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

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

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

CONTINUING CONNECTED TRANSACTIONS: 2023 FEIHE MASTER AGREEMENT

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



A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 19 to 20 of this circular. A letter from Gram Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 39 of this circular.

A notice convening the SGM of YuanShengTai Dairy Farm Limited to be held at EAST Beijing, Workshop 2, No. 22, Jiuxianqiao Road, Chaoyang District, Beijing, the PRC on Thursday, 15 December 2022 at 10:00 a.m. is set out on pages 44 to 45 of this circular. Whether or not you are able to attend and vote at the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the meeting (i.e. no later than 10:00 a.m. (Hong Kong time) on Tuesday, 13 December 2022) or any adjournment thereof. Completion and return of the form of proxy as instructed will not preclude you from subsequently attending and voting at the meeting or any adjourned meeting if you so wish.

23 November 2022

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This circular is prepared in both English and Chinese. In the event of inconsistency, the English text of this circular will prevail.

DEFINITIONS

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

“2013 Feihe Master Agreement”	a master agreement dated 1 November 2013 entered into between (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk
“2014 Announcement”	announcement of the Company dated 31 October 2014 in relation to, among others, the revision of the annual caps for the transactions contemplated under the 2013 Feihe Master Agreement
“2014 Circular”	circular of the Company dated 21 November 2014 in relation to, among others, the revision of the annual caps for the transactions contemplated under the 2013 Feihe Master Agreement
“2015 Announcement”	announcement of the Company dated 14 December 2015 in relation to, among others, the renewal of the 2013 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2015 Feihe Master Agreement
“2015 Circular”	circular of the Company dated 31 December 2015 in relation to, among others, the renewal of the 2013 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2015 Feihe Master Agreement
“2015 Feihe Master Agreement”	a master agreement dated 14 December 2015 entered into between (a) Ruixinda and Ruixincheng (for themselves and on behalf of their subsidiaries) on the one part and (b) Feihe Dairy HLJ and Feihe Gannan (for themselves and on behalf of their subsidiaries) in relation to the supply of raw milk
“2017 Announcement”	announcement of the Company dated 12 May 2017 in relation to, among others, the renewal of the 2015 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2017 Feihe Master Agreement
“2017 Circular”	circular of the Company dated 30 June 2017 in relation to, among others, the renewal of the 2015 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2017 Feihe Master Agreement
“2017 Feihe Master Agreement”	a master agreement dated 12 May 2017 entered into between (a) the Company (for itself and on behalf of its subsidiaries) and (b) China Feihe (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk

DEFINITIONS

“2019 Announcement”	announcement of the Company dated 23 September 2019 in relation to, among others, the entering into of the 2020 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2020 Feihe Master Agreement
“2019 Circular”	circular of the Company dated 16 October 2019 in relation to, among others, the entering into of the 2020 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2020 Feihe Master Agreement
“2020 Feihe Master Agreement”	a master agreement dated 23 September 2019 entered into between (a) the Company (for itself and on behalf of its subsidiaries) and (b) China Feihe (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk
“2021 Announcement”	announcement of the Company dated 4 November 2021 in relation to, among others, the revision of the original annual caps for the continuing connected transactions under the 2020 Feihe Master Agreement
“2021 Circular”	circular of the Company dated 25 November 2021 in relation to, among others, the revision of the original annual caps for the continuing connected transactions under the 2020 Feihe Master Agreement
“2022 Announcement”	announcement of the Company dated 14 October 2022 in relation to, among others, the entering into of the 2023 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2023 Feihe Master Agreement
“2023 Feihe Master Agreement”	a master agreement dated 14 October 2022 entered into between (a) the Company (for itself and on behalf of its subsidiaries) and (b) China Feihe (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“China Feihe”	China Feihe Limited (中國飛鶴有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 26 October 2012, the ordinary shares of which are listed on the main board of the Stock Exchange
“Commencement Date”	1 January 2023

DEFINITIONS

“Company”	YuanShengTai Dairy Farm Limited (原生態牧業有限公司), an exempted company incorporated with limited liability under Bermuda Law on 1 May 2012, the ordinary shares of which are listed on the main board of the Stock Exchange
“connected person”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Feihe Dairy Group”	the group of companies comprising China Feihe and its subsidiaries (as the context may require, excluding the Group)
“Feihe Dairy HLJ”	Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司), a company incorporated in the PRC, which is a wholly-owned subsidiary of China Feihe
“Feihe Master Agreements”	collectively, the 2013 Feihe Master Agreement, the 2015 Feihe Master Agreement, the 2017 Feihe Master Agreement and the 2020 Feihe Master Agreement
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2023 Feihe Master Agreement and the proposed annual caps relating thereto
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company formed to consider the transactions contemplated under the 2023 Feihe Master Agreement and the proposed annual caps relating thereto
“Independent Shareholders”	shareholders who are not required to abstain from voting at the SGM to approve the continuing connected transactions
“Independent Third Parties”	an individual(s) or a company(ies) who or which is/are not a connected person
“Indicative Price”	the indicative milk price determined quarterly by the Heilongjiang Fresh Milk Price Coordination Committee* (黑龍江省生鮮乳價格協調委員會)

DEFINITIONS

“Latest Practicable Date”	15 November 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purposes of this circular only, excludes Hong Kong, Macao Special Administrative Region and Taiwan
“Prospectus”	prospectus of the Company dated 14 November 2013
“Ruixincheng”	Harbin Ruixincheng Commercial Trade Co., Ltd.* (哈爾濱市瑞信誠商貿有限公司), a wholly foreign owned enterprise incorporated in the PRC on 3 May 2013 and an indirect wholly owned subsidiary of the Company
“Ruixinda”	Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司), a wholly foreign owned enterprise incorporated in the PRC on 9 December 2010 and an indirect wholly owned subsidiary of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Company to be convened to consider and approve the transactions contemplated under the 2023 Feihe Master Agreement and the proposed annual caps relating thereto
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“shareholder(s)”	registered holder(s) of ordinary share(s) of HK\$0.01 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules

* For identification purposes only

LETTER FROM THE BOARD



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

(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)

Non-Executive Directors:

Mr. Leng Youbin (冷友斌)
Mr. Liu Hua (劉華)
Mr. Cai Fangliang (蔡方良)

Independent Non-Executive Directors:

Mr. Meng Jingzong (alias Owens Meng) (蒙靜宗)
Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)
Ms. Lin Jinping (劉晉萍)

Registered Office:

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of Business in the PRC:*

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Kedong, Qiqihar
Heilongjiang Province
The PRC

*Principal Place of Business
in Hong Kong:*

31/F, 148 Electric Road
North Point
Hong Kong

23 November 2022

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS: 2023 FEIHE MASTER AGREEMENT

INTRODUCTION

We refer to the Prospectus, the 2014 Announcement, the 2014 Circular, the 2015 Announcement, the 2015 Circular, the 2017 Announcement, the 2017 Circular, the 2019 Announcement, the 2019 Circular, the 2021 Announcement, the 2021 Circular and the 2022 Announcement, in relation to, among other matters, the continuing connected transaction under the Feihe Master Agreements and the 2023 Feihe Master Agreement.

LETTER FROM THE BOARD

The Group has, since 1 November 2013, been selling raw milk to Feihe Dairy Group pursuant to the Feihe Master Agreements. The Board is pleased to announce that on 14 October 2022 (after trading hours), the Company entered into the 2023 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group, to confirm the Group's supply of raw milk to Feihe Dairy Group for a term commencing from the Commencement Date and ending on 31 December 2025 subject to the terms and conditions contained therein.

The transactions contemplated under the 2023 Feihe Master Agreement constitute continuing connected transactions of the Company, and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with (i) the letter from the Board containing further information on the 2023 Feihe Master Agreement, the transactions contemplated thereunder and the proposed annual caps relating thereto, (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) the letter of advice from Gram Capital, (iv) the notice convening the SGM and the proxy form, and (v) other information as required under the Listing Rules.

PRINCIPAL TERMS OF THE 2023 FEIHE MASTER AGREEMENT

On 14 October 2022 (after trading hours), the 2023 Feihe Master Agreement was entered into between the Company and China Feihe (in their respective capacity as stated below) to confirm the Group's supply of raw milk to Feihe Dairy Group.

The principal terms of the 2023 Feihe Master Agreement are summarised as follows:

- Date: 14 October 2022 (after trading hours)
- Parties: (a) the Company (for itself and on behalf of its subsidiaries); and
(b) China Feihe (for itself and on behalf of its subsidiaries).
- Contract period: The initial term of the 2023 Feihe Master Agreement shall commence from the Commencement Date and shall end on 31 December 2025. The 2023 Feihe Master Agreement may be extended for a period of three years after the expiry of the initial term, subject to approval of such extension and the transactions contemplated thereunder (including the related annual caps) by the Independent Shareholders (if required) in accordance with the Listing Rules.
- Condition precedent: The 2023 Feihe Master Agreement shall become effective upon the approval of the 2023 Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto) by the Independent Shareholders in accordance with the Listing Rules.
- Subject matter: Supply of raw milk by the Group to Feihe Dairy Group

LETTER FROM THE BOARD

- Pricing term:** For each calendar year during the term of the 2023 Feihe Master Agreement, the Group and Feihe Dairy Group will enter into an annual sale contract specifying, among others, the pricing mechanism, the quantity and quality of raw milk expected to be purchased by Feihe Dairy Group during the calendar year and payment terms. The unit selling price of raw milk generally comprises two elements, being (i) the unit base price; and (ii) certain price adjustment factors including, among others, the microbe count, the level of protein content and fat content and the freezing point of raw milk. The unit selling price of raw milk will be negotiated by the parties on arm's length basis and in good faith with reference to the Indicative Price, the aforesaid adjustment factors and the prevailing market prices offered by the Group to its Independent Third Parties customers for products of similar quality. The terms and purchase prices offered by the Group to Feihe Dairy Group shall be no more favourable than those available to other Independent Third Parties customers.
- Priority:** In the event that the Group receives purchase orders from Feihe Dairy Group and other purchasers concurrently, the Group shall give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions no less favourable to the Group than that offered by the other purchasers.
- Payment term:** Generally, to be settled on accrual basis, with a credit term of no more than one month, during which no interest will accrue.
- Early termination:** Both parties may, at any time during the continuance of the 2023 Feihe Master Agreement, give the other party not less than three months' prior written notice to terminate the 2023 Feihe Master Agreement.

