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

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雅士利

Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1230)

**CONTINUING CONNECTED TRANSACTION
SUPPLY AGREEMENT WITH MEMBERS OF DANONE
AND
NOTICE OF EGM**

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



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 12 of this circular. A letter of advice from the Independent Financial Adviser (as defined herein) containing its advice and recommendation to the Independent Board Committee (as defined herein) and the Independent Shareholders (as defined herein) is set out on pages 15 to 25 of this circular. A letter from the Independent Board Committee is set out on pages 13 to 14 of this circular.

A notice convening the EGM to be held at Salon 6, 3/F, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 18 April 2019 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.yashili.hk>).

Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjournment(s) thereof if they so wish.

1 April 2019

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DEFINITIONS

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

“Affiliate(s)”	a company or companies of the Danone Early Life Nutrition division (a business division of Danone) that is wholly or partially owned or controlled by Danone SA
“Annual Baseline Volume”	the aggregate annual baseline volume of all Products of 10,000 metric tons per calendar year
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CIF”	cost, insurance and freight
“Company”	Yashili International Holdings Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 1230)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Danone”	Danone SA and other companies directly or indirectly controlled by Danone SA
“Danone Asia”	Danone Asia Baby Nutrition Pte. Ltd., a company established and existing under the laws of Singapore, which is an indirect wholly-owned subsidiary of Danone SA and a substantial shareholder of the Company as at the Latest Practicable Date
“Danone ELN”	Danone Trading ELN BV, a company established and existing under the laws of the Netherlands and a subsidiary of Danone SA
“Danone SA”	Danone SA, a company incorporated under the laws of France and the ultimate controlling shareholder of Danone Asia and Danone ELN
“DAP”	delivered at place
“DAPH”	Danone Asia Pacific Holdings Pte. Ltd., a company incorporated in Singapore and an indirect subsidiary of Danone SA
“Directors”	the directors of the Company

DEFINITIONS

“Disposal”	sale of 49% of the issued share capital of Yashili New Zealand by Yashili International Group Limited (a wholly-owned subsidiary of the Company) to DAPH pursuant to the share purchase agreement dated 14 December 2018
“Effective Date”	the date upon which the New Supply Agreement takes effect pursuant to its terms, being the date of obtaining the approval by the Independent Shareholders of the New Supply Agreement and the transactions contemplated thereunder (including the annual cap)
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the New Supply Agreement and the transactions contemplated thereunder (including the annual cap)
“Extension”	the extension of the term of the Previous Supply Agreement for another one month beyond its initial term
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board composed of all independent non-executive Directors, namely Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the New Supply Agreement and the transactions contemplated thereunder (including the proposed annual cap)
“Independent Shareholder(s)”	any Shareholder who is not required to abstain from voting at the EGM
“Incoterms”	the international commercial terms, a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) widely used in international commercial transactions

DEFINITIONS

“Latest Practicable Date”	27 March 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Supply Agreement”	the supply agreement dated 28 February 2019 between Yashili New Zealand on the one hand, and DAPH and Danone ELN on the other hand, in relation to the supply of the Products by Yashili New Zealand to the Purchasers
“New Zealand dollar(s)”	New Zealand dollar(s), the lawful currency of New Zealand
“PRC”	the People’s Republic of China
“Previous Supply Agreement”	the supply agreement dated 18 January 2019 between Yashili New Zealand on the one hand, and DAPH and Danone ELN on the other hand, in relation to the supply of the Products by Yashili New Zealand to the Purchasers, as extended pursuant to the Extension
“Products”	base powder and dairy ingredients
“Purchasers”	DAPH, Danone ELN and the Affiliates
“RMB”	Renminbi, the lawful currency of PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“Shares”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholders”	person(s) whose name(s) appear on the register of members of the Company as registered holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Cooperation Supply Agreement”	the strategic cooperation supply agreement dated 4 November 2016 between Yashili New Zealand on the one hand, and DAPH and Danone ELN on the other hand (on behalf of themselves and their Affiliates) in respect of the supply of the Products by Yashili New Zealand to the Purchasers

DEFINITIONS

“Yashili New Zealand”	Yashili New Zealand Dairy Co., Limited, a company incorporated in New Zealand and an indirect wholly-owned subsidiary of the Company (as at the Latest Practicable Date)
“%”	per cent.



Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1230)

Non-executive Directors:

Mr. Jeffrey, Minfang Lu (*Chairman*)

Mr. Qin Peng

Mr. Zhang Ping

Executive Director:

Mr. Chopin Zhang

Independent non-executive Directors:

Mr. Mok Wai Bun Ben

Mr. Cheng Shoutai

Mr. Lee Kong Wai Conway

Registered Office:

Cricket Square

Hutchins Drive, P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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business in the PRC:*

11/F, East Tower

Skyline Plaza

832 Yuejiang Road Central

Haizhu District

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Guangdong Province, 510308

The People's Republic of China

*Principal place of business
in Hong Kong:*

Room A, 32nd Floor

COFCO Tower

262 Gloucester Road

Causeway Bay

Hong Kong

1 April 2019

To the Shareholders

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTION
SUPPLY AGREEMENT WITH MEMBERS OF DANONE
AND
NOTICE OF EGM**

Reference is made to the announcement of the Company dated 28 February 2019 in relation to, among other things, the New Supply Agreement. The purpose of this circular is to provide you with further information on the New Supply Agreement and the transactions contemplated thereunder so that you can make an informed decision on voting in respect of the relevant resolution at the EGM.

LETTER FROM THE BOARD

NEW SUPPLY AGREEMENT WITH MEMBERS OF DANONE

Reference is made to the announcement of the Company dated 28 February 2019 in relation to, among other things, the sale and purchase of the Products between Yashili New Zealand (a subsidiary of the Company) and DAPH and Danone ELN, each a subsidiary of Danone SA and a member of Danone, pursuant to which Yashili New Zealand agreed to sell and DAPH and Danone ELN (on behalf of themselves and their Affiliates) agreed to purchase the Products during the term of the New Supply Agreement.

