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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 **原生态牧业有限公司**

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

CONTINUING CONNECTED TRANSACTIONS: 2020 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 6 to 20 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 21 to 22 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 23 to 41 of this circular.

A notice convening the SGM of YuanShengTai Dairy Farm Limited to be held at VIP Room 201, Ausotel Dayu Beijing, No. 99 Jingshun Road, Chaoyang District, Beijing, the PRC on Tuesday, 5 November 2019 at 10:00 a.m. is set out on pages II-1 to II-3 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 Sunday, 3 November 2019) 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.

16 October 2019

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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 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 and for the purpose of complying with the then Rule 14A.35 of the Listing Rules
“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 and for the purpose of complying with Rules 14A.51 and 14A.52 of the Listing Rules
“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

DEFINITIONS

“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
“2019 Announcement”	the announcement of the Company dated 23 September 2019 on (among other matters) the entering into of 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
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	board of Directors of the Company
“China Feihe”	China Feihe Limited (中國飛鶴有限公司) (formerly known as Platinum Infant Formula Holding Limited), an exempted company incorporated with limited liability in the Cayman Islands on 26 October 2012
“Commencement Date”	the date on which the condition precedent to the 2020 Feihe Master Agreement is satisfied
“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)”	director(s) of the Company
“Feihe Dairy Group”	the group of companies comprising China Feihe and its subsidiaries, including Feihe Dairy International and Feihe Dairy HLJ, being one of our customers, and an Independent Third Party (but deemed by the Stock Exchange to be our connected person after Listing for the purpose of the Listing Rules)
“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, an Independent Third Party and also a former owner of YST Heping and Ruixinda Gannan

DEFINITIONS

“Feihe Dairy International”	Feihe International, Inc., currently known as Flying Crane International Inc., an Independent Third Party and a company incorporated in the United States, whose securities were previously listed on the New York Stock Exchange
“Feihe Gannan”	Feihe (Gannan) Dairy Farm Limited* (飛鶴(甘南)乳品有限公司), a company incorporated in the PRC, which is a member of Feihe Dairy Group
“Feihe Master Agreements”	collectively, the 2013 Feihe Master Agreement, the 2015 Feihe Master Agreement and the 2017 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 SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2020 Feihe Master Agreement
“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 2020 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 connected (within the meaning of the Listing Rules) with any Directors, chief executive or substantial Shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
“Indicative Price”	the latest 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)
“Latest Practicable Date”	10 October 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

DEFINITIONS

“Listing Date”	26 November 2013, being the date where dealings in the Shares first commence on the Main Board of the Stock Exchange
“Listing Rules”	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
“Ruixinda Gannan”	Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), a company incorporated in the PRC on 9 July 2007 and since September 2011, 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 on 5 November 2019 to consider and approve the transactions contemplated under the 2020 Feihe Master Agreement and the proposed annual caps relating thereto
“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

DEFINITIONS

“YST Heping”

Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd.* (黑龍江克東和平原生態牧業有限公司), a company incorporated in the PRC on 3 July 2007 that became an indirect wholly owned subsidiary of the Company in September 2011, and which currently operates Kedong Oumei Farm

* *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)

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

Mr. Zhang Yuezhou (張月周)
Mr. Zhu Zhanbo (朱戰波)
Mr. Meng Jingzong (蒙靜宗)

*Head office and Principal Place of Business
in the PRC:*

Qingxiang Street
Kedong, Qiqihar
Heilongjiang Province
PRC

*Principal place of business
in Hong Kong:*

31/F, 148 Electric Road
North Point
Hong Kong

16 October 2019

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS: 2020 FEIHE MASTER AGREEMENT

INTRODUCTION

Reference is made to the Prospectus, the 2014 Announcement, the 2014 Circular, the 2015 Announcement, the 2015 Circular, the 2017 Announcement, the 2017 Circular and the 2019 Announcement in relation to, among other matters, the continuing connected transactions under the Feihe Master Agreements and the 2020 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. As mentioned in the 2019 Announcement, the Board is pleased to announce that on 23 September 2019 (after trading hours), the Company entered into the 2020 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group, to confirm the priority arrangement of the Group's supply of raw milk to Feihe Dairy Group for a term commencing from the Commencement Date and ending on 31 December 2022 subject to the terms and conditions contained therein.

The transactions contemplated under the 2020 Feihe Master Agreement constitute continuing connected transactions of the Company, and are subject to the reporting, announcement, annual review 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 2020 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, and (iv) the notice convening the SGM and the proxy form and (v) other information as required under the Listing Rules.

PRINCIPAL TERMS OF THE 2020 FEIHE MASTER AGREEMENT

On 23 September 2019 (after trading hours), the 2020 Feihe Master Agreement was entered into between the Company and China Feihe (in their respective capacity as stated below) to confirm the priority arrangement of the Group's supply of raw milk to Feihe Dairy Group.

The principal terms of the 2020 Feihe Master Agreement are summarised as follows:

Date:	23 September 2019 (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 2020 Feihe Master Agreement shall commence from the Commencement Date and shall end on 31 December 2022. The 2020 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 Independent Shareholders (if required) in accordance with the Listing Rules.

LETTER FROM THE BOARD

Condition precedent:	The 2020 Feihe Master Agreement shall become effective upon the approval of the 2020 Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto) by the Independent Shareholders at the SGM in accordance with the provisions of 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 2020 Feihe Master Agreement, the Group and Feihe Dairy Group will enter into an annual sales 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 Independent Third Party customers 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 Independent Third Party customers.
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 2020 Feihe Master Agreement, give the other not less than three months' prior written notice to terminate the 2020 Feihe Master Agreement.

LETTER FROM THE BOARD

Pricing method and procedures

Under the 2020 Feihe Master Agreement, the Group will, by the end of each calendar year during the term, enter into an annual sales contract agreement (“**Sales Contract**”) with the 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:

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

Notes:

1. In determining the 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).
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.

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 2020 Feihe Master Agreement would be comparable to that of the other 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 those offered to Independent Third Party customers, the Group has adopted the following pricing procedures:

- (1) the Group will from time to time check the latest Indicative Price;
- (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 to the 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 to the Feihe Dairy Group and the Group’s other Independent Third Party customers;

LETTER FROM THE BOARD

- (4) similar to other customers of the Group, Feihe Dairy Group may, from time to time 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 to the 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 will take into account the correlation between and trends of the historical selling prices of raw milk of comparable safety and quality standard to the Feihe Dairy Group and the Group's other Independent Third Party customers. Subject to obtaining of such approval, the price of the raw milk sold by the Group to Feihe Dairy Group may be adjusted.

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) from time to time 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 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; and (c) the contemplated transactions between the 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 2020 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 2020 Feihe Master Agreement be conducted on normal commercial terms or on terms no less favourable to the Company than terms available to Independent Third Parties.

LETTER FROM THE BOARD

Proposed new annual caps

The annual caps in respect of the transactions contemplated under the 2017 Feihe Master Agreement for each of the three years ending 31 December 2019 was, as disclosed in the 2017 Announcement, RMB812 million, RMB902 million and RMB1,015 million, respectively.

The historical transaction amount in respect of the transactions contemplated under the Feihe Master Arrangements for each of the two years ended 31 December 2018 and the six months ended 30 June 2019 was approximately RMB533 million, RMB763 million and RMB401 million, respectively.

