THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Yashili, 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.

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)

MAJOR AND CONNECTED TRANSACTION — ACQUISITION OF DUMEX CHINA AND NOTICE OF EGM

Financial Adviser to Yashili

Deutsche Bank

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

SOMERLEY CAPITAL LIMITED

A letter from the Yashili Board is set out on pages 8 to 27 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 31 to 52 of this circular. A letter from the Independent Board Committee is set out on pages 29 to 30 of this circular.

A notice convening the EGM to be held at Taishan Room, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Thursday, 19 May 2016 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 Yashili (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 Yashili'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.

3 May 2016

CONTENTS

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

"Allowed Products"	milk based infant formula, infant follow-on formula and growing up milk products for infants from 0 to 3 years, milk powder products for pregnant women and lactating women, and baby weaning food products which include Tailored Nutrition Products but exclude Medical Nutrition Products, that are manufactured by or for Dumex China, and marketed exclusively under the "DUMEX" brand within the PRC, Hong Kong and Macau. For the avoidance of doubt, all products currently manufactured and marketed by Dumex China are Allowed Products
"Assigned Marks"	the trademarks registered or pending application in the name of the Marks Assignor and are used exclusively under the "DUMEX" brand in the PRC, Hong Kong and Macau which includes the Combo Marks and the Shield Combo Marks, and are more specifically set out in the Trademark Assignment Agreement. If the Marks Assignor owns or acquire other trademarks registered in the PRC, Hong Kong and Macau that are identical or similar to the Assigned Marks, the Trademark Assignment Agreement shall be deemed to have been updated to include such other trademarks
"associate(s)"	has the meaning ascribed to it by the Listing Rules
"Business Day"	any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in Paris, Singapore, Beijing or Hong Kong
"Closing"	the completion of the Proposed Acquisition
"Closing Date"	the day on which Closing takes place
"Closing Date Net Debt Statement"	the statement prepared by Dumex China and reviewed by, and reflecting the comments of Dumex China's auditors, containing calculations of the Closing Date Net Debt Amount
"Closing Date Net Working Capital Statement"	the statement prepared by Dumex China and reviewed by, and reflecting the comments of Dumex China's auditors, containing calculations of the Closing Date Net Working Capital Amount

"Combo Marks"	means the list of composite marks which are made up of two main elements: the Double Heart Logo and the "DUMEX" word mark and/or the Chinese word mark "多美滋", details of which are more specifically set out in the Trademark Assignment Agreement
"connected person(s)"	has the meaning ascribed to it by the Listing Rules
'Consideration"	the consideration for the Proposed Acquisition
"Danone Asia"	Danone Asia Baby Nutrition Pte. Ltd., a company established and existing under the laws of Singapore and an indirect wholly-owned subsidiary of Danone SA. Danone Asia is a substantial shareholder of Yashili
"Danone Group"	Danone SA, Danone Asia and other companies directly or indirectly controlled by Danone SA
"Danone SA"	Danone SA, a company incorporated under the laws of France, the ultimate controlling shareholder of Danone Asia
"Danone Singapore"	Danone Asia Pte Ltd, a company established and existing under the laws of Singapore and a wholly-owned subsidiary of Danone SA
"Deed of Undertaking"	the deed of undertaking dated 1 December 2015 executed by Dumex China in favor of Danone SA
"Directors" or "Yashili Directors"	the directors of Yashili
"Double Heart Logo"	the double heart device logo, being a main element of the Combo Marks
"Dumex China"	Dumex Baby Food Co., Ltd.* (多美滋嬰幼兒食品有限公司), a wholly foreign-owned enterprise organized and existing under the laws of the PRC. As of the Latest Practicable Date, it is a wholly-owned subsidiary of the Seller dedicated to the IMF business in the PRC
"Dumex China Group"	Dumex China and its subsidiaries
"EGM"	the extraordinary general meeting of Yashili to be convened to consider and, if thought fit, to approve the Equity Transfer Agreement, the Proposed Acquisition and all transactions contemplated thereunder

"Enlarged Group"	the Yashili Group as enlarged by the entire equity interest in Dumex China upon Closing
"Equity Transfer Agreement"	the equity transfer agreement dated 1 December 2015 entered into between the Purchaser and the Seller in relation to the Proposed Acquisition
"Euro" or "€"	the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"IFRS"	International Financial Reporting Standards
"IMF"	infant milk formula
"Independent Board Committee"	an independent committee of the board of directors of Yashili comprising all independent non-executive Yashili Directors, namely Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway
"Independent Shareholders"	Yashili Shareholder(s) other than Danone Asia
"Latest Practicable Date"	29 April 2016, being the latest practicable date prior to the date of this circular, for ascertaining certain information for inclusion in this circular
"Licensed Marks"	means the trademarks registered or pending application in the name of the Trademark Licensors and are used on the existing Dumex products set forth in the Trademark License Agreement as of the effective date of the Trademark License Agreement in the PRC, Hong Kong and Macau
"Licensed Patents"	means patents of the Patent Licensor provided in the Patent License Agreement that are licensed to Dumex China under and pursuant to the Patent License Agreement

"Licensed Products"	mean milk based infant formula, infant follow-on formula and growing up milk products for infants from 0 to 3 years, milk powder products for pregnant women and lactating women, and baby weaning food products, that are manufactured by or for the Licensee, and marketed exclusively under the "DUMEX" brand within the PRC, Hong Kong and Macau, but exclude Tailored Nutrition Products and Medical Nutrition Products. For the avoidance of doubt, all products currently manufactured and marketed by Dumex China are Licensed Products
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Long Stop Date"	means the first anniversary of the date of the Equity Transfer Agreement
"Macau"	Macau Special Administrative Region of the People's Republic of China
"Marks Assignor"	International Nutrition Co. Ltd., an indirect wholly-owned subsidiary of Danone SA
"Medical Nutrition Products"	mean (a) products for people with specific nutritional needs to support and maintain physical or mental health and/or to prevent illness, (b) products for sick and/or malnourished infants, and (c) amino-acid based products
"Mengniu Dairy"	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 2319). Mengniu Dairy is a substantial shareholder of Yashili
"Mengniu Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of Mengniu Dairy
"Mengniu Shareholders"	person(s) whose name(s) appear on the register of members of Mengniu Dairy as registered holder(s) of the Mengniu Share(s)
'MOFCOM"	the PRC Ministry of Commerce or its authorised local counterpart(s)

"MOFCOM Approval"	the approval officially granted by the competent branch of MOFCOM in respect of the transfer of the entire equity interests in Dumex China
"MOU"	the memorandum of understanding entered into among Mengniu Dairy, Yashili and Danone Singapore in relation to the Proposed Acquisition and the Proposed Share Subscription
"Necessary Approvals"	collectively, the MOFCOM Approval, the filing to the anti-trust department of MOFCOM at the central level pursuant to the PRC Anti-Monopoly Law (if required) and the approval of the Yashili Shareholders at the EGM
"Patent License Agreement"	the agreement dated 1 December 2015 entered into between the Patent Licensor and Dumex China in relation to the grant of right by the Patent Licensor to Dumex China to use and sub-license the Licensed Patents
"Patent Licensor"	NV Nutricia, an indirect wholly-owned subsidiary of Danone SA
"percentage ratio(s)"	the percentage ratio(s) set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction
"PRC"	the People's Republic of China (but excluding Taiwan, Hong Kong and Macau for the purpose of this circular)
"Proposed Acquisition"	the proposed acquisition of the entire equity interest in Dumex China (including the rights to be licensed or assigned to Dumex China pursuant to the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement) by the Purchaser from the Seller for a consideration of €150 million (equivalent to approximately HK$1,230 million) (subject to adjustments)
"Proposed Share Subscription"	the proposed subscription for shares in Mengniu Dairy by Danone Singapore, further details of which are disclosed in the joint announcement issued by Mengniu Dairy and Yashili on 24 July 2015
"Purchaser"	Yashili International Group Limited* (雅士利國際集團有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of Yashili

"RMB"	Renminbi, the lawful currency of the PRC
"Seller"	Danone Asia Pacific Holdings Pte. Ltd., a company incorporated in Singapore and an indirect wholly-owned subsidiary of Danone SA
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Shield Combo Marks"	mean all composite trademarks in the Assigned Marks that contain, among other things, a design element featuring the shape of a shield
"Somerley" or "Independent Financial Adviser"	Somerley Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Proposed Acquisition. Somerley is a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it by the Listing Rules
"substantial shareholder"	has the meaning ascribed to it by the Listing Rules
"Tailored Nutrition Products"	mean products intended for humans with special health concerns, low birth weight, high birth weight, prematurely born, delivered via caesarean section, allergies, at risk of allergies, lactose intolerance, failure to thrive, regurgitation, digestive problems, cramps, diarrhea, colic, obesity, at risk of obesity or constipation and products labelled for hungry babies
"Trademark Assignment Agreement"	the agreement dated 1 December 2015 entered into between the Marks Assignor and Dumex China in relation to the assignment of the Assigned Marks
"Trademark License Agreement"	the agreement dated 1 December 2015 entered into among the Trademark Licensors and Dumex China in relation to the grant of right by the Trademark Licensors to Dumex China to use and sub-license the Licensed Marks
"Trademark Licensors"	NV Nutricia and International Nutrition Co. Ltd., each being an indirect wholly-owned subsidiary of Danone SA

"Yashili"	Yashili International Holdings Ltd, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 1230)
"Yashili Board"	the board of directors of Yashili
"Yashili Group"	Yashili and its subsidiaries
"Yashili Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of Yashili
"Yashili Shareholder(s)"	person(s) whose name(s) appear on the register of members of Yashili as registered holder(s) of the Yashili Share(s)
"%"	per cent

* *English names of the PRC entities are the literal translations of their Chinese names and are included for identification purposes only.*

** *This circular contains conversion between Euro and Hong Kong dollars at €0.1220 to HK$1.00. The conversion shall not be taken as representation that Euro could actually be converted into Hong Kong dollars at that rate, or at all.*

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)

Non-executive Directors:
Ms. Sun Yiping *(Chairman)*
Mr. Qin Peng
Mr. Zhang Ping
Mr. Huang Xiaojun

Executive Directors:
Mr. Jeffrey, Minfang Lu
Mr. Li Dongming

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

Head office and principal place of business in the PRC:
9/F Nova Tower
No. 185 Yuexiu Road South
Yuexiu District, Guangzhou City
Guangdong Province, 510057
The People's Republic of China

Principal place of business in Hong Kong:
Suites 801–2, 8th Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

3 May 2016

To the Yashili Shareholders

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION — ACQUISITION OF DUMEX CHINA AND NOTICE OF EGM

INTRODUCTION

On 1 December 2015, Yashili and Mengniu Dairy jointly announced that on the same date, the Purchaser and the Seller entered into the Equity Transfer Agreement pursuant to which the Purchaser has conditionally agreed to purchase and the Seller has conditionally agreed to sell the entire issued capital of Dumex China (including the rights to be licensed or assigned to Dumex China pursuant to the Trademark License Agreement, the Patent License Agreement and the

Trademark Assignment Agreement) for a consideration of €150 million (equivalent to approximately HK$1,230 million), subject to adjustments, payable in cash. Upon Closing, Dumex China will become an indirect wholly-owned subsidiary of Yashili.

The purpose of this circular is to provide Yashili Shareholders with, among other things, (i) further details of the Proposed Acquisition, the Equity Transfer Agreement and the transactions contemplated therein; (ii) recommendations from the Independent Board Committee to the Independent Shareholders; (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) the property valuation report prepared by RHL Appraisal Limited in respect of the property interests of Dumex China; (v) other information as required under the Listing Rules, and (vi) the enclosed notice of the EGM.

A. THE EQUITY TRANSFER AGREEMENT

1. Date and Parties

Date: 1 December 2015

Parties: the Purchaser (as purchaser)

the Seller (as seller)

2. Subject of the Proposed Acquisition

Pursuant to the Equity Transfer Agreement, the Purchaser has conditionally agreed to purchase, and the Seller has conditionally agreed to sell, the entire equity interest of Dumex China. Dumex China is a wholly foreign-owned enterprise organized and existing under the laws of the PRC and a wholly-owned subsidiary of the Seller. It is primarily engaged in the manufacture, sale and import of dairy products and other related nutrition products. Please refer to the section headed "C. INFORMATION ON DUMEX CHINA" in this letter for further details of Dumex China.

3. Consideration and Payment Terms

The consideration for the Proposed Acquisition is €150 million (equivalent to approximately HK$1,230 million), subject to the adjustments in relation to the Closing Date Net Debt Amount and the Closing Date Net Working Capital Amount (if any), payable in cash ("**Consideration**"). The Seller and the Purchaser agree that the Consideration is derived assuming that Dumex China has no net debt as of Closing. For the purpose of the Equity Transfer Agreement, net debt of Dumex China refers to the aggregate of Dumex China's long-term and short term interest bearing loans from banks or other financial institutions, inter-company loans, liabilities pertaining to severance payments to employees terminated prior to the Closing Date, outstanding unpaid bonuses accrued prior to the Closing Date and relevant interests (but excluding certain liabilities for bonuses accrued from 2016 if Closing Date occurs before 31 May 2016 and certain liabilities arising from employee retention arrangements) less cash and cash deposits held by Dumex China (but reduced by RMB23,610,669[Note 1]). For illustration purposes, the net debt amount as of 31 December 2015 is approximately RMB(1,818) million. Please see page IV-5 in APPENDIX IV — UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP of this circular for further details.

Accordingly, under the Equity Transfer Agreement, the Seller is expected to contribute additional capital to the registered capital of Dumex China prior to the Closing Date to ensure that Dumex China has no net debt at Closing.

As soon as reasonably practicable following the Closing Date but in any event no later than the date that is forty-five (45) days following the Closing Date, the Purchaser shall procure Dumex China to prepare and deliver to the Seller and the Purchaser, the Closing Date Net Debt Statement and the Closing Date Net Working Capital Statement which have been reviewed by, and have reflected the comments of Dumex China's auditors, such statements shall include calculations of (a) the net debt amount of Dumex China as of the Closing Date ("**Closing Date Net Debt Amount**"), and (b) the net working capital amount of Dumex China as of the Closing Date ("**Closing Date Net Working Capital Amount**"). For the purpose of the Equity Transfer Agreement, net working capital amount of Dumex China is a combination of Dumex China's inventory, trade and other receivables, prepayments, prepaid expenses, accounts payable, salaries payable, dividend payables, tax and other payables and certain accrued expenses. For illustration purposes, the net working capital amount as of 31 December 2015 is approximately RMB(124) million. Please see page IV-5 in APPENDIX IV — UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP of this circular for further details.

If the Closing Date Net Debt Amount is a positive number, the Seller shall pay to the Purchaser an amount equal to the Closing Date Net Debt Amount within ten (10) Business Days following the date on which the Closing Date Net Debt Statement is delivered or is deemed final and binding in accordance with the Equity Transfer Agreement, as the case may be ("**Consideration Adjustment Determination Date**"). If the Closing Date Net Debt Amount is a negative number, the Purchaser shall pay to the Seller an amount equal to the absolute amount of the Closing Date Net Debt Amount within ten (10) Business Days following the Consideration Adjustment Determination Date.

Note:

1. RMB23,610,669 represents the carrying amount of a production line currently used by Dumex China. However, based on Dumex China's business plans, Dumex China does not intend to sell products produced from such production line in the future. As such, the Purchaser agreed with the Seller not to acquire such production line (i.e. such production line is to be disposed of by Dumex China). With reference to the present production capacity of Dumex China, and the fact that Dumex China will receive cash proceeds from the disposal of such production line the Yashili Directors (including the independent non-executive Directors) are of the view that the exclusion of such production line will not have any material adverse impact on the operations and financial position of Dumex China and the exclusion of such production line will not affect the calculation of the Closing Date Net Debt Amount and the Consideration.

Within ten (10) Business Days following the date on which the Closing Date Net Working Capital Statement is delivered or is deemed final and binding in accordance with the Equity Transfer Agreement, as the case may be, (i) if the Closing Date Net Working Capital Statement shows that the Closing Date Net Working Capital Amount is less than RMB(36) million[(Note 2)], the Seller shall pay to the Purchaser such amount in cash to make up such difference; and (ii) if the Closing Date Net Working Capital Amount is equal to, or greater than, RMB(36) million, the Seller shall issue a written notice stating that no working capital reimbursement is owing to the Purchaser. The Purchaser and the Seller agree that if the Closing Date Net Debt Amount is a negative number, any amount liable to be paid by the Purchaser to the Seller can be partly or wholly offsetted against any payment due by the Seller to the Purchaser in relation to the reimbursement of any working capital amount.

As of 31 December 2015, Yashili had a cash and bank balances and other deposits of approximately RMB3,438 million. Therefore, Yashili has sufficient cash to settle the Consideration in cash upon Closing.

If the price adjustment mechanism above would result in the Proposed Acquisition becoming a very substantial acquisition under the Listing Rules, Yashili will re-comply with the announcement, notice and shareholders' approval requirements under the Listing Rules.

Dumex China was originally acquired by Danone SA on 31 October 2007 as part of the €12.3 billion global acquisition of Numico N.V., a global baby food and medical nutrition product manufacturer listed on Euronext Amsterdam ("**Original Transaction**").

The Consideration has not taken into account the price originally and implicitly paid by Danone SA for Dumex China in the Original Transaction ("**Original Price**") for the following reasons:

— The Original Transaction took place over eight years ago. Given the passage of time and the change in ownership and management, the Purchaser and the Seller are of the view that the Original Price no longer has any referential value.

— Dumex China represents only a small part of Numico N.V.. The underlying fraction of the purchase price paid for Numico N.V. that would have been attributable to Dumex China, if any, would be unduly cumbersome to isolate and quantify, especially eight years after the Original Transaction.

Notes:

2. Based on the business forecast and the expected working capital requirements of Dumex China for the period up to the Closing Date, it is estimated that the net working capital of Dumex China upon Closing will be approximately RMB(36) million.

— Since the Original Transaction, the dairy industry in China and Dumex China have experienced many changes and challenges. In particular, in August 2013, New Zealand's Ministry for Primary Industries disclosed that testing results show possible presence of clostridium botulinum in whey protein concentrate supplied by Fonterra ("**Fonterra Incident**"). As a result of the Fonterra Incident (even though the alert proved to be unfounded), Dumex China's business was materially and negatively affected. In particular, and among other crisis management actions, Dumex China launched extensive preventive product recalls upon the issuance of such warning. Net sales and net profits for Dumex China dropped from RMB5,683 million and RMB792 million for the 2012 financial year to RMB417 million and RMB(839) million, respectively, for the 2015 financial year.

Importantly, pursuant to the Equity Transfer Agreement, the Seller is expected to contribute additional capital to the registered capital of Dumex China prior to the Closing Date to the extent required, in the reasonable judgment of the Seller, for Dumex China to achieve a zero net debt position. As a result, it is anticipated that Dumex China's net worth is expected to materially improve by Closing Date.

4. Basis of Consideration

The Consideration of the Proposed Acquisition, being €150 million (equivalent to approximately HK$1,230 million), was determined on the basis of normal commercial terms and after arm's length negotiation between the Purchaser and the Seller and with reference to the business prospects, financial position and performance of Dumex China, the expected benefits to the Yashili Group from the transactions contemplated under the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement and the future synergies to be derived by the Yashili Group after the completion of the acquisition of Dumex China, as well as the valuation of Dumex China of €145 million (equivalent to approximately HK$1,192 million), details of which are set out in the valuation report prepared by RHL Appraisal Limited, an independent valuer ("**Valuer**"). After comprehensive review, examination and consideration of the valuation report prepared by the Valuer, the Yashili Directors (including the independent non-executive Directors) are of the view that the assumptions, valuation methodology, adjustments made by the Valuer are fair and reasonable and concur with the Valuer's opinion.

The Yashili Directors noted that Dumex China recorded a net (loss) after taxation and extraordinary items of approximately RMB(648) million, RMB(830) million and RMB (839) million for the three years ended 31 December 2013, 2014 and 2015. The net losses incurred by Dumex China were mainly as a result of the Fonterra Incident and the non-recurring one-off restructuring costs. As disclosed above, subsequent inspection of products showed that no clostridium botulinum were found in Dumex China's products and Dumex China's products satisfied the applicable quality standards and extensive preventive product recalls were launched by Dumex China after the issuance of such warning, therefore, the Yashili Directors are of the view that there is no contingent claims or liabilities in relation to the Fonterra

Incident which will have a material adverse effect on the financial condition of Dumex China. Furthermore, the Yashili Directors are of the view that the "Dumex" brand is still a comparatively highly recognised brand in the PRC and recognised by consumers in the first and second tier cities and Dumex China has completed its channel transformation in principle. In addition, Yashili expects that Dumex China will recover from the Fonterra Incident and will have positive impact on Yashili's performance upon Closing because of the following reasons:

(a) ***Increase in sales***

Since early 2015, Dumex China has proactively adjusted its existing marketing model by actively developing a direct sales model and streamlining the existing distribution network. Yashili believes that this adjustment will have a positive impact on Dumex China's 2016 revenue. Under the direct sales model, Dumex China has entered into sales contracts with the supermarkets, hypermarkets, retail stores, convenience stores and department stores which sell their products (the "**Retail Outlets**"), and Dumex China's sales and marketing personnel directly interact with the relevant Retail Outlets. We believe that this direct interface with the Retail Outlets will reduce the number of distributors involved without decreasing the effectiveness of Dumex China's sales network. This is because such direct interface with the Retail Outlet allow Dumex China to better monitor and control sales of its products at the Retail Outlets as well as obtain up to date information on changes in consumer demand, which will in turn allow Dumex China to make informed decision on resource allocation, particularly with respect to sales and marketing expense. Further, the reduction in the number of tiers of distributors will help reduce the corresponding costs involved. We expect that such cost savings will be passed onto the Retail Outlets, which will ultimately stimulate sales to end customers and benefit the sales of Dumex China's products. According to the management accounts of Dumex China, revenue of Dumex China showed improvement in later months of 2015. For the seven months ended 31 July 2015, Dumex China achieved a revenue of RMB204 million, approximately RMB29 million per month. And for the remaining 5 months of 2015, Dumex China achieved a revenue of RMB213 million, approximately RMB43 million per month, an increase of 47% compared to first 7 months. Aging and delisted inventories were reacquired from inactive distributors in 2015 which were then written off. The reacquisition of aging and delisted inventories by Dumex China from its inactive distributor was a result of its changes to marketing strategy rather than a recall of products due to quality issues. Accordingly, the Directors are of the view that such reacquisition was unrelated to any systemic issues relating to the quality of Dumex China's products.

According to the management accounts of Dumex China, revenue of Dumex China for the three months ended 31 January, 29 February and 31 March 2016 are as follows:

(RMB in millions)	**From 1 January 2016 to 31 January 2016**	**From 1 February 2016 to 29 February 2016***	**From 1 March 2016 to 31 March 2016**
Revenue	42	18	57

Note: including Chinese New Year holiday period from 7 February 2016 to 13 February 2016

(b) ***Less selling expense and financial expense***

Upon Closing, Dumex China will not bear any intra-group cost such as brand royalty payments and technical support fees which account for 8.5% of revenue. Also, Dumex China will pay less interest expenses on related party loans upon Closing as a result of the "no net debt" position as stipulated in the Equity Transfer Agreement.

