Adviser” on pages 36 to 74 of this Composite Document in relation to their respective recommendations and/or advice with respect to the Offers.

Your attention is also drawn to the additional information set out in the Appendixes to this Composite Document, all of which form part of this Composite Document.

In considering what actions to take in connection with the Offers, you should consider your own tax and financial positions and, if you are in doubt, you should consult your own professional advisers.

Yours faithfully,
For and on behalf of
CLSA Limited

Edmund Chan
Managing Director, Head of M&A

Terry Chan
Managing Director

LETTER FROM THE BOARD



YuanShengTai Dairy Farm Limited
原生态牧業有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

Executive Directors:

Mr. Zhao Hongliang (趙洪亮)

Mr. Fu Wenguo (付文國)

Mr. Chen Xiangqing (陳祥慶)

Mr. Liu Gang (劉剛)

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-executive Directors:

Mr. Zhang Yuezhou (張月周)

Mr. Zhu Zhanbo (朱戰波)

Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)

Headquarters and Principal Place of

Business in the PRC:

Qingxiang Street

Kedong, Qiqihar

Heilongjiang Province

The PRC

Principal Place of Business

in Hong Kong:

31/F, 148 Electric Road

North Point

Hong Kong

30 October 2020

To the Shareholders and Optionholders

Dear Sir or Madam,

**CONDITIONAL VOLUNTARY GENERAL OFFER BY
CLS LIMITED ON BEHALF OF
CHINA FEIHE LIMITED
FOR ALL OF THE OUTSTANDING SHARES OF
YUANSHENGTAI DAIRY FARM LIMITED AND FOR
THE CANCELLATION OF ALL OF THE OUTSTANDING OPTIONS
OF YUANSHENGTAI DAIRY FARM LIMITED**

LETTER FROM THE BOARD

1. INTRODUCTION

Reference is made to the Announcement pursuant to which the Offeror and the Company jointly announced on 6 September 2020 that CLSA Limited would, on behalf of the Offeror, make voluntary conditional cash offers (i) to acquire all of the outstanding Shares in the issued share capital of the Company; and (ii) to cancel all the outstanding Options.

This letter forms part of this Composite Document and sets out, amongst other things, certain background information of the Offeror, details of the Offers, the reasons for making the Offers and the intentions of the Offeror in relation to the Group. Further details on the terms of the Offers are set out in Appendix I — “Further Terms and Procedures for Acceptance of the Offers” to the Composite Document and in the accompanying Forms of Acceptance.

The purpose of this Composite Document is to provide you with, among other things: (i) information relating to the Group, the Offeror and the Offers; (ii) a letter from CLSA Limited containing, among other things, details of the Offers; (iii) a letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders and Independent Optionholders in relation to the Offers; and (iv) a letter from Independent Financial Adviser containing its advice to the Independent Board Committee in relation to the Offers.

2. THE SHARE OFFER

As at the Latest Practicable Date, there are 4,690,496,400 Shares in issue. Subject to the Conditions, the Share Offer will be made by CLSA Limited on behalf of the Offeror on the following basis:

- i. Shareholders accepting the Share Offer will receive the Share Offer Price of HK\$0.63 per Share in cash.
- ii. If, after the Despatch Date, any dividend and/ or other distribution and/ or other return of capital is announced, declared or paid in respect of the Shares, the Offeror reserves the right to reduce the Share Offer Price by all or any part of the amount of value of such dividend, distribution and/ or, as the case may be, return of capital, in which case any reference in the Announcement, this Composite Document or any other announcement or document to the Share Offer Price will be deemed to be a reference to the Share Offer Price as so reduced.
- iii. The Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights and entitlements attaching or accruing thereto as at the Despatch Date or subsequently becoming attached or accrued thereto, including, without

LETTER FROM THE BOARD

limitation, the right to receive in full all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the Despatch Date.

- iv. The Company confirms that as at the date of this Composite Document, (a) it has not declared any dividend, the record date of which falls on or after the expected Despatch Date; and (b) it does not have any intention to make, declare or pay any future dividend or make other distributions until the close of the Offers.

The Offeror will not increase the Share Offer Price for the Share Offer as set out above. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Share Offer Price and the Offeror does not reserve the right to increase the Share Offer Price.

The Share Offer Price

Comparisons of value

The Share Offer Price of HK\$0.63 per Share represents:

- a premium of approximately 6.8% to the closing price of the Shares of HK\$0.59 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 1.6% to the closing price of the Shares of HK\$0.62 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 6.1% to the average closing price of the Shares of approximately HK\$0.59 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 8.4% to the average closing price of the Shares of approximately HK\$0.58 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 17.5% to the average closing price of the Shares of approximately HK\$0.54 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 39.4% to the average closing price of the Shares of approximately HK\$0.45 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Date;

LETTER FROM THE BOARD

- a discount of approximately 38.8% to the Group's net asset value per Share of approximately HK\$1.03 as at 31 December 2019; and
- a discount of approximately 39.2% to the Group's net asset value per Share of approximately HK\$1.04 as at 30 June 2020.

Highest and Lowest Share Prices

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.620 on 3 September, 4 September, 8 September, 9 September, 16 September, 18 September, and 8 October 2020, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.245 on 23 March 2020.

The Company's assessment of the Share Offer Price

As set out in the paragraph headed "2. The Share Offer — The Share Offer Price — Comparison of value" above, the Share Offer Price of HK\$0.63 per Share represents a premium to the recent average closing prices of the Shares as quoted on the Stock Exchange and a discount of 39.2% to the Group's net asset value per Share as at 30 June 2020.

Despite such discount, the Board considers that the Share Offer Price to be fair and reasonable and is in the interests of the Company and its Shareholders for the following reasons:

- recent average closing prices of the Shares are better indicators for Shareholders to assess the market value of the Shares for the purpose of realizing their investments in the Group than the Group's unaudited net asset values;
- the Share Offer Price represents a premium to the recent average closing prices of the Shares; and
- considering the reasons and benefits set out in the "Letter from CLSA Limited" above, the Offers represent a strategic step for the long-term business development of the Company that bring about potential business expansion.

LETTER FROM THE BOARD

3. THE OPTION OFFER

As at the Latest Practicable Date, there are 190,900,000 outstanding Options.

CLSA Limited will make an offer on behalf of the Offeror to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all of the outstanding Options (whether vested or not) in exchange for cash on the following basis:

In respect of Options with an exercise price of HK\$0.240:

For cancellation of each such Option HK\$0.39 in cash

In respect of Options with an exercise price of HK\$0.590:

For cancellation of each such Option HK\$0.04 in cash

In respect of Options with an exercise price of HK\$1.462:

For cancellation of each such Option HK\$0.0001 in cash

As at the Latest Practicable Date, there are 190,900,000 outstanding Options, carrying rights to subscribe for 190,900,000 new Shares. 161,500,000 of the outstanding Options have an exercise price of HK\$0.240 per Share, 22,800,000 of the outstanding Options have an exercise price of HK\$0.590 per Share, and the remaining 6,600,000 outstanding Options have an exercise price of HK\$1.462 per Share.

The price for the cancellation of each Option accepted under the Option Offer should normally be the see-through price which represents the excess of the Share Offer Price over the exercise price of each Option. As the Share Offer Price, which is HK\$0.63 per Share, is lower than the exercise prices of 6,600,000 outstanding Options with the exercise price of HK\$1.462, the 6,600,000 outstanding Options are currently out-of-the-money. As such, the Option Offer for each of such Options will be made with HK\$0.0001 in cash for the cancellation of each of such outstanding Options.

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

4. VALUE OF THE OFFERS

Your attention is drawn to the sections headed the "The Share Offer", the "The Option Offer" and "Value of the Offers" in the "Letter from CLSA Limited" in this Composite Document which sets out the value of the Offers.

LETTER FROM THE BOARD

5. CONDITIONS TO THE OFFERS

Your attention is drawn to the section headed “Conditions to the Offers” in the “Letter from CLSA Limited” in this Composite Document which sets out the conditions to the Offers.

6. REASONS FOR AND BENEFITS OF THE OFFERS

Your attention is drawn to the section headed “Reasons for and Benefits of the Offers” in the “Letter from CLSA Limited” in this Composite Document.

7. INFORMATION ON AND INTENTION OF THE OFFEROR

Your attention is drawn to the sections headed “Information of the Offeror” and “Intention of the Offeror on the Group” in the “Letter from CLSA Limited” in this Composite Document.

The Board notes that the Offeror has not decided on the future composition of the Board and has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

8. INFORMATION ON THE COMPANY

The Company is a company incorporated in the Bermuda with limited liability and listed on the Stock Exchange (stock code: 1431), mainly engaging in dairy farming business. As at the Latest Practicable Date, the Company had six dairy farms in Heilongjiang Province and one dairy farm in Jilin Province. Mr. Zhao Hongliang is the ultimate single largest Shareholder, interested in aggregate in 1,321,100,000 Shares (including 1,150,900,000 Shares beneficially owned by himself, and 170,200,000 Shares beneficially owned by Mr. Zhao Hongyu, the brother of Mr. Zhao Hongliang), representing approximately 28.17% of the total issued capital of the Company as at the Latest Practicable Date.

9. MAINTAINING THE LISTING/PUBLIC FLOAT

The Stock Exchange has stated that if, at the close of the Share Offer, less than 25% of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

The Board notes that, the Offeror has no intention to privatize the Company and intend the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers. The directors of the Offeror will undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float will exist in the Shares after the close of the Offers.

LETTER FROM THE BOARD

10. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors who have no direct or indirect interest in the Offers, has been established by the Company in accordance with Rule 2.1 of the Takeovers Code to make recommendation to the Independent Shareholders as to whether the Share Offer is fair and reasonable and as to acceptance of the Share Offer and the Independent Optionholders as to whether the Option Offer is fair and reasonable and as to acceptance of the Option Offer.

In addition, as approved by the Independent Board Committee, an independent financial adviser, Shenwan Hongyuan, has been appointed to advise the Independent Board Committee in connection with the Share Offer and the Option Offer.

11. RECOMMENDATION AND ADDITIONAL INFORMATION

Your attention is drawn to (i) the “Letter from the Independent Board Committee” on pages 34 to 35 of this Composite Document, which sets out its recommendations to the Independent Shareholders and the Independent Optionholders in relation to the Offers and (ii) the “Letter from the Independent Financial Adviser” on pages 36 to 74 of this Composite Document, which sets out its advice to the Independent Board Committee in relation to the Offers and the principal factors considered by it in arriving at its recommendations.

You are also advised to read the “Letter from CLSA Limited”, the Appendixes to this Composite Document and the Forms of Acceptances in respect of the terms and acceptance and settlement procedures of the Offers.

Shareholders and Optionholders are recommended to consult their own professional advisers as to the tax implications that may arise from accepting the Offers.

Yours faithfully,
By Order of the Board
YuanShengTai Dairy Farm Limited
Zhao Hongliang
Chairman



YuanShengTai Dairy Farm Limited
原生态牧业有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1431)

30 October 2020

To the Independent Shareholders and Independent Optionholders

Dear Sir or Madam,

**CONDITIONAL VOLUNTARY GENERAL OFFER BY
CLSA LIMITED ON BEHALF OF
CHINA FEIHE LIMITED
FOR ALL OF THE OUTSTANDING SHARES OF
YUANSHENGTAI DAIRY FARM LIMITED
AND FOR THE CANCELLATION OF ALL OF THE OUTSTANDING
OPTIONS OF YUANSHENGTAI DAIRY FARM LIMITED**

INTRODUCTION

We refer to the Composite Document dated 30 October 2020 jointly issued by Offeror and the Company of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meanings as those defined in the Composite Document.

We have been appointed to form the Independent Board Committee to consider the terms of the Offers and to make a recommendation to the Independent Shareholders and the Independent Optionholders as to whether, in our opinion, (i) the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned and to make a recommendation as to acceptance; and (ii) the terms of the Option Offer are fair and reasonable so far as the Independent Optionholders are concerned and to make a recommendation as to acceptance. Shenwan Hongyuan has been appointed as the Independent Financial Adviser to advise us in this respect. Details of Shenwan Hongyuan's advice and the principal factors and reasons taken into consideration in arriving at its advice and recommendations are set out in the "Letter from the Independent Financial Adviser" on pages 36 to 74 of the Composite Document.

We also wish to draw your attention to the "Letter from the Board", the "Letter from CLSA Limited" and the additional information set out in the Appendixes to the Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, being the members of the Independent Board Committee, have declared that, we are independent and do not have any conflict of interest in respect of the Offers or any direct or indirect interest therein and are therefore able to consider the terms of the Offers and to make recommendations to the Independent Shareholders and the Independent Optionholders.

RECOMMENDATIONS

Having taken into account the terms of the Offers, together with the advice and recommendations from Shenwan Hongyuan:

- (a) we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned, and recommend the Independent Shareholders to accept the Share Offer; and
- (b) we consider that the terms of the Option Offer are fair and reasonable so far as the Independent Optionholders are concerned, and recommend the Independent Optionholders to accept the Option Offer.

Notwithstanding our recommendation, the Independent Shareholders and the Independent Optionholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders and the Independent Optionholders should consult their own professional advisers for professional advice.

Furthermore, the Independent Shareholders and the Independent Optionholders who wish to accept the Offers are recommended to read carefully the procedures for accepting the Offers as detailed in the Composite Document and the accompanying Forms of Acceptance.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Meng Jingzong

*Independent
non-executive Director*

Mr. Zhang Yuezhou

*Independent
non-executive Director*

Mr. Zhu Zhanbo

*Independent
non-executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of independent advice from Shenwan Hongyuan Capital (H.K.) Limited for the purpose of inclusion in this Composite Document:



Shenwan Hongyuan Capital (H.K.) Limited
Level 17
28 Hennessy Road
Hong Kong

30 October 2020

To *The Independent Board Committee of*
YuanShengTai Dairy Farm Limited

Dear Sir or Madam,

**CONDITIONAL VOLUNTARY GENERAL OFFER BY
CLSA LIMITED
ON BEHALF OF
CHINA FEIHE LIMITED
FOR ALL OF THE OUTSTANDING SHARES OF
YUANSHENGTAI DAIRY FARM LIMITED
AND
FOR THE CANCELLATION OF ALL OF THE OUTSTANDING
OPTIONS OF YUANSHENGTAI DAIRY FARM LIMITED**

INTRODUCTION

We refer to the composite offer and response document dated 30 October 2020 jointly issued by the Offeror and the Company (the “**Composite Document**”), of which this letter forms part, in connection with the Offers. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Composite Document.

We, Shenwan Hongyuan Capital (H.K.) Limited, have been appointed as the independent financial adviser after your approval to advise you in connection with the Offers and in particular as to whether the Offers are, or are not, fair and reasonable and as to acceptance. We are not aware of any relationships or interests with the Company or any other parties that could be reasonably regarded as relevant to our independence in this connection.

The Independent Board Committee, comprising all the three (3) independent non-executive Directors, namely Mr. MENG Jingzong (alias Owens MENG), Mr. ZHANG Yuezhou and Mr. ZHU Zhanbo, has been established to make a recommendation as to whether the Offers are, or are not, fair and reasonable and as to acceptance. The recommendation of the Independent Board Committee as regards the Offers is contained in its letter included in the Composite Document.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and statements supplied, opinions and representations expressed by the Company and the Directors and have assumed that all such information and statements supplied, opinions and representations expressed to us were true, accurate and complete in all material aspects at the time they were provided. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information and statements supplied as well as opinions and representations expressed to us.

We consider that we have been provided with sufficient information to enable us to reach our advice and recommendations as set out in this letter and to justify our reliance on the accuracy of such information. We have no reason to suspect that any material facts or information (which are known to the Company) have been omitted or withheld from the information or statements supplied, or opinions or representations expressed to us nor to doubt the truth and accuracy of the information and statements supplied, or the reasonableness of the opinions and representations expressed to us. We have not, however, carried out any independent verification on the information provided to us by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business or affairs or future prospects of each of the Group and the Offeror Group.

In formulating our opinion, we have taken no account of tax implications, if any, on the Independent Shareholders and the Independent Optionholders in connection with the Share Offer and the Option Offer (as the case may be). They are advised to consult their own professional advisers in this regard if they are in doubt. We do not accept the responsibility for any tax effects on or liabilities of any persons as a result of their acceptance of the Offers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

We have taken into account the following principal factors and reasons in arriving at our recommendations with regard to the Offers:

Background Leading to the Offers

The Offer Period commenced on 6 September 2020 when the Announcement was issued by the Offeror and the Company in connection with, among others, the voluntary conditional cash offers made by CLSA Limited on behalf of the Offeror (i) to acquire all of the outstanding Shares in the issued share capital of the Company; and (ii) to cancel all of the outstanding Options in compliance with Rule 13 of the Takeovers Code.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Share Offer

The Share Offer is being made by CLSA Limited on behalf of the Offeror on the following basis:

For each Share HK\$0.63 in cash

The Share Offer is subject to the Conditions set out in “5. *Conditions of the Offers — The Share Offer*” in the Letter from CLSA Limited included in the Composite Document, where Condition (a), which cannot be waived, requires valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which will result in the Offeror and its Concert Parties holding at least 50% of the voting rights in the Company.

If, after the Despatch Date, any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the Shares, the Offeror reserves the right to reduce the Share Offer Price by all or any part of the amount of value of such dividend, distribution and/or, as the case may be, return of capital, in which case any reference in this letter will be deemed to be a reference to the Share Offer Price as so reduced.

The Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights and entitlements attaching or accruing thereto as at the Despatch Date or subsequently becoming attached or accrued thereto, including, without limitation, the right to receive in full all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the Despatch Date.

The Company has confirmed that as at the date of the Composite Document, (i) it has not declared any dividend, the record date of which falls on or after the Despatch Date; and (ii) it does not have any intention to make, declare or pay any future dividend or make other distributions until the close of the Offers.

The Offeror will not increase the Share Offer Price for the Share Offer as set out above. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Share Offer Price and the Offeror does not reserve the right to increase the Share Offer Price.

Set out in the Composite Document are, among others, the details of the Share Offer (including the procedures for acceptance of the Share Offer set out in Appendix I thereto).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Option Offer

CLSA Limited is also making the Option Offer on behalf of the Offeror in accordance with Rule 13 of the Takeovers Code to cancel all of the outstanding Options (whether vested or not) in exchange for cash on the following basis:

In respect of Options with an exercise price of HK\$0.240:

For cancellation of each such Option HK\$0.39 in cash

In respect of Options with an exercise price of HK\$0.590:

For cancellation of each such Option HK\$0.04 in cash

In respect of Options with an exercise price of HK\$1.462:

For cancellation of each such Option HK\$0.0001 in cash

As at the Latest Practicable Date, there were 190,900,000 outstanding Options, carrying rights to subscribe for 190,900,000 new Shares. 161,500,000 of the outstanding Options have an exercise price of HK\$0.240 per Share, 22,800,000 of the outstanding Options have an exercise price of HK\$0.590 per Share, and the remaining 6,600,000 outstanding Options have an exercise price of HK\$1.462 per Share.