The following table sets out the historical annual caps and the historical transaction amount in respect of the transactions contemplated under the Feihe Master Agreements for each of the two years ended 31 December 2018 and the six months ended 30 June 2019:

	Historical annual caps <i>(RMB million)</i>	Historical transaction amount <i>(RMB million)</i>	% of total revenue	Utilisation rate of historical annual caps <i>(RMB million)</i>
Year ended 31 December 2017	812	533	53%	66%
Year ended 31 December 2018	902	763	69%	85%
Year ending 31 December 2019	1,015	401 ^(Note)	N/A	N/A

Note: Unaudited figure for the six months ended 30 June 2019

As far as the Directors are aware, the annual caps in respect of the transactions contemplated under the 2017 Feihe Master Agreement for the three years ending 31 December 2019 has not been exceeded as at the Latest Practicable Date.

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

Year ending 31 December	Annual caps for the sale volume of raw milk to Feihe Dairy Group pursuant to the 2020 Feihe Master Agreement <i>(RMB million)</i>
2020	1,300
2021	1,400
2022	1,500

LETTER FROM THE BOARD

The proposed new annual caps in respect of the transactions contemplated under the 2020 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 2017 Feihe Master Agreement for the two years ended 31 December 2018 and the six months ended 30 June 2019;
- (b) the projected quantities of sales volume of raw milk by the Group to the Feihe Dairy Group for the three years ending 31 December 2022;
- (c) the prospect of the PRC domestic dairy industry following the introduction of the two-child policy by the PRC government and the “Opinions on Accelerating the Revitalization of the Dairy Industry and Guaranteeing the Quality and Safety of Dairy Product” (the “**Opinions**”) by the State Council of the PRC in June 2018 which proposed that the self-satisfaction rate of domestic milk source should be kept at the upper-middle level by 2020;
- (d) the prevailing and expected future market price of raw milk. The average Indicative Price increased by approximately 4.9% during the first three quarters of 2019 when compared to the corresponding period in 2018. According to an Industry Report issued by Ping An Securities in May 2019 (the “**Ping An Securities Report**”), it is expected that raw milk will continue to be in a state of excess demand for the future two to three years. Therefore, the Company expects that the price for raw milk will continue to increase steadily during the three years ending 31 December 2022; and
- (e) a buffer of 5%-10% to cover any unforeseen circumstances, for instance, the unexpected increment of the market price of raw milk, the inflation rate in the PRC (which was on average approximately 2% over the last six years with reference to historical inflation rates (represented by the consumer price index in the PRC sourced from the National Bureau of Statistics of China)) and unexpected substantial increase in demand of raw milk by the Feihe Dairy Group.

Set out below is a summary of the actual historical and estimated transaction amounts and the year on year change:

	2015	2016	2017	2018	2019	2020	2021	2022
Transaction amount (RMB million)	441	456	533	763	975 ^{Note 1}	1,197 ^{Note 2}	1,292 ^{Note 2}	1,417 ^{Note 2}
Year on year change	–	3%	17%	43%	28%	23%	8%	10%

Notes:

1. the estimated transaction amount is based on the actual historical transaction amount during the six months ended 30 June 2019 and the projection based on existing orders already placed by Feihe Dairy Group
2. the estimated transaction amount represents the annual cap before applying the buffer of 5%-10%

LETTER FROM THE BOARD

The year on year change of transaction amount during the four years ending 31 December 2022 (i.e. 28%, 23%, 8%, 10%) are largely in line with the year on year change of transaction amount during the three years ended 31 December 2018 (i.e. 3%, 17% and 43%, with an average of 21%).

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

Feihe Dairy Group was one of the Group's three largest customers for each of two years ended 31 December 2018 and the six months ended 30 June 2019. 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 the long term and 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.

The proposed grant of priority in favour of the Feihe Dairy Group in the supply of raw milk (the "**Priority Rights**") and the extension of the existing term of the 2017 Feihe Master Agreement to beyond 31 December 2019 were initially proposed and requested by the Feihe Dairy Group. So far as the Directors understand from the management of Feihe Dairy Group, it is the intention of Feihe Dairy Group to obtain the Priority Rights with the extended term so as to facilitate its formulation of medium-term business plan for production and sale of infant formula products. By entering into the 2020 Feihe Master Agreement for the grant of the Priority Right and extending the term to beyond 2019, the Group will be able to further reinforce the business relationship with Feihe Dairy Group. Besides, the production facilities of Feihe Dairy Group in Heilongjiang province, which are within 50 km of the Group's farms in the area, are in closer proximity than that of the other major customers of the Group which are located more than 100 km from the Group's farms in the area. As such, the Group can save more transportation costs by supplying raw milk to the Feihe Dairy Group even if these other major customers offer to purchase the Group's raw milk on the same terms and conditions as that offered by the Feihe Dairy Group.

LETTER FROM THE BOARD

In addition, the management team of the Group believes that the grant of the Priority Rights will not jeopardize the interests of other customers and the Group, as the Group has sufficient production capacity and raw milk supply to meet the expected demands of other customers. As at 31 December 2018, the Group had seven farms in the PRC with the actual designed capacity of 90,000 heads of dairy cows ^(Note). The total number of dairy cow in the Group's dairy farms was 63,644, 32,425 of which were matured milkable cows with an average annual milk yield per cow of about 10 tons during the year. By strategically increasing the number of matured milkable cows, improving the operational efficiency of the farms and feeding formula for the cow, and optimizing the age structure of herds and herd structure, the Group can further improve the overall milk yield and the average milk yield per cow so as to cater for the market demand of the Group's raw milk. While the grant of Priority Right encourages competitions among the Group's customers in offering the best purchase price to the Group in order to secure supply of raw milk by the Group, particularly when there is a strong demand or insufficient supply of super premium raw milk in the market, the Priority Right does not preclude the Group from supplying its raw milk to its other customers on less competitive terms for so long as the Group has sufficient raw milk to meet the demand of Feihe Dairy Group. Besides, the Group is capable of increasing its milk yield for capturing business opportunities arising from any expected increase in demand if it is commercially beneficial for the Group to do so. Considering that (i) the grant of Priority Right to Feihe Dairy Group can reinforce the Group's relationship with one of its most important business partner; (ii) the saving of transportation costs; (iii) the Group's sufficiency of production capacity and raw milk supply to meet the expected demands of other customers; and (iv) the Priority Right encourages other customers to offer better purchase price to secure supply of raw milk, the Directors consider that the grant of the Priority Right is fair and reasonable and in the interests of the Company and its shareholders as a whole.

Note: Actual designed capacity of Baiquan Ruixincheng Farm was 15,000 dairy cows. It had 4,968 cows as at 31 December 2018. According to the 2018 Annual Report, on 25 February 2019, Baiquan Ruixincheng Farm received a notice from the Department of Ecology and Environment of HeiLongJiang Province dated 28 December 2018, which stated that Department of Ecology and Environment of HeiLongJiang Province withdrew the previous approval given to Baiquan Ruixincheng Farm in 2014 in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm. Without the previous approval given by Department of Ecology and Environment of HeiLongJiang Province, Baiquan Rexincheng Farm cannot continue the operation of the farm.