Reference is also made to: (1) the announcement of the Company dated 18 January 2019 in relation to the Previous Supply Agreement, and (2) the announcement of the Company dated 27 March 2019 in relation to the Extension (the “**Announcements**”). As disclosed in the Announcements, the Previous Supply Agreement (as extended pursuant to the Extension) shall expire on 30 April 2019, and the New Supply Agreement shall upon taking effect supersede the Previous Supply Agreement (as extended pursuant to the Extension).

Principal terms of the New Supply Agreement are summarized below.

Date

28 February 2019

Parties

- (1) Yashili New Zealand as supplier; and
- (2) the Purchasers (DAPH, Danone ELN and the Affiliates) as purchasers

Nature of Transaction

Sale and purchase of the Products. The exact products and volume of the Products to be supplied by Yashili New Zealand to the Purchasers and the dates of delivery will be specified in individual purchase orders.

Volume of Products

Yashili New Zealand shall supply and the Purchasers shall purchase the Annual Baseline Volume of the Products on a pro rata basis in 2019 based on the term of the New Supply Agreement. The Annual Baseline Volume refers to the aggregate annual baseline volume of all Products of 10,000 metric tons per calendar year, which has been negotiated between the parties and determined on an arm’s length basis and has been determined after taking into account the expected demand of the Products from the Purchasers for 2019.

LETTER FROM THE BOARD

The Annual Baseline Volume represents the minimum purchase amount of the Purchasers under the New Supply Agreement on an annual basis with a flexibility of 10% upward or downward adjustment. In case the Purchasers would like to use this flexibility to downward adjust the Annual Baseline Volume within the said 10% limit, the Purchasers shall do its utmost to compensate the volume shortfall into the following year.

In the event (i) the Purchasers do not make sufficient orders to cover the Annual Baseline Volume (having exercised the flexibility of 10% downward adjustment) from the Supplier for any sound business reason or (ii) Yashili New Zealand fails to supply sufficient Products to cover the Annual Baseline Volume, the parties shall discuss in good faith to come to resolution on remedial actions for such situation, including adjustment to the Annual Baseline Volume. If the parties are unable to reach such an agreement, the non-defaulting party shall have the right under the New Supply Agreement to recover any losses suffered subject to the terms of the New Supply Agreement. Any losses recovered from the Purchasers will be under the annual cap and any revision to the annual cap will be subject to re-compliance with all applicable Listing Rules requirements.

The Purchasers may request additional demand above the Annual Baseline Volume, in which case Yashili New Zealand shall use all reasonable efforts to supply and prioritise delivery to the Purchasers.

Effective Date

The New Supply Agreement shall take effect upon the approval of the Independent Shareholders of the New Supply Agreement and the transactions contemplated hereunder at the EGM.

Term

The New Supply Agreement shall be effective from the Effective Date and up to the earlier of (i) 31 December 2019, or (ii) the date on which a new strategic cooperation supply agreement entered into between the same parties to the New Supply Agreement takes effect (in which case the new strategic cooperation supply agreement upon taking effect shall supersede the New Supply Agreement).

Pricing Terms

The price of the Products supplied by Yashili New Zealand to the Purchasers shall be determined based on cost plus a profit margin between 5% and 15% with reference to the applicable Incoterms (being mainly the Incoterms in relation to payment time and delivery arrangements such as CIF and DAP) and payment terms, which is consistent with industry practice in general. The price for the Products will be specified in individual purchase orders and may be revised upon mutual agreement between Yashili New Zealand and the Purchasers every calendar trimester. The profit margin for the Products will be determined primarily with reference to: (a) raw

LETTER FROM THE BOARD

material costs, (b) purchase volume, and (c) conversion costs (such as costs from direct labour, depreciation expenses of fixed assets, cleaning and utilities, warehouse, quality assurance and research and development).

Although currently there are no comparable independent third party transactions available for comparison, Yashili New Zealand may supply similar base powder products and dairy ingredients of similar volume to independent third parties based on the same pricing terms described above.

The pricing terms of the New Supply Agreement were determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and are no less favourable to the Company than those available to the Company from independent third parties.

Payment Terms

Invoices shall be issued by Yashili New Zealand, in New Zealand dollars, upon each delivery of the Products, which shall be settled by the Purchasers at 90 days from the date of the invoice.

Historical Transaction Amount

The actual historical transaction amount of the transactions under the Previous Supply Agreement from 18 January 2019 up to the Latest Practicable Date is approximately RMB111 million (unaudited), which is less than the cap of RMB112 million for the term of the Previous Supply Agreement (18 January 2019 to 31 March 2019) as disclosed in the announcement of the Company dated 18 January 2019. For the avoidance of doubt, the actual historical transaction amount under the Previous Supply Agreement from 1 January 2019 up to 17 January 2019 (both dates inclusive) is RMB0 million.

The annual cap and the historical transaction amount of the transactions under the Strategic Cooperation Supply Agreement for the year ended 31 December 2016, 2017 and 2018 are set out as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018
	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>	<i>(RMB in millions)</i>
Annual cap	70	350	350
Transaction amount	32	172	284

As shown above, the historical transaction amount of the transactions under the Strategic Cooperation Supply Agreement increased from approximately RMB172 million in 2017 to approximately RMB284 million in 2018, representing a year on year growth of approximately 65%. The growth in 2018 was mainly driven by an increase in purchase volume, which has increased by approximately 72% in 2018 compared to 2017.

LETTER FROM THE BOARD

Annual Caps

The annual cap in respect of the transactions contemplated under the New Supply Agreement is expected to be RMB580 million which covers the 12 months from 1 January 2019 to 31 December 2019 (covering the RMB150 million cap for the extended term of the Previous Supply Agreement (from 18 January 2019 to 30 April 2019)). The annual cap was determined with reference to the unit price of the Products, and the expected purchase amount of the Products by the Purchasers during the year ending 31 December 2019.