(c) ***Less non-recurring expense***

Certain non-recurring expenses were incurred during January to December 2015, including but not limited to the reacquisition of channel products setoff against revenue, logistics costs and destruction expenses caused by product reacquisition and special incentives granted to distributors in respect of marketing model changes, impairment provision made for certain obsolete inventories and fixed assets. Yashili expects that no such non-recurring expense will be incurred upon Closing.

Furthermore, the Yashili Directors noted that the net asset value of Dumex China as of 31 December 2015 was approximately RMB(1,904) million. Pursuant to the Equity Transfer Agreement, the Seller is expected to contribute additional capital to the registered capital of Dumex China prior to the Closing Date to ensure that Dumex China has no net debt at Closing. As such, the Yashili Directors expect that the net asset position of Dumex China will be improved upon Closing. Please also refer to (a) the discussion on the financial effects of the Proposed Acquisition set out in the section headed "E. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION" in this letter, and (b) the section headed "B. THE TRADEMARK LICENSE AGREEMENT, PATENT LICENSE AGREEMENT AND THE TRADEMARK ASSIGNMENT AGREEMENT — Reasons and Benefits of the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement" in this letter for further details.

5. Conditions Precedent to the Proposed Acquisition

(1) *Conditions to obligations of the Seller*

The obligations of the Seller to consummate the transactions contemplated by the Equity Transfer Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing Date, of each of the following conditions:

(a) (i) the representations and warranties of the Purchaser contained in the Equity Transfer Agreement shall be true and correct in all respects as if such representations and warranties had been made on and as of the Closing Date, except, in each case, for such failures to be true and correct as would not have, individually or in the aggregate, a material adverse effect; and (ii) the covenants and agreements contained in the Equity Transfer Agreement to be complied with by the Purchaser on or before Closing shall have been complied with in all material respects;

(b) the MOFCOM Approval shall have been issued by the competent branch of MOFCOM;

(c) all Necessary Approvals shall have been obtained; and

(d) no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or governmental order that prohibits or makes illegal the Proposed Acquisition contemplated by the Equity Transfer Agreement.

As of the Latest Practicable Date, (a) the conditions precedent set forth in paragraph 5(1)(b) above had been satisfied; and (b) the Purchaser did not intend to waive any of the other conditions precedent set out in paragraph 5(1) above.

(2) *Conditions to obligations of the Purchaser*

The obligations of the Purchaser to consummate the transactions contemplated by the Equity Transfer Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing Date, of each of the following conditions:

(a) (i) the representations and warranties of the Seller contained in the Equity Transfer Agreement shall be true and correct in all respects as if such representations and warranties had been made on and as of the Closing Date (except, to the extent such representations and warranties are made as of another date, in which case such representations and warranties shall be true and correct in all respects as of such other date) except, in each case, for such failures to be true and correct as would not have, individually or in the aggregate, a material adverse effect; and (ii) the covenants and agreements contained in the Equity Transfer Agreement to be complied with by the Seller on or before Closing shall have been complied with in all material respects;

(b) the MOFCOM Approval shall have been issued by the competent branch of MOFCOM;

(c) all Necessary Approvals shall have been obtained;

(d) each of Bruno Chevot, Christophe Bombled and Tang Fei shall have tendered his resignation, as legal representative and/or director of Dumex China, effective immediately as of the Closing Date;

(e) no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or governmental order that prohibits or makes illegal the Proposed Acquisition contemplated by the Equity Transfer Agreement; and

(f) the Patent License Agreement, the Trademark Assignment Agreement and the Trademark License Agreement shall have been duly executed by the parties thereto.

As of the Latest Practicable Date, (a) the condition precedent set forth in paragraph 5(2)(b) and 5(2)(f) above had been satisfied; and (b) the Seller did not intend to waive any of the other conditions precedent set out in paragraph 5(2) above.

6. Long Stop Date and Termination

The Equity Transfer Agreement may be terminated at any time prior to Closing:

(a) by either the Seller or the Purchaser if any of the conditions precedent to Closing has not been fulfilled or otherwise waived in accordance with the Equity Transfer Agreement by the Long Stop Date (being the date that is the first anniversary of the date of the Equity Transfer Agreement); provided, however, that the right to terminate the Equity Transfer Agreement under the relevant provision shall not be available to any party whose failure to fulfill any obligation under the Equity Transfer Agreement shall have been the cause of, or shall have resulted in, the failure of such conditions precedent being fulfilled or otherwise waived on or prior to such date;

(b) by either the Seller or the Purchaser in the event that any governmental order enjoining or otherwise prohibiting the purchase of the entire equity interests contemplated by the Equity Transfer Agreement shall have become final and non-appealable;

(c) by the Seller if a breach of any representation, warranty, covenant or agreement on the part of the Purchaser set forth in the Equity Transfer Agreement shall have occurred that would, if occurring or continuing on the Closing Date, cause the conditions precedent set forth in paragraph 5(1)(a) above not to be satisfied, and such breach is not cured, or is incapable of being cured, within thirty (30) days (but no later than the Long Stop Date) of receipt of written notice by the Seller to the Purchaser of such breach; provided, that the Seller is not then in breach of the Equity Transfer Agreement so as to cause any of the conditions precedents set forth in paragraph 5(2) above not to be satisfied;

(d) by the Purchaser if a breach of any representation, warranty, covenant or agreement on the part of the Seller set forth in this Agreement shall have occurred that would, if occurring or continuing on the Closing Date, cause the conditions precedent set forth in paragraph 5(2)(a) above not to be satisfied, and such breach is not cured, or is incapable of being cured, within thirty (30) days (but no later than the Long Stop Date) of receipt of written notice by the Purchaser to the Seller of such breach; provided, that the Purchaser is not then in breach of the Equity Transfer Agreement so as to cause any of the conditions precedent set forth in paragraph 5(1) above not to be satisfied; or

(e) by the mutual written consent of the Seller and the Purchaser.

7. Closing

Subject to the terms and conditions of the Equity Transfer Agreement, Closing shall take place at 10:00 a.m. Beijing time on a date as the Purchaser and the Seller have mutually agreed following the satisfaction or waiver in writing of all conditions to the obligations of the Purchaser and the Seller set forth in the section headed "5. Conditions Precedent to the Proposed Acquisition" of this letter, or at such other time or on such other date as the Purchaser and the Seller may mutually agree upon in writing. Upon Closing, Dumex China will become an indirect wholly-owned subsidiary of Yashili.

B. THE TRADEMARK LICENSE AGREEMENT, THE PATENT LICENSE AGREEMENT AND THE TRADEMARK ASSIGNMENT AGREEMENT

As announced in the joint announcement issued by Mengniu Dairy and Yashili on 1 December 2015, one of the conditions precedent to the Proposed Acquisition is the due execution by (i) the Trademark Licensors and Dumex China of the Trademark License Agreement; (ii) the Patent Licensor and Dumex China of the Patent License Agreement; and (iii) the Marks Assignor and Dumex China of the Trademark Assignment Agreement. Each of these agreements were duly executed on 1 December 2015.

1. The Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement

a. *Trademark License Agreement*

Pursuant to the Trademark License Agreement, the Trademark Licensors agreed to, among other things, grant Dumex China a non-exclusive, non-revocable (during the term of the Trademark License Agreement), limited, royalty-free, non-transferable, sub-licensable (only to the extent provided in the Trademark License Agreement) license to use the Licensed Marks solely in the PRC, Hong Kong and Macau for the sole purpose of manufacturing, marketing and distributing the Allowed Products. The Trademark License Agreement shall be effective for a term of 20 years commencing from the Closing Date, unless otherwise terminated pursuant to the terms of the Trademark License Agreement.

b. *Patent License Agreement*

Pursuant to the Patent License Agreement, the Patent Licensor (as licensor) agreed to, among other things, grant to Dumex China (as licensee) (but not to any parent, subsidiary or affiliate of Dumex China) a non-exclusive, non-transferable and sub-licensable (only to the extent provided in the Patent License Agreement) license for the rights of the Licensed Patents in relation to the making, using, offering for sale and selling of the Licensed Products solely in the PRC, Hong Kong and Macau. The Patent License Agreement shall be effective from the Closing Date until the longest remaining life of the Licensed Patents which will be ending on 20 April 2026, unless otherwise terminated pursuant to the terms of the Patent License Agreement.

Since the consideration for the Proposed Acquisition, being €150 million (equivalent to approximately HK$1,230 million), has already taken into account, among other things, the expected benefits to the Yashili Group from the transactions contemplated under the Trademark License Agreement and the Patent License Agreement, where the licenses to use the Licensed Marks and the Licensed Patents were granted on a royalty-free basis, therefore, no additional consideration is payable by Dumex China to the Trademark Licensors and the Patent Licensor under the Trademark License Agreement and the Patent License Agreement, respectively.

c. *Trademark Assignment Agreement*

Pursuant to the Trademark Assignment Agreement, the Marks Assignor shall assign all rights, titles and interests and the associated goodwill in the Assigned Marks to Dumex China, subject to the approval of the Trademark Office of the State Administration for Industry and Commerce. Since the consideration for the Proposed Acquisition, being €150 million (equivalent to approximately HK$1,230 million), has already taken into account, among other things, the expected benefits to the Yashili Group from the transactions contemplated under the Trademark Assignment Agreement, therefore, no additional consideration is payable by Dumex China to the Marks Assignor under the Trademark Assignment Agreement.

2. Reasons and Benefits of the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement

The Yashili Directors (including the independent non-executive Yashili Directors) are of the view that the entering into of the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement will benefit Yashili and the Yashili Shareholders as a whole in the following respects:

(i) through the transactions contemplated under the Trademark License Agreement, Dumex China is able to continue to use the existing trademarks post-Closing such that its sales and marketing activities post-Closing would be able to be conducted as usual;

(ii) through the transactions contemplated under the Patent License Agreement, Dumex China is able to continue to use the existing patents post-Closing such that the normal supply of Dumex China's products could be ensured which in turn would facilitate the promotion of Dumex China's products;

(iii) through the transactions contemplated under the Trademark License Agreement and the Patent License Agreement, Dumex China's rights to the Licensed Marks and Licensed Patents are specified which in turn would enhance the protection of Dumex China's rights to such Licensed Marks and Licensed Patents;

(iv) through the transactions contemplated under the Trademark Assignment Agreement, Dumex China will be able to obtain ownership of the Assigned Marks, namely the "DUMEX" trademark, which is highly recognized in the PRC; and

(v) through the ownership of the Assigned Marks, this could enhance the protection of Dumex China's rights to the Assigned Marks which in turn would ensure a smooth development and launch of Dumex China's sales and marketing activities.

3. Listing Rules Implications

Each of the Trademark License Agreement and the Patent License Agreement will become effective from the Closing Date. When each of the Trademark License Agreement and the Patent License Agreement takes effect, the licensee under each of the Trademark License Agreement and the Patent License Agreement, namely, Dumex China, will be an indirect wholly-owned subsidiary of Yashili. Each of The Trademark Licensors and the Patent Licensor is a member of the Danone Group. Therefore, each of the Trademark Licensors and the Patent Licensor is a connected person of Yashili under the Listing Rules. As such, each of the Trademark License Agreement and the Patent License Agreement constitutes a continuing connected transaction for Yashili under Chapter 14A of the Listing Rules. As each of the Trademark License Agreement and the Patent License Agreement are entered into on normal commercial terms or better and on a royalty-free basis, such continuing connected transactions fall within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and therefore are fully exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The assignment of the Assigned Marks pursuant to the Trademark Assignment Agreement will become effective from the Closing Date. When the Trademark Assignment Agreement takes effect, Dumex China, will be an indirect wholly-owned subsidiary of Yashili. The Marks Assignor is a member of the Danone Group. Therefore, the Marks Assignor is a connected person of Yashili under the Listing Rules. As such, the Trademark Assignment Agreement constitutes a connected transaction for Yashili under Chapter 14A of the Listing Rules. As the Trademark Assignment Agreement is entered into on normal commercial terms or better and at nil consideration, such connected transaction falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and therefore is exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

C. INFORMATION ON DUMEX CHINA

Dumex China is a company incorporated in the PRC and an indirect wholly-owned subsidiary of Danone SA dedicated to the IMF business in the PRC. It is primarily engaged in the manufacture, sale and import of dairy products and other related nutrition products. According to the audited financial statements of Dumex China prepared in accordance with IFRS, the total asset value and the net asset value of Dumex China as of 31 December 2015 were approximately RMB203 million and RMB(1,904) million, respectively. The principal assets of Dumex China include a manufacturing facility located in Shanghai.

According to the audited financial statements of Dumex China prepared in accordance with IFRS, (i) the total revenue of Dumex China for the year ended 31 December 2015 is RMB417 million; and (ii) the net profit or (loss) before and after taxation and extraordinary items of Dumex China for the three years ended 31 December 2013, 31 December 2014 and 31 December 2015 are as follows:

RMB (in millions) **Presented under IFRS**	**2012** **(full year)**	**2013** **(full year)**	**2014** **(full year)**	**2015** **(full year)**
Profit/(Loss) before taxation and extraordinary items[(1)]	1,068	(374)	(695)	(545)
Profit/(Loss) after taxation and extraordinary items	792	(458)	(695)	(545)

[(1)] extraordinary items include special sales return, impairment loss, and restructuring cost.

Source: Dumex China's financial statement prepared in accordance with IFRS

Dumex China is of the view (with which the Yashili Directors (including the independent non-executive Directors) concur) that the information provided in Dumex China's audited IFRS financial statements is not fully representative of the underlying performance of the business on the ground that it reflects costs that will no longer be borne by Dumex China following Closing. They reflect intra-group costs that will no longer be borne by Dumex China following completion of the Proposed Acquisition, including, among others, brand royalty payments and technical support fees. They also reflect the cost of a significant portion of Dumex China's personnel who will not continue to be employed by Dumex China following the completion of the Proposed Acquisition and is therefore outside the scope of the Proposed Acquisition. The Yashili Directors (including the independent non-executive Directors) confirm that when they are assessing the valuation of Dumex China, they have taken into consideration that the aforementioned costs will no longer be borne by Dumex China upon completion of the Proposed Acquisition.

Accordingly, the management accounts of Dumex China prepared under IFRS which have not been reviewed, confirmed or audited by Yashili's auditors provide a better representation of the business to be transferred to the Purchaser. The table below features the earnings before interest, tax, depreciation and amortization ("**EBITDA**"), as extracted from Dumex China management accounts, that are attributable to the business to be transferred to the Purchaser as part of the Proposed Acquisition, and reflecting its target cost structure and scope.

For the year ended 31 December 2013, the EBITDA excludes significant non-current costs including, without limitation: (1) the accounting costs in relation to the Fonterra Incident of RMB1,083 million mainly comprised of claims and promotions (RMB111 million), costs of goods sold (RMB279 million) which are related to stock write-offs and factory fixed costs, advertising and promotion (RMB444 million), sales force (RMB140 million), and head office overhead costs (RMB106 million); and (2) fines from China's National Development and Reform Commission of

RMB172 million imposed on Dumex China for price fixing along with other infant formula manufacturers in China; and (3) workforce redundancy and restructuring charges of RMB73 million.

For the year ended 31 December 2014, the EBITDA excludes significant non-current costs including, without limitation: (1) the accounting costs in relation to the Fonterra Incident of RMB83 million mainly comprised of costs of goods sold; and (2) workforce redundancy and restructuring charges of RMB77 million.

For the year ended 31 December 2015, the EBITDA excludes significant non-current costs including, without limitation: (1) impairment loss of RMB240 million which are related to fix asset and other intangible asset; and (2) the accounting costs in relation to optimization of the distributor network of RMB287 million; and (3) restructuring charges of RMB54 million.

As of the Latest Practicable Date, (1) there was no outstanding claim or litigation in relation to the Fonterra Incident and the aforementioned costs in relation to the Fonterra Incident are one-off in nature and have been paid by Dumex China; and (2) the fines imposed on Dumex China in relation to aforementioned price fixing incident are one-off in nature, have been paid and the incident has been concluded.

RMB (in millions) **Presented under IFRS**	**2012** **(full year)**	**2013** **(full year)**	**2014** **(full year)**	**2015** **(full year)**
EBITDA before non-current items, before intra-group items	1,579	1,070	(232)	(130)

Source: Dumex China's management accounts

At present, Dumex China owns an industrial complex in Shanghai, the PRC ("**Property**") as its production facilities. It is noted that the necessary approvals from environmental, planning and fire safety departments and the building ownerships of the extension portion of the Property with a total gross floor area of approximately 6,877.00 sq.m. for industrial-related use have not yet been obtained, which may give rise to certain potential risks and penalties. Such extension of the Property is used for production and packaging of Dumex China's formula products and such use is not intended to be changed following Closing. As of the Latest Practicable Date, applications for the aforesaid approvals and the relevant building owner certificates were in progress and based on the communications with the relevant government authorities, the executive Yashili Directors expect that Dumex China would be able to obtain the aforesaid approvals and the relevant building ownership certificates within two years. In addition, in respect of the buildings on the Property, Dumex China has obtained the Construction Planning Permit (建設工程規劃許可證) ("**Construction Planning Permit**") and the Construction Final Acceptance Certificate (建設工程竣工驗收備案證書) ("**Construction Final Acceptance Certificate**") issued by the Shanghai Pudong New District Planning Authority (上海市浦東新區規劃管理局) and Shanghai Pudong New District Construction and Transportation Committee (上海市浦東新區建設和交通委員會), respectively. Currently Dumex China is preparing other necessary documents for the application and issuance of a new property certificate relating to the buildings on the Property. Accordingly, the executive Yashili Directors and Yashili's PRC legal advisor, Zhong Lun Law Firm, are of the view that (1) there will not be any material impediment in Dumex China's entitlement to use the buildings on the Property; (2) there will not be any impediments for Dumex China to obtain such approvals and building ownership certificates; (3) there will not be any material adverse impact on Dumex China's business operations and financial condition as a result of the aforementioned; and (4) there will not be any impediments for Dumex China to use the buildings on the Property to produce any of its products.

The obtainment of the building ownership certificate is conditional upon, among others, the obtainment of the necessary approvals from environmental, planning and fire safety departments. Pursuant to the Equity Transfer Agreement, the Seller shall use all commercially reasonable efforts to obtain, prior to the date of two years following the Closing Date, title certificates in relation to the Property as stipulated in the Equity Transfer Agreement. In the event that the Seller is unable to obtain such certificates on or prior to the aforementioned deadline, (1) the Purchaser and the Seller shall jointly designate an independent appraisal firm ("**Independent Appraiser**") to determine, as of the date on which the Independent Appraiser commences work, the excess of the fair market value of the Property with all the relevant approvals and certificates granted over the fair market value of the Property with such certificates of title as the Seller and Dumex China shall have obtained as of the date when the Independent Appraiser commences work ("**Reduced Value Amount**"); and (2) the Seller shall compensate the Purchaser an amount equal to the lower of (a) Reduced Value Amount; and (b) RMB21 million[Note], in the manner as set forth in the Equity Transfer Agreement. Furthermore, as mentioned above, since Dumex China has obtained the Construction Planning Permit and the Construction Final Acceptance Certificate, evidencing that the buildings built on the Property have satisfied the relevant final acceptance conditions, the executive Yashili Directors and Yashili's PRC legal advisor, Zhong Lun Law Firm, consider that the risk of not being able to obtain such relevant certificates is remote.

D. REASONS AND BENEFITS OF THE PROPOSED ACQUISITION

The Yashili Directors (including the independent non-executive Yashili Directors) are of the view that the Proposed Acquisition will benefit Yashili and the Yashili Shareholders taken as a whole as the Proposed Acquisition may benefit the Yashili Group in the following areas:

(1) Obtaining the "Dumex" trademark which is highly recognised in the PRC

Dumex China recorded a 9-year continuous growth in revenue between 2004 and 2012. In 2013, according to Nielsen Corporation, a global marketing research firm with headquarters in New York, the United States of America, Dumex China ranked second in traditional channels in terms of market share. Although since 2013, the revenue of Dumex China has decreased due to channel transformation and the Fonterra Incident, the "Dumex" brand is still a comparatively highly recognised brand in the PRC and recognised by consumers in the first and second tier cities.

Note: The RMB21 million is determined based on the valuation of the Property by the property valuer engaged by Yashili, RHL Appraisal Limited, and the potential impact on the production and operations of Dumex China as a result of not being able to obtain such relevant certificates.

(2) Gaining access to Dumex China's sales network which enable the Yashili Group to penetrate into the markets of first and second tier cities

The sales of Dumex China mainly concentrate in first and second tier cities, in particular cities in Eastern China. At present, as constrained by its brand, the market share of the Yashili Group in these cities is relatively low. For example, according to Nielsen Corporation, in the first quarter of 2015, Dumex China's market shares in Shanghai and Jiangsu province are 8.1% and 7.9% respectively, while Yashili's market shares in these two cities/provinces are 1.0% and 1.9% respectively. Upon Closing, the Yashili Group will be able to gain access to Dumex China's sales network with a focus in first and second tier cities. Through Dumex China's sales network, this could enable the Yashili Group to penetrate into the markets of these first and second tier cities.

(3) Optimising the Yashili Group's production network and reducing production costs by acquiring advanced production facilities

Dumex China's advanced production facilities and good quality control system enable Dumex China to produce high quality infant formula products and also Dumex China's factory could process the drying and packaging process in one site which can satisfy national policy requirements. Upon Closing, the Yashili Group will be able to (a) re-arrange, integrate and optimise its resources with Dumex China's, such as closing down some factories and re-arranging the production lines to improve the overall utilisation rates; (b) lower the logistic cost, as Dumex China's production facilities is in Shanghai, which is near to Yashili's major markets such as Henan, Hebei and Shandong Provinces; and (c) centralise procurement of raw materials to enjoy bulk purchase discounts which in turn would enable the Yashili Group to reduce its production costs.

(4) Obtaining the Danone Group's continuous support in research and development which in turn would enhance the Yashili Group's research and development capabilities

According to the indicative term sheets entered into among the Danone Group, Yashili and Dumex China on 1 December 2015, details of which are set out in the section headed "G. OTHER INFORMATION" in this letter, upon Closing, the Danone Group will assist Dumex China to continue to develop its research and development capabilities in the PRC and will share with Dumex China's research and development team in the PRC the latest nutritional standards for nutrition assessment developed by the Danone Group. The continuous support from the Danone Group in research and development aspects could complement the Yashili Group's research in basic nutrition and clinical research.

(5) Broadening the product portfolio of the Yashili Group

According to the indicative term sheets entered into among the Danone Group, Yashili and Dumex China on 1 December 2015, details of which are set out in the section headed "G. OTHER INFORMATION" in this letter, upon Closing, the Yashili Group will be able to secure a continuous supply of four Tailored Nutrition Products from the Danone Group. This could complement the existing product portfolio of the Yashili Group and enable the Yashili Group to have stronger bargaining power in channel distribution.