The price for the cancellation of each Option accepted under the Option Offer should normally be the see-through price which represents the excess of the Share Offer Price over the exercise price of each Option. As the Share Offer Price, which is HK\$0.63 per Share, is lower than the exercise price of 6,600,000 outstanding Options with an exercise price of HK\$1.462, the 6,600,000 outstanding Options are currently out-of-the-money. As such, the Option Offer for each of such Options will be made with HK\$0.0001 in cash for the cancellation of each of such outstanding Options.

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

Set out in the Composite Document are, among others, the details of the Option Offer (including the procedures for acceptance of the Option Offer set out in Appendix I thereto).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Settlement Timing

Settlement of consideration in respect of acceptances of the Offers will be made as soon as possible but in any event within seven (7) Business Days following the later of (i) the Unconditional Date and (ii) the date on which the duly completed acceptance of the Offers and the relevant documents of title in respect of such acceptance are received by the Offeror (or its agent).

Value of the Offers

As at the Latest Practicable Date, there were 4,690,496,400 Shares in issue and 190,900,000 outstanding Options, where the Company had no other outstanding Shares, options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other types of securities in the Company.

- (i) Based on the Share Offer Price of HK\$0.63 per Share and assuming that there is no change in the issued share capital of the Company, no outstanding Options are exercised and the Share Offer and the Option Offer are accepted in full:
 - (a) the value of the Share Offer will be HK\$2,955,012,732; and
 - (b) the total amount to satisfy the cancellation of all outstanding Options will be HK\$63,897,660.

- (ii) Based on the Share Offer Price of HK\$0.63 per Share and assuming that there is no change in the issued share capital of the Company, all in-the-money Options are exercised in full and the Share Offer is accepted in full (including all Shares issued and allotted as a result of the exercise of the Options):
 - (a) the value of the Share Offer will be HK\$3,071,121,732; and
 - (b) the total amount to satisfy the cancellation of all out-of-the-money Options will be HK\$660.

Information on the Group

In terms of herd size and production volume, the Group is one of the leading dairy farming companies in the PRC according to the Company's 2020 interim report. The Group currently has six dairy farms in Heilongjiang Province and one dairy farm in Jilin Province. Each farm has an actual designed capacity ranging from 6,000 to 18,000 dairy cows, and the total site area of the seven farms amounts to approximately 5,909,000 m². As at 30 June 2020, the Group had 65,886 dairy cows.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The history of the Group can be traced back to September 2008, where the Group started its primary business of dairy farming by commencing the construction of dairy farms and the setting up of other production facilities initially. In 2010, the Group started supplying super premium raw milk in the PRC, which is of a quality that surpasses the European Union raw milk quality standard. Given Mr. Leng Youbin (the Offeror's controlling shareholder, chairman and chief executive officer) is a long time business partner of Mr. Zhao Hongliang (the Company's founder and chairman), the Group had historically received various forms of support from the Offeror Group during its start-up stage, including business advice with respect to matters such as choice of farm location, construction and operation of dairy farms, advances for overseas procurements, guarantees for its bank borrowings and liaison with local government entities. Prior to 2011, the Offeror Group had built two dairy farms near its plants in Kedong and Gannan in Heilongjiang Province to produce and supply fresh milk for its infant milk formula production business. Considering the Offeror Group's then strategic decision to focus on the production and sales of infant milk formula products, its relationship with the Group and the Group's expansion strategy at the time, the Offeror Group sold the two dairy farms to the Group for RMB849.0 million in September 2011.

Since its early business development, the Group has built long-term and stable relationships with PRC's leading dairy processors. In the first half of 2020, the three major customers of the Group continued to be the Offeror Group, Mengniu Group and Bright Dairy Group. The revenue from these three major customers accounted for approximately 98.7% of the Group's total revenue. The Directors have advised that while the Offeror Group is one of the three largest customers of the Group, the Group is the largest supplier of raw milk to the Offeror Group.

The Company is a company incorporated in Bermuda with limited liability and listed on the Stock Exchange (stock code: 1431) since 26 November 2013. Its market capitalisation was HK\$10.6 billion upon listing. So far, the Company has conducted one fund raising exercise since the Shares were listed, which was a placing of new Shares ("**2017 Placing**") completed in January 2017. The 2017 Placing raised a total of approximately HK\$390.9 million cash from independent investors based on 781,749,400 new Shares issued at HK\$0.50 each, which was intended to be used for importing heifers and calves from Australia and New Zealand and general working capital.

Set out in "*9. Shareholding Structure of the Company*" in the Letter from CLSA Limited included in the Composite Document is the shareholding structure of the Company as at the Latest Practicable Date. Mr. Zhao Hongliang is the ultimate single largest Shareholder, interested in aggregate in 1,321,100,000 Shares (including 1,150,900,000 Shares beneficially owned by himself, and 170,200,000 Shares beneficially owned by Mr. Zhao Hongyu, the brother of Mr. Zhao Hongliang), representing approximately 28.17% of the total issued capital of the Company as at the Latest Practicable Date.

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(i) Financial and operating performance of the Group

Set out below is the financial and operating information of the Group extracted from the interim and annual reports of the Company for the periods/years indicated:

	Six months ended							
	30 June			Year ended 31 December				
	2020	2019	2019	2018	2017	2016	2015	2014
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Audited) RMB'000	(Audited) RMB'000	(Audited) RMB'000	(Audited) RMB'000	(Audited) RMB'000	(Audited) RMB'000
<i>Financial information</i>								
Revenue	751,258	657,321	1,389,510	1,099,547	1,014,128	1,029,232	1,032,648	1,162,890
Gross profit	217,161	174,480	379,710	252,627	253,261	339,501	380,051	531,019
Gross profit margin (%)	28.9%	26.5%	27.3%	23.0%	25.0%	33.0%	36.8%	45.7%
Changes in fair value less costs to sell of biological assets ⁽¹⁾	(91,293)	(111,637)	(118,546)	(313,472)	(228,665)	(407,053)	(244,981)	(43,020)
- as a percentage to revenue (%)	12.2%	17.0%	8.5%	28.5%	22.5%	39.5%	23.7%	3.7%
Impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Farm	(51)	(855)	(161)	(436,242) ⁽²⁾	-	-	-	-
Profit/(Loss) for the period/year	123,919	33,844	223,080	(556,313)	(67,907)	(88,569)	66,173	418,790
Dividend	-	-	-	-	-	-	-	-
	Six months ended							
	30 June			Year ended 31 December				
	2020	2019	2019	2018	2017	2016	2015	2014
	<i>Operating information</i>							
Raw milk sold (tonnes)	175,469	164,438	334,424	282,261	262,543	258,675	233,275	230,121
Average selling price per tonne ⁽³⁾ (RMB)	4,281	3,997	4,155	3,896	3,863	3,979	4,427	5,053
Average annual milk yield per cow ⁽⁴⁾ (tonnes)	10.65	10.22	10.45	9.68	9.8	10	9.9	9.4
<i>At balance sheet date</i>								
Number of farms	7	7	7	7	7	7 ⁽⁵⁾	6	6
Total site area of farms (m ²)	5,909,000	5,909,000	5,909,000	5,909,000	5,909,000	5,909,000 ⁽⁵⁾	4,929,000	4,929,000
Number of dairy cows	65,886	63,122	63,640	63,644	61,207 ⁽⁶⁾	54,749	49,795	44,623

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Notes:

1. The Group's biological assets are its dairy cows, including milkable cows, heifers and calves, which are subject to measurement carried out at the end of each reporting period at their fair value less costs to sell, with any gain or loss recognised in profit or loss for the period in which it arises. The fair value of dairy cows is determined based on, among others, any available market prices, the ages and costs to reflect the differences in characteristics and/or stages of growth of dairy cows. The sale of dairy cows is not the Group's principal business activity whereas any gain or loss from the sale of unfit dairy cows less costs of selling due to changes in their physical attributes and market prices would be recognised in profit or loss for the period in which it arises.
2. Baiquan Ruixincheng Dairy Farming Co., Ltd. ("**Baiquan Ruixincheng**"), an indirect wholly-owned subsidiary of the Company, operates a farm in Baiquan County, Qiqihar City, Heilongjiang Province for the production and sale of milk ("**Baiquan Ruixincheng Farm**"). As at 31 December 2018, Baiquan Ruixincheng Farm had 4,968 dairy cows.

On 25 February 2019, Baiquan Ruixincheng received a notice from the Department of Ecology and Environment of Heilongjiang Province dated 28 December 2018, which stated that the Department of Ecology and Environment of Heilongjiang Province withdrew the previous approval given to Baiquan Ruixincheng in 2014 in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm (the "**Withdrawal Decision**"). Without the previous approval given by the Department of Ecology and Environment of Heilongjiang Province, Baiquan Ruixincheng Farm cannot continue its operations.

On 8 March 2019, Baiquan Ruixincheng received a notice from the Heilongjiang Shuangyang River Provincial Nature Reserve Management Office dated 5 March 2019 to request the removal of Baiquan Ruixincheng Farm from its current location by the end of June 2020.

As a result, an impairment provision of RMB420.7 million was recorded for immovable property, plant and equipment and prepayment for construction and equipment after netting off related government grants as at 31 December 2018. In addition, the management of the Group also accrued additional expenses of RMB15.5 million, including transportation expenses, dismantlement expenses, employment termination benefits and litigation service fee.

In July 2020, Baiquan Ruixincheng (as the appellant) received a successful administrative appeal verdict issued by the Baiquan County People's Government in favour of Baiquan Ruixincheng Farm revoking the previous removal request issued by the Heilongjiang Shuangyang River Provincial Nature Reserve Management Office. In August 2020, Baiquan Ruixincheng further received a notice from the Qiqihar City Baiquan County Department of Ecology and Environment stating that as the area of the nature reserve has been adjusted and Baiquan Ruixincheng Farm is no longer within the nature reserve area, they have agreed to revoke their previous removal request. As at 30 June 2020, Baiquan Ruixincheng Farm had 8,406 dairy cows. Baiquan Ruixincheng is currently reapplying for the approvals as stated in the announcement of the Company dated 5 August 2020. Please refer to the announcements of the Company dated 1 March 2019, 15 March 2019, 25 February 2020, 2 April 2020 and 5 August 2020 for further details.

3. Refers to total revenue ÷ total raw milk sold.
4. Refers to annual milk production volume ÷ total milkable cow days for the year.
5. In the second half of 2016, the construction of Keshan Farm with a site area of approximately 980,000 m² in Heilongjiang Province was halfway completed and commenced operations after bringing in cows.
6. Increase was partly due to the import of heifers as intended by the 2017 Placing completed in January 2017.

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Performance for the six months ended 30 June 2020

For the six months ended 30 June 2020, the total sales volume of raw milk of the Group increased by 6.7% to 175,469 tonnes from 164,438 tonnes, and its average selling price increased by 7.1% to RMB4,281 per tonne from RMB3,997 per tonne, in the same period of 2019. The total revenue amounted to RMB751.3 million during the period, representing an increase of 14.3% from RMB657.3 million compared with the same period of 2019. The gross profit amounted to RMB217.2 million during the period, representing an increase of 24.5% from RMB174.5 million compared with the same period of 2019.

Affected by COVID-19, the feed cost of the Group increased by 13.4% during the period due to the increase in the price and cost of imported hay feed compared with the same period of 2019. Nevertheless, the Group managed to reduce the cost pressure caused by the increase in feed prices by adjusting the feeding formula according to the 2020 interim report of the Company.

During the period, the Group recorded a net profit of RMB123.9 million, representing a significant increase of 266.6% from RMB33.8 million compared with the same period of 2019. The Directors have advised that the increase in the net profit was mainly attributable to the increases in (a) sales price of fresh milk, which was driven up by its increased demand as a result of increased sales of dairy products of the Group's customers; and (b) yield, thanks to improved production efficiency of the Group, during the period.

Performance since the start of the first year after the Shares were listed in November 2013

Based on our observation, we have noted the following:

- Relatively slow growth in revenue over the past six financial years

The Group recorded a compound annual growth rate ("CAGR") for its revenue of 3.6% which was slower than the average rate of 7.6% for the Comparable Companies (as defined hereinafter) over the past six financial years from 2014 to 2019. While there were increases in raw milk sold, there were decreases in the average selling price of raw milk sold.

Since its early business development, the Group has built long-term and stable relationships with PRC's leading dairy processors, including the Offeror Group, Mengniu Group and Bright Dairy Group who have been the major customers of the Group. The revenue from these three major customers accounted for approximately 98.7% of the Group's total revenue for the first half of 2020. In view of such a concentrated group of customers, the Group is considered to have relatively less pricing power on its raw milk, which is also deliverable by other similar farms in the market. To a certain extent, the demand for the Group's raw milk is very much reliant on the demand for its customers' dairy products.

As regards the number of the Group's dairy cows, the growth has been slower since 2018 (from 61,207 as at 31 December 2017 to 65,886 as at 30 June 2020, i.e. an increase (net) of around 1,872 each year) than the few years before then (from 40,396 as at 31 December 2013 to 61,207 at 31 December 2017, i.e. an

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increase (net) of around 5,203 each year), which may indicate the limited growth in the Group's sales of raw milk unless, for example, the number of its dairy cows is increased by importing from overseas in the future. As advised by the Directors, the Group does not have any plan to increase the number of its dairy cows at this stage.

- Continued decline in gross profit margin over the past six financial years except 2019

The Group recorded a gross profit margin of 45.7% for 2014 which declined all the way to 23.0% for 2018 followed by an increase to 27.3% for 2019, primarily due to a decrease in the average price for the Group's raw milk sold at a negative CAGR of 6.3% from RMB5,053 per tonne for 2014 to RMB3,896 per tonne for 2018 and an increase in the average cost of the Group's raw milk sold at a CAGR of 2.2% from RMB2,746 per tonne for 2014 to RMB3,000 per tonne for 2018. In particular, the slump in raw milk price in 2015 as a result of an increased amount of milk powder imported from overseas exerted a serious impact on the domestic raw milk market and hence the Group's gross profit margin in the same year. Also, the increase in the Group's profit margin from 23.0% for 2018 to 27.3% for 2019 was primarily attributable to an increase in the average price of the Group's raw milk sold from RMB3,896 per tonne for 2018 to RMB4,155 per tonne for 2019, thanks to increased demand for the Group's raw milk as a result of increased sales of dairy products of the Group's customers. A substantial portion of the Group's cost of sales is the feed cost, which includes the cost of concentrates (corn, soybean meal and cotton seed meal) and forages (corn silage, grass forage and alfalfa). Therefore, the Group's gross profit margin is susceptible to, among others, the fluctuation of feed cost, in addition to the market price of raw milk sold.

- Profitability being susceptible to changes in fair value less costs to sell of biological assets

As at 30 June 2020, the Group had 65,886 dairy cows which are biological assets subject to measurement carried out at the end of each reporting period at their fair value less costs to sell, with any gain or loss recognised in profit or loss for the period in which it arises. Further details in this regard are set out in note 1 to "*Principal Factors and Reasons Considered — Information on the Group — (i) Financial and operating performance of the Group*" in this letter. Since the Shares were listed in 2013, the "changes in fair value less costs to sell of biological assets" have represented approximately 3.7% to 39.5% of the Group's revenue. In view of such volatility arising from the measurement of biological assets which may require judgment and estimates in the process, the Group's profitability is susceptible to the "changes in fair value less costs to sell of biological assets".

- Lack of dividend track record

The Directors have confirmed that there have been no dividends distributed ever since the Shares were listed in 2013.

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(ii) Financial position of the Group

Set out below is the financial position of the Group extracted from the 2020 interim report and the annual reports of the Company:

	30 June		31 December				
	2020	2019	2018	2017	2016	2015	2014
	(Unaudited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS							
Property, plant and equipment	2,127,667	2,086,440	2,118,597	2,596,929	2,453,485	2,078,766	1,814,369
Investment properties	83,715	-	-	-	-	-	-
Right-of-use assets	84,206	86,574	-	-	-	-	-
Prepaid land lease payments	-	-	86,684	91,768	96,732	102,958	110,282
Prepayments and other receivables	43,597	19,119	19,325	68,256	72,696	102,403	144,298
Biological assets	1,360,089	1,333,438	1,211,650	1,211,825	1,101,641	1,251,429	1,229,107
Total non-current assets	3,699,274	3,525,571	3,436,256	3,968,778	3,724,554	3,535,556	3,298,056
CURRENT ASSETS							
Inventories	184,230	295,223	302,610	259,379	316,622	326,199	277,134
Trade receivables	135,871	126,758	58,712	85,339	105,742	87,606	168,712
Prepayments and other receivables	8,814	3,748	8,167	11,654	20,807	34,896	28,461
Prepaid land lease payments	-	-	5,081	5,096	5,720	5,720	5,612
Cash and cash equivalents	1,167,775	1,009,782	979,573	1,135,920	870,134	950,303	1,295,595
Total current assets	1,496,690	1,435,511	1,354,143	1,497,388	1,319,025	1,404,724	1,775,514
CURRENT LIABILITIES							
Trade payables	209,890	249,938	285,759	233,211	185,113	194,804	263,100
Other payables and accruals	345,076	266,773	278,384	464,765	502,753	324,781	396,514
Lease liabilities	15,280	-	-	-	-	-	-
Amount due to a related company	-	-	-	-	-	563	27,767
Interest-bearing bank borrowings	-	-	-	-	-	-	50,000
Total current liabilities	570,246	516,711	564,143	697,976	687,866	520,148	737,381
NET CURRENT ASSETS	926,444	918,800	790,000	799,412	631,159	884,576	1,038,133
TOTAL ASSETS LESS CURRENT LIABILITIES	4,625,718	4,444,371	4,226,256	4,768,190	4,355,713	4,420,132	4,336,189
NON-CURRENT LIABILITIES							
Other payables and accruals	123,557	125,899	134,327	156,137	-	-	-
Lease liabilities	59,454	-	-	-	-	-	-
Total non-current liabilities	183,011	125,899	134,327	156,137	-	-	-
NET ASSETS	4,442,707	4,318,472	4,091,929	4,612,053	4,355,713	4,420,132	4,336,189

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	30 June		31 December				
	2020	2019	2018	2017	2016	2015	2014
Number of Shares in issue	4,690,496,400	4,690,496,400	4,690,496,400	4,690,496,400	3,908,747,000	3,908,747,000	3,908,747,000
Net asset value per Share	RMB0.9472	RMB0.9207	RMB0.8724	RMB0.9833	RMB1.1144	RMB1.1308	RMB1.1094
- at an illustrative exchange rate of							
RMB1.00 = HK\$1.1317	HK\$1.0719	HK\$1.0420	HK\$0.9873	HK\$1.1128	HK\$1.2612	HK\$1.2797	HK\$1.2555

Financial position as at 30 June 2020

As at 30 June 2020, the Group had net assets of RMB4.4 billion with total assets of RMB5.2 billion and total liabilities of RMB0.8 billion.

As at 30 June 2020, the total assets of RMB5.2 billion were primarily made up of (a) property, plant and equipment of RMB2.1 billion; (b) biological assets of RMB1.4 billion; and (c) cash and cash equivalents of RMB1.2 billion, representing approximately 40.9%, 26.2% and 22.5% of the total assets of the Group, respectively. The former two items are subject to, among others, depreciation and periodic measurement of fair value, respectively.

The Group was gearing-free with total cash and cash equivalents of RMB1.2 billion, representing approximately 26.3% of the net assets of the Group as at 30 June 2020.