PRICING METHOD AND PROCEDURES

Under the 2023 Feihe Master Agreement, the Group will, by the end of each calendar year during the term, enter into an annual sales contract ("**Sales Contract**") with Feihe Dairy Group to agree on, among others, the pricing mechanism of raw milk for the next calendar year.

The unit selling price for the raw milk sold by the Group is determined by the formula below:

$$\begin{array}{l} \text{Unit selling price of} \\ \text{raw milk} \end{array} = \begin{array}{l} \text{Unit base price of} \\ \text{raw milk (Note 1)} \end{array} + \begin{array}{l} \text{Adjustments taking into} \\ \text{account certain safety and} \\ \text{quality standards (Note 2)} \end{array}$$

Notes:

1. In determining the unit base price of raw milk, the parties to the Sales Contract take into account the Indicative Price determined quarterly by the Heilongjiang Fresh Milk Price Coordination Committee* (黑龍江省生鮮乳價格協調委員會), which is issued quarterly on the website of Heilongjiang Dairy Association at www.dahlj.com.
2. The adjustment factors included, among others, the microbe count, the level of protein content and fat content and the freezing point of raw milk.

LETTER FROM THE BOARD

The Group's pricing mechanism with its customers (including Feihe Dairy Group and other Independent Third Party customers of the Group) are generally the same, and therefore the selling price of the raw milk contemplated under the 2023 Feihe Master Agreement would be no less favourable than that offered by Independent Third Party customers of the Group.

In order to ensure that the terms of sales of raw milk to Feihe Dairy Group (including the unit selling price) would be on normal commercial terms or on terms no less favourable to the Group than that offered by Independent Third Party customers, the Group has adopted the following pricing procedures:

- (1) the Group will check the latest Indicative Price quarterly;
- (2) due to the super premium quality of the Group's raw milk and the resulting demand from the Group's customers for the production of their high-end dairy products, the Group has been able to charge raw milk prices that are higher than the Indicative Price. In determining the unit base price of the raw milk to be sold, the Group will take into account the correlation between and trends of the historical and latest Indicative Prices and unit base prices of raw milk sold to Feihe Dairy Group and the Group's other Independent Third Party customers;
- (3) the Group will check with laboratories of the Group to ascertain the actual safety and quality standard of the raw milk of the Group to be sold, such as the microbe count, the level of protein content and fat content and the freezing point of raw milk. In determining the extent of adjustment to the unit base price attributable to these adjustment factors, the Group will take into account the correlation between and trends of the historical selling prices of raw milk of comparable safety and quality standard sold to Feihe Dairy Group and the Group's other Independent Third Party customers;
- (4) similar to other customers of the Group, Feihe Dairy Group may, monthly or quarterly (depending on the volatility of market price of raw milk) after noting any change in the market conditions and the demand and supply of raw milk, issue a price adjustment notice to the sales department of the Group to request for adjustment to the unit selling price of raw milk. Upon receiving such notice, the sales department of the Group shall seek approval from both of the deputy general manager in charge and the general manager of the Group for the relevant price adjustment. For the purpose of determining whether the price adjustment request is justifiable, the deputy general manager in charge and the general manager of the Group, who are experienced in the dairy farming industry, will, among others, (i) take into account the correlation between and trends of the historical and latest Indicative Prices and selling prices of raw milk sold to Feihe Dairy Group and Independent Third Party customers; and (ii) check with laboratories of the Group to ascertain the actual quality of the raw milk of the Group to be supplied, and take into account the correlation between and trends of the historical selling prices of raw milk of comparable safety and quality standard sold to Feihe Dairy Group and the Group's other Independent Third Party customers. Subject to obtaining such approval, the price of the raw milk sold by the Group to Feihe Dairy Group may be adjusted.

LETTER FROM THE BOARD

Apart from the price adjustment controls as stated above, designated members of the Group's senior management, namely deputy general manager in charge of sales department and general manager, will (i) monthly review the raw milk price agreed between the Group and Feihe Dairy Group, and compare it with the raw milk prices (of similar quality and during the same period of time) being agreed between the Group and other Independent Third Party customers, and (ii) review other trading terms of purchase orders received from Feihe Dairy Group and other Independent Third Party customers, to ensure that (a) the unit selling prices of raw milk for all of the Group's customers remain comparable, (b) other trading terms offered by Feihe Dairy Group, such as unit base price, adjustment factor, payment term and driving distance, are no less favourable to the Group than that offered by Independent Third Party customers; and (c) the contemplated transactions between Feihe Dairy Group and our Group are conducted on normal commercial terms.

Taking into account that (i) the Group's pricing mechanism with its customers (including Feihe Dairy Group and other Independent Third Party customers of the Group) are generally the same, and that the selling price of the raw milk contemplated under the 2023 Feihe Master Agreement would be comparable to that of the other Independent Third Party customers of the Group; and (ii) the Group's policy on review of raw milk prices agreed between the Group and its customers (including Feihe Dairy Group) as mentioned above, the Directors consider such pricing mechanism will be able to ensure the transactions contemplated under the 2023 Feihe Master Agreement be conducted on normal commercial terms or on terms no less favourable to the Group than that offered by Independent Third Party customers.

PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION

The original annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the three years ending 31 December 2022 was, as disclosed in the 2019 Announcement, RMB1,300 million, RMB1,400 million and RMB1,500 million, respectively. As disclosed in the 2021 Announcement, given the expected increase in the overall sales volume of Feihe Dairy Group and the expected increase in demand from Feihe Dairy Group in respect of the purchase of raw milk from the Company, the annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the two years ending 31 December 2022 were revised to RMB1,600 million and RMB2,000 million, respectively. In addition, the Company undertakes not to generate more than 90% of its annual revenue in 2021 and 2022 from China Feihe, such that this 90% limit shall form part of the revised annual caps in addition to the numerical figures.

LETTER FROM THE BOARD

The following table sets out the historical annual caps and the historical transaction amount in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the three years ending 31 December 2022:

	Historical annual caps (RMB million)	Historical transaction amount (RMB million)	% of total revenue	Utilisation rate of historical annual caps (%)
Year ended 31 December 2020	1,300	1,299	83.6%	99.9%
Year ended 31 December 2021	1,600	1,545	87.0%	96.6%
Year ending 31 December 2022	2,000	1,283 <i>(note)</i>	N/A	N/A

Note: Unaudited figure for the nine months ended 30 September 2022

As far as the Directors are aware, the annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for the three years ending 31 December 2022 have not been exceeded as at the Latest Practicable Date.

The following table sets out the proposed new annual caps in respect of the transactions contemplated under the 2023 Feihe Master Agreement for each of the three years ending 31 December 2025:

Year ending 31 December	Annual caps for the sale volume of raw milk to Feihe Dairy Group pursuant to the 2023 Feihe Master Agreement (RMB million)
2023	2,500
2024	3,000
2025	3,400

The proposed annual caps in respect of the transactions contemplated under the 2023 Feihe Master Agreement have been determined with reference to:

- a) the historical transaction amount and sales volume in respect of the sales of raw milk contemplated under the 2020 Feihe Master Agreement for each of the two years ended 31 December 2021 and for the six months ended 30 June 2022;

LETTER FROM THE BOARD

- b) the projected quantities of sales volume of raw milk by the Group to Feihe Dairy Group of approximately 480,000 tonnes, 550,000 tonnes and 625,000 tonnes for each of the three years ending 31 December 2025, based on our discussion with China Feihe, the historical purchase volume of China Feihe and China Feihe's expected production and sales volume of dairy products for the three years ending 31 December 2025;
- c) the Group's construction of two new farms in Heilongjiang province to increase its raw milk production capacity. The production in these two new farms is expected to commence from the second half of 2023. The production volume of raw milk in these two new farms is expected to be approximately 40,000 tonnes, 80,000 tonnes and 100,000 tonnes for each of the three years ending 31 December 2025, based on the production capacity of 10,000 newly purchased dairy cows which will be raised in these two new farms;
- d) the prospect of the PRC domestic dairy industry following the introduction of the three-child policy by the PRC government and Action Plan for the Promotion of Domestic Infant Milk Formula (國產嬰幼兒配方乳粉提升行動方案) unveiled by the National Development and Reform Commission of China, aiming to increase the portion of domestically manufactured infant milk formula in China with a target to remain a 60% self-sufficient level in the industry, and to encourage the use of fresh milk in the production of infant milk formula;
- e) the prevailing and expected future market price of raw milk. The average Indicative Price increased by approximately 3.4% during the first three quarters of 2022 when compared to the corresponding period in 2021. Due to the strong market demand for high-quality raw milk and rise in the price of feed for dairy herds, the Company expects that the price for raw milk will continue to remain at relatively high level during the three years ending 31 December 2025; and
- f) a buffer of 5% to cover any unforeseen circumstances, for instance, the unexpected increment of the market price of raw milk and unexpected substantial increase in demand of raw milk by Feihe Dairy Group.

REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

Feihe Dairy Group has been the Group's largest customer for six consecutive years since 2017. Along with Feihe Dairy Group's fast business growth in recent years, its demand for raw materials such as raw milk has also been increasing. The Board believes that the sales of raw milk to Feihe Dairy Group is important to the business of the Group. It is expected that the long-term and continuing supply of raw milk products to Feihe Dairy Group will further enhance the stability of the Group's customer base and ensure future demand for the Group's raw milk product.

The proposed grant of priority in favour of Feihe Dairy Group in the supply of raw milk (the "**Priority Rights**") and the extension of the existing term of the 2020 Feihe Master Agreement to beyond 31 December 2022 were initially proposed and requested by Feihe Dairy Group. By entering into the 2023 Feihe Master Agreement for the grant of the Priority Right and extending the term to beyond 2022, the Group will be able to further reinforce the business relationship with Feihe Dairy Group.

LETTER FROM THE BOARD

The Directors consider that, by entering into the 2023 Feihe Master Agreement, the Group is not unduly reliant on Feihe Dairy Group for the following reasons:

(a) Mutually beneficial and complementary relationship

The Group is the largest supplier of raw milk for Feihe Dairy Group in 2021, offering excellent geographical advantages given the Group's farms are in close proximity of Feihe Dairy Group's downstream processing plants in Heilongjiang province, which enables the freshness of the fresh milk supplied to be optimally preserved. For the year ended 31 December 2021 and the six months ended 30 June 2022, the raw milk purchased by Feihe Dairy Group from the Group accounted for more than 80% of the total amount of raw milk purchased by Feihe Dairy Group. At the same time, Feihe Dairy Group is also the largest customer of the Group in 2021, providing a stable source of revenue for the Group. For the year ended 31 December 2021 and the six months ended 30 June 2022, Feihe Dairy Group contributed approximately 87.0% and 85.1% of the Group's total revenue, respectively.

As the largest and leading infant milk formula manufacturer in the PRC, Feihe Dairy Group has stringent quality control requirements in respect of, among others, the hygiene and safety conditions of the dairy herds of its suppliers and requires the raw milk supplied by its suppliers to meet high quality standards. Besides, given the perishable nature of raw milk, in order to maintain its freshness and to minimise the risk of contamination, it is not feasible for Feihe Dairy Group to either keep significant inventory of raw milk, or to procure raw milk from suppliers which are too far away. It will also generate substantial costs for Feihe Dairy Group to communicate and purchase raw milk from a large number of mid to small size dairy farms. In terms of herd size and production volume, the Company is one of the leading dairy farming companies in the PRC and it has a strong supply capacity in high-quality raw milk. As of 30 June 2022, the Group had nine dairy cow farms in operation with 84,619 dairy cows and one dairy goat farms in operation with 6,669 dairy goats, and for the year ended 31 December 2021, the total sales volume of raw milk of the Group amounted to 372,089 tonnes. As the Group is one of the limited raw milk suppliers in Heilongjiang, the PRC with over 84,000 dairy cows and 6,000 dairy goats and the capability of producing super premium raw milk and considering the long-term and close relationship with the Group, it is natural and advisable for Feihe Dairy Group to choose to procure more raw milk from the Group to meet its strong demand. For the year ended 31 December 2021 and the six months ended 30 June 2022, Feihe Dairy Group's purchases from the Group amounted to RMB1,545 million and RMB858 million, respectively.

Based on the above-mentioned reasons, it is believed that the business relationship between Feihe Dairy Group and the Group is mutually beneficial, and Feihe Dairy Group and the Group are mutually reliant on each other. It is beneficial to the Group in securing stable and long-term demand from Feihe Dairy Group, a high-quality customer and leading player in China's infant formula industry, and also strategically important to Feihe Dairy Group by ensuring a reliable source of high-quality raw milk for producing high-end infant formula products.

LETTER FROM THE BOARD

(b) Solid long-term relationship and extremely low risk of termination

Feihe Dairy Group has maintained solid and long-term business relationship with the Group in order to ensure the security of the raw milk supplies. Since the Group started to supply super premium raw milk in 2010, Feihe Dairy Group has been the Group's major customer for more than eleven years.

High quality and stable fresh milk supply is essential to the continued success of Feihe Dairy Group's infant milk formula products. In order to further strengthen Feihe Dairy Group's leading position in high-end infant milk formula market and provide enhanced protection and security on the future raw milk supplies, Feihe Dairy Group acquired 3,342,320,920 Shares through a conditional voluntary general offer in 2020, representing approximately 71.26% of the total issued share capital of the Company.

Taking into consideration the above-mentioned factors, it is highly certain that Feihe Dairy Group and the Group will maintain a stable and long-term business relationship, and there is an extremely low risk that the relationship between Feihe Dairy Group and the Group will materially adversely change or terminate.

(c) Strong capability to develop dairy farms

Thanks to the long-term operation experience in the dairy market and good leadership skills of the management team, the Company has developed a strong capability to develop its own dairy farms. Other than Gannan Farm and Kedong Heping Farm which were acquired from China Feihe in 2011 and Longjiang Ruixincheng Farm, Longjiang Jinyuan Farm and Ruixiangchengda Farm whose assets were acquired from Independent Third Parties since 2021, the Company has developed all the remaining five dairy farms in operation by itself.

The table below sets out the percentage of total sale volume of raw milk produced by the dairy farms acquired from China Feihe to the total sale volume of raw milk produced by the Group for each of the three years ended 31 December 2021 and the six months ended 30 June 2022:

	Total sale volume of raw milk produced by the two dairy farms acquired from China Feihe (tonnes)	Total sale volume of raw milk produced by the Group (tonnes)	Percentage
Year ended 31 December 2019	67,685	334,424	20.2%
Year ended 31 December 2020	87,967	355,599	24.7%
Year ended 31 December 2021	98,782	372,089	26.5%
Six months ended 30 June 2022	53,835	193,180	27.9%

LETTER FROM THE BOARD

(d) Limited priority arrangement

The change in relationship with China Feihe has not and would not result in material impact to the Company. The Company is still able to maintain and develop its business relationship with other customers other than Feihe Dairy Group, and the Company could sell its raw milk to other customers other than Feihe Dairy Group who offered better terms. Under the priority arrangement, the Group will only give priority to Feihe Dairy Group for purchase of raw milk when the terms and conditions offered by Feihe Dairy Group are no less favourable than that offered by the other purchasers. In addition, China Feihe has undertaken to the Company that the Company is allowed to suspend the priority arrangement when it needs to sell more raw milk to third party customers for the purpose of ensuring that the Group will not generate more than 90% of its annual revenue from Feihe Dairy Group.

(e) Reduction of reliance

It is also believed that the Company is able to reduce the percentage of revenue contribution from China Feihe for the following reasons:

- (i) regardless of the increase in the sales of raw milk to China Feihe, the Company will still maintain and develop its business relationship with other customers other than China Feihe. Other than Feihe Dairy Group, the Group has maintained long-term business relationship with five dairy product manufacturers, including Mengniu Group and Yili Group. Such customers have huge demand in high quality raw milk and the capacity to take up the raw milk originally supplied to Feihe Dairy Group. In addition, the Group will take various measures to broaden its customer base, including (i) expanding its sales team to actively search for new customers; (ii) providing extensive training to its sales team in relation to skills to approach and draw in new clients; and (iii) arranging the sales team to visit nearby potential customers regularly. To the best of the Directors' knowledge, there are more than 10 dairy products manufacturers (other than Feihe Dairy Group) located within 200 km of the Group's farms with the estimated aggregate daily raw milk demand exceeding 10,000 tons. The Group plans to allocate more resources on the above mentioned measures to better explore opportunities to cooperate with other dairy product manufacturers in the future, so we can further lower our customer concentration risks;
- (ii) due to the strong demand for high quality raw milk in the PRC market over the years, it is relatively easy for the Company to find alternative customers for its raw milk if it wants to reduce the sales of raw milk to China Feihe;
- (iii) the actual designed capacity of the nine dairy cow farms currently operated by the Group is 118,960 dairy cows. Driven by the advanced management model of our farms, the number of dairy cows of the Group's dairy farms increased from 72,321 heads as of 30 June 2021 to 84,619 heads as of 30 June 2022. There is still considerable potential for the Company to further increase the number of dairy cows in the existing nine dairy cow farms, which will help increase the raw milk production; and

LETTER FROM THE BOARD

- (iv) two new farms of the Group under construction with a total designed capacity of 22,000 dairy cows are expected to start raising heifers by the end of 2022, which will further expand the Company's production and overall scale of operation. Upon the further expansion of its production capacity, it is believed that the Company will be able to not only satisfy the demand from China Feihe but also increase its supply of raw milk to other customers who are also in need of high quality raw milk, which will naturally increase the percentage of revenue contribution from other customers and reduce the percentage of revenue contribution from China Feihe.