In light of the above, the Yashili Directors (including the independent non-executive Yashili Directors) consider that the Proposed Acquisition is conducted on normal commercial terms and the terms of the Equity Transfer Agreement are fair and reasonable and in the interests of Yashili and the Yashili Shareholders taken as a whole.

E. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

(1) Assets and Liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming Closing had taken place on 31 December 2015, (i) the consolidated total assets of the Enlarged Group would be increased from approximately RMB7,664 million to RMB8,522 million, as a result of the inclusion of the Dumex China Group; (ii) the consolidated total liabilities of the Enlarged Group would be increased from approximately RMB1,683 million to RMB2,547 million, mainly as a result of the inclusion of the Dumex China Group; and the consolidated net assets of the Enlarged Group would be decreased from approximately RMB5,981 million to RMB5,975 million, mainly as a result of the expected legal and professional fees incurred in relation to the Proposed Acquisition.

Apart from the adjustments in relation to the Closing Date Net Debt Amount and the Closing Date Net Working Capital Amount (if any) as disclosed in the section headed "A. THE EQUITY TRANSFER AGREEMENT — 3. Consideration and Payment Terms", there are no other capital commitments expected to be incurred by Yashili in relation to the Proposed Acquisition upon Closing.

(2) Earnings

Upon Closing, Dumex China will be accounted for as an indirect wholly-owned subsidiary of Yashili and its financial results will be consolidated in the financial statements of Yashili. Yashili recorded an audited profit attributable to the Yashili Shareholders of approximately RMB118 million for the year ended 31 December 2015. Based on the accountants' report of the Dumex China Group as contained in Appendix II to this circular, the Dumex China Group recorded loss before tax for the years ended 31 December 2013 and 2014 and 2015 of approximately RMB564,451,000, RMB829,720,000 and RMB838,583,000, respectively.

F. INFORMATION ON THE PURCHASER, YASHILI AND THE SELLER

The Purchaser is a company incorporated in the PRC and an indirect wholly-owned subsidiary of Yashili. It is principally engaged in the production and sale of dairy products.

Yashili is an investment holding company, which, along with its subsidiaries, is primarily engaged in the manufacturing and selling of dairy and nourishment products. It operates in four segments in China: (i) Yashily pediatric milk formula products segment; (ii) Scient pediatric milk formula products segment; (iii) nutrition products segment and (iv) other segments, including the production and sale of packing materials and sale of surplus raw materials. Yashili is a leading player in China's pediatric milk formula industry, and also has a leading position in the soymilk powder market in China.

The Seller is an investment holding company incorporated in Singapore and an indirect wholly-owned subsidiary of Danone SA, a global food manufacturing group with leadership positions in fresh dairy products, bottled water, early life nutrition and medical nutrition.

G. OTHER INFORMATION

In connection with the Proposed Acquisition, on 1 December 2015, several indicative term sheets were also entered into among the Danone Group, Yashili and Dumex China in relation to (1) certain transition arrangements in relation to IT services, office leases, accounting services and procurement etc. in connection with the operations of Dumex China; (2) collaboration in researches relating to nutrition for infants from 0 to 3 years old; and (3) supply of products by the Danone Group to Dumex China. As of the Latest Practicable Date, no definitive agreements have been entered into in relation to any of the foregoing matters. The parties shall use their reasonable best efforts to enter into definitive agreements in respect of the aforementioned matters as soon as is reasonably practicable. In the event that the parties are unable to execute, or reach an agreement on the terms of, a definitive agreement prior to the time that all of the conditions precedent under the Equity Transfer Agreement have been satisfied, the aforementioned term sheets will create legally binding obligations on the parties immediately following receipt by the Seller of the Consideration. Upon the execution of the relevant definitive agreements or when the term sheets become legally binding on the parties (as applicable), Yashili will comply with the relevant disclosure and/or shareholders' approval requirements where appropriate. Further announcement(s) will be made by Yashili in accordance with the Listing Rules as and when appropriate.

As disclosed in the joint announcement issued by Mengniu Dairy and Yashili on 24 July 2015, pursuant to the MOU entered into among Mengniu Dairy, Yashili and Danone Singapore, Danone Singapore intends to use the proceeds to be received by it from the Proposed Acquisition to subscribe for new shares in Mengniu Dairy. As announced by Mengniu Dairy in the joint announcement issued by Mengniu Dairy and Yashili on 1 December 2015, having taken into account all relevant factors, Mengniu Dairy and Danone Singapore have mutually agreed that the parties will not proceed with the transactions contemplated under the Proposed Share Subscription, that is, (1) Mengniu Dairy will not issue any new shares to Danone Singapore pursuant to the

MOU; and (2) Danone Singapore will not be subscribing for new shares in Mengniu Dairy pursuant to the MOU. Accordingly, the Proposed Share Subscription envisaged by the MOU will not materialise.

H. LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Acquisition is more than 25% but less than 100% for Yashili, the Proposed Acquisition constitutes a major transaction for Yashili under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As of the Latest Practicable Date, Danone Asia has a 25.0% shareholding interest in Yashili and each of Danone Asia and the Seller is a member of the Danone Group, therefore, the Seller is a connected person of Yashili under the Listing Rules. As the Purchaser is an indirect wholly-owned subsidiary of Yashili and the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Acquisition is more than 25%, the Proposed Acquisition also constitutes a connected transaction for Yashili under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened by Yashili during which an ordinary resolution will be proposed to the Yashili Shareholders to approve the Equity Transfer Agreement, the Proposed Acquisition and all transactions contemplated thereunder. To the best of the Yashili Directors' knowledge, information and belief, having made all reasonable enquiry, other than Danone Asia, no other Yashili Shareholder will be required to abstain from voting on the resolution approving the Equity Transfer Agreement and the Proposed Acquisition at the EGM.

The Independent Board Committee comprising all the independent non-executive Yashili Directors has been established to consider the terms of the Proposed Acquisition, and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the resolution in relation to the Proposed Acquisition. No member of the Independent Board Committee has any material interest in the Proposed Acquisition.

Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders as to whether the terms of the Equity Transfer Agreement are fair and reasonable, and whether the Proposed Acquisition is conducted on normal commercial terms and is in the interests of Yashili and the Yashili Shareholders as a whole.

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 Equity Transfer Agreement, the Proposed Acquisition and all other transactions contemplated thereunder and all other documents that are necessary to effect the Proposed Acquisition.

Pursuant to Rule 13.39(4) of the Listing Rules (except for administrative matters) and the articles of association of Yashili currently in force, any vote of Yashili Shareholders at a general meeting must be taken by poll. An announcement on the poll vote results will be published by Yashili 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 Yashili (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 Yashili'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 Yashili Directors (including the independent non-executive Yashili Directors whose views have been set out in this circular after taken into consideration the advice of the Independent Financial Adviser) consider that the terms of the Equity Transfer Agreement are fair and reasonable and the Proposed Acquisition is in the interests of Yashili and the Yashili Shareholders taken as a whole. Accordingly, the Yashili Directors (including the independent non-executive Yashili Directors) recommend the Independent Shareholders to vote in favour of the relevant resolution to approve the terms of the Equity Transfer Agreement, the Proposed Acquisition and all other transactions contemplated thereunder and all other documents that are necessary to effect the Proposed Acquisition.

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 Yashili Board
Yashili International Holdings Ltd
雅士利國際控股有限公司
Sun Yiping
Chairman

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 Equity Transfer Agreement and the Proposed Acquisition, 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)

3 May 2016

To the Independent Shareholders,

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION —
ACQUISITION OF DUMEX CHINA

We refer to the circular issued by Yashili to the Yashili 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 Equity Transfer Agreement, the Proposed Acquisition 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 31 to 52 of the Circular.

RECOMMENDATION

We wish to draw your attention to the letter from the Yashili 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 Equity Transfer Agreement and the Proposed Acquisition.

Having taken into account the terms of the Equity Transfer Agreement and the reasons and benefits of the Proposed Acquisition, and the opinion of, the Independent Financial Adviser as stated in its letter of advice, we are of the view that while the entering into of the Equity Transfer Agreement is not in the ordinary and usual course of business of the Yashili Group because of its "one off" nature, the terms of the Equity Transfer Agreement are nevertheless fair and reasonable so far as the Independent Shareholders are concerned, and on normal commercial terms and the Proposed Acquisition be in the interests of Yashili and the Yashili Shareholders taken as a whole. We therefore recommend the Independent Shareholders to support and to vote in favour of the relevant resolution to approve the Equity Transfer Agreement, the Proposed Acquisition and all other transactions contemplated thereunder and all other documents that are necessary to effect the Proposed Acquisition.

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

The following is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, 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

3 May 2016

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

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION — ACQUISITION OF DUMEX CHINA

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Proposed Acquisition pursuant to the Equity Transfer Agreement entered into between Yashili International Group Limited (the Purchaser) and Danone Asia Pacific Holdings Pte. Ltd. (the Seller). Details of the Proposed Acquisition are set out in the "Letter from the Yashili Board" contained in the circular of Yashili to the Yashili Shareholders dated 3 May 2016 (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.

The Purchaser is an indirect wholly-owned subsidiary of Yashili. As at the Latest Practicable Date, Danone Asia, an indirect wholly-owned subsidiary of Danone SA, has a 25.0% shareholding interest in Yashili and is therefore a substantial shareholder of Yashili. Each of Danone Asia and the Seller is a member of the Danone Group. Therefore, the Seller is a connected person of Yashili under the Listing Rules. Accordingly, the Proposed Acquisition constitutes a connected transaction of Yashili pursuant to the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Acquisition is more than 25% but less than 100% for Yashili, the Proposed Acquisition constitutes a major and connected transaction for Yashili under the Listing Rules, and is subject to the reporting, announcement and independent shareholders' approval requirements as stipulated under the Listing Rules. In this connection, Yashili will seek the Independent Shareholders' approval for the Equity Transfer Agreement and the Proposed Acquisition at the EGM.

The Independent Board Committee, comprising all of the three independent non-executive Yashili Directors, namely Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway, has been established to consider and make recommendations to the Independent

Shareholders on whether (1) the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Proposed Acquisition is in the interests of Yashili and the Yashili Shareholders as a whole. 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 Yashili in relation to a major and connected transaction as detailed in Yashili's circular dated 29 October 2015. The past engagement was limited to providing independent advisory services to independent board committees and independent shareholders of Yashili pursuant to the Listing Rules. Under the past engagement, Somerley Capital Limited received normal professional fees from Yashili. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited; (b) the Yashili Group; and (c) the Danone Group 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 Proposed Acquisition pursuant to the Equity Transfer Agreement as detailed in the Circular.

In formulating our opinion, we have reviewed, among other things, (i) the valuation report from RHL Appraisal Limited (the "Valuer") in relation to the 100% equity value of Dumex China as at 31 October 2015 as set out in Appendix VI to the Circular; (ii) the property valuation report from the Valuer as set out in Appendix V to the Circular; (iii) the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular; and (iv) the letter from Yashili's financial adviser and the report from Yashili's reporting accountants in relation to the discounted cash flow forecast as set out in Appendix VII and Appendix VIII to the Circular respectively. We have also relied on the information and facts supplied, and the opinions expressed, by the executive Yashili Directors and management of Yashili and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects and will remain so up to the time of the EGM. We have also sought and received confirmation from the executive Yashili Directors 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 omitted or 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 Yashili Group and the Danone Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (1) the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Proposed Acquisition is in the interests of Yashili and the Yashili Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Equity Transfer Agreement

The Yashili Group is primarily engaged in the manufacturing and selling of dairy and nourishment products. It operates in four main segments in China: (i) Yashily infant milk formula products segment; (ii) Scient infant milk formula products segment; (iii) Oushi Mengniu infant milk formula products; and (iv) nutrition products segment. Yashili is one of the leading players in China's paediatric milk formula industry, and also has a position in the soymilk powder market in China.

Prospects and development plan of the Yashili Group

As set out in the 2015 annual report of Yashili, the annual gross domestic product of the PRC calculated by comparable prices showed an increase of 6.9% as compared to previous year and the annual national disposable income per capita showed a nominal growth of 8.9% from last year. With the comprehensive relaxation and implementation of the "Two-child policy", and the gradual increase in disposable income of consumers, the executive Yashili Directors anticipate that the birth rate in the PRC will be maintained at a relatively stable level. In addition, a number of policies and measures were issued by the PRC Government to enhance the concentration in and the entry barrier of China's paediatric milk formula industry, in an effort to impose strict control over and to enhance the quality of milk powder so as to restore the confidence of the Chinese in domestic milk powder. Among this, the "Notice on the key working arrangements on food safety in 2015" was issued in March 2015, which pointed out that merger and restructuring of the paediatric milk formula industry will continue to be promoted and the food safety audit and integrated governance will be rolled out. Also, the amended Food Safety Law of the PRC, which is widely recognised as a strict food safety law, was officially implemented on 1 October 2015. The executive Yashili Directors advised us that the Yashili Group will continue to uphold strict quality management for each finished product from milk source inspection to finished goods inspection, from procurement to production and to the entire supply chain, so as to achieve effective control and ensure that the products of the Yashili Group are qualified and the product freshness is also guaranteed.

The Purchaser has already entered into an equity transfer agreement dated 21 September 2015 with a subsidiary of Mengniu Dairy in relation to the acquisition of Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd (內蒙古歐世蒙牛乳製品有限責任公司) ("Oushi Mengniu"). Details of the acquisition of Oushi Mengniu are set out in Yashili's circular dated 29 October 2015. The acquisition was approved by independent shareholders of Yashili at an extraordinary general meeting held on 20 November 2015 and completed in 2015. We understand from the executive Yashili Directors that this acquisition forms part of Yashili's plan to capture a bigger market share in the infant milk formula segment and so increase its overall profitability in due course.

Benefits of the Proposed Acquisition

As set out in the section headed "Information on Dumex China" in the "Letter from the Yashili Board' contained in the Circular and Appendix III to the Circular, Dumex China, which established its presence in the PRC in early 1990s, is primarily engaged in the manufacturing, sale and import of dairy products and other related nutrition products under the brand "Dumex". The executive Yashili Directors consider that benefits to be derived from the Proposed Acquisition include the following:

(i) *Acquisition of recognised brand and signing of related agreements*

In the view of the executive Yashili Directors, PRC consumers purchasing infant milk formula generally put a higher value on imported/foreign-branded milk powder products. In this regard, the Yashili Group has been seeking opportunities to acquire foreign infant milk formula companies so as to increase the market share of the Yashili Group. We note that in December 2015, 中國統計信息服務中心大數據研究實驗室 ("The Big Data Research Laboratory under China Statistical Information Service Center"), 新華網 ("www.xinhuanet.com") and 中國質量新聞網 ("www.cqn.com.cn") jointly published the 《國外嬰幼兒奶粉品牌口碑研究報告》("The Research Report on Word of Mouth for Infant Milk Powder Brand Abroad") for the third quarter of 2015, according to which, "Dumex" is one of the top 10 foreign brands (in terms of overall brand reputation, brand popularity and recognition of product quality).

As one of the conditions precedent to the Proposed Acquisition, the Patent License Agreement, the Trademark Assignment Agreement and the Trademark License Agreement have been entered into on 1 December 2015. Accordingly, Dumex China will be able to continue to manufacture and sell the products of Dumex China using the Licensed Marks, Assigned Marks and Licensed Patents, which will be licensed or assigned by the Danone Group to Dumex China with no additional consideration to be paid by Yashili after Closing so as to ensure stability to the continued business operations of Dumex China. Further details of the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement are set out in the section headed "The Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement" in the "Letter from the Yashili Board" contained in the Circular. Dumex China has been paying brand royalty payments and technical support fees which account for 8.5% of Dumex China's revenue from products in "Dumex" brand in the past and will no longer do so, as explained further in the sub-section headed "Valuation of Dumex China" of this letter below.

(ii) *Extension of geographical coverage of sales*

With its advanced production facilities located in Shanghai, close to its major consumer markets, and good quality control system, Dumex China is able to produce high quality infant formula products which can satisfy the national policy requirements including those mentioned in this sub-section above. Dumex China focuses mainly on the first and second tier cities in the PRC while the Yashili Group focuses on the third to fifth tier cities. Currently, sales of Dumex China are mainly concentrated in first and second tier cities, in particular, cities in Eastern China such as Shanghai, Nanjing and Hefei, where the present market share of the Yashili Group is relatively low. Further details of market shares of Dumex China and Yashili are set out in the section headed "Reasons and benefits of the Proposed Acquisition" in the "Letter from the Yashili Board" contained in the Circular. Upon Closing, the Yashili Group will be able to obtain access to Dumex China's sales network and brand name, so as to penetrate the markets of the first and second tier cities.

(iii) *Optimising production network and reducing production costs*

We understand from the executive Yashili Directors that certain of the production facilities of the Yashili Group are not currently running at full capacity or require improvements to enhance production efficiency. We note from Yashili's 2015 annual report that the Yashili Group has decided to dispose two subsidiaries locating in Guangzhou and Heilongjiang respectively to improve its capacity utilisation and production efficiency. After the acquisition of the advanced production facilities of Dumex China, the Yashili Group will integrate and optimise its resources with Dumex China's, which may include closing down some factories with low utilisation rate and low production efficiency, re-arranging the production lines to improve the overall utilisation rates of the Enlarged Group and reducing its production costs, such as the logistic cost as Dumex China's production facilities in Shanghai is closer to Yashili's major markets such as Henan, Hebei and Shandong Provinces compared to Yashili's existing production facilities in Guangdong Province. We consider that integration and optimisation of operations is not uncommon in mergers and acquisitions. The abovementioned integration and optimisation of operations provide the Yashili Group an opportunity to improve its production efficiency and, at the same time, combine the sales network of Dumex China and the Yashili Group. Besides, the executive Yashili Directors plan to centralise the procurement of raw materials for the production of the existing products and also the Dumex China's products after Closing. The Yashili Group will be able to enjoy increased bulk purchase discounts through centralising the procurement of raw materials.

(iv) *Broadening the product portfolio*

As set out in the section headed "Other information" in the "Letter from the Yashili Board" contained in the Circular, the Danone Group, Yashili and Dumex China have entered into indicative term sheets in relation to (1) certain transition arrangements;

(2) collaboration in research; and (3) supply of products. As advised by the executive Yashili Directors, four Tailored Nutrition Products which target babies with special needs such as babies who are allergic to milk protein (which is consistent with the description of these products that we noted from the website of Dumex China), will be supplied from the Danone Group through the supply arrangement. We obtained the signed indicative term sheet from Yashili relating to the supply of products and note that the supply of products will be a long term arrangement. We also understand from the executive Yashili Directors that they are now in discussion with Danone Group regarding entering into a formal agreement for the supply of products. These four Tailored Nutrition Products form an important product type currently absent in the Yashili Group's product portfolio and are of strategic importance to the Yashili Group. We note from the official website of the Yashili Group that their products of milk powder include mainly milk powder for babies, pregnant women and elderly, without products tailored to babies with special needs as mentioned above. As advised by the executive Yashili Directors, the Yashili Group currently does not carry out manufacturing of these products because of the specific technical requirements and substantial modification costs to existing production plants required. The Yashili Group will be able to enlarge its existing product portfolio after Closing through importing the four Tailored Nutrition Products from the Danone Group.

(v) *Enhancement of research and development capabilities*

Upon Closing, the Danone Group, a global food manufacturing group with leadership positions in fresh dairy products, bottled water, early life nutrition and medical nutrition, will assist Dumex China to continue to develop its research and development capabilities in the PRC and will share with Dumex China's research and development team in the PRC the latest nutritional standards for nutrition assessment developed by the Danone Group. According to the website of the Danone Group, Dumex China's research and development centre (one of the key assets of Dumex China) was opened in 2013 and is dedicated to Chinese mothers and babies, conducting nutritional, gut microbiota and clinical studies to improve its products. The continuing support from the Danone Group in research and development aspects and the acquisition of Dumex China's research and development centre will complement the Yashili Group's research in basic nutrition and clinical research, which in turn, is expected to contribute to the development and enhancement of the Yashili Group's products after completion of the Acquisition.

In view of the above, we are of the view that the Proposed Acquisition will contribute to the product coverage and quality of the Yashili Group and is in line with its development strategy.

2. Principal terms of the Equity Transfer Agreement

Principal terms of the Equity Transfer Agreement are summarised below. Further details of the principal terms of the Equity Transfer Agreement are set out in the section headed "The Equity Transfer Agreement" in the "Letter from the Yashili Board" contained in the Circular.

(A) *Subject of the Proposed Acquisition*

Pursuant to the Equity Transfer Agreement, Yashili International Group Limited (as the Purchaser) has conditionally agreed to purchase, and Danone Asia Pacific Holdings Pte. Ltd. (as the Seller) has conditionally agreed to sell, the entire equity interest of Dumex China. Dumex China is a wholly foreign-owned enterprise organised and existing under the laws of the PRC and a wholly-owned subsidiary of the Seller. Details of Dumex China are set out in the section headed "Information on Dumex China" in the "Letter from the Yashili Board" contained in the Circular and the sub-section headed "Information on Dumex China" below of this letter.

(B) *Consideration and payment terms*

The Consideration is €150 million (equivalent to approximately HK$1,230 million), subject to adjustments relating to the net debt (the "Net Debt") amount and net working capital (the "Net Working Capital") amount of Dumex China as stipulated in the Equity Transfer Agreement as of the Closing Date, payable in cash.

As set out in the sub-section headed "Consideration and payment terms" under the section headed "The Equity Transfer Agreement" in the "Letter from the Yashili Board" contained in the Circular, the Consideration was arrived at on the basis that Dumex China has no Net Debt (as defined in the Equity Transfer Agreement) as at Closing. However, Dumex China has had substantial Net Debt (as defined in the Equity Transfer Agreement). As set out in Appendix IV to the Circular, as at 31 December 2015, the Net Debt amount calculated by a formula specified in the Equity Transfer Agreement amounted to approximately RMB1.8 billion according to the audited financial statements of Dumex China. Under the Equity Transfer Agreement, the Seller will have to contribute additional capital to the registered capital of Dumex China prior to the Closing Date to ensure that Dumex China has no Net Debt at Closing. According to the arrangement of the Seller and the Purchaser, such capital injection will be accounted for as additional capital invested by the Seller, immediately followed by a repayment of inter-company loans and relevant interest due to fellow subsidiaries of Dumex China. Further details of the Consideration adjustment are set out in the sub-section headed "Consideration and payment terms" under the section headed "The Equity Transfer Agreement" in the "Letter from the Yashili Board" contained in the Circular.

(C) ***Basis of Consideration***

As set out in the sub-section headed "Basis of Consideration" under the section headed "The Equity Transfer Agreement" in the "Letter from the Yashili Board" contained in the Circular, the Consideration was determined on the basis of normal commercial terms and after arm's length negotiation between the Purchaser and the Seller, and with reference to the business prospects, financial position and performance of Dumex China, the expected benefits to be brought to the Yashili Group from the transactions contemplated under the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement and the future synergies to be derived by the Yashili Group after the completion of the acquisition of Dumex China, as well as the business valuation report prepared by the Valuer.