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

Baiquan Ruixincheng appealed to the Heilongjiang Province People's Government (黑龍江省人民政府) against the Withdrawal Decision in February 2019 (the "**Appeal**"). As at the Latest Practicable Date, Baiquan Ruixincheng has not received reply from the Heilongjiang Province People's Government. In the event that the Appeal is unsuccessful, the Board is of the view that (i) the Group can relocate the dairy cows, inventory and part of the property, plant and equipment in the Baiquan Ruixincheng Farm to our other farms and resume operations without material interruption to its business; and (ii) the Group would have sufficient capacity for the supply of raw milk to its customers.

LETTER FROM THE BOARD

The Directors consider that, by entering into the 2020 Feihe Master Agreement, the Group is not unduly reliant on the Feihe Dairy Group for the following reasons:

(i) Mutual beneficial and complementary relationship

While the Feihe Dairy Group is one of the three largest customers of the Group, the Group is the largest supplier of raw milk for Feihe Dairy Group. Based on information provided by Feihe Dairy Group, for the two years ended 31 December 2018 and the three months ended 31 March 2019, purchases from the Group accounted for approximately 83.5%, 86.8% and 88.1% of Feihe Dairy Group's raw milk procurement costs, respectively. The Directors believe that the Group's business relationship with Feihe Dairy Group is mutually beneficial to both the Group and Feihe Dairy Group. 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. It is also strategically important to Feihe Dairy Group by ensuring a source of high-quality raw milk for producing high-end infant formula products. In addition, the Group has maintained stable and long-term business relationship with Feihe Dairy Group, and Feihe Dairy Group has been one of the Group's three largest customers since the Group's establishment. The Directors consider that the Group would be able to maintain such stable and long-term business relationship with Feihe Dairy Group, and the risk of Feihe Dairy Group ceasing to procure raw milk from the Group is very unlikely.

(ii) Solid business relationship with other major customers

Since the Group's establishment, the Group has also established and maintained long-term relationships with other leading dairy manufacturers in the PRC, including Mengniu Group, Yili Group and Bright Dairy Group. During each of the two years ended 31 December 2018 and the six months ended 30 June 2019, the sales volume of raw milk by the Group to its other customers (other than Feihe Dairy Group) amounted to approximately 128.2 million tons, 88.3 million tons and 67.2 million tons, and accounted for approximately 48.8%, 31.3% and 40.9% of the total sales volume of raw milk by the Group during the corresponding period, respectively. Among these customers, the revenue generated from the largest customer of the Group, which was an Independent Third Party, accounted for approximately 28.1% of the Group's total revenue for the six months ended 30 June 2019. Sales to the largest three customers of the Group (other than Feihe Dairy Group), who were also Independent Third Parties, accounted for approximately 37.9% of the Group's total revenue for the six months ended 30 June 2019. The Group checks in with its existing customers regularly to receive feedback and to draw in more orders.

In the event that there is a change of relationship with Feihe Dairy Group, the Company believes that the raw milk originally supplied to Feihe Dairy Group can be supplied to neighboring primary customers including Mengniu Dairy Group, Yili Group and Bright Dairy Group, all of which have stable and long working relationship with the Company for over seven years. Such customers have huge demand in high quality raw milk and therefore they have the capacity and willingness to take up the raw milk originally supplied to Feihe Dairy Group. As such, the Company believes that in such scenario it will not have a material adverse impact on the Group.

LETTER FROM THE BOARD

Generally, the Group's customers, being the leading dairy products manufacturers in the PRC, have stringent quality control requirements in respect of, among others, the hygiene and safety conditions of the dairy cows of their suppliers. They also require the raw milk supplied by their suppliers to meet quality standards which may even be more stringent than that of the industry standards applicable in Europe and China. Some of the Group's customers have specific personnel to station at the farms of the Group for regular inspection. 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 these customers to either keep significant inventory of raw milk, or to procure raw milk from suppliers which are too far away from these customers. It is also not cost-efficient for dairy products manufacturers to communicate and purchase raw milk from a large number of mid to small size dairy farms. As the Group is one of the limited number of raw milk suppliers in Heilongjiang, the PRC with over 10,000 dairy cows and the capability of producing super premium raw milk, the Directors consider that, for so long as the Group is able to continue to meet the customers' demands in terms of quantity and quality, the Group would be able to develop and maintain a stable and long-term relationship with these customers (including Feihe Dairy Group and other major customers). The Directors also consider the chance of any of these customers ceasing to procure raw milk from the Group (whether due to the grant of the Priority Right or not) to be remote and granting of the Priority Right will not affect the long term relationship with the Group's other customers.

(iii) The Group's measures in mitigating customer concentration risks

As most of the Group's customers are leading dairy products manufacturers in the PRC, maintaining solid and stable business relationships with these top dairy brands, including Feihe Dairy Group, is in line with the Group's strategy and dedication to the production of super premium raw milk. Nevertheless, the Group has managed to diversify its customers to a number of other dairy products manufacturers throughout years of the Group's development, and it is the Group's intention to continue to broaden its customer base and gain wider market recognition in the dairy products industry. In this connection, the Group has been expanding its sales team to actively search for new customers. At the same time, the Group provided extensive training to its sales team in particular skills to approach and draw in new clients. The sales team has been visiting nearby potential customers regularly. There are, to the best of the Directors' knowledge, 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 Company regularly updates its database of information of nearby dairy products manufacturers such as their product mix, production capacity, procurement amount of raw milk and financial information so our sales team can develop better strategies to pitch our products. We have also developed different feed formulas to diversify our products, such as organic or selenium-enriched raw milk, to facilitate pitching. The Company has also been actively attending industry events such as the 10th Dairy Conference of China & 2019 China Dairy Exhibition which 490 companies and over 60,000 visitors attended. As a result of such efforts, the Group engaged in new business relationships with seven dairy brands since 2016.

The Group plans to allocate even 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. Given the Group's scale of operation and capability in producing super premium raw milk, the Directors believe that it would not be difficult for the Group to continue to cooperate with other new customers.

LETTER FROM THE BOARD

(iv) The Group is capable of maintaining its revenue in the future

The Ministry of Agriculture of the PRC and other ministries jointly issued the “National Dairy Development Plan (2016-2020) (the “**Plan**”)”, which illustrated the overall planning and systematic deployment of the dairy development of the “13th Five-Year Plan”. It is expected that the structural reform of the dairy supply side will achieve substantive results by 2020. Also, the Plan and the Opinions introduced in June 2018 play an important role to speed up the revitalization of the domestic dairy farming industry in the PRC. The soaring disposable income of Chinese residents, the accelerating urbanization, the comprehensive implementation of the “Two-child Policy” have also boosted increasing demand for milk products in the domestic market. Facing with the rising price of foreign milk, the dairy enterprises in the PRC can foresee an enormous potential. Given the leading edge of the Group in the dairy industry, it is expected that the policy advantages and growing market demands will create favourable opportunities for the continual development of the Group.

(v) Level of reliance

During the year ended 31 December 2018, Feihe Dairy Group contributed 69.4% of the Group’s total revenue. While revenue from the 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 active sales and marketing efforts as described in the paragraph head “The Group’s measures in mitigating customer concentration risks” in this circular. Therefore the Group expects that the revenue contribution from the Feihe Dairy Group as a percentage of the Group’s total revenue will remain as approximately the same level at around 70% during the three years ending 31 December 2020, 2021 and 2022 (the “**70% Expectation**”). The Group will closely monitor its revenue contribution from Feihe Dairy Group. When it exceeds 65%, the Group will increase supply of raw milk to third party customers to prevent it from exceeding 70%.