The annual cap of RMB580 million has been determined taking into account (i) the historical transaction amounts for the years from 2016 to 2018, which represents an annual compound growth rate of approximately 92%, and such a growth is expected to continue into 2019; (ii) there being a surge in the indicative purchase volume by the Purchasers for the Products for the year of 2019, and (iii) a reasonable buffer which would allow flexibility for Yashili New Zealand to capture more business opportunities.

INFORMATION ON THE COMPANY, YASHILI NEW ZEALAND AND THE PURCHASERS

The Company is an investment holding company, which, along with its subsidiaries, is primarily engaged in the manufacturing and sale of dairy and nourishment products. It operates in the following segments: (a) production and sale of milk powder products (including the development, manufacture and sale of milk powder products in the PRC and overseas); (b) sale of dissolvable products (including the development, manufacture and sale of soymilk powder, rice flour and cereal products); (c) other operations (mainly including the sale of surplus raw materials, the production and sale of base-powder and consigned processing operation).

Yashili New Zealand is a company incorporated in New Zealand and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date. It is primarily engaged in the production and sale of dairy products. Reference is made to the announcement of the Company dated 14 December 2018 in relation to the proposed Disposal.

As at the Latest Practicable Date, the completion of the Disposal is still pending the Independent Shareholders' approval and fulfilment or written waiver of certain conditions (including the obtaining of antitrust approval from the competent authority in the PRC), and is yet to take place. In the event that the Disposal materialises, it is expected that the Company may enter into a new strategic cooperation supply agreement with a longer term with Danone which will supersede the New Supply Agreement.

DAPH is a company incorporated in Singapore and an indirect subsidiary of Danone SA. It is primarily engaged in holding activities and trading of early life nutrition related products.

Danone ELN is a company established and existing under the laws of the Netherlands and an indirect wholly-owned subsidiary of Danone SA. It is primarily engaged in trading in early life nutrition finished goods and related products and providing services to other companies within Danone.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE NEW SUPPLY AGREEMENT

The Directors (including the independent non-executive Directors) are of the view that the New Supply Agreement and the transactions contemplated thereunder would enable Yashili New Zealand to improve its utilisation rate, thereby achieving greater synergies between the Group and Danone.

During the term of the Strategic Cooperation Supply Agreement and the Previous Supply Agreement, the purchase volume of the Products from Danone has provided a stable revenue stream to the Group and has contributed to the Group's turnover. Through the entering into of the Strategic Cooperation Supply Agreement, base powder capacity utilisation of the Yashili New Zealand was enhanced year-on-year by approximately 4% in 2016, approximately 15% in 2017 and approximately 27% in 2018.

Considering the abovementioned benefits of the Strategic Cooperation Supply Agreement and the Previous Supply Agreement to the Group, it is expected that the entering into of the New Supply Agreement will, in the same vein: (1) benefit the Group by further enhancing the spare capacity utilisation of Yashili New Zealand for the year of 2019, taking into account the anticipated supply of products to the Group for the year of 2019, and (2) help the Group continue to generate a stable revenue sources from Danone in the year of 2019.

In addition, by entering into the New Supply Agreement, the Company expects to further strengthen the synergy between the Group and Danone by exploring further collaborations on areas such as engineering, process & technology, quality and product development in order to optimise the total cost of production and improve efficiency.

The Directors (including the independent non-executive Directors (whose views will also be set out in the letter from the Independent Board Committee which is included in this circular)) are of the view that the New Supply Agreement and the transactions contemplated thereunder (including the proposed annual cap) are conducted on an arm's length basis and on normal commercial terms in the ordinary and usual course of business of the Company, and that the terms of the New Supply Agreement and the proposed annual cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Danone Asia has a 25.0% shareholding interest in the Company. Each of the Purchasers is a subsidiary of Danone SA and a member of Danone. Therefore, each of the Purchasers is a connected person of the Company under the Listing Rules. Yashili New Zealand is an indirect wholly-owned subsidiary of the Company as at the date of this announcement. As such, the New Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) in respect of the New

LETTER FROM THE BOARD

Supply Agreement exceeds 5%, the New Supply Agreement is subject to reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Qin Peng is a Director nominated by Danone and therefore is considered to have a material interest in the New Supply Agreement and the transactions contemplated thereunder. As such, Mr. Qin Peng abstained from voting on the board resolution approving the New Supply Agreement.

Any connected person with a material interest in the New Supply Agreement and the transactions contemplated thereunder, and any Shareholder who has a material interest in the New Supply Agreement and the transactions contemplated thereunder and its associates will be required to abstain from voting at the EGM. Danone Asia holding 1,186,390,074 Shares (representing 25% of the issued share capital of the Company as at the Latest Practicable Date) will be required to abstain from voting at the EGM. None of the associates of Danone Asia holds any Shares in the Company.

EGM

The notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. At the EGM, a resolution will be proposed to approve the New Supply Agreement and the transactions contemplated thereunder.

Pursuant to Rule 13.39(4) of the Listing Rules and the articles of association of the Company currently in force, any vote of the Shareholders at a general meeting (except for administrative matters) must be taken by poll. An announcement on the poll vote results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.yashili.hk>). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment(s) thereof if you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser) consider that the terms of the New Supply Agreement and the transactions contemplated thereunder

LETTER FROM THE BOARD

are fair and reasonable, are on normal commercial terms and in the ordinary and usual course of business of the Company, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolution to approve the terms of the New Supply Agreement and the transactions contemplated thereunder (including the annual cap).

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the information set out in the appendices to this circular.

Yours faithfully,

For and on behalf of the Board

Yashili International Holdings Ltd

雅士利國際控股有限公司

Chopin Zhang

Chief Executive Officer and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee, setting out its recommendation to the Independent Shareholders in relation to the Strategic Cooperation Supply Agreement and the transactions contemplated thereunder, prepared for the purpose of inclusion in this circular.



Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1230)

1 April 2019

To the Independent Shareholders,

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTION SUPPLY AGREEMENT WITH MEMBERS OF DANONE

We refer to the circular issued by the Company to the Shareholders of even date (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider and to advise you as to the fairness and reasonableness of the terms of the New Supply Agreement and the transactions contemplated thereunder and to recommend whether or not the Independent Shareholders should approve them. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of the independent advice of the Independent Financial Adviser, together with the principal factors and reasons the Independent Financial Adviser has taken into consideration in arriving such advice, are set out on pages 15 to 25 of the Circular.

RECOMMENDATION

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the New Supply Agreement and the transactions contemplated thereunder.

Having taken into account the terms of the New Supply Agreement and the reasons and benefits of the transactions contemplated thereunder, and the opinion of, the Independent Financial Adviser as stated in its letter of advice, we are of the view that the terms of the New Supply

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Agreement are on normal commercial terms, are fair and reasonable and in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Independent Shareholders as a whole. We also consider that the proposed annual cap of the New Supply Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

We therefore recommend the Independent Shareholders to support and to vote in favour of the relevant resolution to approve the New Supply Agreement and the transactions contemplated thereunder (including the annual cap).

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Yashili International Holdings Ltd
Mok Wai Bun Ben
Cheng Shoutai
Lee Kong Wai Conway
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor China Building
29 Queen's Road Central
Hong Kong

1 April 2019

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS SUPPLY AGREEMENT WITH MEMBERS OF DANONE

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the New Supply Agreement and the transactions contemplated thereunder, including the proposed annual cap. Details of the New Supply Agreement and the proposed annual cap are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 1 April 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

We are informed by the Company that, as at the Latest Practicable Date, Danone Asia has a 25.0% shareholding interest in the Company and each of the Purchasers is a subsidiary of Danone SA and a member of Danone. Accordingly, each of the Purchasers is a connected person of the Company under the Listing Rules. Yashili New Zealand is an indirect wholly-owned subsidiary of the Company. As such, the New Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) of the proposed annual cap in respect of the New Supply Agreement exceeds 5%, the New Supply Agreement is subject to the Independent Shareholders’ approval, reporting, annual review and announcement requirements under the Listing Rules.

The Independent Board Committee, comprising all three independent non-executive Directors, namely Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway, has been established to consider and make a recommendation to the Independent Shareholders on whether (1) the transactions contemplated under the New Supply Agreement is in the ordinary and usual course of business of the Group; (2) the terms of the New Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

entering into of the New Supply Agreement is in the interests of the Company and the Shareholders as a whole; and (4) the proposed annual cap in respect of the New Supply Agreement is fair and reasonable so far as the Independent Shareholders are concerned. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the continuing connected transactions as detailed in the Company's circular dated 22 February 2019. As the past engagement was limited to providing independent advice, as at the Latest Practicable Date, there have been no relationships or interests existing between (a) Somerley Capital Limited and (b) the Group and Danone that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Supply Agreement and the proposed annual cap as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Director and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the executive Director that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and Danone, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (1) the transactions contemplated under the New Supply Agreement is in the ordinary and usual course of business of the Group; (2) the terms of the New Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the New Supply Agreement is in the interests of the Company and the Shareholders as a whole; and (4) the proposed annual cap in respect of the New Supply Agreement is fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. BACKGROUND TO AND REASONS FOR THE NEW SUPPLY AGREEMENT

We understand from the Company that the Group's factory in New Zealand commenced production in November 2015. However, mainly due to the slow growth rate of the milk powder industry and intense market competition in 2014 and 2015, sale of the Company was adversely affected at that time and the New Zealand factory was underutilised back then. As a result, on 4

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

November 2016, Yashili New Zealand entered into the Strategic Cooperation Supply Agreement with DAPH and Danone ELN with an aim to, among others, improve capacity utilisation rate and reduce fixed production costs of the New Zealand factory. The Strategic Cooperation Supply Agreement was also expected to enhance the synergies between the Group and Danone. The term of the Strategic Cooperation Supply Agreement expired on 31 December 2018. Subsequently on 18 January 2019, Yashili New Zealand entered into the Previous Supply Agreement with DAPH and Danone ELN, aiming to continue to improve the utilisation rate of the New Zealand factory and achieve greater synergies between the Group and Danone. On 27 March 2019, Yashili New Zealand entered into an agreement with DAPH and Danone ELN to extend the term of the Previous Supply Agreement for one month to 30 April 2019. Further details of the Strategic Cooperation Supply Agreement, the Previous Supply Agreement and the Extension are set out in the Company's circular dated 23 November 2016 and the Company's announcements dated 18 January 2019 and 27 March 2019 respectively.

During the term of the Strategic Cooperation Supply Agreement and the Previous Supply Agreement, the New Zealand factory has been selling the Products, produced based on Danone's designated recipes, to Danone for the production of their own products. The Company considers Danone a reliable partner, and the Group had not encountered any difficulties in collecting sales proceeds from Danone. The Company considers that, during the term of the Strategic Cooperation Supply Agreement and the Previous Supply Agreement, the purchase volume of the Products from Danone Group has provided a stable revenue stream to the Group and has contributed to the Group's turnover. As advised by the executive Director, through the entering into of the Strategic Cooperation Supply Agreement, base powder capacity utilisation of the New Zealand factory was enhanced year-on-year by approximately 4% in 2016, approximately 15% in 2017 and approximately 27% in 2018. As a result of the higher utilisation rate of the factory, fixed costs per metric ton for the New Zealand factory's base powder products in 2018 was lowered notably comparing with that in 2016. The overall profitability of the New Zealand factory has improved significantly from a loss-making position in 2016 to a profitable position in 2018.