(D) ***Conditions precedent to the Proposed Acquisition***

Subject to the terms and conditions of the Equity Transfer Agreement, Closing shall take place on a date as the Purchaser and the Seller have mutually agreed following the satisfaction or waiver in writing of all conditions to the obligations of the Purchaser and the Seller, or at such other time or on such other date as the Purchaser and the Seller may mutually agree upon in writing. Conditions precedent to the Proposed Acquisition include, among other things, (i) the approval in respect of the transfer of the entire equity interests in Dumex China being issued by the competent branch of the MOFCOM; (ii) all Necessary Approvals being obtained (including the approval of the Yashili Shareholders regarding the Proposed Acquisition at the EGM); and (iii) the Patent License Agreement, the Trademark Assignment Agreement and the Trademark License Agreement being duly executed by the parties thereto. Further details of the conditions precedent to the Proposed Acquisition are set out in the sub-section headed "Conditions precedent to the Proposed Acquisition" under the section headed "The Equity Transfer Agreement" in the "Letter from the Yashili Board" contained in the Circular. As at the Latest Practicable Date, certain of the conditions precedent to the Proposed Acquisition have been fulfilled, and both the Purchaser and Seller did not intend to waive any of the other conditions.

(E) ***Long stop date and termination***

The Equity Transfer Agreement may be terminated at any time prior to Closing according to the termination clauses as stipulated under the Equity Transfer Agreement. The Equity Transfer Agreement may be terminated by either the Seller or the Purchaser if any of the conditions precedent to Closing has not been fulfilled or otherwise waived in accordance with the Equity Transfer Agreement by the Long Stop Date (being the date that is the first anniversary of the date of the Equity Transfer Agreement). Further details of the termination clauses are set out in the sub-section headed "Long Stop Date and termination" under the section headed "The Equity Transfer Agreement" in the "Letter from the Yashili Board" contained in the Circular.

3. Information on Dumex China

(i) ***Principal activities***

Dumex China is a company incorporated in the PRC and an indirect wholly-owned subsidiary of Danone SA dedicated to the infant milk formula business in the PRC. It is primarily engaged in the manufacture, sale and import of dairy products and other related nutrition products such as "Precinutri +" series and "Diamor" series under the brand name "Dumex". As advised by the executive Yashili Directors, Dumex China was acquired by Danone SA in 2007 as part of the global acquisition of Numico N.V., a global baby food and medical nutrition product manufacturer listed on Euronext Amsterdam. The Danone Group has principal markets in all the major regions of the world.

(ii) ***Financial information***

The audited financial statements of Dumex China prepared in accordance with International Financial Reporting Standards for the three years ended 31 December 2013, 2014 and 2015 are set out in Appendix II to the Circular. Key figures are extracted and summarised below.

(a) *Revenue and earnings*

Extract of the statements of comprehensive income

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	3,570,062	1,315,862	417,353
Gross profit	2,493,839	814,862	63,248
Loss for the year	(648,187)	(829,720)	(838,583)

As set out above, Dumex China experienced a deterioration in revenue and earnings from 2013 to 2015. In August 2013, New Zealand's Ministry for Primary Industries disclosed that testing results suggested the possible presence of Clostridium Botulinum in the protein concentrate supplied by Fonterra. Revenue of Dumex China was materially affected even though the alert was subsequently proved to be unfounded and the results of Dumex China further deteriorated in 2014. In early 2015, in response to the slowing of the paediatric milk formula industry and its deteriorating results, Dumex China adjusted its marketing function to a direct sales model and streamlined its distribution network, developing a "route to market" model such that Dumex China would be able to interact directly with the retail outlets (including supermarkets, hypermarkets, retail stores, convenience stores and department stores) to promote sales of its products. Dumex China has also streamlined its distribution network by eliminating inactive distributors. Dumex China reacquired inventories from inactive distributors, which were directly setoff against the revenue for the year ended 31 December 2015, resulting in a significant drop in revenue and incurring non-recurring expenses such as logistics costs associated with reacquiring products. Further details of the management discussion and analysis of Dumex China are set out in Appendix III to the Circular.

As advised by the executive Yashili Directors, the abovementioned adjustment to the marketing function of Dumex China has been completed as at the Latest Practicable Date. Such adjustments to its marketing strategy had benefited Dumex China's sales and the revenue of Dumex China has shown improvement in later months of 2015. Based on the management accounts of Dumex China for the seven months ended 31 July 2015, the audited accounts of Dumex China for the year ended 31 December 2015 and the management accounts of Dumex China for the first three months of 2016, a comparison of the revenue of Dumex China is set out below.

(RMB' million)	**January to July 2015** *(Note 1)*	**August to December 2015** *(Note 2)*	**January 2016** *(Note 3)*	**February 2016** *(Note 3)*	**March 2016** *(Note 3)*
Average monthly revenue (for 2015)/monthly revenue (for 2016)	29	43	42	18 *(Note 4)*	57

Notes:

1. Average monthly revenue was calculated based on the revenue of Dumex China for the seven months ended 31 July 2015 as set out in its management accounts.

2. Average monthly revenue was calculated based on the audited accounts of Dumex China for the year ended 31 December 2015 and the management accounts of Dumex China for the seven months ended 31 July 2015.

3. Monthly revenue was based on Dumex China's management accounts.

4. Lower amount of revenue was recorded in February 2016 as a result of the seasonal effect from the extended public holiday for the Chinese New Year in the PRC.

As set out above, revenue of Dumex China showed improvement from August to December 2015 with an average of approximately RMB43 million per month compared to approximately RMB29 million per month for the first seven months of 2015. The executive Yashili Directors consider that the full benefits of the marketing changes may not be completely felt until the second quarter of 2016.

(b) *Assets and liabilities (before restructuring of Net Debt)*

Statements of financial position

	As at 31 December 2014 *RMB'000*	As at 31 December 2015 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	282,218	9,494
Prepaid land lease payments	7,527	7,258
Other intangible assets	2,642	—
Long-term receivables	2,996	3,050
Total non-current assets	295,383	19,802
CURRENT ASSETS		
Due from the ultimate holding company	64	—
Due from the immediate holding company	31,778	—
Due from the related companies	1,018	28,530
Inventories	151,037	39,240
Trade receivables	38,069	81,833
Prepayments, deposits and other receivables	10,085	23,203
Derivative financial instruments	—	187
Cash and cash equivalents	8,935	10,221
Total current assets	240,986	183,214
CURRENT LIABILITIES		
Due to the ultimate holding company	499	330
Due to the immediate holding company	15,948	3,572
Due to the related companies	46,701	31,924
Borrowings from the related companies	999,262	1,239,695
Interest-bearing bank loans	—	500,000
Trade payables	32,442	21,249
Other payables and accruals	480,395	310,728
Derivative financial instruments	27,021	—
Total current liabilities	1,602,268	2,107,498
NET CURRENT LIABILITIES	(1,361,282)	(1,924,284)
TOTAL ASSETS LESS CURRENT LIABILITIES	(1,065,899)	(1,904,482)

	As at 31 December 2014	As at 31 December 2015
	RMB'000	*RMB'000*
NET LIABILITIES	(1,065,899)	(1,904,482)
EQUITY		
Share capital	240,000	240,000
Reserves	(1,305,899)	(2,144,482)
Total equity	(1,065,899)	(1,904,482)

As set out above, Dumex China recorded net deficits for both 31 December 2014 and 31 December 2015. However, pursuant to the Equity Transfer Agreement and as discussed in the paragraph headed "Consideration and payment terms" under the sub-section headed "Principal terms of the Equity Transfer Agreement" above of this letter, the Seller shall contribute additional capital to the registered capital of Dumex China prior to the Closing Date to ensure that Dumex China has no Net Debt at Closing, which would result in additional capital invested by the Seller and immediately followed by a repayment of inter-company loans and relevant interest due to fellow subsidiaries of Dumex China. Accordingly, the executive Yashili Directors expect that Dumex China's net assets value will be significantly improved at the Closing Date.

We note from the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular that with reference to the information as at 31 December 2015, there would be a net reimbursement of approximately RMB1.9 billion from the Seller in accordance with the terms of the Equity Transfer Agreement relating to the Net Debt amount and Net Working Capital amount of Dumex China as of the Closing Date. Since the Consideration for the entire equity interest of Dumex China is agreed at €150 million after considering adjustment relating to the Net Debt and Net Working Capital amount of Dumex China as of the Closing Date, for illustration purpose, the net asset position of Dumex China after taking into account such adjustment are set out below.

	RMB'million
Total equity of Dumex China as at 31 December 2015	(1,904.5)
Add: Reimbursement relating to the Net Debt amount and Net Working Capital amount of Dumex China	1,905.6
Adjusted net assets	1.1

Since the book value of the Net Debt amount and Net Working Capital at the Closing Date may be substantially different from those as at 31 December 2015, the net reimbursement amount may also be different from the above.

In addition, as set out in Appendix IV to the Circular, there is likely to be an upward fair value adjustments to property, plant and equipment and land use right of Dumex China upon Closing, which based on the figures set out in Appendix IV will be approximately RMB136.6 million. On the other hand, as set out in the property valuation report contained in Appendix V to the Circular, building ownership of the extension portion of the property with a total gross floor area of approximately 6,877 sq.m. for industrial-related use, and certain related governmental approvals, have not yet been obtained and may subject to potential risk and certain penalty. Further details are set out in the property valuation report. The executive Yashili Directors have informed us that application for building ownership is under progress and based on communications with the relevant government authorities, they, together with Yashili's PRC legal adviser, consider there is no major impediment to obtaining those building ownership certificates and in Dumex China's entitlement to use the building (including to use the building to produce any of its products). Pursuant to the Equity Transfer Agreement, the Seller shall use all commercially reasonable efforts to obtain, prior to the date of two years following the Closing Date, title certificates in relation to the area as stipulated in the Equity Transfer Agreement. In the event that the Seller is unable to obtain such certificates on or prior to this deadline, the Seller shall compensate the Purchaser in accordance with the Equity Transfer Agreement.

4. Valuation of Dumex China

The Consideration for the acquisition of the entire equity interests in Dumex China has been determined with reference to, among other things, the 100% equity value of Dumex China as at 31 October 2015 as appraised by the independent Valuer. As set out in the Valuer's valuation report as set out in Appendix VI to the Circular, the appraised value of Dumex China's equity is approximately €145.4 million (equivalent to approximately HK$1,192 million) as at 31 October 2015, an approximately 3% discount to the Consideration. We have complied with all the requirements under Rule 13.80(2)(b) Note 1(d) of the Listing Rules, in particular, we have discussed with the Valuer its expertise and obtained the credentials of the person signing the valuation report. We noted that the person signing the valuation report has 5 years of experience in conducting valuations for financial reporting, merger and acquisition, restructuring and new listing projects for private and listed companies in the Asia-Pacific and America region. We also reviewed the Valuer's terms of engagement and discussed with the Valuer its work performed as regards the valuation.

Valuation methodologies

We understand from the Valuer that the valuation report with respect to the equity value of Dumex China has been prepared in accordance with the Valuer's standard practice. We have discussed with the Valuer on their valuation methodologies and understand that there are three commonly used approaches in valuing equity in a company namely the asset approach, the market approach and the income approach. As set out in the valuation report, the asset approach is considered not appropriate for this case as the value of the subject assets (a continuing business operations in this case) may not be fully reflected under the asset approach as such approach might not be able to capture the future economic benefits contributed by the subject assets and from the business operation easily. The Valuer did not adopt the market approach in conducting the valuation as there is insufficient number of relevant comparable transactions in China around the valuation date. Due to the unique features of each transaction, the comparable transactions may not be directly comparable to this case. Furthermore, taking into account the net liabilities position of Dumex China and the net loss incurred as at the valuation date and in financial years ended in 2013 and 2014, a reasonable and meaningful comparison cannot be made using common valuation multiples under the market approach. In view of the above, the Valuer has adopted the income approach in deriving the appraised value of the equity value of Dumex China as at 31 October 2015. The income approach focuses on the economic benefits generated by the income producing capability of an enterprise, and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realising those benefits. We concur with the Valuer that the income approach is a commonly used and is the most appropriate method for establishing the fair value of Dumex China's equity amongst the three commonly used approaches as set out above.

Review of the valuation report

We have reviewed and discussed with the Valuer the key basis and assumptions adopted for the valuation. A list of information reviewed, major assumptions and considerations made by the Valuer are set out in the Valuer's valuation report including the financial projections of Dumex China based on assumptions that represent management's best estimate of the economic conditions and Dumex China's operations. Opinion letter/report in relation to the discounted cash flow forecast of Dumex China from the financial adviser and reporting accountants of Yashili are set out in Appendix VII and VIII to the Circular respectively.

(a) *Cash flow forecast*

We understand from the executive Yashili Directors that, the cash flow forecast of Dumex China is prepared based on a number of key assumptions with respect to revenue, expenses, working capital projections and expenditure requirements for a period from 2016 to 2020. The underlying key assumptions are summarised below:

(i) Elimination of certain significant current costs

Following Closing, Dumex China will no longer have to pay interest expenses on all the loans as a result of the "no Net Debt" positions as stipulated in the Equity Transfer Agreement. Further, we understand from the executive Yashili Directors that Danone will not charge any royalty fees or technical support fees which account for 8.5% of Dumex China's revenue from products in "Dumex" brand presently to Dumex China after Closing. We note from the audited financial statements of Dumex China as set out in Appendix II to the Circular that the finance costs amounted to approximately RMB52.4 million and the royalty fees or technical support fees payable to immediate holding company and fellow subsidiaries amounted to approximately RMB36.1 million for the year ended 31 December 2015. Accordingly, we consider that costs will benefit from the above arrangements after Closing.

(ii) Positive impact on revenue from streamlining Dumex China's distribution network

As set out in the sub-section headed "Information on Dumex China" of this letter above, since early 2015, Dumex China developed a direct sales model and streamlined its existing distribution network, which has been completed by the Latest Practicable Date. Such direct sales model enables Dumex China to interact directly with the retail outlets (such as supermarkets) to promote sales of its products which is expected to increase sales. As set out in the sub-section headed "Basis of Consideration" under the section headed "The Equity Transfer Agreement" in the "Letter from the Yashili Board" contained in the Circular, such direct sales model would allow Dumex China to better monitor and control sales of its products at the retail outlets as well as to obtain up to date information on changes in consumer demand, which will in turn allow Dumex China to make informed decision on resource allocation, particularly with respect to sales and marketing expense. Further details are set out in the abovementioned sub-section in the Circular.

(iii) Enhancement of Dumex China's sales network and geographical coverage

During 2015, Dumex China conducted a review of its sales network and withdrew from retail outlets with unsatisfactory performance. As part of Dumex China's development plan, and taking into consideration the expected positive impact of the direct sales model as described above, Dumex China plans to increase the number of retail outlets by about 40% in 2016 as compared to 2015, with a further increase of about 30% in 2017.

(iv) Enhancement of products targeting high-end market

In view of the growth trend of high-end infant milk formula market especially on imported products, Dumex China plans to shift production of its PRC-made high-end product series to Yashili's production facilities in New Zealand after completion of the Proposed Acquisition. It is expected that sales of Dumex China will benefit from the above as a result of a higher value put on imported milk powder products by PRC consumers purchasing infant milk formula. In addition, Dumex China is undertaking product enhancement on certain of its other product series in order to increase sales.

(v) Increase use of e-commerce sales channel

Dumex China placed less focus in developing its e-commerce sales channel in the past. After the Proposed Acquisition, it is expected that Dumex China will be able to leverage on Yashili's expertise in this area, and to gradually increase the use of e-commerce sales channels including (a) the use of internet and mobile phone applications for promotions and reaching out to new customers; and (b) focusing on sales through leading e-commerce platforms such as Taobao, Tmall and JD.com (mainly leverage on Yashili's connections with these operators). We note from the 2015 annual report of Yashili that the Yashili Group has made over hundred million Renminbi of sales in the "November 11" event in 2015, becoming the top in the milk powder category on Tmall.

(vi) Costs and working capital

Forecast relating to costs and working capital requirements are made by the executive Yashili Directors with reference to, among other things (a) historical trend of certain cost items such as raw materials; (b) changes in various expenses as a result of the business plan and measures carried out or to be implemented by Dumex China as described above; and (c) elimination of interest expenses on loans at Closing as a result of the "no Net Debt' position as stipulated in the Equity Transfer Agreement, and brand royalty payments and technical support fees currently paid by Dumex China to the Danone Group.

When preparing the cash flow forecast, the executive Yashili Directors took into account factors and assumptions based on, among other things, latest operations of Dumex China, future development plans, terms of the Equity Transfer Agreement and other agreements (including the Patent License Agreement, the Trademark Assignment Agreement, the Trademark License Agreement and several indicative terms sheets entered into on 1 December 2015 in relation to (1) certain transition arrangements; (2) collaboration in research; and (3) supply of products). The letter from Yashili's financial adviser and the report from Yashili's reporting accountants in relation to the discounted cash flow forecast are set out in Appendix VII and Appendix VIII to the Circular respectively. As set out in Appendix VII to the Circular, Yashili's financial adviser is of the view that the cash flow forecast, for which the Yashili Directors are solely responsible for, has been made after due and careful enquiry. Also, as set out in Appendix VIII to the Circular, Yashili's reporting accountants are of the view that nothing has come to their attention that causes them to believe that the cash flow forecast, so far as the arithmetical accuracy of the calculations of the cash flow forecast is concerned, has not been properly compiled. We have discussed with Yashili's financial adviser and reporting accountants regarding their scope of work and work undertaken in relation to the cash flow forecast and were advised by them that no irregularities have been noted during their review.

Independent Shareholders should note that the bases and assumptions adopted by Yashili Directors in the cash flow forecast are primarily based on current view with respect to business, financial, economic, market and other conditions, and circumstances may develop or change in the future which may affect these projections underlying the valuation.

(b) *Discount rate*

The discount rate (i.e. the Weighted Average Cost of Capital) ("WACC") used by the Valuer comprises the weighted cost of equity, weighted cost of debt and tax rates. The cost of equity component is determined based on the Capital Asset Pricing Model ("CAPM"), a commonly used model adopted in discounted cash flow valuation. In computing the cost of equity and the discount rate to be applied, the Valuer has made reference to various factors including (i) the yield of long-term PRC government bonds; (ii) the "beta" which is a measure of the volatility, or systematic risk of selected comparable companies in comparison to the stock market; (iii) other risk adjustments such as size premium and company specific risk; and (iv) the People's Bank of China lending rate as at valuation date. On this basis, the discount rate adopted by the Valuer is 17.48%.

We have discussed with the Valuer, obtained and reviewed underlying supporting documents, calculations and basis adopted by the Valuer in deriving the discount rate. We also searched public information, where feasible, to verify the basis adopted by the Valuer in its calculations (including (a) the yield of long-term PRC government bonds; (b) the People's Bank of China lending rate; and (c) public financial information (including value of debt and value of equity as sourced from the latest available published financial statements of the comparable companies as at the valuation date) and trading information (including "beta" for the past two years up to the valuation date as sourced from Bloomberg) of the comparable companies adopted in the valuation (namely Yashili, Biostime International Holdings Limited, China Huishan Dairy Holdings Company Limited and China Mengniu Dairy Company Limited)) and note that the basis adopted by the Valuer is generally in line with the data obtained through our independent search.

As regards the selection of comparable companies for use in the CAPM and calculation of discount rate, we have discussed with the Valuer and reviewed its basis for selection, details of which are set out in Appendix VI to the Circular, which include (a) companies listed in Hong Kong with actively trading in a reasonable period of time; (b) companies principally engaged in the manufacture and sale of infant formula milk products, paediatric nutritional and baby food products, and other milk products in China; (c) the business of the manufacture and sale of infant formula milk products, paediatric nutritional and baby food products, and other milk products represents a major source of the total revenues to the overall business and this business operation will continue in the coming future; and (d) sufficient financial information are available from

Thomson Reuters Terminal or other publicly available sources. We understand from the Valuer that they have to obtain sufficient and reliable financial and trading data of the comparable companies for their estimation of discount rate under the income approach. Given such prerequisite, together with (i) Dumex China is primarily engaged in the manufacture, sale and import of dairy products and other related nutrition products; and (ii) we concur with the Valuer's view that it is appropriate to adopt the income approach for the valuation of Dumex China as discussed above, we consider that the Valuer has a reasonable basis in selecting the comparable companies used in the valuation.

As set out in the Valuer's report, the Valuer has also incorporated a discount for lack of marketability of 20% in the valuation. As discussed with the Valuer, the lack of marketability discount of 20% is adopted based on its professional judgement with reference to a published study ("Determining discounts for lack of marketability, a companion guide to the FMV restricted stock study, 2015 Edition" published by Business Valuation Resources LLC) containing recent data in relation to appropriate levels of lack of marketability discount since there is no available empirical study on marketability discount for the companies in China as at the valuation date. We have obtained an extract of the above published study and note that the lack of marketability discount of 20% adopted in the valuation of Dumex China approximates the average of the study results. We are further advised by the Valuer and noted in Appendix VI to the Circular that the Valuer has further cross-checked internally the discount from the above study and no significant variance was noted.

Based on the above, we are of the view that the discount rate of 17.48% and the marketability discount of 20% set out above are reasonable figures for the purpose of the valuation.

5. Evaluation of the Consideration

As advised by the executive Yashili Directors, the consideration of €150 million (equivalent to approximately HK$1,230 million) was determined on the basis of normal commercial terms and after arm's length negotiation between the parties with reference to, among other things, an improved net asset value of Dumex China by the capital injection and repayment of intercompany loans and balances prior to the Closing Date of approximately RMB1.9 billion with reference to Dumex China's financial information as at 31 December 2015 and the equity value of Dumex China as appraised by the Valuer as at 31 October 2015. In assessing the fairness of the consideration, we consider it is appropriate to refer to the independent valuation conducted by the Valuer in respect of the equity value of Dumex China. We consider that the methodologies adopted by the Valuer for the valuation of equity value of Dumex China are fair and reasonable. We have also taken into account the intangible benefits of the distribution network, brand name and other strategic benefits as set out above.

6. Financial effects on the Yashili Group

The unaudited pro forma financial information of the Enlarged Group is set out in Appendix IV to the Circular. Upon Closing, Dumex China will become an indirect wholly-owned subsidiary of Yashili and accordingly, the assets, liabilities and financial results of Dumex China will be consolidated into the financial statements of Yashili.