To meet the expected increase in demand from both Feihe Dairy Group and third-party customers, the Company plans to use unused net proceeds of approximately HK\$285.9 million from the Placing (as defined in the interim results announcement for the six-month period ended 30 June of 2019 of the Company (the “**Announcement**”)) to increase its production capacity by importing heifers and calves from Australia and New Zealand, as disclosed in the Announcement.

According to the Ping An Securities Report, it is expected that raw milk will continue to be in a state of excess demand for the future two to three years. Therefore, given the Group’s plan to expand its production capacity as mentioned above, the Group believes it has the ability to restore the 70% Expectation when revenue contribution from Feihe Dairy Group exceeds 70%.

LETTER FROM THE BOARD

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 the other purchasers; and (iv) the Group's annual capacity of raw milk, the Directors consider that the terms and conditions of the 2020 Feihe Master Agreement (including the Priority Rights) are on normal commercial terms and are fair and reasonable, and the transactions contemplated under the 2020 Feihe Master Agreement will be conducted in the ordinary and usual course of business of the Group. In view of the stable and long term business relationship between the Group and Feihe Dairy Group, the 2020 Feihe Master Agreement is 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 2020 Feihe Master Agreement for each of the three years ending 31 December 2022 are fair and reasonable and that, regardless of the potential customer concentration risk, the transactions contemplated under the 2020 Feihe Master Agreement, particularly the grant of the Priority Rights by the Group, are unlikely to have any material adverse effect on the business, financial condition and results of operations of the Group.

IMPLICATIONS OF THE LISTING RULES

Feihe Dairy Group (comprising Feihe China and its subsidiaries) is not a connected person of the Company for the purpose of Rule 14A.06(7) of the Listing Rules. However, due to our past relationship and transactions with Feihe Dairy Group as disclosed in the section headed "History, Development and Reorganization – our Relationship with Feihe Dairy Group" in the Prospectus, Feihe Dairy Group is deemed by the Stock Exchange as a connected person pursuant to Rule 14A.19 (or the then Rule 14A.06) of the Listing Rules. As such, the Company has agreed to undertake to comply with Chapter 14A of the Listing Rules' requirements in respect of the transactions with Feihe Dairy Group from the Listing Date.

Based on the proposed annual caps for each of the three years ending 31 December 2022, given that the relevant applicable percentage ratio in respect of the transactions contemplated under the 2020 Feihe Master Agreement is expected to be more than 5% and the annual consideration is not less than HK\$10 million, such transactions are subject to the reporting, announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the 2020 Feihe Master Agreement, the transactions contemplated thereunder and the proposed annual caps. Gram Capital, the Independent Financial Adviser, was appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

None of the Directors have a material interest in the 2020 Feihe Master Agreement and the transactions contemplated thereunder, and therefore none of them was required to abstain from voting on the resolution of the Board approving the transactions contemplated under the 2020 Feihe Master Agreement and the proposed annual caps.

LETTER FROM THE BOARD

GENERAL INFORMATION

The Company is a dairy farming company in the PRC dedicated to the production of super premium raw milk.

Feihe Dairy Group is based in Heilongjiang province and is principally engaged in the production and sale of infant formula products in the PRC. As disclosed in the application proof of China Feihe published on the website of the Stock Exchange on 3 July 2019, China Feihe was wholly owned by Diamond Infant Formula Holding Limited (“**DIF Holding**”), an exempted company incorporated in the Cayman Islands with limited liability.

50.64% of the entire issued share capital of DIF Holding was held by Garland Glory Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which was wholly owned by LYB International Holding Limited (“**LYB International**”), a company incorporated in the British Virgin Islands with limited liability. LYB International was wholly-owned by Harneys Trustees Limited, a company incorporated in the British Virgin Islands, being the trustee of the Leng Family Trust where Mr. Leng Youbin (冷友斌) is its settlor and the only discretionary object.

21.74% of the entire issued share capital of DIF Holding was held by North Haven Private Equity Asia IMF Holding Limited, which is controlled by Morgan Stanley. 4.52%, 2.96%, 1.33% and 0.31% of the entire issued share capital of DIF Holding was indirectly held by Mr. Liu hua (劉華), Mr. Liu Shenghui (劉聖慧), Mr. Cai Fangliang (蔡方良) and Ms. Judy Fong-Yee TU (涂芳而), respectively, all being directors of China Feihe. The remaining portion of approximately 18.50% of issued share capital of DIF Holding was held by several individuals who are not core connected person of China Feihe, such shareholders consist of Ms. Leng Shuang (4.15%), Mr. Wang Yonghua (2.18%), Mr. Liu Yonghao (2.18%), Mr. Wang Jianguo (2.46%), Ms. Huang Xiaobin (1.59%), Mr. Xia Ji (1.44%), Ms. Ma Ju (0.91%), Mr. Chen Dong (0.72%), Ms. Lin Lan (0.67%), Hosen Investment Fund III, L.P. (0.65%), Ms. Zhu Hongli (0.45%), Mr. Mao Dai (0.27%), Mr. Lu Guang (0.22%), Mr. Liu Yaohua (0.22%), Mr. Li Chen (0.18%), Ms. Liu Jinlan and Mr. Chen Xin (0.12%) and Mr. Zhu Tianlong (0.11%).

SGM

A resolution approving the transactions contemplated under the 2020 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 VIP Room 201, Ausotel Dayu Beijing, No. 99 Jingshun Road, Chaoyang District, Beijing, the PRC on Tuesday, 5 November 2019 at 10:00 a.m. is set out on pages II-1 to II-3 of this circular.

In accordance with the Listing Rules, any connected person or Shareholder and its associates with a material interest in the 2020 Feihe Master Agreement and the transactions contemplated thereunder must abstain from voting on the resolution to approve the transactions contemplated under the 2020 Feihe Master Agreement and the proposed annual caps for the three years ending 31 December 2022 at the SGM. To the extent that the Company is aware having made all reasonable enquiries, as at the Latest Practicable Date, none of the Shareholders have a material interest in the 2020 Feihe Master Agreement and are required to abstain from voting on the resolution to be proposed at the SGM to approve the transactions contemplated under the 2020 Feihe Master Agreement and the proposed annual caps.

LETTER FROM THE BOARD

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 Sunday, 3 November 2019) 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 Directors consider that the transactions contemplated under the 2020 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 2020 Feihe Master Agreement are fair and reasonable. The Directors therefore recommend the Independent Shareholders to vote in favour of the relevant resolution set out in the notice of the SGM.