Financial position prior to 30 June 2020

In light of the lack of dividend track record, the fluctuations of the Group's net assets (and its net asset value per Share) between 31 December 2014 and 31 December 2019 were primarily related to the profits and losses for the years recorded save for an increase in equity as a result of the 2017 Placing completed in January 2017.

In 2018, an impairment provision of RMB420.7 million was made against property, plant and equipment relating to Baiquan Ruixincheng, an indirect wholly-owned subsidiary of the Company, which was subject to the Withdrawal Decision and the request to remove its farm from its location. Further details in this regard are set out in *note 2 to "Principal Factors and Reasons Considered — Information on the Group — (i) Financial and operating performance of the Group"* in this letter.

Since the repayment of interest-bearing bank borrowings of RMB50 million in 2015, the Group had been gearing-free.

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Set out are the percentages of (a) property, plant and equipment; (b) biological assets; and (c) cash and cash equivalents to the total assets of the Group as at the balance sheet dates:

	30 June			31 December			
	2020	2019	2018	2017	2016	2015	2014
Total assets (RMB'000)	<u>5,195,964</u>	<u>4,961,082</u>	<u>4,790,399</u>	<u>5,466,166</u>	<u>5,043,579</u>	<u>4,940,280</u>	<u>5,073,570</u>
Property, plant and equipment	40.9%	42.1%	44.2%	47.5%	48.6%	42.1%	35.8%
Biological assets	26.2%	26.9%	25.3%	22.2%	21.8%	25.3%	24.2%
Cash and cash equivalents	<u>22.5%</u>	<u>20.4%</u>	<u>20.4%</u>	<u>20.8%</u>	<u>17.3%</u>	<u>19.2%</u>	<u>25.5%</u>
	<u>89.6%</u>	<u>89.4%</u>	<u>89.9%</u>	<u>90.5%</u>	<u>87.7%</u>	<u>86.6%</u>	<u>85.5%</u>

The Group has been consistently made up of three major assets, namely (a) property, plant and equipment; (b) biological assets; and (c) cash and cash equivalents, which altogether accounted for over 85% of the total assets of the Group for the period under review.

(iii) Our view

Taking into account the majority of years after the Shares were listed on the Stock Exchange on 26 November 2013, the Group recorded losses for three out of the six financial years. Notwithstanding the improved results for the six months ended 30 June 2020 compared to the same period of 2019, we consider that the Group shows a lack of continuously profitable trend which casts uncertainty on its future profitability. In addition, the Group distributed no dividends ever since the Shares were listed which makes the investment in the Shares less attractive, in particular, for those who are after dividend income from their investment.

As regards the financial position of the Group, it has been operating on a relatively stable balance sheet with no gearing since the repayment of all bank borrowings in 2015 and only one fund raising exercise — the 2017 Placing conducted since the Shares were listed. The fluctuations of the Group's net asset value per Share were primarily related to its profits and losses for the years and period recorded i.e. correlated with the financial performance of the Group save for an increase in equity as a result of the 2017 Placing completed in January 2017.

Information on the Offeror

The Offeror is a company incorporated in the Cayman Islands with limited liability and listed on the Stock Exchange (stock code: 6186), with Mr. Leng Youbin being its ultimate controlling shareholder, and mainly engages in the production and sales of infant milk formula products and the retailing of nutritional supplements.

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Mr. Leng Youbin, being the chairman and a controlling shareholder of the Offeror, held in aggregate 4,267,237,635 shares (including 3,869,911,881 shares held by Harneys Trustees Limited as the trustee for Leng Family Trust and 397,325,754 shares through Dasheng Limited, a company in which each of Mr. Leng Youbin, Mr. Liu Hua (an executive director of the Offeror) and Mr. Liu Shenghui (a former executive director of the Offeror) holds one third of the equity interest), representing approximately 47.77% of the total issued capital of the Offeror as at the Latest Practicable Date. Mr. Leng Youbin has over 30 years of experiences in the dairy industry.

The second largest shareholder of the Offeror is North Haven Private Equity Asia IMF Holding Limited (whose ultimate beneficial owner is Morgan Stanley), holding 1,084,066,860 shares, representing approximately 12.14% of the total issued capital of the Offeror as at the Latest Practicable Date.

The Offeror went public on 13 November 2019 and raised a total of HK\$6.6 billion cash from its global offering. Prior to such listing in Hong Kong, the securities of a member of the Offeror Group — Flying Crane International, Inc. (formerly known as Feihe International, Inc., American Dairy, Inc. and Lazarus Industries, Inc.) had been listed on the New York Stock Exchange until such member was privatised and delisted in June 2013.

The Offeror has been deemed by the Stock Exchange as a connected person of the Company pursuant to Rule 14A.19 (or then Rule 14A.06) of the Listing Rules since the Company's listing on the Stock Exchange on 26 November 2013. See "8. *Information of the Offeror and the Company — Relationship and transactions between the Offeror Group and the Group*" in the Letter from CLSA Limited included in the Composite Document for further details in this regard.

Reasons for and Benefits of the Offers for the Offeror

(i) To further strengthen the Offeror's leading position in high-end infant milk formula market

The Offeror is a leading and highly recognised Chinese brand infant milk formula company. The success of the Offeror Group's products is largely attributable to its persistency in producing the freshest and highest quality proprietary infant milk formula products.

The Offeror Group is one of the few infant milk formula providers in China to use fresh milk as the main ingredient in all of its infant milk formula products, in contrast to major brands sold in China, which generally use imported milk powder as the primary raw material to manufacture their products, to preserve the freshness and nutrients distribution which is crucial to the quality of its infant milk formula products. High quality and stable fresh milk supply is therefore essential to the continued success of the Offeror Group's infant milk formula products.

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The Company is one of the leading dairy farming companies in the PRC in terms of herd size and production volume. As one of the largest fresh milk suppliers of the Offeror Group, the Group has excellent geographical advantages given its farms are in close proximity of the Offeror Group's downstream processing plants enabling the freshness of the fresh milk supplied to be optimally preserved.

The Offers, if successfully completed, will result in the Offeror becoming the single largest Shareholder upon close thereof. Through vertical integration with one of its major fresh milk suppliers, the Offeror Group will be able to drive improved performance and strategic development of the Group in line with the Offeror Group's future growth plans. This in turn will provide strong support for the growth of the Offeror Group's infant milk formula production, strengthening the Offeror Group's leading position in the infant milk formula market.

(ii) To become an integrated market leader with demonstrated ability to control the entire value chain and further enhance operation efficiency

The Offeror Group started procuring fresh milk from the Group in 2010 and has established a long-term strategic cooperation relationship with the Company to ensure the priority in obtaining sufficient high-quality fresh milk. Compared to the Master Supply Agreement (as defined in the Letter from CLSA Limited included in the Composite Document), the Offers will take one step further for the Offeror to attain shareholding control over the Company so that the Offeror Group would become an integrated market leader with demonstrated ability to control the entire value chain from the Group's safe fresh milk supply to the Offeror Group's own high-quality proprietary infant milk formula products. As a result of such shareholding change, it is envisaged that the Offeror will have at least 50% control of the Group's business and affairs, and accordingly share of the Group's profit or loss. From the financial perspective, we see that the Offeror Group would be able to share the profit margin the Group charges on fresh milk it sells to the Offeror Group such that part of the Offeror Group's overall cost of production would be reduced thereby after close of the Offers.

In addition, the Group's expertise in farming and quality management will help the Offeror Group in quality control of raw milk purchased from smaller dairy farmers, which will further improve the Offeror Group's operational capabilities.

(iii) Other factors taken into consideration by the Offeror in pursuing the Offers

Set out in "6. Reasons for and Benefits of the Offers — Reasons and benefits for the Offeror — (2) To provide enhanced protection and security on the Offeror's future raw milk supplies in light of future policy trend and recent acquisition transactions in China's dairy farming industry" in the Letter from CLSA Limited included in the Composite Document are other factors taken into consideration by the Offeror in pursuing the Offers:

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- Future policy trend

The Offeror is of the view that the future policy trend from the PRC government may potentially involve imposing more stringent requirements on raw milk supplies for dairy companies in China. Against this backdrop, we concur that the Offeror pursues the Offers with a view to providing enhanced protection and security on its future raw milk supplies.

- Recent trend of transactions in the industry

In light of the recent trend of transactions in the industry, the Offeror is of the view that the potential acquisition targets which are suitable for the Offeror's scale and operations are becoming fewer in the market. On this basis, we concur that the timing for the Offeror to proceed with the Offers is justifiable.

Intention of the Offeror on the Group

The Offeror intends that the Group will continue to operate its business in substantially its current state. Upon close of the Offers, the Offeror will conduct a detailed review of the business operations and financial position of the Group for the purpose of formulating a sustainable business plan or strategy for the Group's long-term development. Subject to the results of the review, the Offeror may explore other business opportunities and consider whether any asset disposals, asset acquisitions, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Group.

Notwithstanding the above, as at the Latest Practicable Date, no investment or business opportunity had been identified nor had the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group, and the Offeror had no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

Maintaining the Listing Status of the Company

The Offeror has no intention to privatise the Company and intends the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers.

According to the Listing Rules, if, upon close of the Share Offer, less than 25% of the issued Shares are held by the public, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares until appropriate steps have been taken to restore the minimum percentage of the Shares in public hands. In such circumstances, the directors of the Offeror will jointly and severally undertake to take appropriate steps (including but not limited to selling the Shares to be held by the Offeror after close of the Offers, and/or procuring the Company to place new Shares, to independent third parties) to restore the sufficient public float of the Shares after close of the Share Offer accordingly.

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Possible Change of the Board

The Board is currently made up of seven (7) Directors, comprising four (4) executive Directors and three (3) independent non-executive Directors. As at the Latest Practicable Date, the Offeror had not decided on the future composition of the Board.

Future Prospects of the Group

(i) After successful completion of the Offers

According to the Letter from the Board included in the Composite Document, the Directors have advised that: (a) the Offers will enhance the Group's performance by vertical integration with one of its largest customers and the Group will be able to leverage the Offeror Group's good reputation in the industry to expand the Group's business; (b) after completion of the Offers, it is expected that the business collaboration between the Group and the Offeror Group will be enhanced and enable the Group to secure steady demand for its raw milk and products; and (c) with the strong synergies between the Group and the Offeror Group to be realised from vertical integration, the Company believes that the Group's performance and operations will be greatly enhanced.

Since its early business development, the Group has built long-term and stable relationships with the Offeror Group. As one of the largest fresh milk suppliers of the Offeror Group, the Group has geographical advantages given its farms are in close proximity of the Offeror Group's downstream processing plants enabling the freshness of the fresh milk supplied to be optimally preserved.

Against this backdrop, each of the Group and the Offeror Group is a complementary fit with each other in the Offers and there would appear to be potential synergistic benefits in aligning the operations of the Group with the Offeror Group, such as:

- The Offeror Group will be able to drive improved performance and strategic development of the Group in line with the Offeror Group's future growth plans. This in turn will provide strong support for the growth of the Offeror Group's infant milk formula production, strengthening the Offeror Group's leading position in the infant milk formula market;
- With the Offeror's ambition to become an integrated market leader with demonstrated ability to control the entire value chain, it is expected that the Group will benefit from vertical integration with the Offeror Group by being an indispensable part of the Offeror Group's future business strategy in aspects such as farm planning, product quality control and production efficiency; and

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- The Group's expertise in farming and quality management will help the Offeror Group in quality control of raw milk purchased from smaller dairy farmers, which will further improve the Offeror Group's operational capabilities.

In the event that the Offers are successfully completed, it is envisaged that the Offeror will have at least 50% control of the Group's business and affairs, and share of the Group's profit or loss after close of the Offers. Notwithstanding the potential synergistic benefits to be brought about by the Offers as discussed herein, it is uncertain as to when and to what extent such benefits will be realised while the Group is under the direct control of the Offeror after close of the Offers.

(ii) Impact of COVID-19

Based on the 2020 interim reports of the Company and the Comparable Companies (as defined hereinafter), COVID-19 seemed to have less adverse impact on the dairy farming industry where the Comparable Companies recorded an increase in revenue from 4.2% to 23.7% while the Group recorded an increase of 14.3% in revenue on a period-on-period basis, probably due to the enhanced health awareness among the general public in light of the recommendation of the National Health Commission of the PRC which issued the "Nutritional Dietary Guidelines for Prevention and Control of Pneumonia Caused by Novel Coronavirus" (《新型冠狀病毒感染的肺炎防治營養膳食指導》) on 8 February 2020 (the "**Guidelines**"), whereby, for the prevention and control of COVID-19 and ordinary pneumonia, the general population and recovering patients should consume at least 300 grams of milk and dairy products every day as part of a nutritional diet to enhance human immunity by ingesting high-quality protein.

According to the "China Agricultural Outlook (2020 – 2029)" (《中國農業展望報告(2020-2029)》)⁽¹⁾ issued by the Ministry of Agriculture and Rural Affairs of the PRC in April 2020, the import of dairy products is, however, expected to slow down in 2020 due to the disrupted logistics as a result of the global spreading of COVID-19 and an increase in local supply as a result of efforts to resume production amid COVID-19, which may have caused part of the increased revenue of the Group and the Comparable Companies for the first half of 2020 on a period-on-period basis as well.

(iii) Industry risks and challenges

According to the "China Agricultural Outlook (2020 – 2029)" (《中國農業展望報告(2020-2029)》), China's per capita consumption of dairy products was estimated at 35 kg in 2019, an increase of nearly 5% from a year ago. That number is expected to reach 43 kg in 2025. Given the large population of China and the increasing income of its people, the consumption of dairy products is expected to increase unsurprisingly which will benefit the dairy farming industry in which the Group operates.

(1) https://aocm.agri-outlook.cn/weixin/Public/pdfs/web/viewer_en.html?file=zznyzwbg2020en.pdf

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Nevertheless, there are risks and challenges faced by China's dairy industry players including the Group, which include, but not limited to:

- Relatively high cost of production

The most difficult challenge to China's growth plans is the high cost of domestic production compared to overseas in general, primarily due to relatively higher prices of feed concentrates and fodder. In particular, COVID-19 has led to an increase in the cost of concentrates such as corn. Therefore, the Group's future profitability is susceptible to, among others, the fluctuation of feed cost, in addition to the market price of raw milk sold.

Because babies and children are the most vulnerable of all consumers, dairy products are among the most strictly regulated of all food and beverage products in China. As a result, increasingly stringent environmental and food safety regulations also contribute to a relatively high cost of production.

- Fiercer market competition as a result of more liberalisation of China's dairy market to overseas competitors

According to the "China Agricultural Outlook (2020 – 2029)" (《中國農業展望報告 (2020-2029)》), China's dairy market is expected to be more open along with economic globalisation and trade facilitation in the future decade. In particular, China will lower its tariff of fresh milk and other dairy products to zero against New Zealand and Australia gradually in the next few years. More variety of milk products, such as the extended shelf life milk, fortified milk, ultrafiltration liquid milk and milk permeating powder, are expected to be imported to China from the US. In addition, the import of dairy products from the European Union and the "Belt and Road" countries is also expected to increase. Therefore, the import sources for China's dairy products will become more diversified in the future, and the Group's future profitability may be affected by fiercer market competition from overseas competitors accordingly.

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Evaluation of the Share Offer Price

Reference is made to the Share Offer Price of HK\$0.63 per Share, which represents:

- a premium of approximately 6.8% to the closing price of the Shares of HK\$0.59 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 1.6% to the closing price of the Shares of HK\$0.62 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 6.1% to the average closing price of the Shares of approximately HK\$0.59 per Share for the last five (5) consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 8.4% to the average closing price of the Shares of approximately HK\$0.58 per Share for the last 10 consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 17.5% to the average closing price of the Shares of approximately HK\$0.54 per Share for the last 30 consecutive trading days up to and including the Last Trading Date;
- a premium of approximately 39.4% to the average closing price of the Shares of approximately HK\$0.45 per Share for the last 90 consecutive trading days up to and including the Last Trading Date; and
- a premium of approximately 314.5% to the closing price of the Shares of approximately HK\$0.152 per Share as quoted on the Stock Exchange on 18 June 2019, which was the lowest ever since the Shares were listed on the Stock Exchange on 26 November 2013.

During the six-month period preceding and up to the Last Trading Date, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.620 on 3 September 2020, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.245 on 23 March 2020.

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(i) Selection of comparable companies

On the Stock Exchange, we are able to identify three companies (“**Comparable Companies**”) which principally derive their revenue from dairy farming as follows:

China Shengmu Organic Milk Limited (1432)	<p>This company principally engages in dairy farming business in Ulan Buh Desert on the western Inner Mongolia Plateau. It has 34 dairy farms with daily production of 1,715 tonnes of fresh milk, 11 of which have passed organic certification with daily production of 730 tonnes of organic fresh milk, forming the largest organic raw milk base in the PRC. It also has 23 non-organic farms with daily production of 985 tonnes of high-quality non-organic fresh milk.</p> <p>As disclosed in its 2020 interim report, the quantity of dairy cows was 107,887 heads, including 47,205 organic dairy cows.</p>
China ZhongDi Dairy Holdings Company Limited (1492)	<p>This company mainly operates dairy farming business, which includes production and sales of premium raw milk and the feeding, breeding and sales of dairy cows, etc.</p> <p>As at 30 June 2020, this company’s herd size was 66,065 heads and operated eight dairy farms in Beijing, Inner Mongolia, Helan, Ningxia, Kuandian, Langfang, Tianzhen and Tianjin.</p>
China Modern Dairy Holdings Limited (1117)	<p>This company is considered as a strategic partner of Mengniu Group and operates a total of 26 dairy farms (each with a herd size close to or over 10,000 dairy cows) across seven provinces in the PRC, and is the largest leading dairy farming company and the largest producer of raw fresh milk in the PRC in terms of the herd scale (over 235,000 heads of dairy cows) and volume of annual production (around 1.5 million tons).</p>

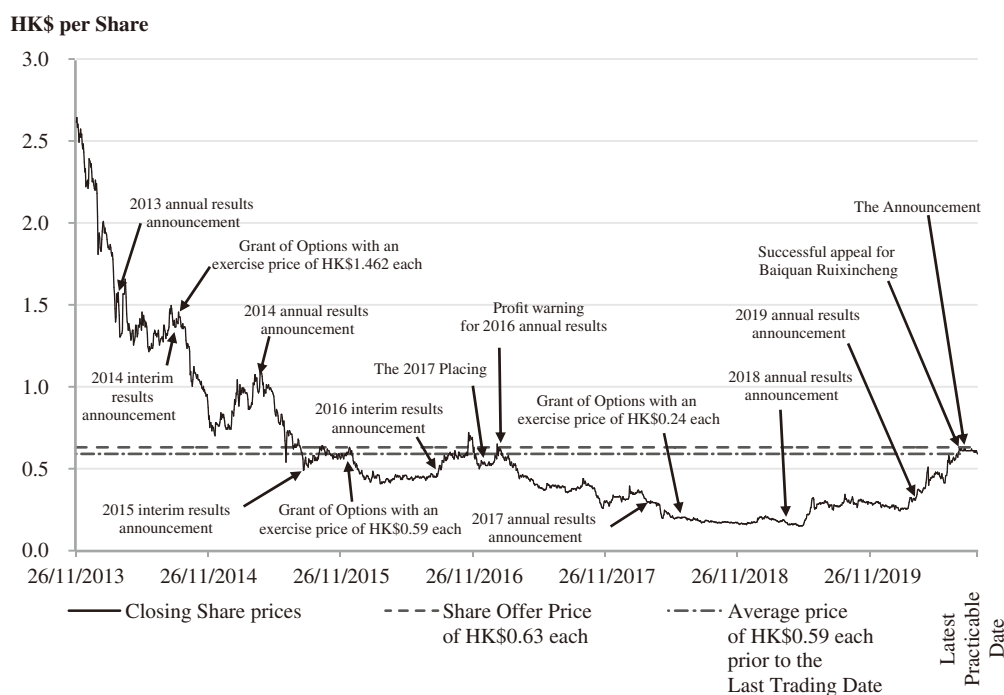
The Group operates in one single business segment — dairy farming and generates all of its revenue from the sale of raw milk in the PRC. In 2019, each of the three Comparable Companies had revenue from the sale of raw milk in the PRC that contributed to all or at least 90% of its total revenue. As we did not identify any other companies listed on the Stock Exchange that had no less than 90% of the revenue from the sale of raw milk in the PRC in 2019, we consider that the three Comparable Companies we have identified are all the companies forming an exhaustive, fair and representative list of companies listed on the Stock Exchange that engage in a business similar with that of the Group.