We are advised by the Company that the Group has been negotiating with independent third parties regarding sales of base powder products and dairy ingredients produced at the New Zealand factory. Notwithstanding the effort to diversify the customer base of the New Zealand factory, as demand from the Purchasers has been increasing at a faster rate than that from independent third parties, demand from the Purchasers has contributed a major part of sales of the New Zealand factory. As advised by the management of the Company, the Group will continue to look for new customers and expand the customer base of the New Zealand factory. Since the Strategic Cooperation Supply Agreement was entered into, the Purchasers have grown into the single largest customer group of the New Zealand factory. The extended term of the Previous Supply Agreement will expire on 30 April 2019 unless otherwise agreed by Yashili New Zealand on the one hand, and DAPH and Danone ELN on the other hand. By entering into the New Supply Agreement, the Company expects to further strengthen the synergies between the Group and Danone by exploring further collaborations on areas such as engineering, process & technology, quality, product development and purchasing in order to optimise the total cost of production and improve efficiency. At the same time, it is expected to continue to enhance the utilisation rate of the New

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Zealand factory and generate a stable revenue source from Danone. As advised by the management of the Company, they understand from the management of Danone that Danone is also willing to continue the cooperation with the Group and Danone is planning to have higher indicative demand for the Products under the New Supply Agreement in 2019 compared to the historical volume in 2018 based on its production plan. Further details of the indicative demand are set out in the section headed “The proposed annual cap in respect of the transactions contemplated under the New Supply Agreement” in this letter below.

In view of the above and given that the transactions contemplated under the New Supply Agreement will be conducted on normal commercial terms (as more particularly discussed in the section headed “Principal terms of the New Supply Agreement” below), the executive Director considers, and we concur, that the entering into of the New Supply Agreement is in line with the Company’s development strategy and will benefit the Group by enhancing its spare capacity utilisation of the New Zealand factory.

2. PRINCIPAL TERMS OF THE NEW SUPPLY AGREEMENT

Principal terms of the New Supply Agreement are summarised below. Further details of the principal terms of the New Supply Agreement are set out in the section headed “New Supply Agreement with Members of Danone” in the “Letter from the Board” contained in the Circular.

(i) Nature of the transaction

Pursuant to the New Supply Agreement, Yashili New Zealand, an indirect wholly-owned subsidiary of the Company, agreed to supply and DAPH and Danone ELN, each a subsidiary of Danone SA and a member of Danone, agreed to purchase the Products on behalf of themselves and their Affiliates during the term of the New Supply Agreement. Base powder products are used for the production of milk products such as early life nutrition recipes. Dairy ingredients represent milk powder, whey powder and other mutually agreed dairy ingredients. The exact products and volume of the Products to be supplied by Yashili New Zealand to the Purchasers and the dates of delivery will be specified in individual purchase orders.

(ii) Volume of products

Yashili New Zealand shall supply and the Purchasers shall purchase the Annual Baseline Volume of the Products on a pro rata basis in 2019 based on the term of the New Supply Agreement, further details of which are set out in the sub-section headed “Volume of products” under the section headed “New Supply Agreement with Members of Danone” in the “Letter from the Board” contained in the Circular.

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(iii) Conditions precedents

The New Supply Agreement should take effect upon the date of obtaining the approval by the Independent Shareholders of the New Supply Agreement and the transactions contemplated thereunder (including the proposed annual cap) at the EGM.

(iv) Duration

The New Supply Agreement shall take effect as at the Effective Date, and shall remain in force until the earlier of (i) 31 December 2019, or (ii) the date on which a new strategic cooperation supply agreement entered into between the same parties to the New Supply Agreement takes effect (in which case the new strategic cooperation supply agreement upon taking effect shall supersede the New Supply Agreement).

(v) Pricing terms

As set out in the sub-section headed “Pricing Terms” under the section headed “New Supply Agreement with Members of Danone” in the “Letter from the Board” contained in the Circular, the unit price of the Products supplied by Yashili New Zealand to the Purchasers shall be determined based on cost plus a profit margin between 5% and 15% with reference to the applicable Incoterms (being mainly the Incoterms in relation to payment time and delivery arrangements such as CIF and DAP) and payment terms, which is consistent with industry practice in general. We understand from the management of the Company that prices for the Products supplied by Yashili New Zealand to the Purchasers will be specified in individual purchase orders and may be revised upon mutual agreement between Yashili New Zealand and the Purchasers every calendar trimester. As set out in the aforesaid sub-section in the Circular, the pricing terms of the New Supply Agreement were determined in the ordinary course of business on normal commercial terms, negotiated on an arm’s length basis and are no less favourable to the Group than those available to the Group from independent third parties.

As advised by the executive Director, production costs of the Products mainly comprise raw materials costs, packaging costs, and conversion costs, where raw materials costs and packaging costs of the Products represent their respective then market prices. Conversion costs of the Products, including direct and indirect costs such as costs relating to direct labour, depreciation expenses of fixed assets, cleaning and utilities, warehouse, quality assurance and research and development, are set pursuant to negotiations between the Purchasers and Yashili New Zealand and are estimated with reference to, among others, actual amount incurred. As advised by the executive Director, the profit margin for the Products should be determined with reference to, among other things, (a) raw material costs; (b) conversion costs; and (c) transaction volume. We understand from the Company that although currently there are no comparable independent third party transactions available for comparison, Yashili New Zealand may supply similar base powder products and dairy ingredients of similar volume to independent third parties based on the same pricing terms described above.

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We note that the Group recorded profit before tax of approximately RMB577 million, RMB394 million and RMB123 million for the three years ended 31 December 2013, 2014 and 2015 respectively. For the three years ended 31 December 2016, 2017 and 2018, the Group recorded loss before tax of approximately RMB333 million, RMB229 million and RMB35 million. The profit margins of the Group calculated based on profit before tax and revenue of the Group decreased from approximately 15% for the year ended 31 December 2013 to approximately 11% and 4% for the two years ended 31 December 2014 and 2015 respectively, with a 3-year average of approximately 10%. In 2016, 2017 and 2018, the Group had a negative profit margin of approximately 15%, 10% and 1% respectively, which was mainly due to, among others, an intensified market competition and increase of production costs. Taking into account (a) the expected profit margin ranging from 5% to 15% approximates the historical range of profit margins of the Group for the period from 2013 to 2015; (b) the Group's negative profit margin for the three years ended 31 December 2016, 2017 and 2018; (c) the reasons for the New Supply Agreement as set out in this letter above; and (d) the pricing terms of the New Supply Agreement were determined on normal commercial terms which are no less favourable to the Group than those available to the Group from independent third parties, we consider a profit margin ranging from 5% to 15% to be acceptable.