FURTHER INFORMATION

The Independent Board Committee comprising all three independent non-executive Directors has been appointed to recommend the Independent Shareholders in respect of the transactions contemplated under the 2020 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 21 to 22 of this circular, which contains its recommendation to the Independent Shareholders; (ii) the letter of advice from Gram Capital set out on pages 23 to 41 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)

16 October 2019

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS: 2020 FEIHE MASTER AGREEMENT

We refer to the circular of the Company dated 16 October 2019 (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 2020 Feihe Master Agreement will be conducted by the Group 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 2020 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 2020 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 6 to 20 of the Circular, and the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders set out on pages 23 to 41 of the Circular which contains its opinion in respect of the transactions contemplated under the 2020 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 2020 Feihe Master Agreement will be conducted by the Group in its ordinary and usual course of business, on normal commercial terms, 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 2020 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 2020 Feihe Master Agreement and the transactions contemplated thereunder 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

16 October 2019

*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 2020 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 16 October 2019 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 23 September 2019 (after trading hours), the Company entered into the 2020 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group, to confirm the priority arrangement of the Group’s supply of raw milk to Feihe Dairy Group for a term of three years from the expiry of the 2017 Feihe Master Agreement (i.e. 1 January 2020) and ending on 31 December 2022 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 2020 Feihe Master Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (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 2020 Feihe Master Agreement and transactions contemplated thereunder 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

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

Besides that, apart from the advisory fee to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

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 2020 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, Feihe Dairy Group 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 entering into of the 2020 Feihe Master Agreement. 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 while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the 2020 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 2018 and six months ended 30 June 2019 as extracted from the Company's annual report for the year ended 31 December 2018 (the "2018 Annual Report") and interim report for the six months ended 30 June 2019 (the "2019 Interim Report"):

	For the six months ended 30 June 2019	For the year ended 31 December 2018	For the year ended 31 December 2017	% Change from 2017 to 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Audited)	(Audited)	
Revenue	657,321	1,099,547	1,014,128	8.4
(Loss)/Profit for the year	33,844	(556,313)	(67,907)	719.2

LETTER FROM GRAM CAPITAL

As depicted from the table above, the Group's revenue for the year ended 31 December 2018 ("FY2018") amounted to approximately RMB1.10 billion, representing an increase of approximately 8.4% as compared to that for the year ended 31 December 2017 ("FY2017"). As confirmed by the Directors, almost all revenue of the Group for the two years ended 31 December 2018 derived from sales of raw milk.

According to the 2019 Interim Report, the Group recorded profit for the six months ended 30 June 2019 as compared to loss for the six months ended 30 June 2018.

Information on Feihe Group

With reference to the Board Letter, Feihe Dairy Group is based in Heilongjiang province and is principally engaged in the production and sale of infant formula products in the PRC.

As advised by the Directors, Feihe Dairy Group was one of the Group's top five customers for the recent years.

Reasons for the entering into of the 2020 Feihe Master Agreement

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 stated in the Board Letter, 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 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 and regular 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 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 2020 Feihe Master Agreement

Set out below are the principal terms of the 2020 Feihe Master Agreement. Details of the 2020 Feihe Master Agreement are set out under the section headed “PRINCIPAL TERMS OF THE 2020 FEIHE MASTER AGREEMENT” in the Board Letter.

Date:	23 September 2019
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 2020 Feihe Master Agreement shall commence from the Commencement Date and shall end on 31 December 2022. The 2020 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 2020 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.

LETTER FROM GRAM CAPITAL

- Priority: In the event that the Group receives purchase orders from Feihe Dairy Group and other Independent Third Party customers 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 Independent Third Party customers.
- 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.

Pricing method and procedures

Under the 2020 Feihe Master Agreement, the Group will, by the end of each calendar year during the term, enter into 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 2020 Feihe Master Agreement would be comparable to that of the other Independent Third Party customers of the Group.

For our due diligence purpose, we obtained invoices and price adjustment notices (the "**Price Documents**") for the supply of raw milk by the Group to (i) Feihe Dairy Group; and (ii) Independent Third Party customers during 2018 and 2019. We noted that the prices of the raw milk supplied by the Group to Feihe Dairy Group were not lower than those supplied to the Independent Third Party customers in similar period.

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 those offered to Independent Third Party 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.

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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) from time to time 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 (e.g. 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; and (c) the contemplated transactions between the Feihe Dairy Group and the Group are conducted on normal commercial terms.

For our due diligence purpose, we also obtained documents showing the Group's review on the unit base price agreed between the Group and (i) Feihe Dairy Group; and (ii) other Independent Third Party customers. As advised by the Directors and according to the aforesaid documents, (i) unit base price for next month immediately after the review date (of similar quality and distance and during the same period of time) to be offered by the Group to Feihe Dairy Group would be comparable to those to be offered by the Group to other Independent Third Party; and (ii) the aforesaid documents were prepared by sales department's staff, reviewed by sales department's manager-level staff and approved by deputy 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 2020 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 2018 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 on 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.

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Payment term

Pursuant to the 2020 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.

We noted from the 2018 Annual Report that the Group's trading terms with its customers are mainly on credit and the credit period is generally one month. The payment term under the 2020 Feihe Master Agreement is generally consistent with the credit policy adopted by the Group.

For our due diligence purpose, we further searched for companies listed in Hong Kong which 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:

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 normally 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 2018, the credit period is generally one month, extending up to three months for major customers. However, the group normally allows a credit limit or offer to its customers credit terms which are adjustable in certain circumstances in 2017 and closely monitors overdue balances.

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Company	Principal business	Credit Period
China ZhongDi Dairy Holdings Company Limited (1492)	The company is a China-based investment holding company principally engaged in the operation of dairy farms to produce raw milk. The company operates through two business segments. The import trading business segment is engaged in the import and sales of cows and feeds and the provision of import agency services. The dairy farming business segment is engaged in the raising and breeding of dairy cows, the production of raw milk and the sales of reproduced heifers.	The group normally allows a credit period of 30 days to its customers for sales of raw milk.

We noted from the above table that the credit periods of the comparable listed companies were generally approximately one month.

Based on the above, we consider the payment term under the 2020 Feihe Master Agreement to be fair and reasonable.

Priority

Pursuant to the 2020 Feihe Master Agreement, in the event that the Group receives purchase orders from Feihe Dairy Group and other Independent Third Party customers 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 Independent Third Party customers.

As confirmed by the Directors, designated members of the Group's senior management namely deputy general manager in charge of sales department and general manager will review other trading terms of purchase orders received from Feihe Dairy Group and other Independent Third Party customers, to ensure that other trading terms offered by Feihe Dairy Group 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. As there will be other trading terms comparison procedures before giving priority rights to Feihe Dairy Group, we consider that such procedure is 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 Party customer.

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Upon our request, the Directors advised us that Feihe Dairy Group has been a customer of the Group since 2008. 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. Upon our enquiry, the Directors provided sales invoices for two individual months during each of 2017, 2018 and 2019 with relevant payment records. We noted from the aforesaid documents that the payments were made no more than one month from the dates of such sales invoices.

We also noted that China Shengmu Organic Milk Limited (“**China Shengmu**”, stock code: 1432, together with its subsidiaries, the “**Shengmu Group**”) entered into a milk supply framework agreement (the “**Shengmu Agreement**”) with its connected person (i.e. a non-wholly owned subsidiary) in relation to the purchase of organic raw milk by the Shengmu Group on 22 November 2016. Pursuant to the milk supply framework agreement, among other things, Shenmu Group’s connected person shall sell all organic raw milk it produces to the Shengmu Group on a priority basis to satisfy the demand of the Shengmu Group.