(a) *Assets and liabilities*

As shown in Appendix IV to the Circular, the Yashili Group had audited total assets and net assets of approximately RMB7,663.7 million and RMB5,980.6 million respectively as at 31 December 2015, and the unaudited pro forma total assets and net assets value of the Enlarged Group as if Closing had taken place on 31 December 2015 were approximately RMB8,521.9 million and RMB5,975.1 million respectively, i.e. with an increase in total assets but a slight decrease in net assets value. As advised by the executive Yashili Directors, the Proposed Acquisition is not expected to result in material change in the net assets value of the Yashili Group as the Consideration is derived after arm's length negotiations assuming that Dumex China has no Net Debt as at Closing. The slight decrease in net assets value of the Yashili Group is mainly due to the expected legal and professional fees in relation to the Proposed Acquisition. In addition, as set out in Appendix IV to the Circular, goodwill of approximately RMB637.8 million will be recognised as a result of the Proposed Acquisition. Such goodwill is subject to impairment tests in accordance with the accounting policies of Yashili. Further details of the unaudited pro forma financial information of assets and liabilities of the Enlarged Group are set out in Appendix IV to the Circular.

(b) *Revenue*

As set out above, Dumex China will become an indirect wholly-owned subsidiary of Yashili and the financial results of Dumex China will be consolidated into the financial statements of Yashili upon Closing. As set out in the sub-sections headed "Background to and reasons for the Equity Transfer Agreement" and "Information on Dumex China" of this letter above, Dumex China is primarily engaged in the manufacture, sale and import of dairy products and other related nutrition products, including four Tailored Nutrition Products, and is focusing on the first and second tier cities in the PRC. The executive Yashili Directors consider that the Proposed Acquisition would enhance the Yashili Group's revenue base by, among other things, expanding its product portfolio and extending its sales coverage geographically.

(c) *Gearing and working capital*

As advised by the executive Yashili Directors, the consideration for the Proposed Acquisition will be settled by internal resources of the Yashili Group. The Yashili Group had cash and bank equivalents (excluding pledged deposits and other current financial assets) of approximately RMB2,479.9 million as at 31 December 2015. As shown in Appendix IV to the Circular, the unaudited pro forma cash and bank equivalents (excluding pledged deposits and other current financial assets) of the Enlarged Group would be approximately RMB2,082.1 million taking into account the Proposed Acquisition. Also, based on the unaudited pro forma financial information as set out in Appendix IV to the Circular, gearing ratio (calculated with reference to the calculation set out in Appendix III to the Circular by dividing total liabilities with net assets value, a measure the Yashili Group uses) of the Yashili Group will increase from approximately 28.1% to approximately 42.6% as a result of the Proposed Acquisition. If the ratio of net debt to net assets is used, which is a commonly adopted measure of gearing, the gearing ratio of the Yashili Group at Closing on the basis set out will be nil as cash will exceed debt. As set out in the section headed "Working capital" of Appendix I to the Circular, the Yashili Directors are of the opinion that, after taking into account the expected completion of the Proposed Acquisition and the financial resources available to the Enlarged Group (including the internally generated revenue and funds) and in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of the Circular.

DISCUSSION

Dumex China is primarily engaged in the manufacture, sale and import of dairy products and other related nutrition products such as "Precinutri +" series and "Diamor" series under the brand name "Dumex".

Yashili has already made one strategic acquisition in recent months, that of Oushi Mengniu. The Proposed Acquisition is a further step in carrying out Yashili's plan to capture a bigger share of the market for infant milk formula in the PRC. The Proposed Acquisition brings Yashili the following strategic advantages:

- a recognised brand and the benefit of related agreements
- complementary geographical coverage into predominantly first and second tier cities
- potential benefits from economies of scale in manufacturing utilisation rates and centralised procurement
- nutrition products currently lacking in Yashili's portfolio
- research and development facilities and other support from the Danone Group

The financial performance of Dumex China over recent years has been disappointing (loss-making for the three years ended 2013, 2014 and 2015) but after a commercial reorganisation (including adjustments to the marketing model) in the year ended 31 December 2015, turnover has shown improvement in later months in 2015. Upon completion of the Proposed Acquisition, the past losses (represented by net liabilities as at 31 December 2015 of approximately RMB1.9 billion) will be effectively absorbed by the Danone Group through capital injection and repayment of inter-company loans and balances of approximately RMB1.9 billion (as estimated based on information as at 31 December 2015). This will leave the balance sheet with small positive net tangible assets of approximately RMB1.1 million, before attributing any intangible value to the brand name, distribution networks and customer base.

The consideration of €150 million will be satisfied by cash from internal resources of the Yashili Group. At Closing, the gearing of the Group measured as a ratio of net debt to net assets, will remain nil. The Consideration is based on various factors including a valuation of Dumex China by the Valuer, using a discounted cash flow approach assuming the recapitalisation referred to above has been completed. We have reviewed the assumptions for the projections of income on which the valuation is based. The financial adviser and reporting accountants of Yashili have also issued letter/report in connection with the discounted cash flow forecast on which the valuation is based on, which are set out in Appendix VII and Appendix VIII to the Circular respectively. The revenue projections prepared by the Yashili Directors are based on sales enhancement measures by Dumex China as discussed in this letter "Letter from the Yashili Board" contained in the Circular with full positive effects from certain measures expected to be realised commencing in the second quarter of 2016. Costs will benefit from the elimination of interest on loans at Closing and from the absence of brand royalty payments and technical support fees of 8.5% of Dumex China's revenue from products with the "Dumex" brand. A rate of 17.48% was used to discount the projected cash flows and an allowance of 20% was deducted from the valuation for lack of marketability as Dumex China is not listed. We have discussed these and other factors with the Valuer and concur with their approach.

The Proposed Acquisition will enhance the Yashili Group's revenue base by, among other things, expanding its product portfolio and extending its sales coverage geographically. Completion of the Proposed Acquisition will have no material effect on the Group's net assets.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons including those as summarised in the section headed "Discussion" above, although the Proposed Acquisition is not in the ordinary and usual course of business of Yashili, we consider that (1) the terms of the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Proposed Acquisition is in the interests of Yashili and the Yashili Shareholders as a whole.

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.

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 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over seven years' experience in the corporate finance industry.

The English translations of the Chinese names are included in this letter for identification purpose only and should not be regarded as their official English translations. In the event of any inconsistency, the Chinese names prevail.

1. FINANCIAL INFORMATION OF THE YASHILI GROUP

The audited consolidated financial statements of the Yashili Group for each of the three years ended 31 December 2013, 2014 and 2015, together with the relevant notes thereto are disclosed in the following documents:

- annual results announcement of Yashili for the year ended 31 December 2015 published on 22 March 2016;

  http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0322/LTN201603221015.pdf

- annual report of Yashili for the year ended 31 December 2014 published on 29 April 2015 (pages 90 to 214);

  http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0429/LTN20150429510.pdf

- annual report of the Company for the year ended 31 December 2013 published on 25 April 2014 (pages 90 to 206);

  http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0425/LTN20140425452.pdf

2. STATEMENT OF INDEBTEDNESS

At the close of business of 31 March 2016, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the total outstanding interest bearing bank and other borrowings of the Enlarged Group are as follows:

	Total	**Secured**	**Unsecured**
	RMB'000	*RMB'000*	*RMB'000*
Loan from a fellow subsidiary	1,827,326	—	1,827,326
Bank loans	481,359	481,359	—
Loan from local government	2,500	—	2,500

As of 31 March 2016, certain bank loans of the Enlarged Group were secured by the pledge of the following:

	Total
	RMB'000
Pledged deposits	580,498
Commercial bank wealth investment products	100,000
	680,498

Save as aforesaid and disclosed in this circular, and apart from the intra-group liabilities, as of the close of business on 31 March 2016, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

The Yashili Directors confirmed that no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 March 2016 up to and including the Latest Practicable Date.

3. FINANCIAL AND TRADING PROSPECT

The Yashili Group mainly focuses on the production and sales of pediatric milk powder products and nutrition food since 1998. During the year ended 31 December 2014, the Yashili Group recorded a revenue of RMB2,816.4 million.

In 2014, the world's economy maintained last year's slow recovery, with growth rate lower than expected and more diverse amongst various economies. In 2014, after the introduction of a series of austere control measures in 2013, the Chinese government successively put forward a number of incremental safety policies and measures for pediatric milk formula. In May 2014, the China Food and Drug Administration, in accordance with the requirements as set out under the "General Principles for the Examination of Production License for Pediatric Milk Formula (2013)", carried out production license inspection on 133 pediatric milk formula producers nationwide, among which 82 producers were granted new production licenses while the remaining 51 either failed to pass the inspection or applied for extension or cancellation.

In June 2014, the State Council announced the "Work Scheme for the Merger and Reorganization of Pediatric Milk Formula Enterprises", which stated that the goal was to procure, by the end of 2015, the formation of approximately 10 major pediatric milk formula corporates capable of generating over RMB2 billion annual sales income and that the 10 largest state-owned brands should reach an industry concentration level of 65%; the scheme also set out the target to be reached by the end of 2018. Such policies and measures were all set to enhance the concentration level and entry barrier of the pediatric milk powder industry in China. On 30 June 2015, the

Ministry of Industry and Information Technology (MIIT) held a conference on merger and reorganization of pediatric milk formula corporates in Beijing. On the conference, CCID, a subsidiary of MIIT, released future trends of merger and reorganization of pediatric milk formula corporates; provincial industry and information technology administrations of four autonomous regions and provinces, that is, Inner Mongolia, Heilongjiang, Guangdong and Shaanxi, shared their efforts to promote mergers and reorganization for the past year; and the Yashili Group shared detailed procedures of mergers and reorganization and the results achieved by us.

Meanwhile, spurred by the increasing influence of mobile Internet on consumers' behaviors and buying habits, the online channel has become the most rapidly expanding channel. In addition, maternal and child channel, in particular chain maternal and child channel, showed a substantial growth and has become the channel possessing the largest market share.

Upon completion of the deal, the Yashili Group will expand its business revenue and increase market share. In the meantime, the Yashili Group will realise synergy in aspects of production, R&D, marketing, product portfolio and taxations, etc.

Following Closing, the Yashili Group will take over an advanced powder production base that is close to the major consumer markets and equiped with world-class production facilities including dryers and packaging lines. Meanwhile, the production base holds a pediatric milk formula production license in China, which satisfies the latest regulatory requirements in the PRC and will enhance its value in view of the introduction of the Pediatric Milk Formula Registration System (嬰幼兒奶粉配方註冊制) by the PRC government.

In terms of R&D, following Closing, the Yashili Group will take over Dumex China's Shanghai R&D Center which would directly enhance the R&D capability of Yashili. In addition, the Yashili Group will take over the world-class quality control laboratory of Dumex China and benefit from its outstanding quality control.

Dumex China and Yashili will complement each other in geographical coverage since the former focuses mainly on the 1st and 2nd tier cities while the later on the 3rd to 5th tier cities and rural regions. Dumex China can rapidly penetrate into the 3rd to 5th tier cities and even rural regions; while Yashili can bring its high-end products into the maternal and child channels in the 1st and 2nd tier cities through Dumex China's distribution network, thus further accelerating its pace of channel transformation.

In regards to the pediatric milk formula product lines, as a superior brand with global R&D experience and widely trusted among Chinese mothers, Dumex China will complement Yashili to achieve a product mix with an orderly wide price range and support Yashili's development in high-end and maintream brand markets. Apart from general infant formula product lines, Dumex China also operates special infant formula product lines, an important product type that is absent in Yashili's existing portfolio. Through acquiring Dumex China, Yashili will directly acquire its special infant formula product lines, facilitating the specialised positioning of its products.

The Yashili Group will further integrate resource, strengthen channel management, optimize staff allocation, increase execution efficiency and reinforce backstage integration, and the synergy effect is expected to emerge gradually.

4. WORKING CAPITAL

The Yashili Directors are of the opinion that, after taking into account the expected completion of the Proposed Acquisition and the financial resources available to the Enlarged Group (including the internally generated revenue and funds) and in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Yashili Directors were not aware of any material adverse change in the financial or trading position of the Yashili Group since 31 December 2015 (being the date to which the latest published audited consolidated financial statements of the Yashili Group were made up).

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

3 May 2016

The Directors
Yashili International Holdings Ltd

Dear Sirs,

We set out below our report on the financial information of Dumex Baby Food Co., Ltd. (the "Target Company") comprising the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods") and the statements of financial position of the Target Company as at 31 December 2013, 2014 and 2015, together with the notes thereto (the "Financial Information"), for inclusion in the circular of Yashili International Holdings Ltd (the "Circular") dated 3 May 2016 in connection with the proposed acquisition of 100% equity interest of the Target Company (the "Acquisition") by the Yashili International Holdings Ltd.

The Target Company was incorporated in Shanghai, the People's Republic of China (the "PRC") on 28 August 1992 as a company with limited liability.

For the purpose of this report, the directors of the Target Company (the "Directors") have prepared the financial statements of the Target Company (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015 were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements and Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information, and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the financial position of the Target Company as at 31 December 2013, 2014 and 2015, and of the financial performance and cash flows of the Target Company for each of the Relevant Periods.

I. FINANCIAL INFORMATION

(A) STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	Year ended 31 December 2015 RMB'000
REVENUE	6	3,570,062	1,315,862	417,353
Cost of sales		(1,076,223)	(501,000)	(354,105)
Gross profit		2,493,839	814,862	63,248
Other income and gains	6	87,509	14,097	32,776
Selling and distribution expenses		(2,568,570)	(1,135,061)	(483,302)
Administrative expenses		(395,230)	(262,697)	(150,349)
Other expenses		(179,948)	(232,460)	(248,524)
Finance costs	8	(2,051)	(28,461)	(52,432)
LOSS BEFORE TAX	7	(564,451)	(829,720)	(838,583)
Income tax expense	9	(83,736)	—	—
LOSS FOR THE YEAR		(648,187)	(829,720)	(838,583)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(648,187)	(829,720)	(838,583)

(B) STATEMENTS OF FINANCIAL POSITION

	Notes	31 December 2013 RMB'000	31 December 2014 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	11	317,976	282,218	9,494
Prepaid land lease payments	12	7,796	7,527	7,258
Intangible assets	13	2,274	2,642	—
Deferred tax assets	22	—	—	—
Long-term receivables		4,685	2,996	3,050
Total non-current assets		332,731	295,383	19,802
CURRENT ASSETS				
Due from the ultimate holding company	27(b)	—	64	—
Due from the immediate holding company	27(b)	8,835	31,778	—
Due from the related companies	27(b)	3,163	1,018	28,530
Loan to the immediate holding company	27(b)	250,000	—	—
Loan to the related companies	27(b)	250,088	—	—
Inventories	14	295,429	151,037	39,240
Trade receivables	15	31,275	38,069	81,833
Prepayments, deposits and other receivables	16	81,881	10,085	23,203
Derivative financial instruments	21	—	—	187
Cash and cash equivalents	17	23,303	8,935	10,221
Tax recoverable		159,528	—	—
Total current assets		1,103,502	240,986	183,214

	Notes	31 December 2013 RMB'000	31 December 2014 RMB'000	31 December 2015 RMB'000
CURRENT LIABILITIES				
Due to the ultimate holding company	27(b)	334	499	330
Due to the immediate holding company	27(b)	20,980	15,948	3,572
Due to the related companies	27(b)	7,059	46,701	31,924
Borrowings from the related companies	27(b)	537,427	999,262	1,239,695
Interest-bearing bank loans	18	—	—	500,000
Trade payables	19	39,474	32,442	21,249
Other payables and accruals	20	1,062,745	480,395	310,728
Derivative financial instruments	21	4,393	27,021	—
Total current liabilities		1,672,412	1,602,268	2,107,498
NET CURRENT LIABILITIES		(568,910)	(1,361,282)	(1,924,284)
TOTAL ASSETS LESS CURRENT LIABILITIES		(236,179)	(1,065,899)	(1,904,482)
Net liabilities		(236,179)	(1,065,899)	(1,904,482)
EQUITY				
Share capital	23	240,000	240,000	240,000
Reserves	24	(476,179)	(1,305,899)	(2,144,482)
Total equity		(236,179)	(1,065,899)	(1,904,482)

(C) STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital RMB'000	Statutory surplus reserve* RMB'000 (Note 24)	Other reserve* RMB'000	Accumulated losses* RMB'000	Total equity RMB'000
At 1 January 2013		240,000	120,000	2,308	814,857	1,177,165
Loss for the year and total comprehensive loss for the year		—	—	—	(648,187)	(648,187)
Dividend	*10*	—	—	—	(765,157)	(765,157)
At 31 December 2013 and 1 January 2014		240,000	120,000	2,308	(598,487)	(236,179)
Loss for the year and total comprehensive loss		—	—	—	(829,720)	(829,720)
At 31 December 2014 and 1 January 2015		240,000	120,000	2,308	(1,428,207)	(1,065,899)
Loss for the year and total comprehensive loss		—	—	—	(838,583)	(838,583)
At 31 December 2015		240,000	120,000	2,308	(2,266,790)	(1,904,482)

* These reserve accounts comprise the debit balance of reserve of RMB2,144,482,000 (2014: RMB1,305,899,000, 2013: RMB476,179,000) in the statement of financial position.

(D) STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	Year ended 31 December 2015 RMB'000
CASH FLOWS USED IN OPERATING ACTIVITIES				
Loss before tax		(564,451)	(829,720)	(838,583)
Adjustments for:				
Finance costs	8	2,051	28,461	52,432
Bank interest income	6	(15,455)	(173)	(157)
Interest income from the immediate holding company	6	(9,000)	(605)	—
Interest income from the related companies	6	(22,954)	(3,700)	—
Interest income from financial asset at fair value through profit or loss	6	(962)	—	—
Fair value losses/(gains) net:				
Derivative instruments — transactions not qualifying as hedges	7	(13,545)	22,628	(27,208)
Losses on disposal of items of property, plant and equipment	7	2,992	3,507	1,745
Depreciation	7	64,558	45,823	25,401
Amortization of intangible assets	7	1,837	1,437	817
Recognition of prepaid land lease payments	7	269	269	269
Impairment of items of property, plant and equipment	7	—	9,555	238,290
Impairment of items of intangible assets	7	—	—	1,825
Write-down of inventories to net realisable value	7	121,620	47,682	27,875
Provision of impairment of receivables	7	1,150	185,000	310
		(431,890)	(489,836)	(516,984)

	Notes	Year ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	Year ended 31 December 2015 RMB'000
Decrease/(increase) in amounts due from the ultimate holding company		46	(64)	64
Decrease/(increase) in amounts due from the immediate holding company		(5,744)	(22,943)	31,778
Decrease/(increase) in amounts due from the related companies		(3,049)	2,145	(27,512)
Decrease/(increase) in inventories		(118,635)	96,710	83,922
Decrease/(increase) in prepayments, deposits and other receivables		(47,208)	66,717	5,396
Decrease/(increase) in trade receivables		103,081	(6,794)	(43,764)
Decrease/(increase) in long-term receivables		81	1,689	(54)
Increase/(decrease) in amounts due to the ultimate holding company		(272)	165	(169)
Decrease in amounts due to the immediate holding company		(108,449)	(5,032)	(12,376)
Increase/(decrease) in amounts due to the related companies		(63,844)	39,642	(14,777)
Decrease in trade payables		(56,168)	(7,032)	(11,193)
Decrease in other payables and accruals		(37,040)	(584,254)	(170,496)
Cash used in operations		(769,091)	(908,887)	(676,165)
Tax (paid)/refunded		(256,559)	159,528	—
Interest received		15,455	173	157
Net cash flows used in operating activities		(1,010,195)	(749,186)	(676,008)

	Notes	Year ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	Year ended 31 December 2015 RMB'000
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment and intangible assets		(50,834)	(25,242)	(11,639)
Proceeds from disposal of items of property, plant and equipment and intangible assets		112	310	103
Disposal of financial assets at fair value through profit or loss		51,028	—	—
Repayment from the related companies		667,205	65,153	—
Repayment from the immediate holding company		—	250,000	—
Loan to the immediate holding company		(250,000)	—	—
Loan to the related companies		—	(65)	—
Interest income from the immediate holding company		4,528	5,077	—
Interest income from related companies		28,000	4,307	—
Interest income from financial assets at fair value through profit or loss	*6*	962	—	—
Net cash flows generated from/(used in) investing activities		451,001	299,540	(11,536)

	Notes	Year ended 31 December 2013 RMB'000	Year ended 31 December 2014 RMB'000	Year ended 31 December 2015 RMB'000
CASH FLOW FROM/ (USED IN) FINANCING ACTIVITIES				
Dividend paid		(765,157)	—	—
New bank loans		—	—	800,000
Repayment of bank loans		—	—	(300,000)
Borrowing from the related companies		537,427	461,835	240,433
Interest paid		(688)	(26,557)	(51,603)
Net cash flows generated from/ (used in) financing activities		(228,418)	435,278	688,830
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(787,612)	(14,368)	1,286
Cash and cash equivalents at beginning of year		810,915	23,303	8,935
CASH AND CASH EQUIVALENTS AT END OF YEAR		23,303	8,935	10,221
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	*17*	23,303	8,935	9,121
Time deposits	*17*	—	—	1,100
		23,303	8,935	10,221

II. NOTES TO FINANCIAL INFORMATION

1. INFORMATION ABOUT THE TARGET COMPANY

The Target Company was incorporated in Shanghai, PRC with limited liability on 28 August 1992. The registered office of the Target Company is located at 3/F, B-2, No.188 Ningqiao Road, Shanghai, PRC.

The principal activities of the Target Company are manufacture, sale, network retail, import and export of dairy products, other related nutritious products and other pre-packed products.

In the opinion of the directors, the ultimate holding company of the Target Company is Groupe Danone S.A., a company incorporated in France and listed on the France Stock Exchange.

The statutory financial statements of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 prepared in accordance with Accounting System for Business Enterprises issued by the Ministry of Finance (the "MOF") of the PRC and other related regulations issued by the MOF, were audited by Ernst & Young Hua Ming LLP.

2.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRS effective for the accounting period commencing from 1 January 2015, together with the relevant transition provision, have been early adopted by the Target Company in the preparation of the Financial Information thought out the Relevant Periods. They have been prepared under the historical cost convention, except for derivative financial instruments and financial assets which have been measured at fair value. The Financial Information are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2015, the Target Company has net current liabilities. The Directors have prepared the Financial Information on a going concern basis notwithstanding the net current liabilities position of the Target Company as the parent company has agreed to provide financial support to the Target Company upon the completion of the Acquisition. The Directors have therefore considered that the Target Company will have sufficient resources to meet its financial obligations as and when they fall due and are satisfied that it is appropriate to prepare the Financial Information on a going concern basis. If the going concern basis is not appropriate, adjustments would have to be made to write down the values of the Target Company's assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify its non-current assets and liabilities as current assets and liabilities, respectively.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Target Company has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in this Financial Information.

IFRS 9	*Financial Instruments*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customer*[3]
IFRS 16	*Leases*[4]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 7	*Disclosure Initiative*[2]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for annual periods beginning on or after 1 January 2019
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Target Company
6 No mandatory effective date yet determined but is available for adoption

The Target Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Target Company considers that these new and revised IFRSs are unlikely to have a significant impact on the Target Company's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the accounting policies below which conform with IFRSs.