(vi) Payment terms

Pursuant to the New Supply Agreement, payment shall be settled by the Purchasers at 90 days from the date of the invoice.

We understand from the Company that the normal credit term of the Group's trade receivable is within three months. The credit term for the sales of the Products to the Purchasers under the New Supply Agreement is within the range of the normal credit term of the Group's trade receivables.

3. THE PROPOSED ANNUAL CAP IN RESPECT OF THE TRANSACTIONS CONTEMPLATED UNDER THE NEW SUPPLY AGREEMENT

For the purpose of setting the proposed annual cap in respect of the transactions contemplated under the New Supply Agreement for the financial year ending 31 December 2019, upon the Effective Date, transaction amounts under the Previous Supply Agreement and the Extension should fall under the scope of the proposed annual cap in respect of the transactions contemplated under the New Supply Agreement for the financial year ending 31 December 2019. As such, the proposed annual cap in respect of the transactions contemplated under the New Supply Agreement for the financial year ending 31 December 2019 would have taken into account the transaction amounts of (i) the transactions contemplated under the Previous Supply Agreement from 18 January 2019 until the earlier of 30 April 2019 or the Effective Date; and (ii) the transactions contemplated under the New Supply Agreement from and including the Effective Date until the end of 2019.

The transactions contemplated under the New Supply Agreement will be subject to the proposed annual cap whereby for the financial year ending 31 December 2019, the amount of the transactions contemplated under the New Supply Agreement will not exceed the applicable annual

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amount stated in the “Letter from the Board” contained in the Circular. In assessing the reasonableness of the proposed annual cap in respect of the transactions contemplated under the New Supply Agreement, we have discussed with the management of the Company the basis and underlying assumptions for the purpose of setting the proposed annual cap in respect of the sales of the Products by Yashili New Zealand to the Purchasers.

In determining the proposed annual cap in relation to the transactions contemplated under the New Supply Agreement for the financial year ending 31 December 2019, the Company has mainly taken into account (a) historical sales amounts of the Products supplied by Yashili New Zealand to the Purchasers; and (b) the expected volume and unit price of the Products to be supplied by Yashili New Zealand to the Purchasers. Details of which are further discussed below.

As advised by the executive Director, the demand for the Products from Danone and the unit price will be affected by factors including production costs and market conditions. The Company advises us that, through discussions with the management of Danone, the Company has gained an understanding of Danone’s production plan and anticipated demand for different products from Danone in 2019. It is therefore expected that sales volume of the Products in 2019 will be higher compared to 2018 when estimating the proposed annual cap. We have obtained and reviewed the actual sales data of the Products supplied by Yashili New Zealand to Danone from 2017 up to February 2019, the production plan of the New Zealand factory, and the expected volume and unit price of the Products to be supplied by Yashili New Zealand to the Purchasers in 2019. Volume of the Products supplied by Yashili New Zealand to the Purchasers has increased by approximately 72% in 2018 compared to 2017. As set out in the sub-section headed “Historical Transaction Amount” under the section headed “New Supply Agreement with Members of Danone” in the “Letter from the Board” contained in the Circular, the historical transaction amounts of the transactions under the Strategic Cooperation Supply Agreement increased from approximately RMB172 million in 2017 to approximately RMB284 million in 2018, representing a year-on-year growth of approximately 65%. We understand from the management of the Company that the growth in 2018 was mainly driven by an increase in purchase volume. Given the strong growth in demand from Danone in 2018, the Company expects that the growth trend will continue in 2019. In addition, we understand from the Company that Danone has indicated an increase in purchase volume under the New Supply Agreement for the financial year ending 31 December 2019. We have obtained and reviewed internal records provided by the Company and noted that the indicative purchase volume from Danone in 2019 is expected to increase significantly comparing to the actual volume of the Products supplied to Danone in 2018. As advised by the Company, the increase in indicative purchase volume from Danone in 2019 is estimated with reference to, among others, the growth of volume of the Products supplied by Yashili New Zealand to the Purchasers of approximately 72% in 2018, and mainly driven by an expected increase in Danone’s demand for the Products in view of its business plan in 2019.

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The Company has estimated the costs of the Products based on the recent transaction prices and expects that average unit price of the Products in 2019 will increase moderately compared with that in 2018. The expected volume and unit price of the Products adopted by the Company in setting the proposed annual cap for the financial year ending 31 December 2019 are in line with the information contained in the abovementioned documents that we have reviewed.

When estimating the proposed annual cap, the Company has also taken into account the Group's production plan and production capacity of the New Zealand factory in 2019, and the historical transaction amount of sales of the Products under the Previous Supply Agreement for the period from 18 January to 28 February 2019 of approximately RMB81 million. The executive Director has also considered the uncertainties in such factors when determining the annual cap and the necessity to allow flexibility for the Group to capture more business opportunities. Taking the above factors into account, the proposed annual cap in relation to the sales of the Products by Yashili New Zealand to the Purchasers for the financial year ending 31 December 2019 is RMB580 million.

4. INTERNAL CONTROL MEASURES REGARDING THE TRANSACTIONS CONTEMPLATED UNDER THE NEW SUPPLY AGREEMENT

The pricing management for the continuing connected transactions of the Group, including those to be carried out under the New Supply Agreement, will be carried out jointly by, among others, marketing department, production department, purchasing department, finance department and other departments of the Company where required. Transaction prices of products to be supplied by the Group will be determined with reference to the prevailing market information and terms of similar transactions to be entered into with independent third parties. All information on market prices and transaction prices will be gathered by the purchasing department and the finance department to facilitate the price setting process.