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(ii) Share price performance

Set out below is the performance of the closing prices of the Shares during the period from the listing of the Shares on 26 November 2013 to the Latest Practicable Date (inclusive of both dates) (the “Review Period”):

Chart 1 – Closing Share prices



Source: Bloomberg

The Shares were listed on the Stock Exchange at HK\$2.70 each, and closed at HK\$2.60 each, on 26 November 2013. Ever since then until 18 June 2019 when the closing Share price bottomed at HK\$0.152 each, the closing Share prices had been generally declining over this five-and-a-half-year period. During the Review Period, the highest closing Share price was HK\$2.63 each on 27 November 2013. The Share Offer Price of HK\$0.63 each represents a premium over all the closing Share prices since 24 February 2017 (inclusive) i.e. over the last three years and eight months.

The average closing Share price throughout the entire period from the date of listing of the Shares to the Last Trading Date (inclusive of both dates) was HK\$0.59 each, over which the Share Offer Price represents a premium of 6.8%.

Taking into account the majority of years after the Shares were listed, the Group recorded losses for three out of the six financial years. The prolonged underperformance of the Share price was possibly due to a lack of continuously profitable trend which casted uncertainty on its profit sustainability.

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After three consecutive years of losses recorded during 2016 to 2018, the Group recorded a profit of RMB33.8 million for the first half of 2019 followed by an annual profit of RMB223.1 million for 2019. For the first half of 2020, the Group further recorded a profit of RMB123.9 million, representing a significant increase of 266.6% period on period. Since 18 June 2019 when the closing Share price bottomed at HK\$0.152 each, the closing Share price had been generally bouncing back to reach HK\$0.62 each on the Last Trading Date, which is still short of the Share Offer Price of HK\$0.63 each. The Share Offer Price represents a premium of approximately 314.5% over such ever lowest closing Share price of HK\$0.152 each as of June last year. In our view, the premium implied by the Share Offer Price is over what the market offers taking into account, among others, the improved performance of the Group since 2019.

Chart 2 – Relative closing Share price performance against the Comparable Companies

Set out below is the relative closing Share price performance against the Comparable Companies, where each of the closing Share price and the three closing share prices of the Comparable Companies on 18 June 2019 is set as 100% and the subsequent closing share prices are represented in percentage terms compared to the relevant 100% (i.e. closing share price on any given date ÷ closing share price on 18 June 2019 × 100%):



Source: Bloomberg

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During the Review Period, the closing Share price bottomed at HK\$0.152 each on 18 June 2019 following a general downward slide of the Share price over the five-and-a-half-year period from HK\$2.70 each upon listing of the Shares on 26 November 2013. Since then, the closing Share price had been generally bouncing back to reach HK\$0.62 each on the Last Trading Date, which represented an increase of approximately 307.9% on the ever lowest closing Share price of HK\$0.152 each over the 14 and a half months prior thereto (“**14½-month Increase**”). Further, the Share Offer Price represents a premium of approximately 1.6% over the closing Share price of HK\$0.62 each on the Last Trading Date.

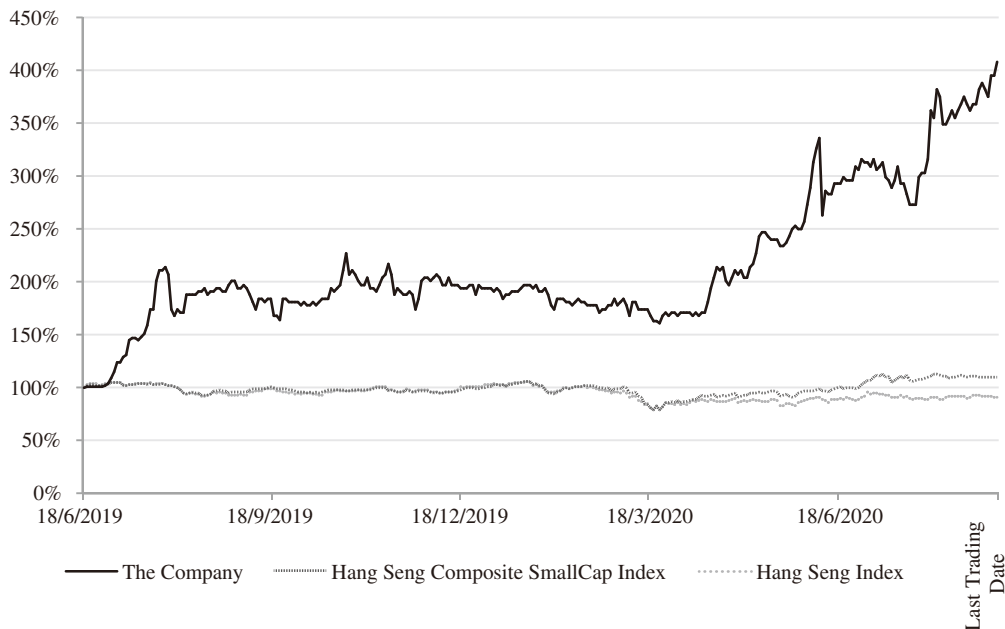
The Group recorded profits for 2019 and the first half of 2020 after three consecutive years of losses recorded during 2016 to 2018. According to our observation from *Chart 1* in this sub-section, the closing Share price experienced its 14½-month Increase amid the improved performance of the Group. In addition to our observation from *Chart 1* in this sub-section, we take one step further in *Chart 2* to assess the relative closing Share price performance against the Comparable Companies during the period for which the 14½-month Increase had lasted. From this perspective, we consider that *Chart 2* is a fair presentation whereby we are able to observe not only how the closing Share price had behaved by itself, but also how well or poorly it had performed against the Comparable Companies in reaction to events that took place during such period on the basis that each of the relevant closing share prices is set as 100% at the beginning of the period.

Save for the short period of time towards the beginning of the period, the Share price had been outperforming the Comparable Companies during the entire period, amid the improved performance of the Group in 2019 and onwards after the prolonged underperformance of the Share price.

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Chart 3 – Relative closing Share price performance against market indices

Set out below is the relative closing Share price performance against the market indices: Hang Seng Index and the Hang Seng Composite SmallCap Index, which are commonly regarded as proxies for assessment against the market, where each of the closing Share price and the value of indices on 18 June 2019 is set as 100% and their subsequent movements are represented in percentage terms compared to the relevant 100% (i.e. closing Share price or index value on any given date ÷ closing Share price or index value (as the case may be) on 18 June 2019 × 100%):



Source: Bloomberg

Reference is made to *Chart 2* in “*Principal Factors and Reasons Considered — Evaluation of the Share Offer Price — (ii) Share price performance*” in this letter, where we assessed the closing Share price performance against the Comparable Companies for the period commencing on 18 June 2019. Set out thereunder is our assessment regarding how well or poorly the closing Share price had performed against the Comparable Companies in reaction to events that took place during the period for which the 14½-month Increase had lasted. By the same token, we have reviewed the relative closing Share price performance against the market indices as exhibited in *Chart 3* for the same period as *Chart 2*.

Save for the short period of time towards the beginning of the period, the Share price had been outperforming the market indices primarily due to the significant increase in the closing Share price by approximately 307.9% over the entire period, during which the performance of the Group in 2019 and onwards had improved after losses were recorded for three out of the six financial years since the Shares were listed on 26 November 2013.

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(iii) Comparable analysis

Methodology

In evaluating the fairness and reasonableness of the Share Offer Price, we consider that the market approach based on multiples such as price-to-earnings ratio (“P/E”), price-to-book ratio (“P/B”), price-to-revenue ratio (“P/S”) and price-to-cash EBITDA ratio (“P/Cash EBITDA”), as opposed to the discounted cash flow approach, is appropriate since the former is based on market quotes for the value of the underlying assets (i.e. traded share prices) taking into account publicly disclosed financial information, which is objective in nature in terms of measurement, while the discounted cash flow approach often requires judgment and estimates for various assumptions and parameters e.g. discount rate and future cash flows in the model. In our view, the discounted cash flow approach is more appropriate when valuing assets which have a lack of market reference, for instance.

Our analysis

Set out below is the comparison of multiples implied by the Share Offer Price with those implied by the Comparable Companies:

Comparable Company (Stock code)	Market capitalisation ⁽¹⁾ HK\$ million	Revenue ⁽²⁾ HK\$ million	Cash EBITDA ⁽³⁾ HK\$ million	Profit	Net assets	P/Cash			
				attributable to equity holders ⁽²⁾ HK\$ million	attributable to equity holders ⁽⁴⁾ HK\$ million	P/S time	EBITDA time	P/E time	P/B time
	(A)	(B)	(C)	(D)	(E)	(A) ÷ (B)	(A) ÷ (C)	(A) ÷ (D)	(A) ÷ (E)
China Shengmu Organic Milk Limited (1432)	5,615	2,874	932	31	2,865	1.95	6.02	181.13 ⁽⁵⁾	1.96
China ZhongDi Dairy Holdings Company Limited (1492)	2,268	1,697	536	118	2,616	1.34	4.23	19.22	0.87
China Modern Dairy Holdings Limited (1117)	7,298	6,240	2,315	386	8,271	1.17	3.15	18.91	0.88
The Share Offer Price	2,955	1,573	439	252	5,028	1.88	6.73	11.73	0.59
					Highest	1.95	6.02	19.22	1.96
					Lowest	1.17	3.15	18.91	0.87
					Mean	1.49	4.47	19.07	1.24
					Median	1.34	4.23	19.07	0.88

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Notes:

1. Based on the relevant closing share prices as quoted on the Stock Exchange or the Share Offer Price (as the case may be) and the relevant numbers of shares in issue on the Last Trading Date.
2. Based on the relevant 2019 annual reports and the exchange rate of RMB1.00 = HK\$1.1317.
3. Based on the relevant 2019 annual reports and the exchange rate of RMB1.00 = HK\$1.1317 to calculate **cash EBITDA** which is defined as earnings before finance costs and tax having added back any: (a) depreciation for property, plant and equipment and right-of-use assets charged to profit or loss; (b) amortisation of intangible assets; (c) other gains and losses, net; (d) impairment losses under the expected credit loss model, net of reversal; and (e) loss arising from changes in fair value less costs to sell of biological assets.
4. Based on the relevant 2020 interim reports and the exchange rate of RMB1.00 = HK\$1.1317.
5. This is an outlier that has been excluded from our analysis, as a result of a relatively small profit recorded for the period after two consecutive years of losses in 2017 and 2018. According to the 2019 annual report of China Shengmu Organic Milk Limited (stock code: 1432), the profit for the year was approximately RMB135.7 million included in which was a profit attributable to non-controlling interests of approximately RMB108.0 million. Such non-controlling interests mainly represent dairy farmers with whom this company cooperates in relation to dairy farm management in its farms.

In respect of P/S, the Share Offer Price implies a P/S of 1.88 times which is close to the high end, and higher than both the mean and median, of the range of 1.17 times to 1.95 times implied by the Comparable Companies. In respect of P/Cash EBITDA, the Share Offer Price implies a P/Cash EBITDA of 6.73 times which is the higher than all those implied by the Comparable Companies. We consider that this outcome suggests that the Share Offer Price basically gives the most premium on the Group's ability of revenue and cash generation among the Comparable Companies.

In assessing a dairy farming business with P/E, consideration should be given to the impact of fair valuation of biological assets which often represent a significant amount on the balance sheet and its impact on the profit and loss as a result of the "changes in fair value less costs to sell of biological assets". Based on the 2020 interim reports of the Comparable Companies, biological assets as a percentage to their total assets varied in the vicinity of approximately 32% to 48%, compared to 26% of the Group, as at 30 June 2020. For 2019, the "changes in fair value less costs to sell of biological assets" represented approximately 9% to 19% of the revenue of the Comparable Companies, compared to 9% of the Group. Since the Shares were listed in 2013, the "changes in fair value less costs to sell of biological assets" have represented approximately 4% to 40% of the Group's revenue. In view of such volatility arising from the measurement of biological assets which may require judgment and estimates in the process, we re-examine the implied

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P/Es by removing the “changes in fair value less costs to sell of biological assets” from the earnings as follows:

Comparable Company (Stock code)	Market capitalisation <i>HK\$ million</i> (A)	Profit attributable to equity holders <i>HK\$ million</i> (D)	Changes in fair value less costs to sell of biological assets ⁽⁶⁾ <i>HK\$ million</i> (F)	Adjusted profit attributable to equity holders <i>HK\$ million</i> (D) - (F) = (G)	Adjusted P/E <i>time</i> (A) ÷ (G)
China Shengmu Organic Milk Limited (1432)	5,615	31	(323)	354	15.86 ⁽⁷⁾
China ZhongDi Dairy Holdings Company Limited (1492)	2,268	118	(153)	271	8.37
China Modern Dairy Holdings Limited (1117)	7,298	386	(1,176)	1,562	4.67
The Share Offer Price	2,955	252	(135)	387	7.64
				Highest	15.86
				Lowest	4.67
				Mean	9.63
				Median	8.37

Notes:

6. Based on the relevant 2019 annual reports and the exchange rate of RMB1.00 = HK\$1.1317.
7. This is included in our analysis here as a result of the removal of “changes in fair value less costs to sell of biological assets” from earnings, whereas it was an outlier as referred to in note 5 to the preceding table in this sub-section.

As such, the Share Offer Price implies an adjusted P/E of 7.64 times which falls within the range of those P/Es implied by the Comparable Companies, and is well above their lowest of 4.67 times, despite being below their mean of 9.63 times and median of 8.37 times.

So far, all multiples implied by the Share Offer Price including P/S, P/Cash EBITDA and P/E (with the removal of “changes in fair value less costs to sell of biological assets” from earnings) except P/B have demonstrated a consistent conclusion that the Share Offer Price is fair and reasonable compared to the Comparable Companies. We consider that the relatively low P/B implied by the Share Offer Price is possibly attributed to the difference in capital structure between the Group and the Comparable Companies. The higher the net gearing ratio, the less the net assets would be and the higher the P/B would be implied by the same share price, provided everything else is equal. As at 30 June 2020, the Group had no borrowings whereas the Comparable Companies had net gearing ratios (borrowings net of cash ÷ equity) in the vicinity of approximately 56.0% to 86.8%. With the Share Offer Price being almost the same as (actually higher than) the closing Share price

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on the Last Trading Date in mind, and considering relevant multiples implied by the Share Offer Price except P/B demonstrate that the Share Offer Price has basically delivered the most premium on the Group's ability of revenue and cash generation and represents a reasonable P/E (with the removal of "changes in fair value less costs to sell of biological assets" from earnings) among the Comparable Companies, we are of the view that the market may have priced the Shares with no or not much regard to the fact that the Group was gearing-free with total cash and cash equivalents of RMB1.2 billion as at 30 June 2020. For the purpose of aligning the capital structure of the Group with that of the Comparable Companies, we re-examine the P/B implied by the Share Offer Price by assuming a capital structure for the Group with equity and debt in a net gearing ratio of 69.7% that is derived from the average of the ratios among the Comparable Companies. Hence, the net assets of the Group would be adjusted from RMB4,443 million (or HK\$5,028 million) to RMB2,894 million (or HK\$3,275 million), taking into account the Valuation Surplus (as defined hereinafter) of RMB468.6 million, for the purpose of comparing the implied P/Bs as follows:

Comparable Company (Stock code)	Market capitalisation <i>HK\$ million</i> (A)	Net assets attributable to equity holders <i>HK\$ million</i> (H)	P/B <i>time</i> (A) ÷ (H)
China Shengmu Organic Milk Limited (1432)	5,615	2,865	1.96
China ZhongDi Dairy Holdings Company Limited (1492)	2,268	2,616	0.87
China Modern Dairy Holdings Limited (1117)	7,298	8,271	0.88
The Share Offer Price	2,955	3,275 ⁽⁸⁾	0.90
		Highest	1.96
		Lowest	0.87
		Mean	1.24
		Median	0.88

Note:

8. Based on the 2020 interim report of the Company, the exchange rate of RMB1.00 = HK\$1.1317 and a net gearing ratio of 69.7% applied to the existing net assets of RMB4,442.7 million, taking into account the Valuation Surplus of RMB468.6 million, i.e. $RMB4,911.3 \text{ million} \times 1.1317 \div (100\% + 69.7\%)$.

As such, the Share Offer Price implies an adjusted P/B of 0.90 time ("**Adjusted P/B**") which falls within the range of those P/Bs implied by the Comparable Companies. We consider that the adjustment to the Group's net assets in calculating the adjusted P/B as implied by the Share Offer Price is justifiable in light of (a) the relatively high premium on the Group's ability of revenue and cash generation represented by the P/S and P/Cash EBITDA implied by the Share Offer Price and (b) the reasonable P/E (with the removal of "changes in fair value less costs to sell of biological assets" from earnings) implied by the Share Offer Price, in comparison with the same multiples of the Comparable Companies.

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Taking into account the premium of each of P/S and P/Cash EBITDA represented by the Share Offer Price on the Group's ability of revenue and cash generation among the Comparable Companies respectively as well as the reasonableness of P/E (with the removal of "changes in fair value less costs to sell of biological assets" from earnings) and P/B (with the alignment of capital structure of the Group with that of the Comparable Companies) implied by the Share Offer Price, we are satisfied that the Share Offer Price is fair and reasonable as far as the comparable analysis is concerned.

(iv) Comparable transactions

The Share Offer is conditional upon, among others, at least 50% of the voting rights in the Company being obtained by the Offeror and its Concert Parties. According to the Letter from CLSA Limited included in the Composite Document, the Offeror and its Concert Parties had not received any irrevocable commitment to accept or reject the Offers as at the Latest Practicable Date. The Offers, if successfully completed, will result in the Offeror becoming the single largest Shareholder upon close thereof. The Offeror intends that the Group will continue to operate its business in substantially its current state. Further, the Offeror has no intention to privatise the Company and intends the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers.