Fair value measurement

The Target Company measures its financial asset at fair value through profit or loss and derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Company ;

(ii) has significant influence over the Target Company ; or

(iii) is a member of the key management personnel of the Target Company or of the holding companies of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

	Principal annual rates	**Residual values**
Buildings	4%–20%	—
Machinery	10%	—
Motor vehicles	20%–25%	—
Office equipments	20%–33%	—
Leasehold improvements	20%	—

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of comprehensive income. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of comprehensive income in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Target Company evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Target Company is unable to trade these financial assets due to inactive markets, the Target Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Impairment of financial assets

The Target Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Target Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of comprehensive income.

Available-for-sale financial investments

For available-for-sale financial investments, the Target Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is removed from other comprehensive income and recognised in the statement of comprehensive income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income — is removed from other comprehensive income and recognised in the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Target Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Target Company's financial liabilities include trade and other payables, an amount due to the ultimate holding company, the immediate holding company and other related companies, derivative financial instruments and interest-bearing borrowings from the related companies.

Subsequent measurement — Loans and borrowings

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Target Company uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Target Company expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Company and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Pension scheme

The employees of the Target Company are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Target Company can no longer withdraw the offer of those benefits and when the Target Company recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, an appropriate capitalisation rate shall be applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Target Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Financial Information are presented in Renminbi, which is the Target Company's functional currency. Foreign currency transactions recorded by the Target Company are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Target Company's accounting policies, management has not made any significant judgement, apart from those involving estimations, which have significant effect on the amounts recognised in the Financial Information.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets

The Target Company assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of receivables

Impairment of receivables is made based on assessment of their recoverability. The identification of impairment of receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss/reversal of impairment in the period in which such an estimate has been changed.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customer taste or competitor actions. Management reassesses these estimates at each reporting date.

5. OPERATING SEGMENT INFORMATION

For management purpose, the Target Company has only one reportable operating segment which is manufacture and sale of dairy products. Since this is the only reportable operating segment of the Target Company, no further operating segment analysis thereof is presented.

Geographical information

The Target Company's operations are substantially based in Mainland China and over 95% of revenue and non-current assets, exclude deferred tax assets, of the Target Company are located in Mainland China. Therefore, no further analysis of geographical information is presented.

6. REVENUE AND OTHER INCOME AND GAINS

Revenue, represents the net invoiced value of goods sold, after allowances for trade discounts.

An analysis of the Target Company's revenue and other income and gains is as follows:

	Year ended 31 December 2013 *RMB'000*	Year ended 31 December 2014 *RMB'000*	Year ended 31 December 2015 *RMB'000*
Revenue			
Sale of goods	3,570,062	1,315,862	417,353
Other income and gains			
Bank interest income	15,455	173	157
Interest income from the immediate holding company	9,000	605	—
Interest income from the related companies	22,954	3,700	—
Interest income from financial assets at fair value through profit or loss	962	—	—
Government grants	37,517	9,318	—
Gains on disposal of scrapped materials	1,433	149	9
Gains on disposal of items of property, plant and equipment	73	42	4,737
Service fee from a related company	—	—	4,459
Exchange gains, net	—	—	23,294
Others	115	110	120
	87,509	14,097	32,776

7. LOSS BEFORE TAX

The Target Company's loss before tax is arrived at after charging/(crediting):

	Year ended 31 December 2013 *RMB'000*	Year ended 31 December 2014 *RMB'000*	Year ended 31 December 2015 *RMB'000*
Cost of inventories sold	1,076,223	501,000	354,105
Depreciation *(note 11)*	64,558	45,823	25,401
Minimum lease payments under operating leases	34,050	31,810	21,664
Recognition of prepaid land lease payments *(note 12)*	269	269	269
Amortization of other intangible assets *(note 13)*	1,837	1,437	817
Auditors' remuneration	609	622	379
Employee benefits expense			
Salaries, wages and allowances	440,509	390,505	218,944
Pension scheme contributions	34,940	27,774	18,883
	475,449	418,279	237,827
Loss on disposal of items of property, plant and equipment	2,992	3,507	1,745
Provision of impairment of other receivables *(note 16)*	1,150	—	310
Provision of impairment of an amount due from a related company *(note 27(b))*	—	185,000	—
Impairment of items of property, plant and equipment *(note 11)*	—	9,555	238,290
Impairment of items of intangible assets *(note 13)*	—	—	1,825
Provision of impairment of inventories	121,620	47,682	27,875
Foreign exchange differences, net	16,539	2,401	3,914
Fair value losses/(gains) net:			
Derivative instruments — transactions not qualifying as hedges *(note 21)*	(13,545)	22,628	(27,208)
Bank interest income *(note 6)*	(15,455)	(173)	(157)
Interest income from the immediate holding company *(note 6)*	(9,000)	(605)	—
Interest income from the related companies *(note 6)*	(22,954)	(3,700)	—
Interest income from financial assets at fair value through profit or loss *(note 6)*	(962)	—	—

8. FINANCE COSTS

	Year ended 31 December 2013 *RMB'000*	Year ended 31 December 2014 *RMB'000*	Year ended 31 December 2015 *RMB'000*
Interest on loans from related parties wholly repayable within five years	2,051	28,461	48,327
Interest on bank loans wholly repayable within five years	—	—	4,105
	2,051	28,461	52,432

9. INCOME TAX

According to the PRC Enterprise Income Tax Law effective from 1 January 2008, the Target Company is subject to income tax at the rate of 25% on its respective taxable income.

	Year ended 31 December 2013 *RMB'000*	Year ended 31 December 2014 *RMB'000*	Year ended 31 December 2015 *RMB'000*
Current			
Charge for the year	31,405	—	—
Deferred *(note 22)*	52,331	—	—
Total tax charge for the year	83,736	—	—

A reconciliation of the tax expense applicable to loss before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 December 2013 *RMB'000*	Year ended 31 December 2014 *RMB'000*	Year ended 31 December 2015 *RMB'000*
Loss before tax	(564,451)	(829,720)	(838,583)
Tax at the statutory tax rate of 25%	(141,113)	(207,430)	(209,646)
Expenses not deductible for tax	117,217	12,467	8,103
Temporary differences not recognized	107,632	(37,137)	32,700
Tax losses not recognised	—	232,100	168,843
Tax charge at the Target Company's effective rate	83,736	—	—
Effective tax rate for the year	–15%	—	—

10. DIVIDENDS

	Year ended 31 December 2013 *RMB'000*	Year ended 31 December 2014 *RMB'000*	Year ended 31 December 2015 *RMB'000*
Final dividend	765,157	—	—

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Machinery	Motor vehicles	Office equipments	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2013							
At 31 December 2012 and at 1 January 2013:							
Cost	328,650	7,848	262,630	1,218	91,381	12,795	704,522
Accumulated depreciation	(164,491)	(262)	(140,541)	(1,218)	(62,626)	—	(369,138)
Net carrying amount	164,159	7,586	122,089	—	28,755	12,795	335,384
At 1 January 2013, net of accumulated depreciation	164,159	7,586	122,089	—	28,755	12,795	335,384
Additions	12,296	—	1,566	—	6,672	29,720	50,254
Disposals	(800)	—	(1,787)	—	(517)	—	(3,104)
Depreciation provided during the year	(28,696)	(1,570)	(23,064)	—	(11,228)	—	(64,558)
Transfers	1,481	—	7,161	—	2,714	(11,356)	—
At 31 December 2013, net of accumulated depreciation	148,440	6,016	105,965	—	26,396	31,159	317,976
At 31 December 2013:							
Cost	337,860	7,848	264,114	887	91,478	31,159	733,346
Accumulated depreciation	(189,420)	(1,832)	(158,149)	(887)	(65,082)	—	(415,370)
Net carrying amount	148,440	6,016	105,965	—	26,396	31,159	317,976

	Buildings	Leasehold improvements	Machinery	Motor vehicles	Office equipments	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2014							
At 31 December 2013 and at 1 January 2014:							
Cost	337,860	7,848	264,114	887	91,478	31,159	733,346
Accumulated depreciation	(189,420)	(1,832)	(158,149)	(887)	(65,082)	—	(415,370)
Net carrying amount	148,440	6,016	105,965	—	26,396	31,159	317,976
At 1 January 2014, net of accumulated depreciation	148,440	6,016	105,965	—	26,396	31,159	317,976
Additions	349	—	1,759	—	1,929	19,430	23,467
Disposals	—	—	(2,532)	—	(443)	(842)	(3,817)
Impairment	—	—	(9,555)	—	—	—	(9,555)
Depreciation provided during the year	(17,547)	(1,569)	(16,875)	—	(9,832)	—	(45,823)
Transfers	2,029	—	2,037	—	1,622	(5,688)	—
Transfers to intangible assets	—	—	—	—	—	(30)	(30)
At 31 December 2014, net of accumulated depreciation and impairment	133,271	4,447	80,799	—	19,672	44,029	282,218
At 31 December 2014:							
Cost	340,238	7,848	257,145	844	91,695	44,029	741,799
Accumulated depreciation and impairment	(206,967)	(3,401)	(176,346)	(844)	(72,023)	—	(459,581)
Net carrying amount	133,271	4,447	80,799	—	19,672	44,029	282,218

	Buildings	Leasehold improvements	Machinery	Motor vehicles	Office equipments	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2015							
At 1 January 2015:							
Cost	340,238	7,848	257,145	844	91,695	44,029	741,799
Accumulated depreciation and impairment	(206,967)	(3,401)	(176,346)	(844)	(72,023)	—	(459,581)
Net carrying amount	133,271	4,447	80,799	—	19,672	44,029	282,218
At 1 January 2015, net of accumulated depreciation and impairment	133,271	4,447	80,799	—	19,672	44,029	282,218
Additions	—	—	—	—	296	11,343	11,639
Disposals	—	—	(20,672)	—	—	—	(20,672)
Impairment	(130,351)	(3,663)	(56,885)	—	(16,515)	(30,876)	(238,290)
Depreciation provided during the year	(5,098)	(784)	(14,844)	—	(4,675)	—	(25,401)
Transfers	2,178	—	20,417	—	1,901	(24,496)	—
At 31 December 2015, net of accumulated depreciation and impairment	-	—	8,815	—	679	—	9,494
At 31 December 2015:							
Cost	338,834	7,848	181,148	844	77,610	30,876	637,160
Accumulated depreciation and impairment	(338,834)	(7,848)	(172,333)	(844)	(76,931)	(30,876)	(627,666)
Net carrying amount	—	—	8,815	—	679	—	9,494

For the year ended 31 December 2013, 2014 and 2015, the Directors considered that certain property, plant and equipment of the Target Company were subject to impairment loss because the cash generating units of those property, plant and equipment were non-performing and suffered from substantial losses for the years. The Directors estimated the recoverable amounts of respective cash generating units based on fair value less disposal costs which was approved by senior management.

An impairment provision of RMB9,555,000 and RMB238,290,000 was recognised in profit or loss for the year ended 31 December 2014 and 2015, respectively.

12. PREPAID LAND LEASE PAYMENTS

	As at 31 December 2013 *RMB'000*	As at 31 December 2014 *RMB'000*	As at 31 December 2015 *RMB'000*
Carrying amount at 1 January	8,065	7,796	7,527
Recognised during the year	(269)	(269)	(269)
	7,796	7,527	7,258

13. INTANGIBLE ASSETS

31 December 2013

	Software *RMB'000*	Total *RMB'000*
Cost at 1 January 2013, net of accumulated amortisation	3,531	3,531
Additions	580	580
Amortization provided during the year	(1,837)	(1,837)
At 31 December 2013	2,274	2,274
At 31 December 2013		
Cost	17,472	17,472
Accumulated amortisation	(15,198)	(15,198)
Net carrying amount	2,274	2,274

31 December 2014

	Software *RMB'000*	Total *RMB'000*
Cost at 1 January 2014, net of accumulated amortisation	2,274	2,274
Additions	1,775	1,775
Transferred from construction in progress	30	30
Amortization provided during the year	(1,437)	(1,437)
At 31 December 2014	2,642	2,642
At 31 December 2014		
Cost	19,277	19,277
Accumulated amortisation	(16,635)	(16,635)
Net carrying amount	2,642	2,642

31 December 2015

	Software	Total
	RMB'000	*RMB'000*
Cost at 1 January 2015, net of accumulated amortisation	2,642	2,642
Amortization provided during the year	(817)	(817)
Impairment provided during the year	(1,825)	(1,825)
At 31 December 2015	—	—
At 31 December 2015		
Cost	—	—
Accumulated amortization and impairment	—	—
Net carrying amount	—	—

For the year ended 31 December 2015, the Directors considered that intangible assets of the Target Company were subject to impairment loss because the cash generating units of those intangible assets were non-performing and suffered from substantial losses for the year. The Directors estimated the recoverable amounts of respective cash generating units based on fair value less disposal costs which was approved by senior management.

14. INVENTORIES

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	240,052	96,522	22,163
Work in progress	682	3,157	75
Finished goods	54,695	51,358	17,002
	295,429	151,037	39,240

15. TRADE RECEIVABLES

In respect of trade receivables, the Target Company has established a credit policy: fixed credits are granted to supermarkets and the periods range from 15 to 90 days. Special credit is granted to creditworthy distributor customers when the Target Company promotes certain lines of products. All the credits offered are unsecured. Full advances are required for sales to other customers. The Target Company regularly reviews the aged analysis of the trade receivables to monitor the credit exposure. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables based on the invoice date, is as follows:

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	28,843	37,619	81,050
1 to 2 months	1,216	450	783
2 to 3 months	1,216	—	—
	31,275	38,069	81,833

None of the above assets is impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

An aged analysis of trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	28,843	37,619	81,050
Less than 1 month past due	525	405	783
1 to 2 months past due	691	45	—
Over 2 months past due	1,216	—	—
	31,275	38,069	81,833

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Target Company. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*
Prepaid rental	905	619	434
Deposits	2,949	3,320	797
Interest receivables	5,079	—	—
Other tax receivables	70,524	—	3,028
Prepaid custom duty	368	1,570	781
Receivables for sales of equipment	—	—	16,602
Others	2,056	4,576	1,561
	81,881	10,085	23,203

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The movements in provision for impairment of prepayments, deposits and receivables are as follows:

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	—	—	—
Impairment losses recognised	1,150	—	310
Amount written off as uncollectible	(1,150)	—	—
	—	—	310

17. CASH AND CASH EQUIVALENTS

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	23,303	8,935	9,121
Time deposits	—	—	1,100
	23,303	8,935	10,221

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between seven days and three months depending on the immediate cash requirements of the Target Company, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

18. INTEREST-BEARING BANK LOANS

At 31 December 2015

	Effective interest rate(%)	Maturity	*RMB'000*
Bank loans (repayable within one year)	3.6975%	2016	500,000

19. TRADE PAYABLES

An aged analysis of the trade payables, based on the invoice date, is as follows:

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	26,334	12,424	10,108
1 to 2 months	4,919	5,641	2,980
2 to 3 months	1,257	7,552	4,602
Over 3 months	6,964	6,825	3,559
	39,474	32,442	21,249

Trade payables are non-interest bearing and are normally settled on payment terms of 30 to 90 days.

20. OTHER PAYABLES AND ACCRUALS

	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015
	RMB'000	*RMB'000*	*RMB'000*
Advances from customers	20,763	28,204	3,739
Payroll payable	71,881	54,760	35,179
Other tax payable	2,628	22,514	3,241
Accruals	625,544	254,031	215,507
Accrued interests	1,363	3,267	4,097
Other payables	340,566	117,619	48,965
	1,062,745	480,395	310,728

Other payables are non-interest bearing and have an average term of three months.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2013 Liabilities *RMB'000*	As at 31 December 2014 Liabilities *RMB'000*	As at 31 December 2015 Assets *RMB'000*
Foreign forward contracts	(4,393)	(27,021)	187

The Target Company has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives were charged/(credited) to the statement of comprehensive income as follows:

	Year ended 31 December 2013 *RMB'000*	Year ended 31 December 2014 *RMB'000*	Year ended 31 December 2015 *RMB'000*
Fair value losses/(gains) net:			
Derivative instruments — transactions not qualifying as hedges	(13,545)	22,628	(27,208)

22. DEFERRED TAX

The movements in deferred tax assets are as follows:

Deferred tax assets

	Depreciation and amortisation *RMB'000*	Impairment provision *RMB'000*	Accrued expenses *RMB'000*	Fair value adjustments of foreign forward contracts *RMB'000*	Total *RMB'000*
At 1 January 2013	14,498	2,767	30,581	4,485	52,331
Deferred tax credited to profit or loss *(note 9)*	(14,498)	(2,767)	(30,581)	(4,485)	(52,331)
At 31 December 2013 and 1 January 2014	—	—	—	—	—
Deferred tax charged to profit or loss *(note 9)*	—	—	—	—	—
At 31 December 2014 and 1 January 2015	—	—	—	—	—
Deferred tax charged to profit or loss *(note 9)*	—	—	—	—	—
At 31 December 2015	—	—	—	—	—

Deferred tax assets have not been recognised in respect of the following items:

	As at 31 December 2013 *RMB'000*	As at 31 December 2014 *RMB'000*	As at 31 December 2015 *RMB'000*
Tax losses	—	232,100	168,843
Deductible temporary differences	107,632	70,495	32,700
	107,632	302,595	201,543

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

23. SHARE CAPITAL

	As at 31 December 2013 *RMB'000*	As at 31 December 2014 *RMB'000*	As at 31 December 2015 *RMB'000*
Issued and fully paid:	240,000	240,000	240,000

24. RESERVES

The amounts of the Target Company's reserves and the movements therein for the Relevant Periods are presented in the statement of changes in equity on page II-6 of the Financial Information.

(i) Statutory surplus reserve (the "SSR")

In accordance with the Company Law of the PRC and the articles of association of the Target Company, the Target Company is required to allocate 10% of their profit after tax, as determined in accordance with the PRC generally accepted accounting principles, to the SSR until this reserve reaches 50% of the registered capital of the Target Company. Part of the SSR may be converted to increase the paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(ii) Other reserve

Other reserve represents the exchange differences on capital contributions in foreign currency, whereby prevailing exchanges rates were used to account for the amounts received by instalments in the bank account (capital) and a fixed exchange rate was used to account for the capital paid up.

25. OPERATING LEASE ARRANGEMENTS

The Target Company leases its offices, motor vehicles and office equipment under operating lease arrangements. Leases are negotiated for terms ranging from one to three years.

The Target Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2013	**As at 31 December 2014**	**As at 31 December 2015**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	29,928	19,924	15,580
In the second to fifth years, inclusive	38,348	22,144	11,768
	68,276	42,068	27,348

26. COMMITMENTS

In addition to the operating lease commitments detailed in note 25 above, the Target Company had the following capital commitments:

	As at 31 December 2013	**As at 31 December 2014**	**As at 31 December 2015**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for:			
Machinery	1,620	5,109	3,596

27. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in this Financial Information, the Target Company had the following material transactions with related parties during the Relevant Periods:

	Notes	**Year ended 31 December 2013** *RMB'000*	**Year ended 31 December 2014** *RMB'000*	**Year ended 31 December 2015** *RMB'000*
Loans to the immediate holding company	*(i)*	250,000	—	—
Interest income from the immediate holding company	*(i)*	9,000	605	—
Loans to fellow subsidiaries	*(ii)*	—	65	—
Interest income from fellow subsidiaries	*(ii)*	22,954	3,700	—
Loans borrowed from fellow subsidiaries	*(iii)*	537,427	461,835	240,433
Interest expenses on loans from fellow subsidiaries	*(iii)*	2,051	28,461	48,327
Purchase of raw materials				
Immediate holding company	*(iv)*	786,454	14,171	13,798
Fellow subsidiaries	*(iv)*	37,226	125,988	26,132
Royalty fee or technology fee				
Immediate holding company	*(v)*	120,128	48,131	17,359
Fellow subsidiaries	*(v)*	162,069	57,015	18,725
Services fees charged by				
Ultimate holding company	*(vi)*	1,134	899	3,430
Immediate holding company	*(vi)*	93	—	421
Fellow subsidiaries	*(vi)*	28,658	28,130	43,494
Service fees from Fellow subsidiaries	*(vii)*	—	—	94,822
Trade support charged by Fellow subsidiaries		7,781	3,740	3,134
Compensation paid to Fellow subsidiaries		—	5,270	11,661
Exchange gains allocated by Immediate holding company		—	31,663	—

Notes:

(i) Interest income was charged at effective interest rate of 4% per annum for the year ended 31 December 2013 and 2014, based on the loan of RMB250,000,000 to the immediate holding company. This loan to the immediate holding company is repayable within 1 year.

(ii) Interest income was charged at effective interest rate of 4.193% per annum and 4.193% per annum, for the year ended 31 December 2013 and 2014, respectively, based on loans to fellow subsidiaries. The loans to the fellow subsidiaries are repayable on demand.

(iii) Interest expense was charged at effective interest rate of 4.193% per annum, 4.193% per annum and 2.7785% to 4.193% per annum, for the year ended 31 December 2013, the year ended 31 December 2014 and the year ended 31 December 2015, respectively, based on loans from the related companies. The loans from the fellow subsidiaries are repayable on demand.

(iv) The purchases from the related parties were made based on cost plus method.

(v) Royalty fee paid to the immediate holding company is calculated at 3.5% of revenue from Dumex milk powder, and technology fee paid to the fellow subsidiaries is calculated at 5.0% of revenue from gold Dumex milk powder, mother milk powder and Diamor milk powder.

(vi) The service fees paid to the related parties were made based on cost plus method or mutually agreed between the two parties.

(vii) The service fees from the fellow subsidiaries were made based on cost plus method.

(b) Outstanding balances with related parties:

(i) As at 31 December 2013, the Target Company's loan to the immediate holding company which was unsecured, interest-bearing and was repayable within one year after the end of the reporting period, was repaid during the year ended 31 December 2014. Details of interest rate of the loan to the immediate holding company was included in note 27(a) above.

(ii) As at 31 December 2013, the Target Company's loans to the fellow subsidiaries were unsecured, interest-bearing and was repayable on demand. Details of interest rate of the loan to fellow subsidiaries was included in note 27(a) above. During the year ended 31 December 2014, Danone Dairy Sales (Shanghai) Co., Ltd. was liquidated, so the Target Company wrote off the loans due from Danone Dairy Sales (Shanghai) Co., Ltd. amounting to RMB185,000,000.

(iii) As at 31 December 2013, 2014 and 2015, the Target Company's loans borrowed from the fellow subsidiaries were unsecured, interest-bearing and was repayable on demand. Details of interest rate of the loans to fellow subsidiaries was included in note 27(a) above.

(iv) Other than loans, the Target Company's balances with the ultimate holding company, the immediate holding company and the fellow subsidiaries are unsecured, interest-free and repayable on demand.