All contracts for the continuing connected transactions of the Group are reviewed by various departments of the Company including, among others, business department, purchase department, legal department and finance department. Terms and conditions for each contract are to be reviewed by those departments to ensure prices are determined on normal commercial terms and compared with the relevant pricing policy to ensure that the terms and conditions are in compliance with the relevant pricing policy. After clearance from respective department is obtained, the potential contract will be submitted to the Board of the Company. All non-fully exempted continuing connected transactions would require the Board's approval. For the avoidance of doubt, individual purchase order conducted pursuant to the New Supply Agreement after obtaining the Independent Shareholders' approval of the New Supply Agreement will no longer be submitted to the Board for approval.

Compliance department and finance department of the Company are jointly responsible for, among others, gathering information for disclosure of continuing connected transactions pursuant to the Listing Rules and on-going monitoring of all the continuing connected transactions of the Group.

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We consider that the abovementioned measures are in the interests of the Independent Shareholders as their interests are safeguarded by (a) setting up of the pricing management procedures; (b) ensuring terms of continuing connected transactions are determined with reference to the prevailing market information and terms of similar transactions to be entered into with independent third parties; and (c) setting up of the review and approval process.

We have discussed with the management of the Company and reviewed sample documents provided by the Company (including, among other things, invoices, contracts and other related documents) with respect to the sales of base powder products by the Group to the Purchasers (the “**Sample Transactions**”). Based on the review of sample documents of those Sample Transactions, where comparable independent third party transactions are not available for comparison, we note that the pricing and payment terms of the Sample Transactions were determined in accordance with the relevant pricing policy.

5. REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS BY AUDITORS

The auditors of the Company were engaged to report on the Group’s continuing connected transactions as set out in the 2016 and 2017 annual report (the “**Past Transactions**”) in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. We understood from the executive Director that the auditors were of the conclusion that (a) nothing had come to their attention that caused them to believe that the Past Transactions had not been approved by the Board; (b) for the Past Transactions involving the provision of goods or services by the Group, nothing had come to their attention that caused them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (c) nothing had come to their attention that caused them to believe that the Past Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (d) with respect to the aggregate amount of each of the Past Transactions, nothing had come to their attention that caused them to believe that the Past Transactions had exceeded the maximum aggregate annual value disclosed in the previous announcements.

Based on the obligations of the Directors to comply with the Listing Rules to conduct the continuing connected transactions on normal commercial terms, we consider that the continuing connected transactions contemplated under the New Supply Agreement will be conducted on normal commercial terms.

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6. CONDITIONS OF THE TRANSACTIONS CONTEMPLATED UNDER THE NEW SUPPLY AGREEMENT

In compliance with the Listing Rules, the transactions contemplated under the New Supply Agreement are subject to a number of conditions which include, among other things:

- (i) the proposed annual cap for the transactions contemplated under the New Supply Agreement for the year ending 31 December 2019 will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the transactions contemplated under the New Supply Agreement and confirm in the Company's annual report whether the transactions contemplated under the New Supply Agreement have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the transactions contemplated under the New Supply Agreement and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the transactions contemplated under the New Supply Agreement:
 - (a) have not been approved by the Board;
 - (b) 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 Group;
 - (c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the transactions contemplated under the New Supply Agreement; and
 - (d) have exceeded the proposed annual cap with respect to the transactions contemplated under the New Supply Agreement;
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;
- (v) the Company must allow, and ensure that the Purchasers allow, the auditors of the Company sufficient access to their records of the continuing connected transactions under the New Supply Agreement for the purpose of the auditors' reporting on the transactions contemplated under the New Supply Agreement. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and

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- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the transactions contemplated under the New Supply Agreement exceeds the relevant proposed annual cap, or that there is any material amendment to the terms of the New Supply Agreement.

In light of the conditions imposed on the transactions contemplated under the New Supply Agreement, in particular, (1) the limit of the value of the transactions contemplated under the New Supply Agreement by way of the relevant proposed annual cap; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the transactions contemplated under the New Supply Agreement; and (3) the on-going review by the auditors of the Company confirming the relevant proposed annual cap not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the New Supply Agreement and safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that (1) the transactions contemplated under the New Supply Agreement is in the ordinary and usual course of business of the Group; (2) the terms of the New Supply Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the New Supply Agreement is in the interests of the Company and the Shareholders as a whole; and (4) the proposed annual cap in respect of the New Supply Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the New Supply Agreement and the transactions contemplated under (including the proposed annual cap).

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

Ms. Stephanie Chow is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type I (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over ten years' experience in the corporate finance industry.

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. DISCLOSURE OF DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As of the Latest Practicable Date, the Directors and the chief executives of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executives of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules:

Directors' interests in the shares of Mengniu Dairy (being a holding company of the Company):

Name of director	Capacity/Nature of interest	Number of ordinary shares	Approximate percentage of the issued share capital
Mr. Jeffrey, Minfang Lu	Beneficial owner	11,089,784*	0.28%
Mr. Zhang Ping	Beneficial owner	2,923,653*	0.07%
Mr. Chopin Zhang	Beneficial owner	3,907,703*	0.10%

* All the shares are held in long position.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company or their respective associates) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of substantial Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate percentage of the issued share capital
Mengniu Dairy (<i>Note 1</i>)	Interests in a controlled corporation	2,422,150,437	51.04%
Mengniu International (<i>Note 1</i>)	Beneficial owner	2,422,150,437	51.04%
Danone SA (<i>Note 2</i>)	Interests in a controlled corporation	1,186,390,074	25.00%
Danone Baby and Medical Holdings (<i>Note 2</i>)	Interests in a controlled corporation	1,186,390,074	25.00%
Danone Baby and Medical Nutrition BV (<i>Note 2</i>)	Interests in a controlled corporation	1,186,390,074	25.00%
Nutricia International BV (<i>Note 2</i>)	Interests in a controlled corporation	1,186,390,074	25.00%
Danone Asia (<i>Note 2</i>)	Beneficial owner	1,186,390,074	25.00%
Zhang International Investment Ltd. (<i>Note 3</i>)	Beneficial owner	303,462,119	6.39%
Vanguard International Investment Co., Ltd	Interests in a controlled corporation	303,462,119	6.39%
Zhang Yangui	Interests in a controlled corporation	303,462,119	6.39%