We also noted from China Shengmu’s announcement dated 24 December 2018 that on 23 December 2018, among other things, China Shengmu and Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (“**Inner Mongolia Mengniu**”) entered into a share purchase agreement and a shareholders’ agreement, pursuant to which Inner Mongolia Mengniu agreed to purchase 51% of the entire share capital of Inner Mongolia Shengmu High-tech Dairy Co., Ltd. (the “**Shengmu Target Company**”, which was a wholly-owned subsidiary of China Shengmu before the disposal) (the “**Shengmu Disposal**”). According to the announcement, completion of the share purchase agreement is conditional upon the fulfilment or waiver of certain conditions, among other things, the priority supply agreements having been duly executed by the China Shengmu and Shengmu Target Company and Huhehaote Shengmu High-tech Dairy Co., Ltd. (“**Huhehaote Dairy**”) respectively, pursuant to which China Shengmu has agreed it will, and it will also procure its subsidiaries, to provide raw milk to Shengmu Target Company and Huhehaote Dairy with priority under the same conditions. According to China Shengmu’s circular dated 7 January 2019 regarding, among other things, the Shengmu Disposal, the aforesaid condition precedent was satisfied as at the latest practicable date (i.e. 31 December 2018) as defined in China Shengmu’s circular.

Despite that we can only find China Shengmu’s cases regarding supply and purchase of milk with a priority purchase rights, due to the fact that we were unable to obtain sufficient information from other milk suppliers/purchasers regarding priority purchase rights from public source, we could not conclude that the Priority Rights is not a normal commercial terms in raw milk supply industry.

To further assess whether the Priority Rights is a normal commercial term, 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.

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Based on our research, we noted more than five transactions regarding Hong Kong listed companies supplying/purchasing goods or services to/from connected persons with a priority supply/purchasing right. 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, therefore it is not necessary to identify all related transactions with priority; (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 all our findings with announcement date falling within approximately one year prior to the Latest Practicable Date for the Independent Shareholders' information purposes only.

Announcement date	Company name	Nature of transactions	Priority term
23 August 2018	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.
13 December 2018	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.
30 April 2019	Kunming Dianchi Water Treatment Co., Ltd. (3768)	The group provides operation and management services to connected person group.	Connected person group shall give priority to the operation and management services provided by the group when the service terms offered and fees quoted by third parties are the same.

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Announcement date	Company name	Nature of transactions	Priority term
24 May 2019	Culturecom Holdings Limited (343)	The company's subsidiary provides services to connected person.	The company's subsidiary will be given priority by connected person in the procurement of the services to connected person provided that the material terms offered by the company's subsidiary are comparable to those offered by independent third parties.
14 June 2019	CGN mining Company Limited (1164)	The group supplies goods to connected person group by the group.	The group shall have the right of first offer to supply natural uranium demanded by connected person group during the effective period.

We therefore consider that it is not unusual for Hong Kong listed companies supplying/purchasing goods or services to/from connected persons with a priority supply/purchasing right. As the purpose of aforesaid searching is to find out whether the priority supply arrangements exist among the Hong Kong listed companies, the industries in which the transactions involved are irrelevant.

With reference to the 2018 Annual Report, the Group had seven farms in the PRC with total 63,644 dairy cows (i.e. 32,425 matured milkable cows and 31,219 heifers and calves (most of which would grow to matured milkable cows^(Note 1)) as at 31 December 2018 and the average annual milk yield per cow was 9.7 tons during FY2018. As stated in the Board Letter, by strategically increasing the number of matured milkable cows, improving the operational efficiency of the farms and feeding formula for the cow, and optimizing the age structure of herds and herd structure, the Group can further improve the overall milk yield and the average milk yield per cow so as to cater for the market demand of the Group's raw milk. Having considered, among other things, the actual designed capacity of seven farms (i.e. 90,000 dairy cows)^(Note 2), the number of dairy cows of the Group as at 31 December 2018, the average annual milk yield per cow, we do not doubt the Group's capacity for the supply of raw milks to its customers.

In addition, the Directors and management team of the Group believes that the grant of the Priority Rights will not jeopardize the interests of other customers and the Group. Barring any unforeseen circumstances affecting the Group's annual production volume of raw milk, the Group should be able to meet any increase in the purchase of raw milk from its other customers by further utilising its unutilised farm capacity and increasing the production volume of raw milk.

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With reference to the Board Letter, the Directors consider that, by entering into the 2020 Feihe Master Agreement, the Group is not unduly reliant on Feihe Dairy Group for the following reasons: (i) mutual beneficial and complementary relationship; (ii) solid business relationship with other major customers; (iii) the Group's measures in mitigating customer concentration risks; and (iv) the Group is capable of maintaining its revenue in the future. Details of which are set out under the section headed "Reasons and benefits the continuing connected transactions" in the Board Letter. Due to the fact that the Group shall give priority to Feihe Dairy Group for purchase of raw milk only when (i) the Group receives purchase orders from Feihe Dairy Group and other Independent Third Party customer concurrently; and (ii) terms and conditions are no less favourable to the Group than that offered by the other Independent Third Party customer, the Directors do not consider the Priority Rights will increase reliance risk of the Group. We concur with the Directors in this regard.

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) supplying/purchasing goods or services to/from connected persons with a priority supply/purchasing right to be acceptable; (iii) 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 Party customers; (iv) the Group's annual capacity of raw milk; (v) 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 Party customers; and (vi) Feihe Dairy Group is the Group's largest customer, we are of the view that the priority terms to be normal commercial terms.

In light of the above, we are of the view that the terms of the 2020 Feihe Master Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

2. The proposed annual caps under the 2020 Feihe Master Agreement

Set out below are (i) the historical transactions amounts of the transactions and existing annual caps regarding supply of raw milk to Feihe Dairy Group for the three years ending 31 December 2019; and (ii) the proposed annual caps under the 2020 Feihe Master Agreement for the three years ending 31 December 2022 (the "Proposed Annual Caps"):

	For the year ended 31 December 2017 RMB'million	For the year ended 31 December 2018 RMB'million	For the year ending 31 December 2019 RMB'million
Historical transactions amount	533	763	401 ^(Note)
Existing/previous annual caps	812	902	1,015
Utilisation rate	65.6	84.6	N/A

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	For the year ending 31 December 2020 <i>RMB'million</i>	For the year ending 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>
Proposed Annual Caps	1,300	1,400	1,500

Note: the figure is for the six months ended 30 June 2019 and is unaudited.

With reference to the Board Letter, the proposed new annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement have been determined with various factors, details of which are set out under the sub-section headed “Proposed new annual caps” in the Board Letter.

We noted from the above table that the utilization rate for existing annual caps for the year ended 31 December 2017 and 31 December 2018 were approximately 65.6% and 84.6% respectively. The utilization rates for previous annual caps for the two years ended 31 December 2018 were not low. We also noted that the Proposed Annual Caps represented a substantial increase to the historical transaction amount for the year ended 31 December 2018. As advised by the Directors, such increase was mainly due to the Company’s expectation that the Feihe Dairy Group’s demand on raw milk may increase.

To assess the fairness and reasonableness of the Proposed Annual Caps for the three years ending 31 December 2022, we obtained and reviewed the calculation of the Proposed Annual Caps (the “**Calculation**”). We noted that the Proposed Annual Caps were arrived by (i) the estimated demand of raw milk (in ton) supplied by the Group to the Feihe Dairy Group for the three years ending 31 December 2022; (ii) the estimated selling price of raw milk for the three years ending 31 December 2022; and (iii) buffers ranging from 5% to 10% on the estimated demand of raw milk (in RMB) for the three years ending 31 December 2022, which were arrived by (i) and (ii).

Estimated demand of raw milk (in ton)

Set out below are the summary of implied growth rate of estimated raw milk (in ton) to be supplied by the Group to the Feihe Dairy Group for the four years ending 31 December 2022 pursuant to the Calculation.