While we have attempted to compare the terms of the Offers with precedent transactions announced on the Stock Exchange, we consider that no meaningful analysis can be carried out in this regard due to a lack of comparable transactions (exclusive of privatisations) that were involved in (a) any offeree, as a listed company on the Stock Exchange, principally operating a dairy farming business in the PRC; (b) any offeror principally operating a dairy processing business in the PRC; and (c) at least 50% of the stakes in any offeree being acquired and consolidated in one single transaction (for this purpose, a sale and purchase transaction followed by a mandatory general offer is treated as one single transaction), where such transactions, if any, were completed prior to the Latest Practicable Date.

(v) Discounts of the Share Offer Price to the Group's net asset values per Share

Reference is made to the Share Offer Price of HK\$0.63 per Share, which represents:

- a discount of approximately 38.8% to the Group's net asset value per Share of approximately HK\$1.03 (or RMB0.9207) as at 31 December 2019;
- a discount of approximately 39.2% to the Group's net asset value per Share of approximately HK\$1.04 (or RMB0.9472) as at 30 June 2020; and
- a discount of approximately 45.0% to the Group's adjusted unaudited net asset value per Share of approximately HK\$1.15 (or RMB1.0471) (the "Adjusted Unaudited NAV") as at 30 June 2020.

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The Adjusted Unaudited NAV of RMB1.0471 per Share is arrived at after taking into account (a) the Group's unaudited net asset value as at 30 June 2020 of RMB4,442.7 million; (b) the valuation surplus of property interests in an amount of RMB468.6 million (the "Valuation Surplus"); and (c) the number of Shares in issue of 4,690,496,400 Shares.

According to the property valuation report set out in Appendix III to the Composite Document, the valuation has been carried out on a market value basis. In valuing the property interests held by the Group, the Property Valuer has attributed no commercial value to them due to the leased land nature of the land parcels on which the buildings and structures and construction works in progress are erected. Nonetheless, the Property Valuer has adopted the cost approach to provide, for reference purpose, its opinion of the depreciated replacement costs for the relevant buildings and structures and the replacement costs for the relevant construction works in progress, in the form of notes to the property valuation report. The Valuation Surplus of RMB468.6 million represents the increment of such total costs opined by the Property Valuer as at 31 August 2020 of RMB2,366.5 million over the total book value of the Group's property interests of RMB1,897.9 million. Taking into account the valuation basis adopted by the Property Valuer, we consider that the Adjusted Unaudited NAV is a fair presentation by itself as a result of the Valuation Surplus.

The Directors have further advised that approximately 84% of the Valuation Surplus i.e. RMB393.9 million is related to Baiquan Ruixincheng Farm which was impaired by the Group's management in an amount of RMB420.7 million in 2018 following the Withdrawal Decision. In the third quarter of 2020, Baiquan Ruixincheng (as the appellant) received a successful administrative appeal verdict and is currently reapplying for the requisite approvals in this connection. See *note 2 to "Principal Factors and Reasons Considered — Information on the Group — (i) Financial and operating information of the Group"* in this letter for further details in this regard. In respect of Baiquan Ruixincheng Farm, the Property Valuer has attributed a depreciated replacement cost of RMB401.9 million as at 31 August 2020 which represents a valuation surplus of RMB393.9 million over its book value as at 30 June 2020 of RMB8.0 million.

The Adjusted Unaudited NAV is for illustrative purposes only and should not be regarded as the actual reassessed net asset value of the Group.

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Chart 4 – Historical P/Bs implied by the closing Share prices



Source: Bloomberg

Set out above were the historical P/Bs implied by the closing Share prices, which had been below 1.00 time since 26 September 2014, which means that the Shares had been trading at discounts to the Group’s net asset value per Share for a prolonged period of time. On 28 December 2018, the lowest implied P/B of 0.15 time was recorded, which represents that the closing Share price was trading at a discount of 85.0% to the Group’s net asset value per Share then. Over the period, the average P/B implied by the closing Share prices was 0.36 time. On the Last Trading Date, the implied P/B was 0.58 time which had increased by 2.87 times compared to the lowest implied P/B of 0.15 time recorded on 28 December 2018.

The P/Bs implied by the closing Share prices have been below 1.00 time since 26 September 2014, which may suggest that the market has been pricing the Shares with less regard to the Group’s net assets than its other fundamentals such as earnings for a prolonged period of time. In addition, we have discussed the multiples implied by the Share Offer Price, including an analysis on P/B, in comparison with those implied by the Comparable Companies in “Principal Factors and Reasons Considered — Evaluation of the Share Offer Price — (iii) Comparable analysis — Our analysis” in this letter, which are all found to be fair and reasonable as far as the comparable analysis is concerned (where, in particular, the Share Offer Price implies an Adjusted P/B of 0.90 time which falls within the P/Bs of 0.88 time to 1.96 times implied by the Comparable Companies). Therefore, we consider that the Share Offer Price representing a discount to the Group’s net asset value per Share is acceptable.

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(vi) Liquidity analysis

	Daily average of Shares traded	% the total issued Shares (%)	% to the issued Shares in public hands (%)
2019			
January	1,566,230	0.03	0.05
February	4,270,824	0.09	0.13
March	1,996,429	0.04	0.06
April	1,174,158	0.03	0.04
May	1,553,796	0.03	0.05
June	1,358,526	0.03	0.04
July	9,371,136	0.20	0.28
August	2,984,228	0.06	0.09
September	3,605,162	0.08	0.11
October	6,971,106	0.15	0.21
November	11,830,667	0.25	0.36
December	3,576,550	0.08	0.11
2020			
January	5,058,600	0.11	0.15
February	1,798,900	0.04	0.05
March	5,003,909	0.11	0.15
April	16,832,299	0.36	0.51
May	13,096,200	0.28	0.40
June	19,111,705	0.41	0.58
July	7,276,727	0.16	0.22
August	16,125,000	0.34	0.49
1 September up to and including the Last Trading Date	43,295,000	0.92	1.31
First trading day after the publication of the Announcement up to and including 30 September 2020	34,485,278	0.74	1.04
5 October up to and including the Latest Practicable Date	5,728,560	0.12	0.17

Source: Bloomberg

During the review period from 2 January 2019 up to and including the Latest Practicable Date, the daily average of Shares traded was 8,088,920 Shares, representing approximately 0.17% of the total issued Shares and 0.24% of the issued Shares in public hands, which trading was considered thin. Notwithstanding increased daily averages of Shares traded in April to June and August and September 2020 compared to the other months in the review period, such low liquidity of Shares traded could make it difficult for the Independent Shareholders to divest scalable on-market disposals without

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adversely affecting the price of the Shares. As such, the Share Offer presents an immediate opportunity for holders of the Offer Shares to realise their investments in the Offer Shares for cash and redeploy the cash received from accepting the Share Offer into other investment opportunities.

DISCUSSION AND ANALYSIS

The Share Offer

The Company went public in November 2013 at a price of HK\$2.70 each Share. Ever since then, the Share price had been generally going downhill over the next five and a half years until 18 June 2019 when the closing Share price bottomed at HK\$0.152 each. The average closing Share price throughout the entire period from the date of listing of the Shares to the Last Trading Date (inclusive of both dates) was HK\$0.59 each, over which the Share Offer Price represents a premium of 6.8%.

We reviewed the financial and operating performance of the Group since the Shares were listed whereby we are of the view that the prolonged underperformance of the Share price was possibly due to the inability of the Group to deliver continuous profits which casted uncertainty on its profit sustainability.

After three consecutive years of losses recorded during 2016 to 2018, the Group recorded a profit of RMB33.8 million for the first half of 2019 followed by an annual profit of RMB223.1 million for 2019. For the first half of 2020, the Group further recorded a profit of RMB123.9 million, representing a significant increase of 266.6% period on period.

Since 18 June 2019 when the closing Share price bottomed at HK\$0.152 each, the closing Share price had been generally bouncing back to reach HK\$0.62 each on the Last Trading Date, which is still short of the Share Offer Price of HK\$0.63 each. The Share Offer Price represents a premium of approximately 314.5% over such ever lowest closing Share price of HK\$0.152 each as of June last year. In our view, the premium implied by the Share Offer Price is over what the market offers taking into account, among others, the improved performance of the Group since 2019.

Furthermore, based on the closing Share prices between 18 June 2019 and the Last Trading Date (inclusive of both dates), the Share price had been outperforming the Comparable Companies almost at all times during the entire period. See *Chart 2* in “Principal Factors and Reasons Considered — Evaluation of the Share Offer Price — (ii) Share price performance” in this letter.

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In addition to the analysis of the Share price performance, we also performed a review of the Share Offer Price against the multiples implied by the Comparable Companies. Set out below is the comparison of multiples implied by the Share Offer Price with those implied by the Comparable Companies, as adjusted where appropriate:

Comparable Company (Stock code)	Market capitalisation ⁽ⁱ⁾ HK\$ million (K)	Revenue ⁽ⁱⁱ⁾ HK\$ million (L)	Cash EBITDA ⁽ⁱⁱⁱ⁾ HK\$ million (M)	Profit to equity holders ⁽ⁱⁱ⁾ HK\$ million (N)	Changes in fair value less costs to sell of biological assets ⁽ⁱⁱ⁾ HK\$ million (O)	Adjusted profit to equity holders HK\$ million (N) - (O) = (P)	Net assets to equity holders HK\$ million (Q)	P/S	P/Cash EBITDA	Adjusted P/E	P/B
								(K) ÷ (L)	(K) ÷ (M)	(K) ÷ (P)	(K) ÷ (Q)
China Shengmu Organic Milk Limited (1432)	5,615	2,874	932	31	(323)	354	2,865 ^(iv)	1.95	6.02	15.86	1.96
China ZhongDi Dairy Holdings Company Limited (1492)	2,268	1,697	536	118	(153)	271	2,616 ^(iv)	1.34	4.23	8.37	0.87
China Modern Dairy Holdings Limited (1117)	7,298	6,240	2,315	386	(1,176)	1,562	8,271 ^(iv)	1.17	3.15	4.67	0.88
The Share Offer Price	2,955	1,573	439	252	(135)	387	3,275 ^(v)	1.88	6.73	7.64	0.90
							Highest	1.95	6.02	15.86	1.96
							Lowest	1.17	3.15	4.67	0.87
							Mean	1.49	4.47	9.63	1.24
							Median	1.34	4.23	8.37	0.88

Notes:

- i. Based on the relevant closing share prices as quoted on the Stock Exchange or the Share Offer Price (as the case may be) and the relevant numbers of shares in issue on the Last Trading Date.
- ii. Based on the relevant 2019 annual reports and the exchange rate of RMB1.00 = HK\$1.1317.
- iii. Based on the relevant 2019 annual reports and the exchange rate of RMB1.00 = HK\$1.1317 to calculate **cash EBITDA** which is defined as earnings before finance costs and tax having added back any: (a) depreciation for property, plant and equipment and right-of-use assets charged to profit or loss; (b) amortisation of intangible assets; (c) other gains and losses, net; (d) impairment losses under the expected credit loss model, net of reversal; and (e) loss arising from changes in fair value less costs to sell of biological assets.
- iv. Based on the relevant 2020 interim reports and the exchange rate of RMB1.00 = HK\$1.1317.
- v. Based on the 2020 interim report of the Company, the exchange rate of RMB1.00 = HK\$1.1317 and a net gearing ratio of 69.7% applied to the existing net assets of RMB4,442.7 million, taking into account the Valuation Surplus of RMB468.6 million, i.e. RMB4,911.3 million × 1.1317 ÷ (100% + 69.7%).

In respect of P/S and P/Cash EBITDA, the Share Offer Price basically gives the most premium on the Group's ability of revenue and cash generation among the Comparable Companies.

In assessing a dairy farming business with P/E, consideration should be given to the impact of fair valuation of biological assets which often represent a significant amount on the balance sheet and its impact on the profit and loss as a result of the "changes in fair value less costs to sell of biological assets". In view of the volatility of profitability arising from the measurement of biological assets which may require judgment and estimates in

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the process, we re-examined the implied P/Es by removing the “changes in fair value less costs to sell of biological assets” from the earnings. As such, the Share Offer Price implies an adjusted P/E of 7.64 times which falls within the range of those P/Es implied by the Comparable Companies.

So far, all multiples implied by the Share Offer Price including P/S, P/Cash EBITDA and P/E (with the removal of “changes in fair value less costs to sell of biological assets” from earnings) except P/B have demonstrated a consistent conclusion that the Share Offer Price is fair and reasonable compared to the Comparable Companies. We consider that the relatively low P/B implied by the Share Offer Price is possibly attributed to the difference in capital structure between the Group and the Comparable Companies. The higher the net gearing ratio, the less the net assets would be and the higher the P/B would be implied by the same share price, provided everything else is equal. As at 30 June 2020, the Group had no borrowings whereas the Comparable Companies had net gearing ratios (borrowings net of cash ÷ equity) in the vicinity of approximately 56.0% to 86.8%. We consider that the market may have priced the Shares with no or not much regard to the fact that the Group was gearing-free with total cash and cash equivalents of RMB1.2 billion as at 30 June 2020. As such, we re-examined the P/B implied by the Share Offer Price by assuming a capital structure for the Group with equity and debt in a net gearing ratio of 69.7% that is derived from the average of the ratios among the Comparable Companies, which is then found to fall within the range of P/Bs implied by the Comparable Companies.

Taking into account (i) the Share Offer Price representing a premium over the closing Share price of HK\$0.62 each as quoted on the Last Trading Date on top of the ever lowest closing Share price of HK\$0.152 each on 18 June 2019 and the average closing Share price of HK\$0.59 each throughout the entire period from the date of listing of the Shares to the Last Trading Date (inclusive of both dates), i.e. such premium is over what the market offers taking into account, among others, the improved performance of the Group since 2019 and is reinforced by the outperformance of the Share price against each of the Comparable Companies almost at all times during the entire period from 18 June 2019 up to and including the Last Trading Date; and (ii) the premium of each of P/S and P/Cash EBITDA represented by the Share Offer Price on the Group’s ability of revenue and cash generation among the Comparable Companies respectively as well as the reasonableness of P/E (with the removal of “changes in fair value less costs to sell of biological assets” from earnings) and P/B (with the alignment of capital structure of the Group with that of the Comparable Companies) implied by the Share Offer Price, we are satisfied that the Share Offer Price is fair and reasonable.

In evaluating the fairness and reasonableness of the Share Offer Price, we have considered that the Offeror is attempting to consolidate at least 50% control over the Company from the Independent Shareholders. However, according to the shareholding structure of the Company set out in “9. Shareholding Structure of the Company” in the Letter from CLSA Limited included in the Composite Document, there is no one single Shareholder holding 30% or more of the Shares in issue. As such, we see that the Offeror may have no strong reason to give a more significant premium over the current Share price to attract the Independent Shareholders to sell their stakes in the Company. In the absence of Independent Shareholders holding 30% or more of the Shares in issue who may

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wish to sell their stakes to the Offeror, we are of the view that our review of the past Share price performance and comparison of the performance against the Comparable Companies and market indices, coupled with our comparable analysis based on P/S, P/Cash EBITDA, P/E and P/B, provides a fair and reasonable assessment on the Share Offer Price in the context of the Offers.

As regards the Offeror acquiring the Shares at a discount to the Group's net asset value per Share, we reviewed the historical P/Bs implied by the closing Share prices, which have been below 1.00 time since 26 September 2014, i.e. the Shares have been trading at discounts to the Group's net asset value per Share since then. In our view, it may suggest that the market has been pricing the Shares with less regard to the Group's net assets than its other fundamentals such as earnings for a prolonged period of time. In view of the multiples including P/B (with the alignment of capital structure of the Group with that of the Comparable Companies) implied by the Share Offer Price in comparison with those implied by the Comparable Companies, which are all found to be fair and reasonable as far as the comparable analysis is concerned (where, in particular, the Share Offer Price implies an Adjusted P/B of 0.90 time which falls within the P/Bs of 0.88 time to 1.96 times implied by the Comparable Companies), we consider that the Share Offer Price representing a discount to the Group's net asset value per Share is acceptable.

The Option Offer

The price for the cancellation of each Option accepted under the Option Offer is the see-through price which represents the excess of the Share Offer Price over the exercise price of each Option, except that the Option Offer for each of the outstanding Options with an exercise price of HK\$1.462 that exceeds the Share Offer Price will be made with HK\$0.0001 in cash for the cancellation of each of such outstanding Options.

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects. The Offers including the Option Offer must remain open for acceptance for at least fourteen (14) days after the Offers become unconditional (whether as to acceptance or in all respects).

According to the Share Option Scheme, an Option will lapse automatically (to the extent not exercised) on the date on which the Offers are closed. If the Option Offer is withdrawn or lapses, any outstanding Options (to the extent not exercised) will remain valid and exercisable in accordance with the Share Option Scheme.

OPINION

Having taken into account the principal factors and reasons set out in this letter, we consider that the Offers are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders and the Independent Optionholders to accept the Share Offer and the Option Offer (as the case may be).

For those Independent Shareholders who are considering to realise all or part of their investment in the Company, they should monitor the Share price performance until the end of the Offer Period. If the market price of the Shares exceeds the Share Offer Price

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and the sale proceeds net of transaction costs exceed the net proceeds receivable under the Share Offer, the Independent Shareholders should consider to sell their Shares on the open market instead of accepting the Share Offer.

Likewise, the Independent Optionholders are advised to exercise their in-the-money Options and dispose of the Shares issued to them on the open market if the market price of the Shares exceeds the Share Offer Price and the sale proceeds net of transaction costs (inclusive of the exercise price paid for the Options exercised) exceed the proceeds receivable under the Option Offer.

According to the Letter from CLSA Limited included in the Composite Document, the Offeror and its Concert Parties had not received any irrevocable commitment to accept or reject the Offers as at the Latest Practicable Date. The Offers, if successfully completed, will result in the Offeror becoming the single largest Shareholder upon close thereof. The Offeror intends that the Group will continue to operate its business in substantially its current state. Further, the Offeror has no intention to privatise the Company and intends the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers.

In the event that the Offers are successfully completed, it is envisaged that the Offeror will have at least 50% control of the Group's business and affairs, and share of the Group's profit or loss after close of the Offers. Accordingly, should any Independent Shareholders consider that the future of the Group would be promising under the control of the Offeror notwithstanding, among others:

- the lack of continuously profitable trend in the past which casts uncertainty on the Group's future profitability;
- the uncertainty as to when and to what extent any potential synergistic benefits in aligning the operations of the Group with the Offeror Group will be realised after completion of the Offers;
- the risks and challenges faced by the dairy farming industry players including the Group such as: (i) the relatively high cost of production, due to feed cost and stringent environmental and food safety regulations, which exerts pressure on profitability; and (ii) fiercer market competition as a result of more liberalisation of China's dairy market to overseas competitors;
- the lack of dividend track record ever since the Shares were listed in 2013;
- the uncertainty as to whether there will be a change of the future composition of the Board, and the extent of such change, if any; and
- the possible prolonged suspension of trading in the Shares if the public float cannot be restored in the event of less than 25% of the Shares being held by the public at the close of the Share Offer,

they may consider retaining all or part of their Shares.

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Shareholders, Optionholders and potential investors should be aware that the Share Offer is subject to the satisfaction or waiver (where applicable) of the Conditions (including obtaining the Anti-trust Clearance), and the Option Offer is subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

Accordingly, the Offers may or may not become unconditional. Shareholders, Optionholders and potential investors should therefore exercise caution when dealing in the Shares or exercising the Options or other rights in respect of any of them.