Notes:

- (1) As of the Latest Practicable Date, Mengniu Dairy held 99.95% interest in Mengniu International and Mengniu International directly held the relevant Shares.
- (2) As of the Latest Practicable Date, Danone SA held 100% interest in Danone Baby and Medical Holding. Danone Baby and Medical Holding held 100% interest in Danone Baby and Medical Nutrition BV. Danone Baby and Medical Nutrition BV held 100% interest in Nutricia International BV. Nutricia International BV holds 100% interest in Danone Asia.
- (3) As of the Latest Practicable Date, Zhang International Investment Ltd. was held as to 35.06% by Vanguard International Investment Co., Ltd, which is in turn wholly owned by Mr. Zhang Yangui.

Save as disclosed above, as of the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any other persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

4. DIRECTORS' SERVICE CONTRACTS

As of the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Group which does not expire or is not determinable by the Group within one year without payment of compensation other than statutory compensation.

5. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As of the Latest Practicable Date, none of the Directors or the expert described in paragraph 9 of this Appendix had any direct or indirect interest in any assets which had been, since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, the Group.

As of the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As of the Latest Practicable Date, in so far as the Directors are aware, none of the Directors nor any of his/her respective associates had any direct or indirect interests in any business that constitutes or may constitute a competing business of the Group.

7. LITIGATION

As of the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL ADVERSE CHANGES

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Group were made up.

9. EXPERT AND CONSENT

The following are the qualifications of the expert who has given opinion or advice contained in this circular:

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

The above expert has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter as set out in this circular and references to its name in the form and context in which it appear respectively.

As of the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. DIRECTORSHIP AND EMPLOYMENT OF DIRECTORS AND CHIEF EXECUTIVE IN SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As of the Latest Practicable Date, save as disclosed below, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company which had such discloseable interest or short position	Position within such company
Zhang Ping	Mengniu Dairy Mengniu International	Chief Financial Officer Director
Jeffrey, Minfang Lu	Mengniu Dairy	Executive Director and Chief Executive Officer
Qin Peng	Danone Asia	Director

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the registered office of the Company in Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the New Supply Agreement;
- (b) the Previous Supply Agreement;
- (c) the agreement in relation to the Extension;
- (d) the letter of consent referred to in the paragraph headed “Expert and Consent” in this Appendix; and
- (e) this circular.

12. MISCELLANEOUS

- (a) The company secretary of the Company is Ms. Wu Miu Wah. Ms. Wu Miu Wah is a Chartered Secretary and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

- (b) The Cayman Islands principal share registrar and transfer office is SMP Partners (Cayman) Limited, Royal Bank House, 3rd Floor, 24 Shedden Road, P.O. Box 1586, George Town, Grand Cayman, Cayman Islands, KY1-1110.
- (c) The Hong Kong branch share registrar and transfer is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

NOTICE OF EGM



Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1230)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of Yashili International Holdings Ltd (the “**Company**”) will be held at Salon 6, 3/F, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 18 April 2019 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the New Supply Agreement (as defined in the circular of the Company dated 1 April 2019 (the “**Circular**”)) and the transactions contemplated thereunder (including the proposed annual cap for the transactions contemplated thereunder for the financial year ending 31 December 2019 as described in the Circular) be and are hereby approved;
- (b) any one director of the Company or any two directors of the Company, if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to do all such things and exercise all powers which he/they consider(s) necessary, desirable or expedient in connection with the New Supply Agreement, and otherwise in connection with the implementation of the transactions contemplated thereunder, including, without limitation, the execution, amendment, supplement, delivery, waiver, submission and implementation of any further agreements, deeds or other documents.”

On behalf of the Board

Yashili International Holdings Ltd

雅士利國際控股有限公司

Chopin Zhang

Chief Executive Officer and Executive Director

Hong Kong, 1 April 2019

NOTICE OF EGM

Principal place of business in Hong Kong:

Room A, 32nd Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Notes:

1. All resolutions at the meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Company's articles of association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. Any shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the above meeting. A proxy need not be a shareholder of the Company. If more than one proxy is appointed, the number of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the above meeting (i.e. no later than 10:00 a.m. (Hong Kong time) on Tuesday, 16 April 2019) or the adjourned meeting (as the case may be). Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. For the purpose of determining the entitlement to attend and vote at the above meeting, the Register of Members of the Company will be closed from Tuesday, 16 April 2019 to Thursday, 18 April 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Extraordinary General Meeting, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 15 April 2019.
5. **Bad Weather Arrangements**

If a tropical cyclone warning signal number 8 or above is hoisted or is expected to be hoisted or a black rainstorm warning signal is in force or expected to be in force in Hong Kong at any time between 7:00 a.m. to 9:00 a.m. on the date of the Extraordinary General Meeting, the meeting will be automatically postponed to a later time of the same date or a later date. The Company will post an announcement on the websites of Hong Kong Exchanges and Clearing Limited and the Company to notify shareholders of the date, time and location of the rescheduled meeting.

The Extraordinary General Meeting will be held as scheduled when an Amber or a Red Rainstorm Warning Signal is in force in Hong Kong. Shareholders should in any event exercise due care and caution when deciding to attend the meeting in adverse weather conditions.

As at the date of this announcement, the board of directors of the Company comprises: Mr. Jeffrey, Minfang Lu (Chairman), Mr. Qin Peng and Mr. Zhang Ping as non-executive directors; Mr. Chopin Zhang as executive director; and Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway as independent non-executive directors.