(f) Level of contribution

During the year ended 31 December 2021, Feihe Dairy Group contributed 87.0% of the Group's total revenue. While revenue from Feihe Dairy Group is expected to increase in line with its continuous expansion and growth in the PRC, the Group expects that the revenue from sales of the Group's products to third party customers will also increase over the years in the coming future as a result of the Group's expansion of its production capacity. Therefore, the Group expects that the revenue contribution from Feihe Dairy Group as a percentage of the Group's total revenue will remain at around 90% for each of the three years ending 31 December 2025 (the "90% Limit"). The Company undertakes that the 90% Limit would form part of the proposed annual caps for the three years ending 31 December 2025 in addition to the numerical figures. The Group will closely monitor its revenue contribution from Feihe Dairy Group, and it will reduce or suspend the transactions with China Feihe and supply the remaining raw milk to third party customers to ensure that the 90% Limited is fully complied with.

(g) Common market practice in the dairy industry

The upstream and downstream industry players in China's dairy industry are highly interdependent. On the one hand, as the competitive landscape in the downstream market of China's dairy industry has been increasingly concentrated, raw milk suppliers mainly sell their products to a limited number of top dairy products manufacturers in the downstream. On the other hand, large-scale dairy products manufacturers generally incline to establish long-term and stable relationships with trustful raw milk suppliers in the upstream to secure stable supply and product safety and quality. It is a common market practice in the dairy industry in China for a dairy farming company to have a high customer concentration.

Having considered (i) the background of Feihe Dairy Group; (ii) long-term business relationship between the Group and Feihe Dairy Group; (iii) that the Group will give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions being no less favourable to the Group than that offered by Independent Third Party customers; and (iv) the Group's annual capacity of raw milk, the Directors (including the independent non-executive Directors after having considered the Independent Financial Adviser's advice) consider that the 2023 Feihe Master Agreement (including the Priority Rights) are on normal commercial terms and fair and reasonable, and the transactions contemplated under the 2023 Feihe Master Agreement will be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

The Directors are also of the view that the proposed annual caps for the transactions contemplated under the 2023 Feihe Master Agreement for each of the three years ending 31 December 2025 are fair and reasonable.

LETTER FROM THE BOARD

Each of Mr. Leng Youbin, Mr. Liu Hua and Mr. Cai Fangliang has abstained from voting at the relevant Board meeting for the approval of the 2023 Feihe Master Agreement due to their positions as executive director of China Feihe and their shareholding in China Feihe. Mr. Liu Gang, being a younger brother of Mr. Liu Hua, has abstained from voting at the relevant Board meeting for the approval of the 2023 Feihe Master Agreement to avoid any potential conflicts of interest. Ms. Liu Jinping, being an independent non-executive Director, is also an independent non-executive director of China Feihe and has abstained from voting at the relevant Board meeting for the approval of the 2023 Feihe Master Agreement to avoid any potential conflicts of interest. Save as disclosed above, none of the other Directors has a material interest in the transactions contemplated under the 2023 Feihe Master Agreement or is required to abstain from voting on the relevant resolutions of the Board.

IMPLICATIONS OF THE LISTING RULES

As of the Latest Practicable Date, China Feihe holds approximately 71.26% of the total issued share capital of the Company. Therefore, China Feihe is the controlling shareholder of the Company and hence a connected person of the Company. Thus, the transactions contemplated under the 2023 Feihe Master Agreement constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual caps under the 2023 Feihe Master Agreement are expected to exceed 25%, the 2023 Feihe Master Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders on the 2023 Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto). Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL INFORMATION

The Company

The Company is a dairy farming company in the PRC dedicated to the production of super premium raw milk. The ordinary shares of the Company are listed on the main board of the Stock Exchange.

Feihe Dairy Group

Feihe Dairy Group is based in Heilongjiang province and is principally engaged in the production and sale of infant formula products in the PRC. The ordinary shares of China Feihe are listed on the main board of the Stock Exchange.

LETTER FROM THE BOARD

SGM

A resolution approving the transactions contemplated under the 2023 Feihe Master Agreement and the proposed annual caps relating thereto shall be proposed at the SGM.

A notice convening the SGM to be held at EAST Beijing, Workshop 2, No. 22, Jiuxianqiao Road, Chaoyang District, Beijing, the PRC on Thursday, 15 December 2022 at 10:00 a.m. is set out on pages 44 to 45 of this circular.

In accordance with the Listing Rules, any connected person or Shareholder and its associates with a material interest in the 2023 Feihe Master Agreement and the transactions contemplated thereunder must abstain from voting on the resolution to approve the transactions contemplated under the 2023 Feihe Master Agreement and the proposed annual caps for the three years ending 31 December 2025 at the SGM.

China Feihe, being a connected person of the Company with material interests in the 2023 Feihe Master Agreement, will abstain from voting at the SGM on the ordinary resolution to approve the transactions contemplated under the 2023 Feihe Master Agreement (including the proposed annual caps relating thereto). The Board confirms that China Feihe, who will abstain from voting on the resolution approving the transactions contemplated under the 2023 Feihe Master Agreement, controls the voting rights in respect of its Shares.

The voting of the SGM will be taken by poll.

A form of proxy for the SGM is enclosed herewith. Whether or not Shareholders are able to attend and vote at the SGM, they are requested to complete the enclosed form of proxy and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the SGM (i.e. no later than 10:00 a.m. (Hong Kong time) on Tuesday, 13 December 2022) or any adjournment thereof. Completion and return of the form of proxy as instructed will not prevent Shareholders from subsequently attending and voting at the SGM or any adjourned meeting if they so wish.

RECOMMENDATION

The Board considers that the transactions contemplated under the 2023 Feihe Master Agreement will be conducted by the Group in its ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed annual caps for the transactions contemplated under the 2023 Feihe Master Agreement are fair and reasonable. The Board therefore recommends the Independent Shareholders to vote in favour of the relevant resolution set out in the notice of the SGM.

LETTER FROM THE BOARD

FURTHER INFORMATION

The Independent Board Committee comprising three independent non-executive Directors has been appointed to recommend the Independent Shareholders in respect of the transactions contemplated under the 2023 Feihe Master Agreement (including the proposed annual caps relating thereto). Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such regard.

Accordingly, your attention is drawn to (i) the letter of recommendation from the Independent Board Committee to the Independent Shareholders set out on pages 19 to 20 of this circular, which contains its recommendation to the Independent Shareholders; (ii) the letter of advice from Gram Capital set out on pages 21 to 39 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders; (iii) the general information set out in the Appendix to this circular; and (iv) the notice of the SGM.

Yours faithfully,
For and on behalf of the Board of
YuanShengTai Dairy Farm Limited
Zhao Hongliang
Executive Director and Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

23 November 2022

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS: 2023 FEIHE MASTER AGREEMENT

We refer to the circular of the Company dated 23 November 2022 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

In compliance with the Listing Rules, we have been appointed by the Board to form the Independent Board Committee and advise the Independent Shareholders as to whether, in our opinion, the transactions contemplated under the 2023 Feihe Master Agreement will be conducted by the Group on normal commercial terms and in its ordinary and usual course of business, are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned, and as to whether the proposed annual caps for the transactions contemplated under the 2023 Feihe Master Agreement are fair and reasonable. In this connection, Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2023 Feihe Master Agreement (including the proposed annual caps relating thereto).

We wish to draw your attention to the letter from the Board set out on pages 5 to 18 of the Circular, and the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders set out on pages 21 to 39 of the Circular which contains its opinion in respect of the transactions contemplated under the 2023 Feihe Master Agreement (including the proposed annual caps relating thereto).

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of Gram Capital and its recommendation in relation thereto, we consider that the transactions contemplated under the 2023 Feihe Master Agreement will be conducted by the Group on normal commercial terms and in its ordinary and usual course of business, are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned, and the proposed annual caps for the transactions contemplated under the 2023 Feihe Master Agreement are fair and reasonable. Accordingly, we recommend that you vote in favour of the relevant resolution set out in the notice of the SGM.

Yours faithfully,
Independent Board Committee of
YuanShengTai Dairy Farm Limited

Meng Jingzong

Zhang Yuezhou

Zhu Zhanbo

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

23 November 2022

*To: The independent board committee and the independent shareholders
of YuanShengTai Dairy Farm Limited*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2023 Feihe Master Agreement and the transactions contemplated thereunder (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 23 November 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 14 October 2022, the Company entered into the 2023 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group, to confirm the Group’s supply of raw milk to Feihe Dairy Group for a term commencing from 1 January 2023 and ending on 31 December 2025, subject to the terms and conditions contained therein.

With reference to the Board Letter, the Transactions constitute continuing connected transactions of the Company, and are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirement pursuant to Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Transactions at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

LETTER FROM GRAM CAPITAL

INDEPENDENCE

Gram Capital was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to major and continuing connected transactions of the Company (details of which are set out in the Company's circular dated 25 November 2021). Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

Having considered the above and that (i) none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial adviser engagement and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreements/arrangements or implied understanding with anyone concerning the 2023 Feihe Master Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

LETTER FROM GRAM CAPITAL

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, China Feihe and each of their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the 2023 Feihe Master Agreement, we have taken into consideration the following principal factors and reasons:

Information on the Company

With reference to the Board Letter, the Company is a dairy farming company in the PRC dedicated to the production of super premium raw milk.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "2021 Annual Report") and for the six months ended 30 June 2022 (with comparative figures for the corresponding period in 2021) as extracted from the Company's interim report for the six months ended 30 June 2022 (the "2022 Interim Report"):

	For the year ended 31 December 2021 ("FY2021") RMB'000 (Audited)	For the year ended 31 December 2020 ("FY2020") RMB'000 (Audited)	Year-on-year change %
Revenue	1,776,538	1,554,012	14.32
Profit for the year	156,990	577,951	(72.84)

LETTER FROM GRAM CAPITAL

	For the six months ended 30 June 2022 ("1H2022") RMB'000 (Unaudited)	For the six months ended 30 June 2021 ("1H2021") RMB'000 (Unaudited)	Year-on-year change %
Revenue	1,009,035	837,439	20.49
Profit for the period	52,660	98,032	(46.28)

Performance for FY2021

As depicted from the table above, the Group's revenue for the year ended 31 December 2021 represented a substantial increase of approximately 14.32% as compared to that for the year ended 31 December 2020. The sales volume for the FY2021 reached 372,089 tonnes, representing an increase of approximately 4.6% as compared with 355,599 tonnes in FY2020. With reference to the 2021 Annual Report, the aforesaid growth was primarily attributable to the increases in (i) herd size of matured milkable cows; and (ii) average annual milk yield per cow.