The Independent Shareholders and the Independent Optionholders should read carefully the procedures for acceptance of the Share Offer and the Option Offer (as the case may be) as set out in Appendix I to the Composite Document.

Yours faithfully,
for and on behalf of
Shenwan Hongyuan Capital (H.K.) Limited
Felix Chan
Managing Director
Deputy Head of Corporate Finance

Mr. Felix Chan has been licensed by the Securities and Futures Commission to advise on corporate finance in Hong Kong since 2002.

1 PROCEDURES FOR ACCEPTANCE OF THE OFFERS

1.1 The Share Offer

To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Share Offer Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer. You should insert the total number of Shares for which the Share Offer is accepted. If no number is inserted or a number inserted is greater or smaller than your registered holding of Share(s) or those physical Share(s) tendered for acceptance of the Share Offer and you have signed the form, the form will be returned to you for correction and resubmission. Any corrected form must be resubmitted and received by the Registrar by not later than 4:00 p.m. on the Closing Date, being the first Closing Date or such later time(s) and/or date(s) as may be announced by the Offeror in compliance with the Takeovers Code and approved by the Executive. Your Shares sold to the Offeror by way of acceptance of the Share Offer will be registered under the name of the Offeror or its nominee.

By signing and returning the **WHITE** Form of Share Offer Acceptance, you warrant to the Offeror, CLSA Limited, CLSA Capital Markets and the Company that you have not taken or omitted to take any action which will or may result in the Offeror and its Concert Parties, the Company, CLSA Limited, CLSA Capital Markets or any other person acting in breach of the legal or regulatory requirements of any territory in connection with the Share Offer or your acceptance thereof.

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name and you wish to accept the Share Offer, you must send the duly completed and signed **WHITE** Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in any event by not later than 4:00 p.m. on the Closing Date, being the first Closing Date or such later time(s) and/or date(s) as may be announced by the Offeror in compliance with the Takeovers Code and approved by the Executive.

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own and you wish to accept the Share Offer in full or in part, you must either:

- (a) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and

requesting it to deliver the **WHITE** Form of Share Offer Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Shares in respect of which you intend to accept the Share Offer to the Registrar; or

- (b) arrange for the Shares to be registered in your name by the Company, through the Registrar, and send the duly completed **WHITE** Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
- (c) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees. In order to meet the deadline set by HKSCC Nominees, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on processing your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
- (d) if your Shares have been lodged with your Investor Participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System before the deadline set by HKSCC Nominees.

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificates and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter.

If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

If you have lodged transfer(s) of any of your Shares for registration in your name and have not received your share certificate(s) and you wish to accept the Share Offer, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by you. Such

action will be deemed to be an irrevocable authority to the Offeror to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.

An acceptance of the Share Offer may not be counted as valid unless:

- (a) it is received by the Registrar by not later than 4:00 p.m. on the Closing Date, being the first Closing Date or such later time(s) and/or date(s) as may be announced by the Offeror in compliance with the Takeovers Code and approved by the Executive, and the Registrar has recorded that such acceptance and any relevant documents required under paragraph (b) below have been so received; and
- (b) the **WHITE** Form of Share Offer Acceptance is duly completed and signed and is:
 - i. accompanied by the relevant share certificate(s) and/or transfer receipt (s) and/or other document (s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Shares in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - ii. from a registered Shareholder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under the other sub-paragraphs of this paragraph (b)); or
 - iii. certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Share Offer Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

No acknowledgment of receipt of any **WHITE** Form of Share Offer Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

If the Share Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar will be returned to the Shareholders who have accepted the Share Offer by ordinary post at the Shareholders' own risk as soon as possible but in any event within 10 days after the Share Offer has lapsed.

1.2 The Option Offer

If you accept the Option Offer, you should complete the **PINK** Form of Option Offer Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer. The Options will be categorised in different categories each called "Option Class" by virtue of the exercise price of each Option.

The completed **PINK** Form of Option Offer Acceptance should be forwarded, together with the relevant certificate(s) of the Options (if applicable) under the Option Class you intend to tender, stating the number of Options in respect of which you intend to accept the Option Offer under such Option Class, by post or by hand to the Company as soon as possible and in any event so as to reach the Company at Boardroom Corporate Services (HK) Limited, 31/F., 148 Electric Road, North Point, Hong Kong by not later than 4:00 p.m. on the Closing Date, being the first Closing Date or such later time(s) and/or date(s) as may be announced by the Offeror in compliance with the Takeovers Code and approved by the Executive.

If the certificate(s) in respect of your Options (if applicable) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Option Offer, the **PINK** Form of Option Offer Acceptance should nevertheless be completed and delivered to the Company together with a letter stating that you have lost one or more of your Option certificate(s) (if applicable) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Company as soon as possible thereafter. If you have lost your Option certificate(s) (if applicable), you should also write to the Company requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Company.

If the certificate(s) in respect of your Options (if applicable) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, you must exercise the Options to the extent exercisable as indicated in section 3 in this Appendix I below, but so that the relevant exercise notice, cheque for the subscription monies and the **WHITE** Form of Share Offer Acceptance must reach the Registrar on or before the first Closing Date. You should also write to the Company requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Company with a copy delivered to the Registrar.

No stamp duty will be deducted from the amount paid or payable to Optionholders who accept the Option Offer.

No acknowledgment of receipt of any **PINK** Form of Option Offer Acceptance and/or certificate(s) of the Options (if applicable) will be given.

If the Share Offer is withdrawn or lapses, the Option Offer will be withdrawn or lapse too. In such case, the Offeror shall, at the Optionholders' own risk as soon as possible but in any event within 10 days thereof, return by ordinary post the relevant certificate(s) of the Options (if applicable) and/or other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof) lodged with the **PINK** Form of Option Offer Acceptance to the relevant Optionholders.

Pursuant to the Share Option Scheme, if the Option Offer is withdrawn or lapses, any outstanding Options (to the extent not exercised) will remain valid and exercisable in accordance with the Share Option Scheme.

2 SETTLEMENT

2.1 The Share Offer

If you accept the Share Offer, settlement of the consideration (less seller's ad valorem stamp duty) will be made by cheque as soon as possible, but in any event within seven (7) Business Days following the later of (i) the Unconditional Date and (ii) the date on which the duly completed acceptance of the Share Offer and the relevant documents of title in respect of such acceptance are received by the Offeror (or its agent). Each cheque will be despatched by ordinary post to the address specified on the relevant Shareholder's **WHITE** Form of Share Offer Acceptance at his/her own risk.

No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder who accepts the Share Offer will be rounded up to the nearest cent.

Shareholders are recommended to consult their professional advisers if they are in doubt as to the above procedures.

2.2 The Option Offer

If you accept the Option Offer, settlement of the consideration will be made by cheque as soon as possible, but in any event within seven (7) Business Days following the later of (i) the Unconditional Date and (ii) the date on which the duly completed acceptance of the Option Offer and the relevant documents of title in respect of such acceptance are received by the Offeror (or its agent). Each cheque will be despatched by ordinary post at the own risk of the relevant Optionholder to Ms. Lucy Cheng, the joint company secretary of the Company in Hong Kong at Boardroom Corporate Services (HK) Limited at 31/F, 148 Electric Road, North Point, Hong Kong for collection.

No fractions of a cent will be payable and the amount of cash consideration payable to an Optionholder who accepts the Option Offer will be rounded up to the nearest cent.

3 EXERCISE OF OPTIONS

An Optionholder who wishes to accept the Share Offer may exercise his/her Options (to the extent exercisable) by completing, signing and delivering a notice for exercising the Options together with a cheque for payment of the subscription monies and

the related certificates (if applicable) for the Options to the Company at 31/F, 148 Electric Road, North Point, Hong Kong on or before the first Closing Date, or such other time and/or date as the Offeror may, subject to the Takeovers Code, decide and announce. The Optionholder should at the same time complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with a copy of the set of documents delivered to the Company for exercising the Options. Exercise of the Options is subject to the terms and conditions of the Share Option Scheme and the terms attaching to the grant of the relevant Options. Delivery of the completed and signed **WHITE** Form of Share Offer Acceptance to the Registrar will not serve to complete the exercise of the Options but will only be deemed to be an irrevocable authority to the Offeror and/or CLSA Limited and/or any of their respective agent(s) or such other person(s) as they may direct to collect from the Company or the Registrar on his/her behalf the relevant share certificate(s) when issued on exercise of the Options as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance. If an Optionholder fails to exercise his/her Options as aforesaid, there is no guarantee that the Company may issue the relevant share certificate in respect of the Shares allotted pursuant to his/her exercise of the Option(s) to such Optionholder in time for him/her to accept the Share Offer as a Shareholder of such Shares under the terms of the Share Offer.

If the Option Offer becomes or is declared unconditional, an Optionholder who does not wish to accept the Option Offer, may exercise the Option to its full extent at any time up to the close of the Option Offer. Upon the Closing Date, any outstanding Option will lapse automatically (to the extent not exercised).

4 ACCEPTANCE PERIOD AND REVISIONS

Unless the Offers have previously been revised or extended with the consent of the Executive, to be valid, the **WHITE** Form of Share Offer Acceptance and the **PINK** Form of Option Offer Acceptance must be received by the Registrar and the Company respectively in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date.

If the Offers are extended, the announcement of such extension will state the next Closing Date or a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to Shareholders and Optionholders before the Offers are closed. If, in the course of the Offers, the Offeror revises the terms of the Offers, all Shareholders and Optionholders, whether or not they have already accepted the Share Offer and the Option Offer, respectively, will be entitled to accept the revised Share Offer and the revised Option Offer, respectively, under the revised terms. The revised Offers must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the Closing Date.

In accordance with Rule 15.5 of the Takeovers Code, except with the consent of the Executive, the Share Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the day this Composite Document is posted. Accordingly, unless the Share Offer has previously become unconditional as to acceptances, the Share Offer and the Option Offer will lapse on 29 December 2020 unless extended with the consent of the Executive.

If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

5 ANNOUNCEMENTS

By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension expiry or unconditionality of the Offers. The Offeror must publish an announcement in accordance with the Listing Rules on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been revised or extended, has expired or has become or been declared unconditional. The announcement will state the following:

- (i) the total number of Shares and rights over Shares for which acceptances of the Offers have been received;
- (ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror and its Concert Parties before the Offer Period;
- (iii) the total number of Shares and rights over Shares acquired or agreed to be acquired during the Offer Period by the Offeror and its Concert Parties; and
- (iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeover Code) in the Company in which the Offeror and any of its Concert Parties have borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

The announcement will specify the percentages of voting rights represented by these numbers of Shares.

In computing the total number of Shares and Options represented by acceptances, only valid acceptances that are complete, in good order and fulfill the acceptance conditions set out in this Appendix I, and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offers, shall be included.

As required under the Takeovers Code, all announcements in relation to the Offers will be made in accordance with the requirements of the Listing Rules.

6 NOMINEE REGISTRATION

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares, whose investments are registered in the names of nominees, to accept the Share Offer, it is essential that they provide instructions of their intentions with regard to the Share Offer to their nominees.

All documents and remittances sent to Shareholders and Optionholders by post will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to Shareholders and Optionholders at their addresses, in the case of Shareholders, specified on the relevant Shareholder's **WHITE** Form of Share Offer Acceptance, and in the case of Optionholders to the office of the Company in Hong Kong at 31/F, 148 Electric Road, North Point, Hong Kong. None of the Offeror, the Company, CLSA Limited, CLSA Capital Markets, the Registrar or any of their respective directors or any other person involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

7 RIGHT OF WITHDRAWAL

The Share Offer is conditional upon fulfilment of the Conditions set out in the "Letter from CLSA Limited" in this Composite Document and the Option Offer is conditional upon the Share Offer becoming and being declared unconditional in all respects. Acceptance of the Share Offer and the Option Offer tendered by Shareholders and Optionholders, respectively, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Share Offer or the Option Offer shall be entitled to withdraw his/her acceptance after 21 days from the first Closing Date (being 11 December 2020) if the Offers have not by then become unconditional as to acceptances. An acceptor of the Share Offer or the Option Offer may withdraw his/her acceptance by lodging a notice in writing signed by the acceptor (or his/her agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar.

Under Rule 19.2 of the Takeovers Code, if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers set out in section 5 of this Appendix I, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

In such case, when the Shareholders and/or the Optionholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the share/option certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form(s) of Acceptance to the relevant Shareholder(s) and/or the relevant Optionholder(s).

8 SHARES

Acceptance of the Share Offer or the Option Offer by Shareholders or Optionholders, respectively, will be deemed to constitute a warranty by such person(s) to the Offeror that such Shares acquired under the Share Offer or Options tendered under the Option Offer (as the case may be) are sold or tendered by the Shareholders or Optionholders (as the case may be) free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights and entitlements attaching or accruing thereto as at the Despatch Date or subsequently

becoming attached or accrued thereto, including, without limitation, the right to receive in full all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the Despatch Date.

9 HONG KONG STAMP DUTY

Sellers' ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by each Shareholder at the rate of HK\$1.00 for every HK\$1,000 or part thereof of (i) the market value of the Shares; or (ii) the consideration payable by the Offeror for such person's Shares, whichever is higher, and will be deducted from the cash amount due to such accepting Shareholder. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and, subject to such deduction aforesaid will be responsible to account to the Stamp Office of Hong Kong for all the stamp duty payable for the sale and purchase of the Shares which are validly tendered for acceptance under the Share Offer.

10 GENERAL

- (a) All communications, notices, the Forms of Acceptance, share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from Shareholders and Optionholders will be delivered by or sent to or from them, or their designated agents, through post at their own risk, and none of the Offeror, the Company, the Registrar, CCASS or any of their respective directors or agents accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the **WHITE** Form of Share Offer Acceptance and the **PINK** Form of Option Offer Acceptance form part of the terms of the Share Offer and the Option Offer, respectively.
- (c) The accidental omission to despatch this Composite Document and/or the Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate either of the Share Offer or the Option Offer in any way.
- (d) The Share Offer and the Option Offer and all acceptances thereof will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of a **WHITE** Form of Share Offer Acceptance will constitute an authority to the Offeror, the directors of the Offeror, CLSA Limited or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the Share Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Shares in respect of which such person or persons has/have accepted the Share Offer.

- (f) The settlement of the consideration to which any Shareholder or Optionholder is entitled under the Share Offer and the Option Offer, respectively, will be implemented in full in accordance with the terms of the Share Offer and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder or Optionholder.
- (g) Any Shareholders or Optionholders accepting the Share Offer or the Option Offer respectively will be responsible for payment of any transfer or cancellation or other taxes or duties payable in respect of the relevant jurisdiction due by such persons.
- (h) In making their decision, Shareholders and Optionholders must rely on their own examination of the Group and the terms of the Share Offer and the Option Offer, respectively, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror, the Company, CLSA Limited, CLSA Capital Markets, or their respective professional advisers. Shareholders and Optionholders should consult their own professional advisers for professional advice.
- (i) References to the Share Offer or the Option Offer in this Composite Document and in the Forms of Acceptance shall include any extension and/or revision thereof.
- (j) This Composite Document has been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the Share Offer and the Option Offer in Hong Kong and the operating rules of the Stock Exchange ONLY.

1 FINANCIAL SUMMARY

The following summary financial information for each of the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the six months ended 30 June 2020 as extracted from the respective published audited consolidated financial statements of the Group as set forth in the annual reports for the years ended 31 December 2017, 31 December 2018 and 31 December 2019, respectively and the published unaudited consolidated financial statements of the Group as set forth in the interim report for the six months ended 30 June 2020.

	For the six months ended 30 June 2020 RMB'000 <i>Unaudited</i>	For the year ended 31 December 2019 RMB'000 <i>Audited</i>	For the year ended 31 December 2018 RMB'000 <i>Audited</i>	For the year ended 31 December 2017 RMB'000 <i>Audited</i>
Revenue	751,258	1,389,510	1,099,547	1,014,128
Profit/(loss) before taxation	123,919	223,080	(556,313)	(67,907)
Income tax expenses	-	-	-	-
Profit/(loss) for the period/year	123,919	223,080	(556,313)	(67,907)
Attributable to:				
Owners of the Company	123,919	223,080	(556,313)	(67,907)
Non-controlling interests	-	-	-	-
Other comprehensive income/(loss)				
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	316	1,058	23,190	(22,560)
Total comprehensive profit/(loss) for the period/year	124,235	224,138	(533,123)	(90,467)
Attributable to:				
Owners of the Company	124,235	224,138	(533,123)	(90,467)
Non-controlling interests	-	-	-	-
Dividends	-	-	-	-
Dividends per share	-	-	-	-
Earnings/(loss) per share attributable to ordinary equity holders of the Company				
Basic and diluted	RMB2.6 cents	RMB4.76 cents	RMB(11.86) cents	RMB(1.46) cents

There are no other items of income or expense which are material for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.

The consolidated financial statements of the Group for the three years ended 31 December 2017, 2018 and 2019 were audited by Ernst and Young. The auditors of the Group, Ernst & Young, did not issue any modified opinion nor any emphasis of matter or material uncertainty related to going concern contained in the auditors' report of the Group for any of the years ended 31 December 2017, 2018 and 2019.

2 CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out or refer to in this Composite Document the consolidated statement of profit or loss, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes of equity and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2017 (the “**2017 Financial Statements**”); (ii) the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the “**2018 Financial Statements**”); (iii) the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the “**2019 Financial Statements**”); and (iv) unaudited consolidated financial information of the Group for the six months ended 30 June 2020 (the “**2020 Interim Financial Information**”), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2017 Financial Statements are set out from pages 60 to 111 in the annual report of the Company for the year ended 31 December 2017 (the “**2017 Annual Report**”) which was published on 24 April 2018 on the websites of the Company (<http://www.ystdfarm.com/uploads/soft/collection/en/LTN20180424559.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0424/ltn20180424559.pdf>).

The 2018 Financial Statements are set out from pages 71 to 139 in the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”) which was published on 25 April 2019 on the websites of the Company (<http://www.ystdfarm.com/uploads/soft/190425/1-1Z4251Z039.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn20190425915.pdf>).

The 2019 Financial Statements are set out from pages 72 to 135 in the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”) which was published on 23 April 2020 on the websites of the Company (<http://www.ystdfarm.com/uploads/soft/200424/1-2004240S913.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042301003.pdf>).

The 2020 Interim Financial Information are set out from pages 16 to 32 in the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”) which was published on 17 September 2020 on the websites of the Company (<http://www.ystdfarm.com/uploads/soft/200917/1-20091G91421.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0917/2020091700501.pdf>).

The 2017 Financial Statements, the 2018 Financial Statements, the 2019 Financial Statements and the 2020 Interim Financial Information (but not any other part of the 2017 Annual Report, the 2018 Annual Report, the 2019 Annual Report and the 2020 Interim Report in which they respectively appear) are incorporated by reference into this Composite Document and form part of this Composite Document.

3 INDEBTEDNESS

Other Borrowings

As at close of business on 31 August 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the Group had recognised other borrowings of RMB30.0 million.

Contingent liabilities

As at close of business on 31 August 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the Group has no contingent liabilities.