28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2013

Financial assets

	Loans and receivables	Total
	RMB'000	*RMB'000*
Due from the immediate holding company	8,835	8,835
Due from the related companies	3,163	3,163
Loan to the immediate holding company	250,000	250,000
Loan to the related companies	250,088	250,088
Trade receivables	31,275	31,275
Financial assets included in prepayments, deposits and other receivables	8,028	8,028
Cash and cash equivalents	23,303	23,303
Long-term receivables	4,685	4,685
	579,377	579,377

Financial liabilities

	Financial liability at fair value through profit or loss	Financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Due to the ultimate holding company	—	334	334
Due to the immediate holding company	—	20,980	20,980
Due to the related companies	—	7,059	7,059
Borrowings from the related companies	—	537,427	537,427
Trade payables	—	39,474	39,474
Financial assets included in other payables and accruals	—	412,447	412,447
Derivative financial instruments	4,393	—	4,393
	4,393	1,017,721	1,022,114

31 December 2014

Financial assets

	Loans and receivables	**Total**
	RMB'000	*RMB'000*
Due from the ultimate holding company	64	64
Due from the immediate holding company	31,778	31,778
Due from the related companies	1,018	1,018
Trade receivables	38,069	38,069
Financial assets included in prepayments, deposits and other receivables	3,320	3,320
Cash and cash equivalents	8,935	8,935
Long-term receivables	2,996	2,996
	86,180	86,180

Financial liabilities

	Financial liability at fair value through profit or loss	**Financial liabilities at amortised cost**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Due to the ultimate holding company	—	499	499
Due to the immediate holding company	—	15,948	15,948
Due to the related companies	—	46,701	46,701
Borrowings from the related companies	—	999,262	999,262
Trade payables	—	32,442	32,442
Financial assets included in other payables and accruals	—	172,379	172,379
Derivative financial instruments	27,021	—	27,021
	27,021	1,267,231	1,294,252

31 December 2015

Financial assets

	Financial asset at fair value through profit or loss *RMB'000*	**Loans and receivables** *RMB'000*	**Total** *RMB'000*
Due from the related companies	—	28,530	28,530
Trade receivables	—	81,833	81,833
Financial assets included in prepayments, deposits and other receivables	—	17,399	17,399
Derivative financial instruments	187	—	187
Cash and cash equivalents	—	10,221	10,221
Long-term receivables	—	3,050	3,050
	187	141,033	141,220

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	**Total** *RMB'000*
Due to the ultimate holding company	330	330
Due to the immediate holding company	3,572	3,572
Due to the related companies	31,924	31,924
Borrowings from the related companies	1,239,695	1,239,695
Interest-bearing bank loans	500,000	500,000
Trade payables	21,249	21,249
Financial assets included in other payables and accruals	84,144	84,144
	1,880,914	1,880,914

29. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The Target Company uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Financial instruments measured at fair value

At 31 December 2013

	Carrying amount	Fair value	Fair value measurements categorised into Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	(4,393)	(4,393)	—	(4,393)	—	(4,393)

At 31 December 2014

	Carrying amount	Fair value	Fair value measurements categorised into Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	(27,021)	(27,021)	—	(27,021)	—	(27,021)

At 31 December 2015

	Carrying amount	Fair value	Fair value measurements categorised into Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Derivative financial instruments	187	187	—	187	—	187

During the year ended 31 December 2013, 2014, 2015, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The carrying amounts of cash and cash equivalents, trade receivables, long-term receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, balances with the ultimate holding company, the immediate holding company and the related companies approximate to their fair values.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments, other than derivatives, comprise cash and cash equivalents, loans to and borrowings from related parties. The main purposes of these financial instruments are to provide finance for the Target Company's operations and to earn interest income. The Target Company has various other financial assets and liabilities such as balances with group companies, trade receivables and trade payables, which arise directly from its operations.

The Target Company also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Target Company's operations.

The main risks arising from the Target Company's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Target Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Target Company's operating activities (when revenue or expenses are denominated in a different currency from the Target Company's functional currency).

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in Mainland China can enter into exchange transactions through the People's Bank of China or other authorised financial institutions. Payments for imported materials or services and remittance of earnings outside of Mainland China are subject to the availability of foreign currencies which depends on the foreign currency denominated earnings of the enterprises, or must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchases of imported materials and remittance of earnings. While conversion of RMB to the foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

The following table demonstrates the sensitivity to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Target Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase (+)/ decrease (–) in foreign currency rate	**Increase/ (decrease) in profit before tax** *RMB'000*
2013		
If RMB strengthens against the United States dollar	+5%	683
If RMB weakens against the United States dollar	–5%	(683)
If RMB strengthens against Euro	+5%	87
If RMB weakens against Euro	–5%	(87)
2014		
If RMB strengthens against the United States dollar	+5%	(446)
If RMB weakens against the United States dollar	–5%	446
If RMB strengthens against Euro	+5%	1,691
If RMB weakens against Euro	–5%	(1,691)
2015		
If RMB strengthens against the United States dollar	+5%	108
If RMB weakens against the United States dollar	–5%	(108)
If RMB strengthens against Euro	+5%	303
If RMB weakens against Euro	–5%	(303)

Credit risk

The Target Company trades only with recognised and creditworthy third parties. It is the Target Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables and balances are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Target Company, which comprise cash and short-term deposits, other receivables and financial assets at fair value through profit or loss, the Target Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Target Company trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. There are no significant concentrations of credit risk within the Target Company.

Further quantitative data in respect of the Target Company's exposure to credit risk arising from trade receivables are disclosed in note 15 to the financial statements.

Liquidity risk

The Target Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Target Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	On demand	Less than 12 months	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2013			
Due to the ultimate holding company	334	—	334
Due to the immediate holding company	20,980	—	20,980
Due to the related companies	7,059	—	7,059
Borrowings from the related companies	537,427	—	537,427
Trade payables	—	39,474	39,474
Financial liabilities included in other payables and accruals	—	412,447	412,447
Derivative financial instruments	—	4,393	4,393
	565,800	456,314	1,022,114

	On demand	Less than 12 months	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2014			
Due to the ultimate holding company	499	—	499
Due to the immediate holding company	15,948	—	15,948
Due to the related companies	46,701	—	46,701
Borrowings from the related companies	999,262	—	999,262
Trade payables	—	32,442	32,442
Financial liabilities included in other payables and accruals	—	172,379	172,379
Derivative financial instruments	—	27,021	27,021
	1,062,410	231,842	1,294,252

	On demand	Less than 12 months	Total
	RMB'000	*RMB'000*	*RMB'000*
31 December 2015			
Due to the ultimate holding company	330	—	330
Due to the immediate holding company	3,572	—	3,572
Due to the related companies	31,924	—	31,924
Borrowings from the related companies	1,239,695	—	1,239,695
Interest-bearing bank loans	500,000	—	500,000
Trade payables	—	21,249	21,249
Financial liabilities included in other payables and accruals	—	84,144	84,144
	1,775,521	105,393	1,880,914

Capital management

The primary objectives of the Target Company's capital management are to safeguard ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder's value.

The Target Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Company may adjust the dividend payment to the shareholder, loans to or borrowings from group companies. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2015.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

Management Discussion and Analysis of Dumex China For the Three Years Ended 31 December 2015

BUSINESS OVERVIEW

Established in 1946, "Dumex" has been a leading brand of pediatric milk formula in Asian market since 1990s. In 1992, Dumex China established its presence in the PRC, which mainly includes production, sale and import of pediatric milk powder products and other related nutrition products. With solid brand value and established operations in the PRC, Dumex China has successfully introduced various types of products and achieved business growth in the market, including launch of its pediatric milk formula product specially designed for the 0-6 years old Chinese babies in 1995, adding European/China patented prebiotics into its products later in the same year, innovatively applying Yi Le can package in 2007, introducing its globally leading new product "Precinutri" firstly in the PRC in 2012 which acquired certain market share in the traditional channels, and launch of the Diamor series of infant formula products in the PRC targeting at the high-end market of the baby and infant milk powder.

FINANCIAL OVERVIEW

Revenue

For the year ended 31 December 2013, Dumex China achieved a revenue of RMB3,570 million (2012: RMB5,683 million), representing a decrease of 37.2%. The change in revenue for 2013 was mainly due to sharp drop from full scale market recall resulted from August 2013 Fonterra Incident, which was subsequently proved to be unfounded.

For the year ended 31 December 2014, Dumex China achieved a revenue of RMB1,316 million (2013: RMB3,570 million), representing a decrease of 63.1%. The change in revenue for 2014 was mainly due to : (i) Traditional sales channel, like modern trade channel, was shrinking during the year; (ii) the Fonterra Incident, as a result of which the results and brand image of Dumex China's operations were materially affected and damaged even though the alert was subsequently proved to be unfounded.

For the year ended 31 December 2015, Dumex China achieved a revenue of RMB417 million (2014: RMB1,316 million), representing a decrease of 68.3%. The change in revenue was mainly due to: (i) continued impact from the Fonterra Incident impacting channel strategy and consumer engagement due to recall damage on the trust of the brand; (ii) Dumex China has proactively adjusted its existing Route to Market model since the early 2015 and developing its direct sales model by streamlining the existing distribution network and such adjustment has been completed as of the Latest Practicable Date. The optimization of distribution network reduced the number of distributors as well as narrowed down the geographic scope of the market focus for Dumex China's products. Dumex China reacquired aging and delisted inventories from inactive distributors, which were written off and directly offset against the revenue for 2015. The amount that was offset against revenue was RMB145 million. The reacquisition of aging and delisted inventories by

Dumex China from its inactive distributor was a result of its changes to marketing strategy rather than a recall of products due to quality issues. Accordingly, the Directors are of the view that such reacquisition was unrelated to any systemic issues relating to the quality of Dumex China's products.

Impact of the Fonterra Incident on Dumex China's revenue

On 28 August 2013, the New Zealand Ministry for Primary Industries confirmed that the bacteria found in the whey protein concentrate supplied by Fonterra was not clostridium botulinum and was therefore incapable of producing botulism causing toxins.

As a result of the Fonterra Incident, which occurred in August 2013, Dumex China's revenue decreased approximately 37% in 2013 and 63% in 2014, respectively, from the previous year. Due to the sensitive nature of baby formula in China, which has been heightened since the melamine crisis in 2008, the Fonterra Incident has had an ongoing negative impact on Dumex China's financial performance and brand.

The strength of the Dumex China brand is directly impacted by consumer confidence and word-of-mouth. The recall in 2013 due to the Fonterra Incident had a material adverse effect on Dumex China's reputation, and therefore its performance, in 2013 and 2014. In 2015, as a result of the decline in customer demand for Dumex China's products, Dumex China's distribution network was restructured to account for the reduced scale of the business. Dumex China's profits in 2015 reflect the ongoing reduced customer demand and the costs incurred to achieve the restructuring, which will allow Dumex China to compete more effectively in the market going forward.

Gross profit

For the year ended 31 December 2013, Dumex China recorded gross profit of RMB2,494 million (2012: RMB4,178 million), representing a decrease of 40.3%. The gross margin slightly declined from 73.5% in 2012 to 69.9% in 2013. The slight decline in gross profit margin in 2013 was mainly attributable to the drop of sales and production volume in the second half of the year due to recall in respect of the Fonterra Incident.

For the year ended 31 December 2014, Dumex China recorded gross profit of RMB815 million (2013: RMB2,494 million), representing a decrease of 67.3%. The gross margin declined from 69.9% in 2013 to 61.9% in 2014. The decline in gross profit margin in 2014 was mainly attributable to the decline in sales volume and high operational expenses in anticipation of better off take recovery which did not materialize.

For the year ended 31 December 2015, Dumex China recorded gross profit of RMB63 million (2014: RMB815 million), representing a decrease of 92.2% and the gross margin declined from 61.9% in 2014 to 15.2% in 2015. The decline in gross profit margin was mainly attributable to: (i) certain non-recurring expenses incurred by Dumex China in 2015, including but not limited to the reacquisition of inventories from distribution channels offset against revenue, logistics costs and destruction expenses associated with product recalls and impairment provision made for certain obsolete inventories in operating expenses, which also weighed down the overall gross profit margin.

Selling and distribution expenses

For the year ended 31 December 2013, Dumex China incurred selling and distribution expenses of RMB2,569 million (2012: RMB2,970 million), representing a decrease of 13.5%. The decrease in expenses was mainly due to a reduction of workforce as a result of recall in respect of the Fonterra Incident.

For the year ended 31 December 2014, Dumex China incurred selling and distribution expenses of RMB1,135 million (2013: RMB2,569 million), representing a decrease of 55.8%. The decrease in expenses was mainly due to reduced offtake and reduction in sales force resources and promotional activities.

For the year ended 31 December 2015, Dumex China's selling and distribution expenses amounted to RMB483 million (2014: RMB1,135 million), representing a decrease of 57.4%. The decrease in expenses was mainly due to workforce reduction as well as optimization of sales forces and third party sales due to Route-To-Market optimization.

Administrative expenses

For the year ended 31 December 2013, Dumex China incurred administrative expenses of RMB395 million (2012: RMB218 million), representing an increase of 81.2%. The increase was primarily mainly due to severance cost of RMB73 million and reclassification part of the conversion cost to administrative expense.

For the year ended 31 December 2014, Dumex China incurred administrative expenses of RMB263 million (2013: RMB395 million), representing a decrease of 33.4%. The decrease was primarily due to a reduction in work force and other fixed cost saving post the Fonterra Incident.

For the year ended 31 December 2015, Dumex China's administrative expenses was RMB150 million (2014: RMB263 million), representing a decrease of 43.0%. The decrease was primarily due to Dumex China's reduction in work force and other saving in other fixed cost post the Fonterra Incident.

Other expenses

For the year ended 31 December 2013, Dumex China incurred other expenses of RMB180 million (2012: RMB604,000), representing an increase of 29,701.3% due to the penalty imposed on Dumex China by China's National Development and Reform Commission for price fixing along with other infant formula manufacturers in China in 2013.

For the year ended 31 December 2014, Dumex China incurred other expenses of RMB232 million (2013: RMB180 million), representing an increase of 28.9% due to write off of intercompany loans to Danone Dairy Sales (Shanghai) Co., Ltd.. Other than a charge of RMB185 million of provision of impairment of an amount due from a related company for the year ended 31 December 2014, there is no other operational impact on Dumex China in relation to the write-off.

For the year ended 31 December 2015, Dumex China's other expenses amounted to RMB249 million (2014: RMB232 million), representing an increase of 7.3% mainly due to impairment for fixed assets. The impairment of fixed assets primarily relate to the impairment of property plant and equipment of Dumex China. The reason that such impairment losses were recorded was due to the significant losses reported by Dumex China during 2013, 2014 and 2015 (please refer to the paragraphs headed "Net loss" below for a discussion of the reasons of such losses). Such losses meant that the property plant and equipment of Dumex China, being cash generating units of Dumex China, were non-performing assets and accordingly the directors of Dumex China came to the view that impairment losses for such fixed assets were necessary. The directors of Dumex China estimated that the recoverable amounts of the respective cash generating units based on fair value less disposal costs which was approved by senior management. As such, an impairment provision of approximately RMB238,290,000 was recognized in the profit and loss for the year ended 31 December 2015. The directors of Dumex China do not expect that significant impairment loss of fixed assets will be recorded for the year ended 31 December 2016 in light of the increase in sales of Dumex China.

Net loss

For the year ended 31 December 2013, Dumex China's net loss was RMB648 million (2012: net profit of RMB792 million), representing an increase in loss of RMB 1,440 million. The increase in net loss was mainly due to severance cost of RMB73 million and the penalty imposed on Dumex China by China's National Development and Reform Commission for price fixing along with other infant formula manufacturers in China.

For the year ended 31 December 2014, Dumex China's net loss was RMB830 million (2013: RMB648 million), representing an increase in loss of RMB182 million. The increase in net loss was mainly due to lower revenue and gross profit.

For the year ended 31 December 2015, Dumex China's net loss was RMB838 million (2014: RMB830 million), representing an increase in loss of RMB8 million. The increase in net loss was mainly due to: (i) the decline in revenue in 2015; (ii) the increase in financial charges due to additional interest-bearing liabilities; and (iii) certain non-recurring expenses incurred in 2015, including but not limited to the reacquisition of channel products setoff against revenue, logistics costs and destruction expenses caused by product recalls, special incentives granted to distributors in respect of marketing model changes, impairment provision made for certain obsolete inventories and fixed assets.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND RELATED PARTY TRANSACTIONS

As of 31 December 2013, 2014 and 2015, property, plant and equipment of Dumex China amounted to RMB318 million, RMB282 million and RMB9 million, respectively. The drop in 2015 was mainly due to asset impairment booked in 2015.

As of 31 December 2013, 2014 and 2015, the current assets due from the immediate holding company of Dumex China amounted to RMB9 million, RMB32 million and RMB0 million. The amounts due to Dumex China from the immediate holding company in 2014 are mainly the gains from a forward currency contract which Dumex China shared with Danone Singapore. The decrease of RMB 32 million in 2015 comparing with 2014 was due to that Danone Singapore have shared some benefits from its forward currency contract in 2014 and not such benefit occurred in 2015.

As of 31 December 2013, 2014 and 2015, current assets due from the related companies of Dumex China amounted to RMB3 million, RMB1 million and RMB29 million. The amounts due to Dumex China from the related companies are mainly receivables due to Dumex China from Nutricia China for cross charge service costs relating to shared services and testing fees. The increase of RMB28 million in 2015 was mainly due to service provide to Nutricia China, a subsidiary of Danone SA, which will be ceased following Closing.

As of 31 December 2013, 2014 and 2015, inventories of Dumex China amounted to RMB295 million, RMB151 million, RMB39 million. The decreases of RMB144 million and 112 million in 2014 and 2015 respectively were mainly due to lower inventory held by Dumex China as a result of decreases in revenue from RMB 3,570 million in 2013 to RMB1,316 million in 2014 and RMB417 million in 2015, as less inventory is required to be held by Dumex China in light of the decrease in sales and revenue. And as at 31 December 2014 and 2015, Dumex reported inventory provision of RMB71 million and RMB 23 million respectively as a result of write-down of inventories to net realisable value.

As of 31 December 2013, 2014 and 2015, trade receivables of Dumex China amounted to RMB31 million, RMB38 million and RMB82 million, respectively. Dumex China's trade receivables primarily comprise of amounts due from Retail Outlets and its distributors. The increase in trade receivables by RMB44 million in 2015 was mainly due to: (i) the implementation of the direct sales model whereby Dumex China provided the same credit terms to the Retail Outlets as Dumex China's distributors had previously provided to them. With the elimination of the tiers of distributors and Dumex China interacting with the Retail Outlets directly, such credit terms are now provided by Dumex China; (ii) Dumex China improving its internal control to achieve a more robust validation process for claims on discounts and trade spending settlement by key accounts, which resulted in a decrease of such claims and in turn a decrease of claims on discounts and trade spending settlement which were deducted from trade receivables.

As of 31 December 2013, 2014 and 2015, prepayments, deposits and other receivables of Dumex China amounted to RMB82 million, RMB10 million and RMB23 million, respectively. Prepayments, deposits and other receivables represent amounts primarily comprise of prepaid rental, deposits, interest receivables, other tax receivables and receivables from sales of equipment. The decrease of RMB72 million in 2014 was mainly due to the tax receivable which become RMB0 in 2014.

As of 31 December 2013, 2014 and 2015, Dumex China incurred current liabilities due to the immediate holding company amounting to RMB21 million, RMB16 million and RMB4 million. The decrease of liabilities was mainly due to lower purchase volume of base powder as result of reduced business size.

As of 31 December 2013, 2014 and 2015, borrowings from the related companies of Dumex China amounted to RMB537 million, RMB999 million and RMB1,240 million, respectively. Borrowings from the related companies primarily comprise of loans from Danone's cash pool. The increase of RMB462 million and RMB240 million in 2014 and 2015 was mainly due to Dumex China recorded net loss in 2014 and 2015 and increased the loan from cash pool.

As of 31 December 2013, 2014 and 2015, Dumex China incurred current liabilities due to the related companies amounting to RMB7 million, RMB47 million, RMB32 million. Current liabilities due by Dumex China to the related companies are mainly amounts payables to related companies for inventories purchased from them. The decrease of liabilities in 2015 is due to lower purchase volume as a result of reduced business size.

According to the Equity Transfer Agreement, Danone is expected to contribute additional capital to the registered capital of Dumex China prior to the Closing Date, and Dumex China will apply those capital contributions to repay all the related party borrowings. Dumex China will have no net debt as of the Closing Date.

Save for the above borrowings, Dumex China had no other borrowings.

As of 31 December 2013, 2014 and 2015, other payables and accruals of Dumex China amounted to RMB1,063 million, RMB480 million, RMB311 million. Other payables and accruals are advances from customers, payroll payables, other tax payables, accruals and accrued interests. The decrease of RMB583 million in the year ending 31 December 2014 was mainly due to in 2013, there was RMB113 million payable of cost of aged and delisted inventory reacquisition from distribution channel. There was also a major reduction in accrued marketing expense, accrued selling expense and severance cost payable in 2015.

As of 31 December 2013, 2014 and 2015, derivatives financial instruments of Dumex China amounted to RMB4 million, RMB27 million, RMB0 million. The decrease of RMB27 million in 2015 was due to lower FOREX hedging as a result of reduced business size.

On 1 December 2015, several indicative term sheets were entered into among the Danone Group, Yashili and Dumex China in relation to (1) certain transition arrangements in relation to IT services, office leases, accounting services and procurement etc. in connection with the operations of Dumex China; (2) collaboration in researches relating to nutrition for infants from 0 to 3 years old; and (3) supply of products by the Danone Group to Dumex China. As of the Latest Practicable Date, no definitive agreements have been entered into in relation to any of the foregoing matters. The parties shall use their reasonable best efforts to enter into definitive agreements in respect of the aforementioned matters as soon as is reasonably practicable. In the event that the parties are unable to execute, or reach an agreement on the terms of, a definitive agreement prior to the time that all of the conditions precedent under the Equity Transfer Agreement have been satisfied, the aforementioned term sheets will create legally binding obligations on the parties immediately following receipt by the Seller of the Consideration. The foregoing transactions will constitute continuing connected transactions for Yashili upon Closing. Upon the execution of the relevant definitive agreements or when the term sheets become legally binding on the parties (as applicable), Yashili will comply with the relevant disclosure and/or shareholders' approval requirements where appropriate. Further announcement(s) and/or circular(s) despatched will be made by Yashili in accordance with the Listing Rules as and when appropriate. Save and except for the foregoing, the Yashili Directors do not expect any other continuing connected transactions between Dumex China and the Danone Group upon Closing.

PLEDGE OF ASSETS

As of the Latest Practicable Date, Dumex China did not have any pledge of assets.

SIGNIFICANT INVESTMENTS, CAPITAL ASSETS, ACQUISITIONS AND DISPOSAL

During the period under review, Dumex China did not have any plans for any significant investments and capital assets, nor any significant acquisitions and disposal in connection with any subsidiaries and associates.

GEARING RATIO

During the years ended 31 December 2013, 2014 and 2015, the gearing ratio of Dumex China was (708.1)%, (150.3)% and (110.7%) respectively. The worsening gearing ratio since 2013 was mainly due to the decline in Dumex China's results following the Fonterra Incident and significant marketing expenses incurred to explain the situation to consumers, which resulted in losses for Dumex China during 2013, 2014 and 2015.