Despite the increase in the Group's revenue for FY2021 as mentioned above, the Group recorded a substantial decrease of approximately 72.84% in profit for the year for FY2021 as compared to that for FY2020. With reference to the 2021 Annual Report, the decrease in net profit was mainly attributable to the reversal of impairment losses and accrued expenses related to the removal of Baiquan Ruixincheng Dairy Farming Co., Ltd. during the year ended 31 December 2020.

Performance for 1H2022

As depicted from the table above, the Group also recorded a substantial increase of approximately 20.49% in revenue for 1H2022 as compared to that for 1H2021. With reference to the 2022 Interim Report, the aforesaid increase was mainly benefited from an increase in the demand of raw milk.

Despite the increase in the Group's revenue for 1H2022 as mentioned above, the Group recorded a substantial decrease of approximately 46.28% in profit for 1H2022 as compared to that for 1H2021. With reference to the 2022 Interim Report, the aforesaid decrease was mainly attributable to the increases in (i) price of hay feed; and (ii) loss on changes in fair value less cost to the sale of biological assets.

Construction of Farms

As at 30 June 2022, the Group had eight dairy cow farms in Heilongjiang Province, the PRC, one dairy cow farm in Jilin Province, the PRC and one dairy goat farm in Shaanxi Province, respectively. Each dairy cow farm had an actual designed capacity ranging from 1,960 to 30,000 dairy cows, and the total site area of the nine dairy cow farms amounted to approximately 7,791,700 square metres. The dairy goat farm had an actual designed capacity of 20,000 dairy goats, and the site area of the dairy goat farm amounted to 429,133 square metres.

LETTER FROM GRAM CAPITAL

Information on China Feihe

With reference to the Board Letter, Feihe Dairy Group (i.e. China Feihe and its subsidiaries) is based in Heilongjiang province and is principally engaged in the production and sale of infant formula products in the PRC. The ordinary shares of China Feihe are listed on the main board of the Stock Exchange. As at the Latest Practicable Date, China Feihe holds approximately 71.26% of the total issued share capital of the Company. Therefore, China Feihe is the controlling shareholder of the Company and hence a connected person of the Company.

As advised by the Directors, Feihe Dairy Group was one of the Group's top five customers since the shares of which were listed on the Main Board of the Stock Exchange in November 2013.

Reasons for the Transactions

As disclosed in the prospectus of the Company dated 14 November 2013, when the Group was in its initial stage of commercial production in 2010, Feihe Dairy Group accounted for all of the Group's revenue. Throughout years of the Group's development, Feihe Dairy Group remained as one of the top five customers of the Group for the recent years. As confirmed by the Directors, the Board believes the sales of raw milk to the Feihe Dairy Group is important to the business of the Group. It is expected that for the long term, the Group's continuing supply of raw milk products to the Feihe Dairy Group will further enhance the stability of the Group's customer base and ensure future demand for the Group's raw milk.

As confirmed by the Directors, as the Transactions are conducted in the ordinary and usual course of business of the Group and on a frequent basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders as required by the Listing Rules, if necessary. Accordingly, the Directors are of the view that the Transactions will be beneficial to the Company and the Shareholders as a whole.

In light of (i) the revenue contribution from Feihe Dairy Group, being one of the top five customers of the Group for the recent years; (ii) the long-term business relationship between the Group and the Feihe Dairy Group; and (iii) it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders as required by the Listing Rules, if necessary, we consider that the Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM GRAM CAPITAL

1. Principal terms of the Transactions

Set out below are the principal terms of the Transactions, details of which are set out under the section headed “PRINCIPAL TERMS OF THE 2023 FEIHE MASTER AGREEMENT” in the Board Letter.

Date:	14 October 2022
Parties:	(a) the Company (for itself and on behalf of its subsidiaries); and (b) China Feihe (for itself and on behalf of its subsidiaries).
Contract period:	The initial term of the 2023 Feihe Master Agreement shall commence from the Commencement Date and shall end on 31 December 2025. The 2023 Feihe Master Agreement may be extended for a period of three years after the expiry of the initial term, subject to approval of such extension and the transactions contemplated thereunder (including the related annual caps) by the Independent Shareholders (if required) in accordance with the Listing Rules.
Subject matter:	Supply of raw milk by the Group to Feihe Dairy Group.
Pricing term:	For each calendar year during the term of the 2023 Feihe Master Agreement, the Group and Feihe Dairy Group will enter into an annual sale contract specifying, among others, the pricing mechanism, the quantity and quality of raw milk expected to be purchased by Feihe Dairy Group during the calendar year and payment terms. The unit selling price of raw milk generally comprises two elements, being (i) the unit base price; and (ii) certain price adjustment factors including, among others, the microbe count, the level of protein content and fat content and the freezing point of raw milk. The unit selling price of raw milk will be negotiated by the parties on arm’s length basis and in good faith with reference to the Indicative Price, the aforesaid adjustment factors and the prevailing market prices offered by the Group to its Independent Third Parties customers for products of similar quality. The terms and purchase prices offered by the Group to Feihe Dairy Group shall be no more favourable than those available to other Independent Third Parties customers.
Priority:	In the event that the Group receives purchase orders from Feihe Dairy Group and other purchasers concurrently, the Group shall give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions no less favourable to the Group than that offered by the other purchasers.
Payment term:	Generally, to be settled on accrual basis, with a credit term of no more than one month, during which no interest will accrue.

LETTER FROM GRAM CAPITAL

Pricing method and procedures

Under the 2023 Feihe Master Agreement, the Group will, by the end of each calendar year during the term, enter into an annual sales contract (the “**Sales Contract**”) with the Feihe Dairy Group to agree on, among others, the pricing mechanism of raw milk for the next calendar year.

The Group generally negotiates the unit selling pricing for the raw milk with its customers (including both Feihe Dairy Group and its Independent Third Party customers) based on the latest Indicative Price determined quarterly by the Heilongjiang Fresh Milk Price Coordination Committee* (黑龍江省生鮮乳價格協調委員會) and taking into account certain adjustment factors. The Group’s pricing mechanism with its customers (including Feihe Dairy Group and other Independent Third Party customers of the Group) are generally the same, and therefore the selling price of the raw milk contemplated under the 2023 Feihe Master Agreement would be no less favourable than that offered by Independent Third Party customers. We understood that the Group will check the latest Indicative Price on a quarterly basis.

In order to ensure that the terms of sales of raw milk to Feihe Dairy Group (including the unit selling price) would be on normal commercial terms and on terms no less favourable to the Group than those offered to Independent Third Parties customers, the Group adopted certain pricing procedures (the “**Pricing Procedures**”). Details of the pricing procedures are set out under the sub-section headed “Pricing method and procedures” in the Board Letter.

Apart from the price adjustment controls as stated above, designated members of the Group’s senior management, namely deputy general manager in charge of sales department and general manager, will (i) monthly review the raw milk price agreed between the Group and Feihe Dairy Group, and compare it with the raw milk prices (of similar quality and during the same period of time) being agreed between the Group and other Independent Third Parties customers, and (ii) review other trading terms of purchase orders received from Feihe Dairy Group and other Independent Third Party customers, to ensure that (a) the unit selling prices of raw milk for all of the Group’s customers remain comparable, (b) other trading terms offered by Feihe Dairy Group, such as unit base price, adjustment factor, payment term and driving distance, are no less favourable to the Group than that offered by Independent Third Party customers; and (c) the contemplated transactions between Feihe Dairy Group and the Group are conducted on normal commercial terms.

To assess the effectiveness of the implementation of the aforesaid measures, we requested the Company to provide us invoices (the “**Price Documents**”) issued by the Group to (i) Feihe Dairy Group; and (ii) Independent Third Parties customers. We set the period from October 2021 to September 2022 as our sampling period after considering that (i) we had assessed the effectiveness of the implementation of the above measures in 2021 based on relevant invoices in each quarter of 2020 and first three quarters of 2021; and (ii) the period from October 2021 to September 2022 commenced from the period immediately after the previous sampling period and to the period immediately before the date of the 2023 Feihe Master Agreement. We further selected invoices in the last quarter of 2021 and each of first three quarters of 2022 on a random selection basis. We noted from the Price Documents that the unit prices of the raw milk supplied by the Group to Feihe Dairy Group were not lower than those supplied to the Independent Third Parties customers in similar period.

LETTER FROM GRAM CAPITAL

We further requested the Company to provide documents in respect of the Group's review on unit base price for the relevant months of the Price Documents. We obtained documents showing the Group's review of the unit base price agreed between the Group and (i) Feihe Dairy Group; and (ii) other Independent Third Parties customers in last quarter of 2021 and each of first three quarters of 2022. According to the aforesaid documents, we noted that they were prepared by sales department's staff, reviewed by sale department's manager-level staff and approved by deputy general manager. After that, the deputy general manager will report to general manager.