(Based on estimated amounts)	Change from 2018 to 2019	Change from 2019 to 2020	Change from 2020 to 2021	Change from 2021 to 2022
Raw milk (in ton) to be supplied by the Group to the Feihe Dairy Group	21.1%	21.3%	7.9%	9.8%

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Upon our request, we obtained historical raw milk (in ton) supplied by the Group to the Feihe Dairy Group for the four years ended 31 December 2018. The growth rate of actual raw milk (in ton) supplied by the Group to the Feihe Dairy Group for the four years ended 31 December 2018 are summarized below.

(Based on actual amounts)	Change from 2015 to 2016	Change from 2016 to 2017	Change from 2017 to 2018
Raw milk (in ton) supplied by the Group to the Feihe Dairy Group	17.3%	17.0%	44.8%
Average		26.4%	

Despite that the implied growth rate of estimated raw milk (in ton) to be supplied by the Group to the Feihe Dairy Group for the year ending 31 December 2019 and 2020 represented a substantial increase as compared to that for FY2018 and the year ending 31 December 2019 respectively, such implied growth rate were in line with the historical growth rates of raw milk (in ton) supplied by the Group to the Feihe Dairy Group for the four years ended 31 December 2018 (i.e. 17.3%, 17.0% and 44.8%, with an average of 26.4%). The decrease in growth rates from 2020 to 2021, and 2021 to 2022 were determined for the sake of prudence.

As advised by the Directors, the growth rate of 44.8% of raw milk (in ton) supplied by the Group to the Feihe Dairy Group in 2018 as compared to 2017 was primarily due to the increase in the demand of infant milk formula products resulting from Feihe Dairy Group's effective marketing strategy during FY2018.

With reference to the 2018 Annual Report, the support of preferential policy is particularly critical to the development of the industry. In June 2018, the State Council of the PRC issued the "Opinions on Accelerating the Revitalization of the Dairy Industry and Guaranteeing the Quality and Safety of Dairy Products" (the "**Opinions**"), and proposed that the self-satisfaction rate of domestic milk source should be kept at the upper-middle level by 2020. The Opinions emphasized the importance of high-quality milk sources, hoping to enhance the core competitiveness of China's dairy industry from the source to compete with foreign brands, and provided a clear direction for the development of China's dairy industry. According to "White Paper: Development of China's Dairy Market in 2019", the total sales of the dairy industry in 2018 amounted to approximately RMB370 billion, up by 3% year-on-year, indicating healthy and positive development of the overall industry. With the upgrading of consumption and the improvement of household spending power, the domestic dairy industry needs industrial optimization and upgrading urgently to respond to consumers' demand for high-quality milk sources. While China has a large population, the per capita consumption of dairy products is only one-tenth of that of developed countries in Europe and America, reflecting potential for significant growth in consumption. In 2018, the dairy industry sought growth while maintaining stability, with significant progress made in product quality and safety. Consumers' confidence in domestic dairy products has gradually picked up, and the domestic dairy product market has been developing steadily. In the future, the Group will seize opportunities, take advantage of positive trend optimize industrial structure and enhance product competitiveness using scientific methods, so as to improve the Group's profitability, maintain the Group's sound and positive development momentum, and continue to build on our brand as a high quality cow milk manufacturer in China.

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In light of the above factors, in particular, the historical increasing trend of raw milk (in ton) supplied by the Group to the Feihe Dairy Group for recent years, we consider the estimated raw milk (in ton) to be supplied by the Group to the Feihe Dairy Group for the three years ending 31 December 2022 to be acceptable.

According to the Calculation, the expected percentage of (a) “estimated raw milk (in ton) to be supplied by the Group to the Feihe Dairy Group” to (b) “estimated raw milk (in ton) to be supplied by the Group to all customers” for the three years ending 31 December 2022 of 70% (the “**Estimated Percentage**”) will remain at the same level as compared to the percentage ratio of 68.7% based on figures for the year ended 31 December 2018. Having considered the following factors, including:

- the estimated raw milk (in ton) to be supplied by the Group to the Feihe Dairy Group for the three years ending 31 December 2022 to be acceptable;
- the Estimated Percentage (i.e. 70%) will remain at the same level as compared to the percentage ratio based on data for the year ended 31 December 2018 (i.e. 68.7%);
- as mentioned in sub-section headed “Priority” of this letter above, we do not doubt the Group’s capacity for the supply of raw milks to its customers;
- revenue attributable by single largest customers of China Modern Dairy Holdings Ltd. (stock code: 1117), China Zhongdi Dairy Holdings Company Limited (stock code: 1492) and China Shengmu Organic Milk Limited (stock code: 1432) represented 90.0%, 46.9% and 42.7% of the aforesaid listed companies’ consolidated revenue for FY2018 respectively; and
- revenue attributable by top five largest customers of China Modern Dairy Holdings Ltd. (stock code: 1117), China Zhongdi Dairy Holdings Company Limited (stock code: 1492) and China Shengmu Organic Milk Limited (stock code: 1432) represented 96.6%, 96.2% and 72.8% of the aforesaid listed companies’ consolidated revenue for FY2018 respectively,

we consider the Estimated Percentage to be fair and reasonable.

Estimated selling price

We noted from the Calculation that the Directors applied same average selling price of RMB4,200 per ton for each of the three years ending 31 December 2022.

As advised by the Directors, during FY2018, due to growth in the import of milk powder, the over-supply of raw milk in the upstream market and the impact of the global economic environment, the price of domestic raw milk remained at low levels despite recovery of domestic raw milk prices. With reference to the 2019 Interim Report, during the first six months of 2019, the Company recorded an average selling price of raw milk of approximately RMB3,997 per ton. The estimated average selling price for the three years ending 31 December 2022 represented an increase of approximately 5% to the average selling price for the first six months of 2019.

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Having considered that (i) the average selling price for first six months of 2019 represented an increase of approximately 2.6% as compared to that for FY2018; and (ii) the estimated average selling price for the three years ending 31 December 2022 falls within the range of selling prices of RMB3,740 per ton to RMB4,220 per ton pursuant to the Price Documents for the first six months of 2019, we consider that the estimated average selling price for each of the three years ending 31 December 2022 to be acceptable.

Having considered (i) the estimated raw milk (in ton) to be supplied by the Group to the Feihe Dairy Group for the three years ending 31 December 2022 to be fair and reasonable; and (ii) estimated average selling price for each of the three years ending 31 December 2022 to be acceptable, we are of the view that the estimated demand of raw milk (in RMB) to be supplied by the Group to the Feihe Dairy Group for each of the three years ending 31 December 2022 to be acceptable.

We noted that buffers ranging from 5% to 10% were applied as assumptions for the determination of the Proposed Annual Caps. Having considered that the additional buffer (which forms approximately 5% to 10% of the Proposed Annual Caps for each of the three years ending 31 December 2022) were applied for unforeseeable circumstances, for instance, (a) the unpredictable increase in selling price of raw milk (unaudited highest monthly average selling price over lowest monthly average selling price: approximately 108.5% for the six months ended 30 June 2019, approximately 110.3% for FY2018 and approximately 108.4% for FY2017); and (b) the unexpected substantial increase in demand of raw milk by the Feihe Dairy Group (e.g. the substantial increase of 44.8% during FY2018, while expected growth ranged from 7.9% to 21.3% from 2020 to 2022), we consider that the buffers to be acceptable.