Lease liabilities

As at close of business on 31 August 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the Group had recognised lease liabilities of approximately RMB75.3 million.

Save as disclosed above, the Group did not have any other loan capital issued and outstanding or agreed to be issued but unissued, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgage, charges, guarantees or other material contingent liabilities as at the close of business on 31 August 2020.

4 MATERIAL CHANGE

Save for the net profit of RMB123.9 million as recognized during the six months ended 30 June 2020 which was mainly attributable to the increases in (i) sales price of fresh milk; and (ii) yield as disclosed in the 2020 Interim Report, the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2019, being the date to which the last published audited consolidated financial statements of the Group were made up to, and including the Latest Practicable Date.

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this Composite Document received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 August 2020 of the property interests held by the Group.



仲量聯行

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

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香港英皇道979號太古坊一座7樓
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公司牌照號碼：C-030171

The Board of Directors

YuanShengTai Dairy Farm Limited

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

30 October 2020

Dear Sirs,

In accordance with your instructions to value the properties in which YuanShengTai Dairy Farm Limited (the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”) have interests in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market values of the property interests as at 31 August 2020 (the “**valuation date**”).

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

In valuing the property interests held by the Group, we have attributed no commercial value to them due to the leased land nature of the land parcels on which the buildings and structures and construction works in progress are erected thereon. However, for reference purpose, we have provided our opinion of the depreciated replacement cost of the buildings and structures and the replacement cost of the construction works in progress by adopting the cost approach.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization”.

In valuing the construction works in progress (the “CIP”), we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of replacement cost, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the valuation date.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards issued by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, and all other relevant matters.

We have not been provided with any title certificate relating to the properties. We have relied considerably on the advice given by the Company’s PRC legal advisers – Jingtian & Gongcheng Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas provided to us by the Group are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in October 2020 by Gloria Wang and Owen Zhang, who are China Certified Real Estate Appraiser and have more than 10 years' experience in the property valuation in the PRC.

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

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on 11 March 2020 has caused much disruption to economic activities around the world.

As of the report date, China's economy is experiencing gradual recovery and it is anticipated that disruption to business activities will steadily reduce. We also note that market activity and market sentiment in this market sector remains stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of these properties under frequent review.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our summary of values and valuation certificates are attached below for your attention.

Pursuant to the relevant rules and regulations of tax laws in the PRC, the potential tax liabilities which would arise if the property interests of the Group specified in this report were to be sold mainly include value-added tax (5% of the capital gains for properties purchased before 30 April 2016; 9% of the transaction amount for properties purchased after 30 April 2016), income tax (25% of the capital gains after deducting the potential tax fee in effecting the sales), and stamp duty (0.05% of the transaction amount). As advised by the Company, they have no intention to sell the properties as those properties are mainly occupied for production. Therefore, the possibility of incurrence of such tax liabilities is very remote.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 26 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Property interests held and occupied by the Group in the PRC

No.	Property	Market value in existing state as at valuation date <i>RMB</i>
1.	Keshan Farm located at Qianjin Village Gucheng Town Keshan County Qiqihar City Heilongjiang Province The PRC	No commercial value
2.	Yongjin Farm located at Yongjin Village Jincheng Town Kedong County Qiqihar City Heilongjiang Province The PRC	No commercial value
3.	Yuanshengtai Farm located at Furao Village Runjin Town Kedong County Qiqihar City Heilongjiang Province The PRC	No commercial value
4.	Heping Farm located at Wanfa Village Kedong Town Kedong County Qiqihar City Heilongjiang Province The PRC	No commercial value

No.	Property	Market value in existing state as at valuation date <i>RMB</i>
5	Baiquan Farm located at Fengchan Town Baiquan County Qiqihar City Heilongjiang Province The PRC	No commercial value
6	Gannan Farm located at Fuyu Village Gannan Town Gannan County Qiqihar City Heilongjiang Province The PRC	No commercial value
7	Zhenlai Farm located at Daweizi Village Heiyupao Town Zhenlai County Baicheng City Jilin Province The PRC	No commercial value
	Total:	Nil

VALUATION CERTIFICATE

Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at valuation date RMB
1.	Keshan Farm located at Qianjin Village Gucheng Town Keshan County Qiqihar City Heilongjiang Province The PRC	<p>The property comprises 40 buildings and various structures which were completed in various stages between August 2017 and January 2020.</p> <p>The 40 buildings have a total gross floor area of approximately 166,519.91 sq.m., mainly including a composite building, cowsheds, warehouses and ancillary buildings. The structures mainly include boundary walls, roads and hay shed.</p> <p>The property also comprises 2 buildings which were under construction as at the valuation date (the "CIP").</p> <p>As advised by the Group, the CIP is scheduled to be completed in December 2020. Upon completion, the CIP will have a planned gross floor area of approximately 4,968 sq.m.</p> <p>As advised by the Group, the construction cost of the CIP had been fully paid as at the valuation date.</p> <p>The property is erected on a parcel of leased land.</p>	The property was occupied by the Group for cattle pasture and ancillary purposes except for the CIP which was under construction as at the valuation date.	No commercial value

Notes:

- Pursuant to a Land Using Contract dated 18 March 2014 entered into between Keshan Ruixincheng Dairy Farming Co., Ltd. (克山瑞信誠牧業有限公司, "RXC Keshan", a wholly-owned subsidiary of the Company) and the Committee of Rixin Village Gucheng Town Keshan County, the land use rights of a parcel of land with a site area of approximately 972,880 sq.m., on which the property is erected, were leased to RXC Keshan free of charge for a term of 15 years expiring on 1 April 2027 .

2. For the buildings and the CIP of the property, we have not been provided with any title documents or construction permits.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. the form and content of the Land Using Contract mentioned in note 1 meet the requirements of the PRC laws and regulations, and it is legal and valid and binding on the relevant parties. RXC Keshan's interests in using the mentioned land can be confirmed and protected by the PRC laws;
 - b. RXC Keshan can legally own and use the production facilities constructed on the land mentioned in note 1 for agricultural and cattle breeding uses without the need to register property rights according to the relevant PRC laws; and
 - c. RXC Keshan has not obtained any state-owned land use rights or building ownership rights of the property.
4. In the valuation of this property, we have attributed no commercial value to the property due to the leased land nature. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 40 buildings and the structures and the replacement cost of CIP of the property as at the valuation date would be RMB372,525,000 and RMB1,080,000 respectively.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at valuation date RMB
2.	Yongjin Farm located at Yongjin Village Jincheng Town Kedong County Qiqihar City Heilongjiang Province The PRC	<p>The property comprises 37 buildings and various structures which were completed in various stages between 2015 and 2018.</p> <p>The 37 buildings have a total gross floor area of approximately 139,361.66 sq.m., mainly including an office building, cowsheds, various warehouses and ancillary buildings. The structures mainly include boundary walls, roads, pools, yards and hay sheds.</p> <p>The property also comprises 4 buildings which were under construction as at the valuation date (the "CIP").</p> <p>As advised by the Group, the CIP is scheduled to be completed in December 2020. Upon completion, the CIP will have a planned gross floor area of approximately 720.27 sq.m.</p> <p>As advised by the Group, the construction cost of the CIP had been fully paid as at the valuation date.</p> <p>The property is erected on a parcel of leased land.</p>	The property was occupied by the Group for cattle breeding and ancillary purposes except for the CIP which was under construction as at the valuation date.	No commercial value

Notes:

- Pursuant to a Land Using Contract dated 20 March 2013 entered into between Kedong Yongjin YuanShengTai Dairy Farming Co., Ltd. (克東勇進原生態牧業有限公司, "YST Yongjin", a wholly-owned subsidiary of the Company) and the Committee of Yongjin Village Jincheng Town Kedong County, the land use rights of a parcel of land with a site area of approximately 691,570 sq.m., on which the property is erected, were leased to YST Yongjin free of charge for a term of 15 years.

2. For the buildings and the CIP of the property, we have not been provided with any title documents or construction permits.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. the form and content of the Land Using Contract mentioned in note 1 meet the requirements of the PRC laws and regulations, and it is legal and valid and binding on the relevant parties. YST Yongjin's interests in using the mentioned land can be confirmed and protected by the PRC laws;
 - b. YST Yongjin can legally own and use the production facilities constructed on the land mentioned in note 1 for agricultural and cattle breeding uses without the need to register property rights according to the relevant PRC laws; and
 - c. YST Yongjin has not obtained any state-owned land use rights or building ownership rights of the property.
4. In the valuation of this property, we have attributed no commercial value to the property due to the leased land nature. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 37 buildings and the structures and the replacement cost of CIP of the property as at the valuation date would be RMB313,277,000 and RMB1,381,000 respectively.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at valuation date RMB
3.	Yuanshengtai Farm located at Furao Village Runjin Town Kedong County Qiqihar City Heilongjiang Province The PRC	<p>The property comprises 34 buildings and various structures which were completed in various stages between November 2009 and January 2020.</p> <p>The 34 buildings have a total gross floor area of approximately 184,207.45 sq.m., mainly including cowsheds, a gas station, various warehouses and ancillary buildings. The structures mainly include boundary walls, roads, pools, yards and hay sheds.</p> <p>The property is erected on a parcel of leased land.</p>	As at the valuation date, the property was occupied by the Group for cattle breeding and ancillary purposes.	No commercial value

Notes:

1. Pursuant to a Land Leasing Contract dated 20 January 2008 entered into between Heilongjiang Kedong Ruixinda YuanShengTai Dairy Farming Joint Stock Co., Ltd. (黑龍江克東瑞信達原生態牧業股份有限公司, "YST Ruixinda", a wholly-owned subsidiary of the Company) and the Committee of Furao Village, the land use rights of a parcel of land with a site area of approximately 784,000 sq.m., on which the property is erected, were leased to YST Ruixinda for a term of 30 years commencing from the end of February 2008 at a total rental of approximately RMB12,048,120.
2. For the buildings of the property, we have not been provided with any title documents or construction permits.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. the form and content of Land Leasing Contract mentioned in note 1 meet the requirements of the PRC laws and regulations, and it is legal and valid and binding on the relevant parties. YST Ruixinda's interests in using the mentioned land can be confirmed and protected by the PRC laws;
 - b. YST Ruixinda can legally own and use the production facilities constructed on the land mentioned in note 1 for agricultural and cattle breeding uses without the need to register property rights according to the relevant PRC laws; and
 - c. YST Ruixinda has not obtained any state-owned land use rights or building ownership rights of the property.
4. In the valuation of this property, we have attributed no commercial value to the property due to the leased land nature. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 34 buildings and the structures of the property as at the valuation date would be RMB333,800,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at valuation date RMB
4.	Heping Farm located at Wanfa Village Kedong Town Kedong County Qiqihar City Heilongjiang Province The PRC	<p>The property comprises 33 buildings and various structures which were completed in various stages between October 2008 and January 2020.</p> <p>The 33 buildings have a total gross floor area of approximately 148,433.20 sq.m., mainly including a production workshop, cowsheds, various warehouses and ancillary buildings. The structures mainly include boundary walls, roads, pools, yards and hay sheds.</p> <p>The property also comprises 2 buildings which were under construction as at the valuation date (the "CIP").</p> <p>As advised by the Group, the CIP is scheduled to be completed in December 2020. Upon completion, the CIP will have a planned gross floor area of approximately 1,174 sq.m. The estimated construction cost of the CIP is approximately RMB300,000, of which approximately RMB176,000 had been paid up to the valuation date.</p> <p>The property is erected on 4 parcels of leased land.</p>	The property was occupied by the Group for cattle breeding and ancillary purposes except for the CIP which was under construction as at the valuation date.	No commercial value

Notes:

- Pursuant to 2 Land Leasing Contracts dated 29 May 2007 entered into between Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (黑龍江克東和平原生態牧業有限公司, "YST Heping", a wholly-owned subsidiary of the Company) and the Committee of Wanfa Village, the land use rights of 4 parcels of land with a total site area of approximately 385,004 sq.m., on which the property is erected, were leased to YST Heping for a term of 30 years commencing from 28 June 2007 at a total rental of approximately RMB5,890,561.

2. For the buildings and the CIP of the property, we have not been provided with any title documents or construction permits.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. the form and content of Land Leasing Contracts mentioned in note 1 meet the requirements of the PRC laws and regulations, and it is legal and valid and binding on the relevant parties. YST Heping's interests in using the mentioned land can be confirmed and protected by the PRC laws;
 - b. YST Heping can legally own and use the production facilities constructed on the land mentioned in note 1 for agricultural and cattle breeding uses without the need to register property rights according to the relevant PRC laws; and
 - c. YST Heping has not obtained any state-owned land use rights or building ownership rights of the property.
4. In the valuation of this property, we have attributed no commercial value to the property due to the leased land nature. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 33 buildings and the structures and the replacement cost of CIP of the property as at the valuation date would be RMB184,345,000 and RMB176,000 respectively.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at valuation date RMB
5.	Baiquan Farm located at Fengchan Township Baiquan County Qiqihar City Heilongjiang Province The PRC	The property comprises 41 buildings and various structures which were completed in various stages between 2015 and 2018. The 41 buildings have a total gross floor area of approximately 183,019.57 sq.m., mainly including a composite building, cowsheds and various ancillary buildings. The structures mainly include hay sheds, boundary walls, roads, pools, shelters and a gas station. The property is erected on a parcel of leased land.	The property was occupied by the Group for cattle breeding and ancillary purposes as at the valuation date.	No commercial value

Notes:

1. Pursuant to a Land Using Contract dated 4 December 2013 entered into between Baiquan Ruixincheng Dairy Farming Co., Ltd. (拜泉瑞信誠牧業有限公司, "**Baiquan Ruixincheng**", a wholly-owned subsidiary of the Company) and the Committee of Shuanghe Village, the land use rights of a parcel of land with a site area of approximately 981,900 sq.m., on which the property is erected, were leased to Baiquan Ruixincheng free of charge for a term of 15 years expiring on 31 December 2027.
2. For the buildings of the property, we have not been provided with any title documents or construction permits.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. the form and content of the Land Using Contract mentioned in note 1 meet the requirements of the PRC laws and regulations, and it is legal and valid and binding on the relevant parties. Baiquan Ruixincheng's interests in using the mentioned land can be confirmed and protected by the PRC laws;
 - b. Baiquan Ruixincheng can legally own and use the production facilities constructed on the land mentioned in note 1 for agricultural and cattle breeding uses without the need to register property rights according to the relevant PRC laws; and
 - c. Baiquan Ruixincheng has not obtained any state-owned land use rights or building ownership rights of the property.
4. In the valuation of this property, we have attributed no commercial value to the property due to the leased land nature. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 41 buildings and the structures of the property as at the valuation date would be RMB401,862,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at valuation date RMB
6.	Gannan Farm located at Fuyu Village Gannan Town Gannan County Qiqihar City Heilongjiang Province The PRC	<p>The property comprises 59 buildings and various structures which were completed in various stages between October 2008 and January 2020.</p> <p>The 59 buildings have a total gross floor area of approximately 143,519.52 sq.m., mainly including a canteen and dormitory building, a production workshop, cowsheds and various ancillary buildings. The structures mainly include hay sheds, boundary walls, roads, pools and shelters .</p> <p>The property also comprises various structures which were under construction as at the valuation date (the "CIP").</p> <p>As advised by the Group, the CIP is scheduled to be completed in December 2020. The estimated construction cost of the CIP is approximately RMB7,990,000, of which approximately RMB6,930,000 had been paid up to the valuation date.</p> <p>The property is erected on 4 parcels of leased land.</p>	The property was occupied by the Group for cattle breeding and ancillary purposes except for the CIP which was under construction as at the valuation date.	No commercial value

Notes:

- Pursuant to a Land Leasing Contract entered into between Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd. (黑龍江甘南瑞信達生態牧業有限公司, "Gannan Ruixinda", a wholly-owned subsidiary of the Company) and the Committee of Qiqihar Gannan County Fuyu Village (齊齊哈爾市甘南縣富裕村), the land use rights of a parcel of land with a site area of approximately 985,347 sq.m. were leased to Gannan Ruixinda for a term of 50 years commencing from 28 December 2007 at a total rental of approximately RMB22,192,537.

2. Pursuant to 2 Grassland Leasing Contracts entered into between Gannan Ruixinda and Gannan County Baoxiang Township Municipal People's Government (甘南縣寶山鄉人民政府), the land use rights of 2 parcels of land with a total site area of approximately 13,393,133 sq.m. were leased to Gannan Ruixinda for terms of 20 years commencing from 10 January 2008 and 30 years commencing from 15 October 2012, the total rental is approximately RMB56,307,463.
3. Pursuant to a Land Leasing Contract entered into between Gannan Ruixinda and Heilongjiang Province Gannan County Fuyu Village Twenty Tun (黑龍江省甘南縣富裕村二十屯), the land use rights of a parcel of land with a site area of approximately 447,985 sq.m. were leased to Gannan Ruixinda for a term of 16 years commencing from 23 April 2012 at a total rental of approximately RMB3,228,696.
4. The buildings, structures and the CIP of the property are erected on the 4 parcels land mentioned in notes 1 to 3, and we have not been provided with any title documents or construction permits.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. the form and content of the Land Leasing Contracts and Grassland Leasing Contracts mentioned in notes 1 to 3 meet the requirements of the PRC laws, and it is legal and valid and binding on the relevant parties. Gannan Ruixinda's interests in using the mentioned land can be confirmed and protected by the PRC laws;
 - b. Gannan Ruixinda can legally own and use the production facilities constructed on the land mentioned in notes 1 to 3 for agricultural and cattle breeding uses without the need to register property rights according to the relevant PRC laws; and
 - c. Gannan Ruixinda has not obtained any state-owned land use rights or building ownership rights of the property.
6. In the valuation of this property, we have attributed no commercial value to the property due to the leased land nature. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 59 buildings and the structures and the replacement cost of CIP of the property as at the valuation date would be RMB271,511,000 and RMB6,932,000 respectively.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at valuation date RMB
7.	Zhenlai Farm located at Daweizi Village Heiyupao Town Zhenlai County Baicheng City Jilin Province The PRC	<p>The property comprises 41 buildings and various structures which were completed in various stages between July 2011 and January 2020.</p> <p>The 41 buildings have a total gross floor area of approximately 171,527.48 sq.m., mainly including a composite building, cowsheds, warehouses and ancillary buildings. The structures mainly include boundary walls, roads and hay shed.</p> <p>The property also comprises 20 buildings which were under construction as at the valuation date (the "CIP").</p> <p>As advised by the Group, the CIP is scheduled to be completed in December 2021. Upon completion, the CIP will have a planned gross floor area of approximately 210,577.71 sq.m. The estimated construction cost of the CIP is approximately RMB123,516,000, of which approximately RMB70,568,000 had been paid up to the valuation date.</p> <p>The property is erected on a parcel of leased land.</p>	The property was occupied by the Group for cattle pasture and ancillary purposes except for the CIP which was under construction as at the valuation date.	No commercial value

Notes:

- Pursuant to a Land Leasing Contract dated 15 July 2009 entered into between Zhenlai Ruixinda YuanShengTai Dairy Farming Co., Ltd. (鎮賚瑞信達原生態牧業有限公司, "RXD Zhenlai", a wholly-owned subsidiary of the Company) and the Government of Heiyupao Town and Dongping Town Zhenlai County, the land use rights of a parcel of land with a site area of approximately 2,066,000 sq.m., on which the property is erected, were leased to RXD Zhenlai for a term of 30 years expiring on 17 July 2039 at a total rental of approximately RMB19,523,699.02.
- For the buildings and the CIP of the property, we have not been provided with any title documents or construction permits.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. the form and content of Land Leasing Contract mentioned in note 1 meet the requirements of the PRC laws and regulations, and it is legal and valid and binding on the relevant parties. RXD Zhenlai's interests in using the mentioned land can be confirmed and protected by the PRC laws;
 - b. RXD Zhenlai can legally own and use the production facilities constructed on the land mentioned in note 1 for agricultural and cattle breeding uses without the need to register property rights according to the relevant PRC laws; and
 - c. RXD Zhenlai has not obtained any state-owned land use rights or building ownership rights of the property.