Having considered the aforesaid measures, we consider that the effective implementation of the aforesaid measures would help to ensure the fair pricing under the 2023 Feihe Master Agreement.

With reference to Rule 14A.56 of the Listing Rules, among other things, the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group. We obtained the letter from the Company's auditors, showing their confirmation that, among other things, nothing has come to their attention that causes them to believe that the continuing connected transactions regarding the supply of raw milk by the Group to the Feihe Dairy Group for the year ended 31 December 2021 was not, in all material respects, in accordance with the pricing policies of Group.

Having considered (i) our findings on (a) Price Documents; and (b) documents showing the Group's review of the unit base price as mentioned above; and (ii) the confirmation letter from Company's auditors, we do not doubt the effectiveness of the implementation of the aforesaid measures.

We also noted that the Company will closely monitor the transaction amounts (including the percentage amount) in respect of the transactions contemplated under the 2023 Feihe Master Agreement through the certain measures, details of which are set out under the section headed "(f) Level of Contribution" of the Board Letter.

Payment term

Pursuant to the 2023 Feihe Master Agreement, generally, to be settled on accrual basis, with a credit term of no more than one month, during which no interest will accrue.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, we further searched for companies listed on the Stock Exchange and are engaged in similar line of business as the Group, being production and sale of raw milk in the PRC and derived a majority of their turnover from such business, based on their respective latest published financial information. Set out below are our findings on credit period of comparable listed companies (the “**Comparable Companies**”), which are exhaustive as far as we were aware of:

Company	Principal business	Credit Period
China Modern Dairy Holdings Limited (1117)	The company is an investment holding company principally engaged in the production and sales of milk. The company operates through two business segments. The Dairy Farming segment is engaged in the breeding of dairy cows to produce raw milk. The Liquid Milk Products Production segment is engaged in the production and sales of processed liquid milk. The company is also involved in the production of fodder and the sales of feeds through its subsidiaries.	The group allows a credit period of 30 days to its customers.
China Shengmu Organic Milk Limited (1432)	The company is a China-based investment holding company principally engaged in the production and distribution of raw milk and dairy products. The company operates through two business segments. The Farming segment is engaged in the breeding of dairy cows to produce and distribute raw milk. The Liquid Milk Products segment is engaged in the production and distribution of organic ultra-heat treated liquid milk and organic yogurt.	In 2021, the credit period is generally one month, extending up to three months for major customers. However, the group normally allows a credit limit to its customers credit terms which are adjustable in certain circumstances and closely monitors overdue balances.

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Company	Principal business	Credit Period
China Youran Dairy Group Ltd. (9858)	The company is a China-based investment holding company principally engaged in the production and sales of raw milk, as well as the trading, production and sales of dairy farming products. The company mainly conducts its businesses through two segments. The Raw Milk segment provides raw milk to large-scale dairy manufacturers for further processing into premium dairy products. The Comprehensive Ruminant Farming Solutions segment includes feed business, breeding business and ruminant farming products marketplace business. The company provides nutritious concentrated feed, forage grass and ancillary ruminant farming support services for dairy farms. The company also provides dairy farms with access to high-quality frozen bovine semen for dairy cattle and beef cattle, as well as ruminant farming products.	As at 31 December 2021 and 30 June 2022, trade receivables from related parties are aged within 90 days based on the day of delivery.

Source: financial reports of the Comparable Companies.

We noted from the above table that the credit periods of the comparable listed companies ranged from 30 days to 90 days. Accordingly, a credit term of no more than one month is in line with the market practice.

Based on the above, we consider the payment term under the 2023 Feihe Master Agreement to be fair and reasonable.

Priority

Pursuant to the 2023 Feihe Master Agreement, in the event that the Group receives purchase orders from Feihe Dairy Group and other purchasers concurrently, the Group shall give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions no less favourable to the Group than that offered by the other purchasers.

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As confirmed by the Directors, designated members of the Group's senior management namely deputy general manager and general manager will review other trading terms of purchase orders received from Feihe Dairy Group and other Independent Third Parties customers, to ensure that other trading terms offered by Feihe Dairy Group, such as unit base price, adjustment factor, payment term and driving distance, are no less favourable to the Group than that offered by the other Independent Third Party customers before giving priority rights to Feihe Dairy Group. Having considered that there will be other trading terms comparison procedures before giving priority rights to Feihe Dairy Group, we are of the view that such procedures (i.e. review other trading terms of purchase orders received from Feihe Dairy Group and other Independent Third Parties customers by relevant personnel of the Group) are sufficient to ensure the Priority Rights will be given to Feihe Dairy Group under the circumstances that terms and conditions are no less favourable to the Group than that offered by the other Independent Third Parties customer.

Upon our request, the Directors advised us that Feihe Dairy Group has been a customer of the Group for over ten years. To the best of the Directors knowledge, the Directors were not aware of any breach of individual contracts (i.e. delayed payment) under the Feihe Master Agreements regarding supply of raw milk by the Group or any order as placed by Feihe Dairy Group for recent three years.

To assess whether the Priority Rights is a normal commercial term, we performed our research of Hong Kong listed companies supplying/purchasing goods or services to/from connected persons with a priority supply/purchasing right. After taking into the consideration that the supply of raw milk by the Group to Feihe Dairy Group is by nature supplying/purchasing goods or services, we remove the industry restriction.

Despite that our findings may not be exhaustive, having considered (i) our research purpose is to identify if there are Hong Kong listed companies supplying/purchasing goods or services to/from connected persons with a priority supply/purchasing right; and (ii) the number of sample transactions are sufficient to demonstrate the situation, we are of the view that the sample transactions as listed out below are fair and representative. Set out below are our findings with announcement dates falling within one year prior to the date of 2023 Feihe Master Agreement for the Independent Shareholders' information purposes only.

Announcement date	Company name	Nature of transactions	Priority term
7 December 2021	China Datang Corporation Renewable Power Co., Limited (1798)	The group and connected person group mutually provide the counterparty with the goods and services.	If the terms and conditions of similar products and services offered by one of the parties are no less favourable than those offered by an independent third party, the counterparty shall give such party the priority in sourcing of the requisite products and services.

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Announcement date	Company name	Nature of transactions	Priority term
21 December 2021	China Railway Construction Corporation Limited (1186)	Connected person and its related parties/connected persons/associates provide services to the group.	Under the same or less favourable conditions of purchase from third parties, connected person shall give priority to providing services to the company.
23 February 2022	CNNC International Limited (2302)	The group supplies goods to connected person group.	The group shall act as the prioritised supplier of connected person group for its short term demand for natural uranium products, and connected person group shall purchase natural uranium products to be delivered in the then current year from the group on a priority basis.
16 June 2022	CGN Mining Company Limited (1164)	The group supplies goods to connected person group.	The group shall have the right of first offer to supply natural uranium demanded by connected person group during the effective period.
23 September 2022	Shougang Fushan Resources Group Limited (639)	The group supplies goods to connected person group.	In the event that the group encounters contracts consisting of similar terms with both 首鋼集團有限公司 (Shougang Group Co., Ltd.*) and/or its associates and independent third parties of equal caliber, the group shall give priority to 首鋼集團有限公司 (Shougang Group Co., Ltd.*) and/or its associates, which is in line with normal commercial practice and of commercial sense.

LETTER FROM GRAM CAPITAL

Having considered (i) there were Hong Kong listed companies supplying/purchasing goods or services to/from connected persons with a priority supply/purchasing right; (ii) the Group will give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions being no less favourable to the Group than those offered by other Independent Third Parties customers; (iii) the Group adopted internal control procedures to ensure other trading terms offered by Feihe Dairy Group are no less favourable to the Group than those offered by other Independent Third Parties customers; (iv) as Feihe Dairy Group is the Group's largest customer, the priority arrangement could reinforce the business relationship with China Feihe Group (which has been one of the Group's most important business partner); (v) the Company could sell its raw milk to other customers other than China Feihe who offered better terms; and (vi) the grant of priority arrangement encourages competitions among the Group's customers in offering the best purchase price to the Group in order to procure raw milk from the Group, particularly when there is a strong demand or insufficient supply of raw milk in the market, we are of the view that the Priority Rights is a normal commercial term.

Proposed annual caps

Set out below are (i) the historical transaction amounts of the Group's supply of raw milk to Feihe Dairy Group for the three years ending 31 December 2022 with the existing annual caps; and (ii) the proposed annual caps for the three years ending 31 December 2025 (the "**Proposed Annual Caps**"):

	For the year ended 31 December 2020 RMB'million	For the year ended 31 December 2021 RMB'million	For the year ending 31 December 2022 ("FY2022") RMB'million
Historical transaction amount	1,299	1,545	1,283 (<i>Note 1</i>)
Existing annual caps	1,300	1,600	2,000
Utilisation rate	99.9%	96.6%	N/A
	For the year ending 31 December 2023 ("FY2023") RMB'million	For the year ending 31 December 2024 ("FY2024") RMB'million	For the year ending 31 December 2025 ("FY2025") RMB'million
Proposed Annual Caps	2,500	3,000	3,400

Notes:

1. The figure was for the nine months ended 30 September 2022 and was unaudited.
2. The Company undertakes not to generate more than 90% of its annual revenue for each of the three years ending 31 December 2025 from China Feihe.

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With reference to the Board Letter, the Proposed Annual Caps were determined with various factors, details of which are set out under the sub-section headed “Proposed New Annual Caps and Basis of Determination” in the Board Letter.