In light of that the above factors, we are of the view that the Proposed Annual Caps for the three years ending 31 December 2022 are fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that as the Proposed Annual Cap for the three years ending 31 December 2022 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 2022, and they do not represent forecasts of cost to be incurred from the transactions contemplated under the 2020 Feihe Master Agreement. Consequently, we express no opinion as to how closely the actual revenue/income/cost to be generated/incurred from the transactions contemplated under the 2020 Feihe Master Agreement will correspond with the Proposed Annual Caps.

3. 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 2020 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; (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 and financial accounts.

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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 2020 Feihe Master Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; 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 2020 Feihe Master Agreement and transactions contemplated thereunder 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

LETTER FROM GRAM CAPITAL

Notes:

1. In general, the heifers are inseminated with semen when they reach approximately 13 months old. After approximately nine months following a successful insemination, a calf is born and the dairy cow begins to produce raw milk and the lactation period begins.
2. Actual designed capacity of Baiquan Ruixincheng Farm was 15,000 dairy cows. It had 4,968 cows as at 31 December 2018. According to the 2018 Annual Report, on 25 February 2019, Baiquan Ruixincheng Farm received a notice from the Department of Ecology and Environment of HeiLongJiang Province dated 28 December 2018, which stated that Department of Ecology and Environment of HeiLongJiang Province withdrew the previous approval given to Baiquan Ruixincheng Farm in 2014 in relation to the report on the environmental influence of the construction of Baiquan Ruixincheng Farm (the “**Withdrawal Decision**”). Without the previous approval given by Department of Ecology and Environment of HeiLongJiang Province, Baiquan Rexincheng Farm cannot continue the operation of the farm. On 8 March 2019, Baiquan Ruixincheng Farm received a notice from Heilongjiang Shuangyang River Provincial Nature Reserve Management Office dated 5 March 2019 to request Baiquan Ruixincheng Farm to remove its farm from its current location by the end of June 2020.

With reference to the Board Letter, Baiquan Ruixincheng appealed to the Heilongjiang Province People’s Government (黑龍江省人民政府) against the Withdrawal Decision in February 2019 (the “**Appeal**”). As at the Latest Practicable Date, Baiquan Ruixincheng has not received reply from the Heilongjiang Province People’s Government. In the event that the Appeal is unsuccessful, the Board is of the view that (i) the Group can relocate the dairy cows, inventory and part of the property, plant and equipment in the Baiquan Ruixincheng Farm to other farms and resume operations without material interruption to its business; and (ii) the Group would have sufficient capacity for the supply of raw milk to its customers.

3. 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 20 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 in the Company 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.

As at the Latest Practicable Date, Directors who had long position in the Shares were as follows:

Name of Directors/ Chief Executive	Capacity/ Nature of interest	Number of Shares held	Number of underlying Shares held (Note 2)	Total	Approximate percentage of issued Shares
Mr. Zhao Hongliang (Note 1)	(i) Interest in a controlled corporation and beneficial owner/Corporate and personal interest	1,150,900,000	4,500,000	1,155,400,000	24.63%
	(ii) Deemed interest under S.317 of the SFO	170,200,000	-	170,200,000	3.63%
	Total	<u>1,321,100,000</u>	<u>4,500,000</u>	<u>1,325,600,000</u>	<u>28.26%</u>
Mr. Chen Xiangqing	(i) Beneficial owner/Personal Interest	1,115,000	13,500,000	14,615,000	0.31%
	(ii) Interest of spouse (Note 3)	2,050,000	-	2,050,000	0.044%
	Total	<u>3,165,000</u>	<u>13,500,000</u>	<u>16,665,000</u>	<u>0.36%</u>
Mr. Fu Wenguo	Beneficial owner/Personal Interest	-	20,000,000	20,000,000	0.43%
Mr. Liu Gang	Beneficial owner/Personal Interest	5,621,000	15,000,000	20,621,000	0.44%

Notes:

1. 1,150,900,000 Shares were beneficially owned by ZHL Asia Limited which is solely owned by Mr. Zhao, an executive Director and the chairman of the Board (the “**Chairman**”). Therefore, Mr. Zhao is deemed or taken to be interested in all the Shares beneficially owned by ZHL Asia Limited by virtue of the SFO.

170,200,000 Shares were beneficially owned by ZHY Asia Limited which is solely owned by Mr. Zhao Hongyu, the brother of Mr. Zhao.

Options were granted to Mr. Zhao Hongliang on 5 June 2018 pursuant to a share option scheme adopted by the Company on 7 November 2013 (the “**Share Option Scheme**”), which entitle him to subscribe for a total of 4,500,000 Shares upon his exercise of such options.

ZHL Asia Limited, ZHY Asia Limited, Mr. Zhao and Mr. Zhao Hongyu are parties acting in concert and on 29 October 2013, they entered into a deed to confirm, among others, their acting-in-concert agreement. As such, Mr. Zhao was also deemed to have interests in the Shares beneficially owned by ZHY Asia Limited and Mr. Zhao Hongyu. Therefore, Mr. Zhao was deemed to be interested in an aggregate of approximately 28.26% of the issued share capital of the Company.

2. These represent the Shares to be issued and allotted by the Company upon exercise of the Options granted under the Share Option Scheme.
3. Ms. Zhang Yanxia, spouse of Mr. Chen Xiangqiang, is interested in 2,050,000 Shares. As such, Mr. Chen Xiangqiang is deemed to be interested in all the Shares beneficially owned by Ms. Zhang Yanxia by virtue of the SFO.

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 and 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 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; (ii) leased to; or (iii) are proposed to be acquired or disposed of by; or (iv) are proposed to be leased to, any member of the Group.

6. MATERIAL ADVERSE CHANGES

The Directors have confirmed that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2018, the date to which the latest published audited accounts of the Group were made up, and up to and including the Latest Practicable Date.

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 2018 (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.

8. GENERAL

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

9. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the 2020 Feihe Master Agreement is available for inspection during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the principal place of business of the Company at 31/F, 148 Electric Road, North Point, Hong Kong for a 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 VIP Room 201, Ausotel Dayu Beijing, No. 99 Jingshun Road, Chaoyang District, Beijing, the PRC on Tuesday, 5 November 2019 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

1. “**THAT:**

- (a) the 2020 Feihe Master Agreement and the transactions contemplated under the 2020 Feihe Master Agreement (as defined and described in the circular to the shareholders of the Company dated 16 October 2019, 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 RMB1,300 million, RMB1,400 million and RMB1,500 million for the years ending 31 December 2020, 31 December 2021 and 31 December 2022, respectively be and are hereby approved, ratified and confirmed; and

NOTICE OF THE SPECIAL GENERAL MEETING

- (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 2020 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 2020 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, 16 October 2019

<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	Qingxiang Street	31/F, 148 Electric Road
2 Church Street	Kedong, Qiqihar	North Point
Hamilton HM 11	Heilongjiang Province	Hong Kong
Bermuda	PRC	

Notes:

1. The register of members of the Company will be closed from Thursday, 31 October 2019 to Tuesday, 5 November 2019, 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 Wednesday, 30 October 2019.
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 Bye-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 Sunday, 3 November 2019) 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.

NOTICE OF THE SPECIAL GENERAL MEETING

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.

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; and three independent non-executive Directors, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.