6. In the valuation of this property, we have attributed no commercial value to the property due to the leased land nature. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the 41 buildings and the structures and the replacement cost of CIP of the property as at the valuation date would be RMB409,052,000 and RMB70,568,000 respectively.

1 RESPONSIBILITY STATEMENT

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

2 DISCLOSURE OF INTERESTS

(a) Interests of the Offeror and its Concert Parties in the securities of the Company

As at the Latest Practicable Date, details of interests in the Shares, underlying Shares, debentures or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company held or controlled by the Offeror and its Concert Parties were as follows:

Shareholders	<i>Number of Shares</i>	<i>Approximate %</i>
Offeror	0	0.00
Offeror's Concert Parties		
Mr. Gao Yu ⁽¹⁾	500,000	0.01
Mr. Liu Gang ⁽²⁾	5,621,000	0.12
Aggregate number of Shares held by Offeror and its Concert Parties	6,121,000	0.13

Notes:

- 1) Mr. Gao Yu is a non-executive director of the Offeror. Therefore, Mr. Gao Yu is presumed to be the Offeror's Concert Party pursuant to the Takeovers Code.
- 2) Mr. Liu Gang, being a brother of Mr. Liu Hua who is an executive director of the Offeror, is presumed to be the Offeror's Concert Party pursuant to the Takeovers Code. Other than his interest in the 5,621,000 Shares, Mr. Liu Gang is also interested in 15,000,000 Options.

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror, its directors and its Concert Parties had any interest in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

3 ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS

As at the Latest Practicable Date:

(a) Interests discloseable under Schedule I to the Takeovers Code

As at the Latest Practicable Date,

- (i). Save for the disclosure of direct and indirect shareholding of Offeror and its Concert Parties in the Company above, neither Offeror nor its Concert Parties (except those which are exempt principal traders or exempt fund managers recognised by the Executive as such for the purpose of the Takeovers Code) owned or had control or direction over any other voting rights or rights over the Shares, options, derivatives, warrants, other securities convertible into Shares, or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code);
- (ii). no directors of Offeror were interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (iii). the Offeror and its Concert Parties have not received any irrevocable commitment to accept or reject the Offers;
- (iv). no arrangements of any kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror, its Concert Parties and any other person; and
- (v). neither Offeror nor its Concert Parties has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22) in the Company, save for any borrowed Shares which have been either on-lent or sold.

none of Offeror, the directors of Offeror or its Concert Parties had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

(b) Other interests

As at the Latest Practicable Date,

- (i). the Offeror had no intention to transfer, charge or pledge any securities in the Company pursuant to the Offers to any other person, or has no agreement, arrangement or understanding with any third party to do so;
- (ii). no benefit had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Offers;
- (iii). there is no material contract entered into by the Offeror in which any Director has a material personal interest; and
- (iv). there is no agreement or arrangement to which the Offeror or its Concert Parties is a party which relates to the circumstances in which the Offeror may or may not invoke or seek to invoke a condition to the Offers.

4 CONSENT AND QUALIFICATIONS

The following are the names and qualifications of the professional advisers whose letter, opinions or advice are contained or referred to in this Composite Document:

Name	Qualifications
CLSA Limited	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 7 (providing automated trading services) regulated activities under the SFO, being the agent making the Share Offer on behalf of the Offeror
CLSA Capital Markets	a corporation licensed to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Offeror in respect of the Offers

CLSA Limited and CLSA Capital Markets have jointly given and have not withdrawn their written consent to the issue of this Composite Document with the inclusion of the text of its letter and/or report and the references to their respective names in the form and context in which they respectively appear herein.

5 MISCELLANEOUS

- (1) The Offeror is a company incorporated in the Cayman Islands with limited liability and listed on the Stock Exchange (stock code: 6186), with Mr. Leng Youbin being its ultimate controlling shareholder, and mainly engages in the production and sales of infant milk formula products and the retailing of nutritional supplements. The registered office of the Offeror is at Maricorp Services Ltd., PO Box 2075 George Town, Grand Cayman KY1-1105, Cayman Islands. The principal place of business in Hong Kong of the Offeror is at Level 54, Hopewell Centre 183 Queen's Road East Hong Kong.
- (2) The principal member of the Offeror's Concert Parties is Mr. Leng Youbin. The address of the Mr. Leng Youbin is Flat 202, Unit 2, Building 8, Mixi Garden, Miyun District, Beijing, PRC.
- (3) The directors of Offeror are Mr. Leng Youbin, Mr. Liu Hua, Mr. Cai Fangliang, Ms. Judy Fong-Yee Tu, Mr. Cheung Kwok Wah, Mr. Gao Yu, Mr. Kingsley Kwok King Chan, Ms. Liu Jinping, Mr. Song Jianwu, Mr. Fan Yonghong and Mr. Jacques Maurice Laforge.
- (4) The registered office of CLSA Limited is at 18/F One Pacific Place, 88 Queensway, Hong Kong.
- (5) The registered office of CLSA Capital Markets is at 18/F One Pacific Place, 88 Queensway, Hong Kong.

1 RESPONSIBILITY STATEMENT

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

2 SHARE CAPITAL OF THE COMPANY

(a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised</i>	<i>HK\$</i>
50,000,000,000 Shares of HK\$0.01 each	500,000,000
<i>Issued and fully paid</i>	<i>HK\$</i>
4,690,496,400 Shares of HK\$0.01 each	46,904,964

All of the Shares currently in issue rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting rights and capital.

Since 31 December 2019, being the date of the last audited consolidated financial statements of the Company, up to the Latest Practicable Date, the Company has not issued any Shares.

As at the Latest Practicable Date, there are 190,900,000 outstanding Options, carrying rights to subscribe for 190,900,000 new Shares. 161,500,000 of the outstanding Options have an exercise price of HK\$0.240 per Share, 22,800,000 of the outstanding Options have an exercise price of HK\$0.590 per Share, and the remaining 6,600,000 outstanding Options have an exercise price of HK\$1.462 per Share.

As at the Latest Practicable Date, apart from the Options, the Company had no outstanding options, warrants, derivatives or other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) that carry a right to subscribe for or which are convertible into the Shares.

(b) Listing

The Shares are listed and traded on the Main Board of the Stock Exchange. No part of the Shares is listed or dealt in, nor is any listing or permission to deal in the Shares being or proposed to be sought, on any other stock exchange.

3 MARKET PRICES

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.620 on 3 September, 4 September, 8 September, 9 September, 16 September, 18 September, and 8 October 2020 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.245 on 23 March 2020.

The table below shows the closing prices of the Shares as quoted on the Stock Exchange (i) on the Latest Practicable Date; (ii) on the Last Trading Date; and (iii) on the last business day of each of the six calendar months immediately preceding the commencement of the Offer Period and ending on the Latest Practicable Date:

Date	Price per Share <i>HK\$</i>
31 March 2020	0.255
29 April 2020	0.320
29 May 2020	0.385
30 June 2020	0.465
31 July 2020	0.460
31 August 2020	0.570
3 September 2020 (Last Trading Date)	0.620
27 October 2020 (Latest Practicable Date)	0.590

4 DISCLOSURE OF INTERESTS**(a) Interests of the directors and chief executives of the Company in the securities of the Company and the securities of the associated corporations of the Company**

As at the Latest Practicable Date, save as disclosed below, none of the directors, supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the 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 (ii) to be entered in the register required to be kept pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of

Listed Issuers as set out in Appendix 10 to the Listing Rules or (iv) to be disclosed in accordance with the Takeovers Code:

Name of Directors	Capacity/Nature of interest	Number of Shares held	Number of underlying Shares held ⁽²⁾	Total	Approximate percentage of issued Shares as at the Latest Practicable Date
Zhao Hongliang ⁽¹⁾	Interest in a controlled corporation and beneficial owner/Corporate and personal interest	1,150,900,000	4,500,000	1,155,400,000	24.63%
	Deemed interest pursuant to Section 317 of the SFO	170,200,000	-	170,200,000	3.63%
		1,321,100,000	4,500,000	1,325,600,000	28.26%
Mr. Chen Xiangqing	Beneficial owner/Personal Interest	1,115,000	13,500,000	14,615,000	0.31%
	Interest of spouse/Family interest ⁽³⁾	2,050,000	-	2,050,000	0.04%
		3,165,000	13,500,000	16,665,000	0.35%
Mr. Fu Wenguo	Beneficial owner/Personal Interest	-	20,000,000	20,000,000	0.43%
Mr. Liu Gang ⁽⁴⁾	Beneficial owner/Personal Interest	5,621,000	15,000,000	20,621,000	0.44%

Notes:

- (1) As at the Latest Practicable Date, 1,150,900,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao Hongliang, and 170,200,000 Shares were beneficially owned by ZHY Asia Limited which is solely owned by Mr. Zhao Hongyu, the brother of Mr. Zhao Hongliang. ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao Hongliang and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao Hongliang was also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu. As at the Latest Practicable Date, other than his interest in the 1,321,100,000 Shares, Mr. Zhao Hongliang is also interested in 4,500,000 Options.
- (2) These represent the Shares to be issued and allotted by the Company upon exercise of the Options granted under the Share Option Scheme.
- (3) Ms. Zhang Yanxia, the wife of Mr. Chen Xiangqing, was interested in 2,050,000 Shares as at the Latest Practicable Date. As such, Mr. Chen Xiangqing was deemed to be interested in all the Shares beneficially owned by Ms. Zhang Yanxia by virtue of the SFO.
- (4) Mr. Liu Gang, being a brother of Mr. Liu Hua who is an executive director of the Offeror, is presumed to be the Offeror's Concert Party pursuant to the Takeovers Code.

(b) Interests of substantial shareholders in the securities of the Company

As at the Latest Practicable Date, the following persons or entities (other than the Directors and chief executives of the Company) had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name of Shareholders	Capacity/Nature of interest	Number of Shares held	Number of underlying Shares held	Deemed interest pursuant to Section 317 of the SFO	Total	Approximate percentage of issued Shares as at the Latest Practicable Date
ZHL Asia Limited ⁽¹⁾	Beneficial owner	1,150,900,000	-	174,700,000	1,325,600,000	28.26%
Mr. Zhao Hongliang ⁽¹⁾	Interest in a controlled corporation and beneficial owner	1,150,900,000	4,500,000	170,200,000	1,325,600,000	28.26%
Ms. Li Shuxia ⁽²⁾	Interest of spouse	1,150,900,000	4,500,000	170,200,000	1,325,600,000	28.26%
ZHY Asia Limited ⁽¹⁾	Beneficial owner	170,200,000	-	1,155,400,000	1,325,600,000	28.26%
Mr. Zhao Hongyu ⁽¹⁾	Interest in controlled corporation	170,200,000	-	1,155,400,000	1,325,600,000	28.26%

Notes:

- (1) Please refer to note 1 under the section headed "Interests of the directors and chief executives of the Company in the securities of the Company and the securities of the associated corporations of the Company" above.
- (2) Ms. Li Shuxia is the wife of Mr. Zhao Hongliang, an executive Director. Accordingly, Ms. Li Shuxia was deemed or taken to be interested in all the Shares in which Mr. Zhao Hongliang was interested and deemed or taken to be interested for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, no other persons or entities (other than the Directors and the chief executives of the Company) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

(c) Interests discloseable under Schedule II to the Takeovers Code

Save as disclosed above, as at the Latest Practicable Date:

- (i). The Company was not interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Offeror and had not dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company or the Offeror during the Relevant Period;
- (ii). save as disclosed in the section 4 of this Appendix V, none of the Directors was interested in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company or the Offeror, or had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company or the Offeror during the Relevant Period;
- (iii). none of the subsidiaries of the Company, the pension fund of the Company or of its subsidiaries, or a person who is presumed to be Concert Parties of the Company by virtue of class (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company, or had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (iv). no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be Concert Parties of the Company by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and none of such persons had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (v). no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company, and none of them had dealt in any relevant securities in the Company during the Relevant Period;
- (vi). Mr. Zhao Hongliang, Mr. Chen Xiangqing, Mr. Fu Wenguo and Mr. Liu Gang intended to accept the Offers in respect of all Shares and Options held by them and none of other Directors held any Shares or Options; and
- (vii). none of the Company or the Directors had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company, save for any borrowed Shares which have been either on-lent or sold.

(d) Other interests

As at the Latest Practicable Date,

- (i). no agreement, arrangement or understanding, including any compensation arrangement, existed between Offeror or any Concert Parties of the Offeror and any of the Directors, recent Directors, the Shareholders or recent Shareholders having any connection with or dependent upon the Offers;
- (ii). no agreement or arrangement existed between any of the Directors and any other person which is conditional on or depend upon the outcome of the Offers or otherwise connected with the Offers;
- (iii). there is no material contract entered into by the Offeror in which any Director has a material personal interest; and
- (iv). no benefit had been or would be given to any Directors compensation for loss of office or otherwise in connection with the Offers.

5 SERVICE CONTRACTS OF DIRECTORS

Each of the Directors has entered into a service agreement/letters of appointment with the Company. The service agreements/letters of appointments are for a term of three years and shall automatically renew thereafter until terminated by either party giving to the other not less than three months' prior notice in writing. Particulars of the service agreements/letters of appointment are set out below:

Directors	Title	Commencement/ renewal date of the service contract	Expiry date of the service contract	Notice period	Fixed remuneration payable (per annum)
Zhao Hongliang	Executive Director	1 November 2019	31 October 2020	Three months	RMB1,000,000
Fu Wenguo	Executive Director	1 November 2019	31 October 2020	Three months	RMB1,000,000
Chen Xiangqing	Executive Director	10 September 2020	9 September 2021	Three months	RMB600,000
Liu Gang	Executive Director	25 June 2018	24 June 2021	Three months	HKD600,000
Meng Jingzong (alias Owens Meng)	Independent non-executive Director	28 September 2018	27 September 2021	Three months	HKD200,000
Zhang Yuezhou	Independent non-executive Director	7 November 2019	6 November 2020	Three months	HKD125,000
Zhu Zhanbo	Independent non-executive Director	7 November 2019	6 November 2020	Three months	HKD125,000

The service agreements and letters of appointment of the Directors do not contain any clauses for variable remuneration but the Directors are entitled to fixed remuneration and discretionary bonuses, subject to such change as may be recommended by the remuneration committee of the Board by reference to the salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group from time to time.

Save as disclosed aforesaid, as at the Latest Practicable Date, none of the Directors had entered into any service agreement or letter of appointment with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into, or amended within six months before the date of commencement of the Offer Period; (ii) was a continuous contract with a notice period of 12 months or more; (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

6 MATERIAL CONTRACTS OF THE GROUP

Within the two years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date, the Group has not entered into any material contract (not being contracts entered into in the ordinary course of business).

7 MATERIAL LITIGATION

Reference is made to the announcements of the Company dated 1 March 2019, 15 March 2019, 25 February 2020, 2 April 2020 and 5 August 2020 in relation to a withdrawal notice and removal request received by an indirect wholly owned subsidiary of the Company, namely Baiquan Ruixincheng Dairy Farming Co., Ltd. (拜泉瑞信誠牧業有限公司) (“**Baiquan Ruixincheng**”) on 25 February 2019 and 8 March 2019, respectively (the “**Incident**”).

In light of the Incident, Baiquan Ruixincheng filed an administrative appeal and administrative proceedings against the Incident and received a successful administrative appeal verdict issued by the Baiquan County People’s Government in favour of Baiquan Ruixincheng revoking the removal request. Due to the disruption to the local administrative proceedings caused by the outbreak of the coronavirus disease (COVID-19), the outcome of the administrative proceedings filed by Baiquan Ruixincheng is still pending.

Save as disclosed aforesaid, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and so far as the Directors are aware of, no litigation, arbitration or claim of material importance is pending or threatened by or against the Company or any of its subsidiaries.

8 CONSENT AND QUALIFICATIONS

The following are the names and qualifications of the experts whose letter, opinions or advice are contained or referred to in this Composite Document:

Name	Qualifications
Shenwan Hongyuan	a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent Property Valuer

Each of Shenwan Hongyuan and Jones Lang LaSalle Corporate Appraisal and Advisory Limited has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion therein of its opinions, and the references to its name and opinions in the form and context in which it respectively appears.

9 MISCELLANEOUS

- (1) The principal place of business in the PRC of the Company is at Qingxiang Street, Kedong, Qiqihar, Heilongjiang Province, the PRC and the principal place of business in Hong Kong is at 31/F, 148 Electric Road, North Point, Hong Kong.
- (2) The Registrar is Computershare Hong Kong Investor Services Limited, which is situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (3) As at the Latest Practicable Date, the Board comprises Mr. Zhao Hongliang, Mr. Fu Wenguo, Mr. Chen Xiangqing, Mr. Liu Gang, Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.
- (4) The address of Shenwan Hongyuan is Level 17, 28 Hennessy Road, Hong Kong.
- (5) The address of Jones Lang LaSalle Corporate Appraisal and Advisory Limited is 7th Floor, One Taikoo Place, 979 King's Road, Hong Kong.
- (6) The English text of this Composite Document and the Forms of Acceptance shall prevail over the Chinese text.

10 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (1) on the website of the Company at www.ystdfarm.com; (2) on the website of the SFC at www.sfc.hk; and (3) at the principal place of business of the Company in Hong Kong at 31/F, 148 Electric Road, North Point, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday (public holidays excepted) until the Closing Date or the date on which the Offers are withdrawn or lapse, whichever is the earliest:

- (1) the memorandum and articles of association of the Company;
- (2) the memorandum and articles of association of the Offeror;

- (3) the annual reports of the Company for each of the two years ended 31 December 2018 and 2019;
- (4) the interim report of the Company for the six months ended 30 June 2020;
- (5) the letter from CLSA Limited, the text of which is set out from pages 7 to 26 of this Composite Document;
- (6) the letter from the Board, the text of which is set out from pages 27 to 33 of this Composite Document;
- (7) the letter from the Independent Board Committee, the text of which is set out from pages 34 to 35 of this Composite Document;
- (8) the letter from the Independent Financial Adviser to the Independent Board Committee, the text of which is set out from pages 36 to 74 of this Composite Document;
- (9) the full property valuation report dated 30 October 2020 on the properties held by the Company prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a summary of which is set out in Appendix III of this Composite Document;
- (10) the written consents referred to in the sections headed "Consent and Qualifications" of Appendix IV and this Appendix V;
- (11) Directors' service contracts/letters of appointment referred to in the section headed "Service Contracts of Directors" of this Appendix V; and
- (12) this Composite Document.