We noted that the existing annual cap for the two years ended 31 December 2021 was almost fully utilized. The Proposed Annual Cap for FY2023 represents a substantial increase of approximately 25% to the existing annual cap for FY2022; and the Proposed Annual Caps for FY2024 and FY2025 represent substantial increase of 20% and approximately 13% to the Proposed Annual Caps for FY2023 and FY2024 respectively.

To assess the fairness and reasonableness of the Proposed Annual Caps for the three years ending 31 December 2025, we obtained and reviewed the calculation of the Proposed Annual Caps (the “**Calculation**”). We noted that the Proposed Annual Caps were arrived by (A) the estimated amount of raw milk to be supplied by the Group to all customers (the “**Total Estimated Amounts**”, calculated by (i) the estimated quantity of raw milk (in tonne); (ii) the estimated selling prices of raw milk, for the three years ending 31 December 2025; and (iii) buffers of 5%, for the three years ending 31 December 2025); and (B) a maximum of 90% of the aforesaid amounts to be supplied by the Group to the Feihe Dairy Group (the “**Percentage Limit**”).

A. The Total Estimated Amounts

A.1 *Estimated quantity of raw milk (in tonne)*

The estimated quantity of raw milk (in tonne) comprised the estimated quantity of raw cow milk (in tonne) and the estimated quantity of raw goat milk.

The estimated quantity of raw cow milk (in tonne) for the three years ending 31 December 2025 (i.e. 480,000 tonnes, 550,000 tonnes and 625,000 tonnes respectively) accounted for approximately 99.7% of the total estimated quantity of raw milk (in tonne) for the corresponding periods.

The estimated quantity of raw cow milk (in tonne) for FY2023 (i.e. 480,000 tonnes) represented a substantial increase of 20% (the “**2023 Increase**”) as compared to the estimated quantity of raw cow milk (in tonne) for FY2022 (i.e. 400,000 tonnes, being approximate the annualization amount based on the quantity of raw cow milk (in tonne) for the six months ended 30 June 2022).

To assess the fairness and the reasonableness of the 2023 Increase, we conducted the following analyses:

- We noted that the Group recorded an increase of approximately 18.48%, 6.33% and 4.64% in the quantity of raw milk supplied by the Group to all customers for the three years ended 31 December 2021 respectively, as compared to those for their previous years.

LETTER FROM GRAM CAPITAL

- The quantity of raw milk supplied by the Group to all customers were mainly affected by (a) the number of matured milkable cows; and (b) milk yield per cow.

(a) *The number of matured milkable cows*

- **Designed capacity of farms:** According to the 2022 Interim Report, as at 30 June 2022, the Group had nine dairy cow farms in the PRC with actual designed capacity of 118,960 cows. As at 30 June 2022, the Group had 84,619 number of dairy cows, including 38,180 matured milkable cows and 46,439 heifers and calves. If the Group increase 20% of number of matured milkable cows (i.e. approximately 7,700 heads, assuming the average annual milk yield remained stable), the total number of dairy cows would increase to approximately 92,319 heads, which is within the actual designed capacity of 118,960 cows. Therefore, there is sufficient capacity for the possible procurement of dairy cows.
- **Incremental of number of dairy cows:** With reference to the Board Letter, two new farms of the Group under construction with a total designed capacity of 22,000. As advised by the Directors, the Group purchased approximately 10,000 heads of dairy cows in 2022, which will further expand the Company's production and overall scale of operation. As advised by the Directors, approximately 10,000 heads of dairy cows will be transferred to the two new farms by the first quarter of 2023, which are expected to produce 40,000 tonnes raw cow milk for FY2023.

Furthermore, the Group's heifers and calves will also become milkable cows after a certain period of time. Upon our request, we understood that in general, the heifers are inseminated with semen when they reach approximately 13 months old. After approximately nine months following a successful insemination, the heifers will give birth to calf, become milkable cow and begin to produce raw milk and the lactation period begins. As also advised by the Directors, approximately 10,000 to 15,000 heifers became matured milkable cows for each of the three years ended 31 December 2021.

(b) *Milk yield per cow*

- We also noted that the average annual milk yield per cow was 10.9 tonnes for the six months ended 30 June 2022, representing an increase of 0.9% as compared with 10.8 tonnes in the first half of 2021.

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- On 8 June 2022, five departments of the PRC, including the Ministry of Industry and Information Technology, jointly issued the “Guiding Opinions on Promoting the High-Quality Development of Light Industry”, proposing that efforts should be made to accelerate the process of completing and strengthening the supply chain of the dairy industry, and support the construction of high-quality raw material bases in dairy products, grains and oils and other industries. At the same time, efforts should be made to improve branding services so as to form a number of internationally renowned brands in dairy products and other fields. With the continuous concentration of the downstream dairy sectors, dairy enterprises across the country are competing for product innovation and opening up new market segments on the basis of improving their own brand advantages. As stated in the 2022 Interim Report, the Group will also continue to develop high-standard large-scale farming and provide high-quality milk sources to meet the growing and diversified demands for domestic dairy product brands.

Based on the above, we are of the view that the 2023 Increase (mainly because of the increase in number of dairy cows due to growth and inseminated with semen; and the Group’s new procurement) to be justifiable. Accordingly, we are also of the view that the estimated quantity of raw milk (in tonne) for FY2023 to be reasonable.

We also noted that the estimated quantity of raw milk (in tonne) for FY2024 and FY2025 represented an increase of approximately 14.58% and 13.37% as compared to those for FY2023 and FY2024 respectively, which was mainly due to the estimated increase of 5,000 heads of matured milkable cows per year. We are of the view that the estimated increase of 5,000 heads of matured milkable cow per year for FY2024 and FY2025 are justifiable after considering the following factors:

- there is sufficient capacity for the possible increase in dairy cows by procurement, evidenced by the two new farms’ unutilised capacity of approximately 12,000 heads of dairy cows, not to mention the Group’s existing farms’ actual designed capacity of 118,960 cows as at 30 June 2022 not fully utilised. Therefore, the Company may purchase additional dairy cows;
- approximately 10,000 to 15,000 heifers became matured milkable cows for each of the three years ended 31 December 2021 (although the actual increase in matured milkable cows will also be subject to the culling of matured milkable cows); and
- The Company may purchase farms with matured milkable cows for the purpose of increasing number of matured milkable cows directly.

Based on the above, we are of the view that the estimated quantity of raw milk (in tonne) for the three years ending 31 December 2025 to be reasonable.

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A.2 Estimated selling price

We noted from the Calculation that the Directors applied estimated average selling price of raw cow milk of RMB5,500 per tonne for FY2023, RMB5,700 per tonne for FY2024 and RMB5,750 per tonne for FY2025.

The estimated average selling price of raw cow milk of RMB5,500 per tonne for FY2023 represented an increase of approximately 5.3% as compared to the average selling price of raw milk of approximately RMB5,223 per tonne for 1H2022, which is not overvalued as compared to the increases in annual average selling price of raw cow milk for the three years ended 31 December 2021 (i.e. approximately 5.2% and 9.2% respectively). The estimated average selling price of raw cow milk for FY2024 and FY2025 also represented increases of approximately 3.6% and 0.9% as compared to those for the previous years, which also reflected that the estimated average selling price of raw cow milk for FY2024 and FY2025 were not overvalued based on the increases in annual average selling price of raw cow milk for the three years ended 31 December 2021. Having also considered that the estimated average selling price of raw cow milk for the three years ending 31 December 2025 moved in the same direction as the historical annual average selling prices from 2019 to 30 June 2022, we are of the view that the estimated average selling prices of raw cow milk for the three years ending 31 December 2025 are fair and reasonable.

In respect of estimated average selling price of raw goat milk, the Directors applied estimated average selling price of RMB7,500 per tonne for the three years ending 31 December 2025. As such estimated price is close to the average selling price of raw goat milk of RMB7,324 per tonne for 1H2022, we are of the view that the estimated average selling prices of raw goat milk for the three years ending 31 December 2025 are reasonable.

Having considered the above factors, we are of the view that the estimated amounts of raw milk to be supplied by the Group to its customers for the three years ending 31 December 2025 to be fair and reasonable.

A.3 Buffers

We noted that buffers of 5% were applied as assumptions for the determination of the Total Estimated Amounts for the three years ending 31 December 2025. Having considered that the buffers (i.e. 5% of the estimated demands of raw milk for each of the three years ending 31 December 2025) were applied for unforeseeable circumstances, for instance, (a) the unexpected increment of the market price of raw milk; and (b) the unexpected substantial increase in demand of raw milk by the Group's customers, we consider that the buffers are acceptable.

Having considered our analyses as set out in the subsection headed "A.1 Estimated quantity of raw milk (in tonne)", "A.2 Estimated selling price" and "A.3 Buffers" above under the section headed "A. The Total Estimated Amounts", we are of the view that the Total Estimated Amounts for the three years ending 31 December 2025 are fair and reasonable.

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B. The Percentage Limit

With reference to the Board Letter, the Company undertakes not to generate more than 90% of its annual revenue in 2023, 2024 and 2025 from China Feihe. Having considered the proportion of revenue (generated from raw milk supply segment) attributable by single largest customer to all relevant customers as recorded by the Comparable Companies as follows, we consider the Percentage Limit to be fair and reasonable.

Company	Proportion of revenue (generated from raw milk supply segment) attributable by single largest customer to all relevant customers		
	For the year ended 31 December 2021	For the year ended 31 December 2020	For the year ended 31 December 2019
China Modern Dairy Holdings Limited (1117)	84.5%	82.0%	85.3%
China Shengmu Organic Milk Limited (1432)	87.8%	94.1%	92.6%
China Youran Dairy Group Ltd. (9858)	91.8% (Note)	95.8% (Note)	92.9% (Note)

Note: % to the revenue generated from raw milk supply segment in total

Source: financial reports of the comparable listed companies.

Having considered that (i) the Company undertakes not to generate more than 90% of its annual revenue for each of the three years ending 31 December 2025 from China Feihe and the Percentage Limit is justifiable; and (ii) purchase prices offered by the Group to Feihe Dairy Group shall be no more favourable than those available to other Independent Third Parties customers, we are of the view that the Company adopted 90% of the Total Estimated Amounts to be supplied by the Group to the Feihe Dairy Group are reasonable.

In light of that the above factors, we are of the view that the Proposed Annual Caps, which are close to the multiply of Total Estimated Amounts by the Percentage Limit, for the three years ending 31 December 2025 are fair and reasonable.

Shareholders should note that as the Proposed Annual Caps (including the Percentage Limit) for the three years ending 31 December 2025 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of revenue to be incurred from the transactions contemplated under the 2023 Feihe Master Agreement. Consequently, we express no opinion as to how closely the actual revenue/income to be generated from the transactions contemplated under the 2023 Feihe Master Agreement will correspond with the Proposed Annual Caps (including the Percentage Limit).

LETTER FROM GRAM CAPITAL

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Transactions must be restricted by their respective proposed annual caps for the period concerned under the 2023 Feihe Master Agreement; (ii) the terms of the Transactions (including their respective proposed annual caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Transactions must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded their respective proposed annual caps.

In the event that the total amounts of the Transactions are anticipated to exceed their respective proposed annual caps, or that there is any proposed material amendment to the terms of the Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transactions and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* For identification purpose only

1. RESPONSIBILITY STATEMENT

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

2. INTEREST IN SECURITIES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interest or short position in the Shares, underlying Shares and debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) nor had any interest in the right to subscribe for Shares which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(i) Long Positions in the Shares

Name of Director	Capacity/Nature of interests	Number of Shares held	Approximate percentage of issued Shares
Mr. Leng Youbin ("Mr. Leng") ^(Note)	Interest in a controlled corporation and founder of a discretionary trust/Corporate and other interest	3,342,320,920	71.26%
Mr. Chen Xiangqing ("Mr. Chen")	Beneficial owner/Personal interest	3,500,000	0.07%

Note: 3,342,320,920 Shares were beneficially owned by China Feihe which is owned as to 49.29% by Mr. Leng, a non-executive Director. Therefore, Mr. Leng is deemed or taken to be interested in 3,342,320,920 Shares beneficially owned by China Feihe by virtue of the SFO.

(ii) Long Positions in the shares of China Feihe – an associated corporation of the Company

Name of Director	Capacity/Nature of interests	Number of Shares held	Approximate percentage of issued Shares
Mr. Leng ^(Note 1)	Interest in a controlled corporation and founder of a discretionary trust/corporate and other interest	4,477,428,339	49.29%
Mr. Liu Hua ("Mr. Liu") ^(Note 2)	Interest in a controlled corporation and founder of a discretionary trust/corporate and other interest	933,198,378	10.27%
Mr. Cai Fangliang ("Mr. Cai") ^(Note 3)	Interest in a controlled corporation/corporate and other interest	101,647,734	1.12%
Mr. Fu Wenguo ("Mr. Fu") ^(Note 4)	Beneficial owner/Personal interest	1,549,200	0.02%
Mr. Zhao Hongliang ("Mr. Zhao") ^(Note 5)	Beneficial owner/Personal interest	1,549,200	0.02%
Mr. Liu Gang	Beneficial owner/Personal interest	464,000	0.01%
Mr. Chen ^(Note 6)	Beneficial owner/Personal interest	189,000	0.00%

Notes:

- 587,516,458 shares were held by Mr. Leng through his controlled corporation – Dasheng Limited ("Dasheng"). 33.33% of the equity interests in Dasheng were held directly by Mr. Leng. 3,889,911,881 shares were held by Harneys Trustees Limited ("Harneys") as the trustee of Leng Family Trust, which in its capacity as trustee holds the entire issued share capital of LYB International Holding Limited ("LYB"), which in turn holds the entire issued share capital of Garland Glory Holdings Limited ("Garland Glory"). Leng Family Trust was established by Mr. Leng as the settlor and the only discretionary object.
- 587,516,458 shares were held by Mr. Liu through his controlled corporation – Dasheng. 33.33% of the equity interests in Dasheng were held directly by Mr. Liu. 345,681,920 shares were held by Harneys as the trustee of LH Family Trust, which in its capacity as trustee holds the entire issued share capital of LH Capital Holding Limited, which in turn holds the entire issued share capital of LH Financial Holding Limited, LH Family Trust was established by Mr. Liu as the settlor and the only discretionary object.
- 101,647,734 shares were held by Mr. Cai through his controlled corporation – Adroit Shipping Limited. Adroit Shipping Limited is directly wholly owned by Mr. Cai.
- Share options were granted to Mr. Fu on 15 July 2021 and 24 January 2022 pursuant to a share option scheme adopted by China Feihe on 22 June 2020 (the "2020 Share Option Scheme"), which entitles him to subscribe for a total of 1,549,200 shares upon his exercise of such options.
- Share options were granted to Mr. Zhao on 15 July 2021 and 24 January 2022 pursuant to the 2020 Share Option Scheme, which entitles him to subscribe for a total of 1,549,200 shares upon his exercise of such options.
- Share options were granted to Mr. Chen on 15 July 2021 pursuant to the 2020 Share Option Scheme, which entitles him to subscribe for a total of 189,000 shares upon his exercise of such options.

Save as disclosed above and so far as is known to the Directors, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any other 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: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register as referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had or was proposed to have a service contract with the Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group; and
- (b) none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material change in the financial or trading position of the Group since 31 December 2021, the date to which the latest published audited accounts of the Group were made up.

7. EXPERT

The following is the qualification of the expert who has given its opinions or advice, which are contained or referred to in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears;
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had been since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

The letter from the Independent Financial Adviser dated 23 November 2022 is set out on pages 21 to 39 in this circular and was given for incorporation in this circular.

8. GENERAL

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS ON DISPLAY

The 2023 Feihe Master Agreement will be available on (i) the website of the Company (www.ystdfarm.com) and (ii) the website of the Stock Exchange (www.hkex.com) during the period of 14 days from the date of this circular.

NOTICE OF THE SPECIAL GENERAL MEETING



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting of YuanShengTai Dairy Farm Limited (“**Company**”) will be held at EAST Beijing, Workshop 2, No. 22, Jiuxianqiao Road, Chaoyang District, Beijing, the PRC on Thursday, 15 December 2022 at 10:00 a.m. to consider and, if thought fit, pass, with or without modifications, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the 2023 Feihe Master Agreement and the transactions contemplated under the 2023 Feihe Master Agreement (a copy of which has been produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification) and the proposed annual caps of RMB2,500 million, RMB3,000 million and RMB3,400 million for the years ending 31 December 2023, 31 December 2024 and 31 December 2025, respectively, be and are hereby approved, ratified and confirmed; and
- (b) the directors of the Company or any other person authorised by the directors of the Company be and are hereby authorised to sign, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the 2023 Feihe Master Agreement and all transactions and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the 2023 Feihe Master Agreement which in their opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.”

For and on behalf of the Board of
YuanShengTai Dairy Farm Limited
Zhao Hongliang
Executive Director and Chairman

Hong Kong, 23 November 2022

NOTICE OF THE SPECIAL GENERAL MEETING

<i>Registered office:</i>	<i>Head office and Principal Place of Business in the PRC:</i>	<i>Principal place of business in Hong Kong:</i>
Clarendon House 2 Church Street Hamilton HM 11 Bermuda	Qingxiang Street Kedong, Qiqihar Heilongjiang Province The PRC	31/F, 148 Electric Road North Point Hong Kong

Notes:

1. The register of members of the Company will be closed from Monday, 12 December 2022 to Thursday, 15 December 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for voting at the special general meeting of the Company, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 9 December 2022.
2. Any member of the Company (the "**Member**") entitled to attend and vote at the SGM convened by the Notice or its adjourned meeting (as the case may be) is entitled to appoint one (or, if he/she/it holds two or more shares in the Company, more than one) proxy to attend and, on a poll, vote on his/her/its behalf subject to the provisions of the By-laws of the Company. A proxy need not be a Member but must be present in person at the SGM to represent the Member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which such proxy is so appointed.
3. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the SGM (i.e. no later than 10:00 a.m. (Hong Kong time) on Tuesday, 13 December 2022) or adjourned meeting. Completion and return of a form of proxy will not preclude a Member from attending in person and voting at the SGM or any adjournment thereof should he/she so wish.
4. Where there are joint holders of any ordinary share of the Company, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
5. Voting of the ordinary resolution set out in this notice will be by way of poll.
6. Unless the context otherwise requires, terms used in this notice shall have the same meanings as those defined in the circular to the shareholders of the Company dated 23 November 2022.

As at the date of this notice, the Board comprises four executive Directors, namely Mr. Zhao Hongliang (Chairman), Mr. Fu Wenguo (Chief Executive Officer), Mr. Chen Xiangqing (Chief Financial Officer) and Mr. Liu Gang; three non-executive Directors, namely Mr. Leng Youbin, Mr. Liu Hua and Mr. Cai Fangliang; and four independent non-executive Directors, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou, Mr. Zhu Zhanbo and Ms. Liu Jinping.