	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	39,474	32,442	21,249
Accruals and other payables	1,062,745	480,395	310,728
Borrowings from related parties	537,427	999,262	1,239,695
Others	32,766	90,169	535,826
Total liabilities	1,672,412	1,602,268	2,107,498
Net assets	(236,179)	(1,065,899)	(1,904,482)
Gearing ratio	–708.1%	–150.3%	–110.7%

Pursuant to the Equity Transfer Agreement, Danone shall contribute additional capital to the registered capital of Dumex China prior to the Closing Date to ensure that Dumex China has no net debt at Closing. In addition, the parties also agreed on the net working capital as of the Closing Date and it is expected that Dumex China's net worth will improve significantly by the Closing Date.

Pursuant to the Equity Transfer Agreement, Dumex China has restated the balance sheet as of 31 December 2015 in respect of the adjustments in relation to the Closing Date Net Debt Amount and the Closing Date Net Working Capital Amount. For further details, please refer to note 2 in APPENDIX IV — UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP.

FOREIGN CURRENCY RISK

During the period under review, the monetary assets and liabilities of Dumex China were denominated in RMB. However, due to business needs, Dumex China imported certain raw materials and finished products from the related parties in connection with the Danone Group, which were settled in currencies other than RMB. To mitigate the impacts of exchange rate changes on its results, Dumex China had entered into a forward currency contract with a PRC bank to lock in forward exchange rates. Dumex China had evaluated the fair value of such contract and relevant foreign currency risks were reflected in note 30 of the financial statements of Dumex China in Appendix II to this circular.

CONTINGENT LIABILITIES

As of 31 December 2013, 2014 and 2015 Dumex China had no material contingent liabilities.

PROPERTY INTERESTS AND PROPERTY VALUATION

RHL Appraisal Limited, an independent property valuer, carried out a valuation on the property interests held by Dumex China in the PRC during September 2015. For further details of the property valuation, please refer to Appendix V to this circular. As of 29 February 2016, the net book value of the property interests was RMB97 million. Disclosure of the reconciliation of the net book value and the valuation as required under Rule 5.07 of the Listing Rules is set out below:

	(RMB)
Net book value as at 31 December 2015 (audited)	7,258,000
Valuation surplus	90,542,000
Market value in existing state as at 31 December 2015	97,800,000
Less: Depreciation and Amortization	400,000
Market value in existing state as at 29 February 2016 as set out in Appendix V of the Circular	97,400,000

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(i) Basis of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group

The accompanying unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of the Enlarged Group (being the Yashili International Holdings Ltd (the "Company") and its subsidiaries (the "Group") together with Dumex Baby Food Co., Ltd. (the "Target Company") as at 31 December 2015 has been prepared based on:

(a) the audited consolidated statement of financial position of the Group as at 31 December 2015 which has been extracted from Annual Report for the year ended 31 December 2015 of the Company or the audited consolidated statement of financial position of the Group as at 31 December 2015 which has been extracted from Annual Report for the year ended 31 December 2015 of the Company;

(b) the audited statement of financial position of the Target Company as at 31 December 2015 as set out in the accountants' report in Appendix II to this circular; and

(c) after taking into account of the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the Proposed Acquisition (as defined in Note 1) might have affected the historical financial information in respect of the Group as if the Proposed Acquisition had been completed on 31 December 2015.

The unaudited pro forma financial information of the Enlarged Group is for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future results of financial position.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the audited financial information of the Target Company as set out in the accountants' report in Appendix II to this circular, and other financial information included elsewhere in this circular.

(ii) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 31 December 2015	Target Company as at 31 December 2015	Unaudited Pro Forma Adjustments				The Enlarged Group as at 31 December 2015
			Note 1	*Note 2*	*Note 3*	*Note 4*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS							
NON-CURRENT ASSETS							
Property, plant and Equipment	1,714,570	9,494	—	103,297	—	—	1,827,361
Construction in progress	33,151	—	—	—	—	—	33,151
Investment properties	20,078	—	—	—	—	—	20,078
Land use rights	51,868	—	—	33,280	—	—	85,148
Intangible assets	12,651	—	—	260,951	—	—	273,602
Goodwill	272,760	—	—	—	637,827	—	910,587
Deferred tax assets	153,655	—	—	27,817	—	—	181,472
Prepaid land lease payment	—	7,258	—	—	—	—	7,258
Long-term prepayments	—	3,050	—	—	—	—	3,050
Long-term bank deposits	363,227	—	—	—	—	—	363,227
Total non-current assets	2,621,960	19,802	—	425,345	637,827	—	3,704,934
CURRENT ASSETS							
Inventories	641,019	39,240	—	—	—	—	680,259
Trade and bills receivables	71,815	81,833	—	—	—	—	153,648
Prepayments, deposits and Other receivables	92,249	51,733	—	—	—	—	143,982
Pledged deposits	594,981	—	—	—	—	—	594,981
Derivative financial instruments	—	187	—	—	—	—	187
Cash and bank equivalents	2,479,856	10,221	661,798	—	(1,064,280)	(5,510)	2,082,085
Other current financial assets	873,859	—	—	—	—	—	873,859
Assets of disposal groups classified as held for sale	287,950	—	—	—	—	—	287,950
Total current assets	5,041,729	183,214	661,798	—	(1,064,280)	(5,510)	4,816,951

	The Group as at 31 December 2015	Target Company as at 31 December 2015	Unaudited Pro Forma Adjustments				The Enlarged Group as at 31 December 2015
			Note 1	*Note 2*	*Note 3*	*Note 4*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES							
CURRENT LIABILITIES							
Trade payables	272,104	21,249	—	—	—	—	293,353
Other payables and accruals	901,812	1,586,249	(1,243,792)	—	—	—	1,244,269
Interest-bearing bank loans	461,696	500,000	—	—	—	—	961,696
Current tax payable	28,892	—	—	—	—	—	28,892
Liabilities directly associated with assets classified as held for sale	10,294	—	—	—	—	—	10,294
Total current liabilities	1,674,798	2,107,498	(1,243,792)	—	—	—	2,538,504
Net current assets	3,366,931	(1,924,284)	1,905,590	—	(1,064,280)	(5,510)	2,278,447
Total assets less current liabilities	5,988,891	(1,904,482)	1,905,590	425,345	(426,453)	(5,510)	5,983,381
NON-CURRENT LIABILITIES							
Deferred income	4,412	—	—	—	—	—	4,412
Deferred tax liabilities	3,837	—	—	—	—	—	3,837
Total non-current liabilities	8,249	—	—	—	—	—	8,249
Net assets	5,980,642	(1,904,482)	1,905,590	425,345	(426,453)	(5,510)	5,975,132
EQUITY							
Issued capital	399,352	240,000	1,905,590	—	(2,145,590)	—	399,352
Reserves	5,581,290	(2,144,482)	—	425,345	1,719,137	(5,510)	5,575,780
Total equity	5,980,642	(1,904,482)	1,905,590	425,345	(426,453)	(5,510)	5,975,132

(iii) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. This pro forma adjustment reflects the Post-Closing Reimbursement arrangement specified in the Equity Transfer Agreement entered into by Danone Asia Pacific Holdings PTE LTD, as Seller, and Yashili International Group Co. as Purchaser (the "Equity Transfer Agreement ") (the "Proposed Acquisition")

   Pursuant to Section 2.07 of the Post-Closing Reimbursement of the Equity Transfer Agreement, a post-closing reimbursement is arranged as:

   (1) Settle the Closing Date Net Debt Amount to zero: (i) if the Closing Date Net Debt Amount is a positive number, the Seller shall pay to the Purchaser an amount equal to the Closing Date Net Debt Amount by wire transfer in immediately available funds to the bank account designated by the Purchaser in a written notice to the Seller, and (ii) if the Closing Date Net Debt Amount is a negative number, the Purchaser shall pay to the Seller an amount equal to the absolute amount of the Closing Date Net Debt Amount by wire transfer in immediately available funds to the bank account designated by the Seller in a written notice to the Purchaser. Subject to the terms and conditions of the Equity Transfer Agreement (including the Conditions applicable to the relevant parties), the sale and purchase of the equity interest contemplated by the Equity Transfer Agreement shall take place at a closing (the "Closing") to be held at a place on a date as the Seller and the Purchaser have mutually agreed, following the satisfaction or a waiver in writing of all Conditions to the obligations of the Seller and the Purchaser set forth in Article VI of the Equity Transfer Agreement. The day on which the Closing takes place is the "Closing Date").

   As at 31 December 2015, the Net Debt Amount is calculated by a formula specified in the Equity Transfer Agreement and amounted to RMB 1,817,506,000, according to the audited financial statements of the Target Company as at 31 December 2015.

   (2) Minimum requirement of the Closing Date Net Working Capital: (i) if the Closing Date Net Working Capital Amount is inferior to RMB(36,000,000), i.e., a working capital deficit of RMB36,000,000 (the "Closing Date Net Working Capital Minimum Amount"), the Seller shall pay to the Purchaser an amount equal to the absolute value of the difference between the Closing Date Net Working Capital Amount and the Closing Date Net Working Capital Minimum Amount by wire transfer in immediately available funds to the bank account designated by the Purchaser in a written notice to the Seller, and (ii) if the Closing Date Net Working Capital Amount is equal to, or greater than, the Closing Date Net Working Capital Minimum Amount, the Seller shall issue a written notice that no further reimbursement is due to the Purchaser.

As at 31 December 2015, the Net Working Capital was calculated by a formula specified in the Equity Transfer Agreement and amounted to RMB(124,084,000), i.e., a working capital deficit of RMB124,084,000, according to the audited financial statements of the Target Company as at 31 December 2015.

According to the arrangement of the Seller and the Purchaser, the Post-Closing reimbursement shall be accounted for as additional capital of the Target Company invested by the Seller, immediately followed by a repayment of inter-company loans and relevant interest due to fellow subsidiaries of the Target Company, which amounted to RMB1,243,792,000, according to the audited financial statements of the Target Company as at 31 December 2015.

A breakdown of the above arrangements as at 31 December 2015 is as follows:

		RMB'000
Net Debt Amount	a	(1,817,506)
Net Working Capital	b	(124,084)
Net Working Capital Minimum Amount	c	(36,000)
Post-Closing reimbursement	d=a+(b-c)	(1,905,590)
Due to inter-company loans and relevant interest	e	1,243,792
Net amount	f=d+e	(661,798)

Since the book value of the Net Debt Amount and Net Working Capital at the Closing Date of the Proposed Acquisition may be substantially different from the respective value used in the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the Net reimbursement amount at the Closing Date of the Proposed Acquisition may be different from the amount presented above.

2. The pro forma adjustment reflects the fair value adjustment of the identifiable assets and liabilities of the Target Company. Upon completion of the Proposed Acquisition, the identifiable assets and liabilities of the Target Company will be accounted for in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group at fair value using the purchase method of accounting in accordance with International Financial Reporting Standard 3(Revised) "Business Combinations".

For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, the directors of the Company (the ''Directors'') have estimated the fair value of the identifiable assets and liabilities of the Target Company based on the assumption that the Proposed Acquisition was completed on 31 December 2015. The details of the fair value adjustments are as follows:

	Fair Value	Book Value	Fair Value Adjustment
	RMB'000	*RMB'000*	*RMB'000*
Trademark	260,951	—	260,951
Property, plant and equipment	112,791	9,494	103,297
Land use right	40,538	7,258	33,280
Total	414,280	16,752	397,528

The Directors estimated the fair value of a trademark included in intangible assets, property, plant and equipment and a land use right based on the valuation performed by RHL Appraisal Limited.

The valuer has adopted the relief from the royalty method under the income approach for the valuation of the trademark. This valuation methodology is based on the assumption that the Target Company would have to pay a royalty payment if the Target Company did not have the legal right to utilise the trademark.

Depreciated Replacement Cost Approach was used for the valuation of the land use right and buildings. This valuation methodology is based on an estimate of the market value of the land in its existing use, plus the current cost of new replacement of the buildings and structures, less allowance for physical deterioration and all relevant forms of obsolescence and optimization, with reference to the market transaction evidence as available in the locality of the land.

For plants and machinery, valuation was made by considering the combination of elements of the Cost Approach, Depreciated Replacement Cost Approach and Market Approach. In which, Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transport, installation, commissioning and consultants' fees. Adjustment is then made for accrued depreciation, which encompasses condition, utility, age, wear and tear, functional and economic obsolescence. Market Approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

As show in the table above, the Directors adjusted RMB260,951,000 for trademark, RMB103,297,000 for property, plant and equipment and RMB33,280,000 for land use right. The deferred tax asset impact of RMB27,817,000 in relation to land use right and property, plant and equipment, which is 25% of RMB112,268,000, being the tax base exceeds the accounting base after fair value adjustment, according to the audited financial information of the Target Company as at 31 December 2015 set out in the accountants' report in Appendix II to this circular, is also taken into account.

According to the Group's accounting policy, impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the specific intangible asset relates. Where the recoverable amount of the intangible asset is less than the carrying amount, an impairment loss will be recognised.

In the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had performed an impairment assessment of the identified intangible assets in accordance with IAS 36 "Impairment of Assets" and the Group's accounting policy.

Based on the impairment test, the recoverable amount of identified intangible asset exceeds its carrying amount and accordingly, no pro forma adjustment in respect of impairment is made by the Directors in the Unaudited Pro Forma Financial Information of the Enlarged Group. However, should there be any adverse changes to the business of the Target Company, including but not limited to, any subsequent adverse changes in the operation, impairment may be required to be recognised against the identified intangible assets in accordance with IAS 36 and the Group's accounting policy.

The Company will adopt consistent accounting policies for impairment tests in future. The Company's auditor will review the Company's assessment on the impairment of the identified intangible asset in accordance with Hong Kong Standards on Auditing at the end of each reporting period for the purposes of its audit in future.

The fair value of the identifiable assets and liabilities of the Target Company as at the Closing Date is still under reassessment which may be substantially different from the respective value used in the unaudited pro forma statement of assets and liabilities of the Enlarged Group. Once information on the fair value of the identifiable net assets of the Target Company is available, the fair value recognised for identifiable assets and liabilities acquired at the Closing Date may be different from the amount presented above.

3. The goodwill of the Enlarged Group represents the excess of the cost of the Proposed Acquisition over the estimated fair value of the identifiable net assets of the Target Company.

For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group and for illustrative purposes, the recognition of goodwill arising from the Proposed Acquisition is analysed as follows:

	RMB'000
Cash consideration	1,064,280
Fair value of the identifiable net assets acquired	
The carrying amount of the net assets of the Target Company as at 31 December 2015	(1,904,482)
Post-Closing reimbursement	1,905,590
Fair value adjustment	397,528
The deferred tax asset impact of temporary difference of land use right and property, plant and equipment	27,817
	426,453
Goodwill arising from the Proposed Acquisition (the "Goodwill")	637,827

For the purpose of this Unaudited Pro Forma Financial Information, cash consideration €150 million is converted into RMB1,064,280,000 at the exchange rate of EUR1.00 to RMB7.0952 as published by the People's Bank of China prevailing at 31 December 2015.

The Directors has confirmed that the basis used in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group is consistent with the accounting policies of the Group, and the accounting policies will be consistently adopted in the first set of the financial statements of the Company after the Closing.

Since the fair value of the identifiable net assets of the Target Company at the Closing Date of the Proposed Acquisition may be substantially different from the respective value used in the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the goodwill recognised at the Closing Date of the Proposed Acquisition may be different from the amount presented above.

According to the Group's accounting policy, impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the Goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss will be recognised. An impairment loss recognised for the Goodwill will not be reversed in a subsequent period.

In the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had performed an impairment assessment of the Goodwill in accordance with IAS 36 "Impairment of Assets" and the Group's accounting policy. Based on the impairment test, the recoverable amount of the cash-generating unit to which the Target Company was assigned exceeds its carrying amount and accordingly, no pro forma adjustment in respect of goodwill impairment is made by the Directors in the Unaudited Pro Forma Financial Information for the Enlarged Group. Such assessment assumed that (i) there are no major material adverse changes in the fair values of the assets and liabilities; and (ii) the identifiable assets and liabilities can be realised at their book values. However, should there be any adverse changes to the business of the Target Company, including but not limited to, any subsequent adverse changes in the operation, impairment may be required to be recognised against the Goodwill in accordance with IAS 36 and the Group's accounting policy.

The Company will adopt consistent accounting policies for impairment tests in future. The Company's auditor will review the Company's assessment on the impairment of goodwill in accordance with Hong Kong Standards on Auditing at the end of each reporting period for the purposes of its audit in future.

4. The pro forma adjustment represents the estimated legal and professional fees related to the Proposed Acquisition, which approximately amounted to RMB5,510,000. The expenses are charged to the income statement directly.

(B) REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

3 May 2016

To the board of directors of Yashili International Holdings Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yashili International Holdings Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to the "Group") and Dumex Baby Food Co., Ltd. (the "Target Company") (the Group and the Target Company are collectively referred to as the "Enlarged Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2015 and related notes set out in Section A of Appendix IV to the Circular issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria of the basis on which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the acquisition of equity interest in the Target Company (the "Proposed Acquisition") on the Group's financial position as at 31 December 2015 as if the Proposed Acquisition had taken place at 31 December 2015. As part of this process, the information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2015 as set out in the Preliminary Announcement of Annual Results of the Company dated 22 March 2016, the information about the Target Company's financial position has been extracted by the Directors from the financial information of the Target Company as set out in the accountants' report included in Appendix II to the Circular.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information or unaudited pro forma financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition had been undertaken at an earlier date selected for the purpose of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the

Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Proposed Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 (1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited, an independent valuer, in connection with its valuation as at 29 February 2016 of the Property to be acquired by Yashili International Group Limited.

永利行評値顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

T +852 2730 6212
F +852 2736 9284

Room 1010, 10/F, Star House,
Tsimshatsui, Hong Kong

3 May 2016

The Board of Directors
Yashili International Holdings Ltd
Suites 801–2, 8/F,
COFCO Tower,
262 Gloucester Road,
Causeway Bay,
Hong Kong

Dear Sirs/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the property interest (the "**Property**") to be acquired by Yashili International Group Ltd (the "**Company**") located in the People's Republic of China (the "**PRC**"). We confirm that we have carried out property inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 29 February 2016 (the "**Valuation Date**").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation is our opinion of the market value ("**Market Value**") which we would define as intended to mean the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

Due to the nature of the buildings and structures of property, and absence of sufficient available market data, we have valued the property by Depreciated Replacement Cost.

Calculation of the depreciated replacement cost is based on an estimate of the market value of the land in its existing use, plus the current cost of new replacement of the buildings and structures, less allowance for physical deterioration and all relevant forms of obsolescence and optimization. For land portion, we have made reference to the market transaction evidence as available in the locality. Comparable lands of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each land in order to arrive at a fair comparison of market value.

VALUATION CONSIDERATIONS

In valuing the property interest, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2012 Edition.

VALUATION ASSUMPTION

In our valuation, unless otherwise stated, we have assumed that:

i. all necessary statutory approvals for the Property have been obtained;

ii. transferable land use rights in respect of the Property for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid;

iii. the owner of the Property have enforceable title to the Property and has free and uninterrupted right to use, occupy or assign the Property for the whole of the respective unexpired terms as granted;

iv. no deleterious or hazardous materials or techniques have been used in the construction of the Property; and

v. the Property is connected to main services and sewers which are available on normal terms.

TITLE INVESTIGATION

We have been shown copies of various documents relating to the property interests. However, we have not examined the original documents to verify the existing titles to the property interests or any amendment which does not appear on the copies handed to us. We have relied considerably on the legal opinion given by the Company's PRC legal adviser, ZhongLun Law Firm, concerning the validity of the titles to the Property.

LIMITING CONDITIONS

We have conducted on-site inspections to property located in the People's Republic of China at September 2015 by our Mr. Christopher Cheung (BSc in Estate Management, BBA). During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Property are free from rot infestation or any other defects. No tests were carried out on any of the services.

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate.

We have relied to a considerable extent on information provided by the Company and accepted advices given to us on such matters, in particular, but not limited to land use rights contract, tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas, acquisition or construction cost, expected construction progress, company name and all other relevant matters in the identification of the Property.

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

No allowance has been made in our report for any charges, mortgages or amounts owing neither on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale.

The reported market value only applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

REMARKS

We have valued the property interests in Renminbi (RMB).

We enclose herewith the valuation certificate.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Serena S. W. Lau	**Jessie X. Chen**
FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)	*MRICS, MSc (Real Estate), BEcon*
Managing Director	*Associate Director*

Ms. Serena S. W. Lau is a Registered Professional Surveyor (GP) with over 19 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is a Professional Member of The Royal Institution of Chartered Surveyors, an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.

Ms. Jessie X. Chen is a Registered Professional Surveyor (GP) with over 5 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Chen is a Professional Member of The Royal Institution of Chartered Surveyors.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 29 February 2016 *RMB*
An industrial complex located at No.188 Ningqiao Road, Jinqiao Export Processing Zone, Pudong New Area, Shanghai, the PRC 中華人民共和國上海市浦東新區金橋出口加工區寧橋路188號之工業廠房	The Property comprises an industrial complex mainly consists of factories and storages erected over a parcel of land with a site area of approximately 30,000.00 sq.m. (322,917 sq.ft.). The main portion of the Property with a gross floor area of 20,608.44 sq.m. (221,827 sq.ft.) was completed in about 1999 then an extension project has been done in around 2007. After completion, the Property has a total gross floor area of approximately 27,485.44 sq.m. (295,851 sq.ft.). The land use rights of the Property have been granted for a term of 50 years commencing on 1 January 1993 and expiring on 31 December 2042 for industrial use.	The Property is currently owner-occupied.	97,400,000 (RENMINBI NINETY SEVEN MILLION AND FOUR HUNDRED THOUSAND ONLY)

Notes:

1. Pursuant to a Real Estate Title Certificate – Hu Fang Di Pu Zi (1999) No. 040181, the land use rights of the property with a site area of approximately 30,000.00 sq.m. were granted to Intel Nutrition Dairy Co., Ltd. ("Intel Nutrition") for a term of 50 years commencing on 1 January 1993 and expiring on 31 December 2042 for industrial use. The building ownerships of the property with a total gross floor area of approximately 20,608.44 sq.m. are vested in Intel Nutrition.

2. As advised by the Company, building ownerships of the extension portion of the property with a total gross floor area of approximately 6,877.00 sq.m. (74,023 sq.ft.) for industrial-related use have not yet obtained. According to the Company's PRC legal adviser, ZhongLun Law Firm, a Construction Project Completion Acceptance Certificate has been issued by the government in 2007 for such portion, however, no approval from environmental, planning and fire departments have been obtained, which may relate to some potential risk and certain penalty. As advised by the Company, application for building ownerships is under progress and there is no major impediment to obtain such document. As agreed in the transaction terms, the Seller will be responsible for obtaining the building ownership certificate within two years and if failed on such, certain compensation will be made by the Seller to the Purchaser. Therefore, in valuing the property, we have assumed the Company may obtained the relevant certificates without legal or administrative impediment and onerous cost incurred and the value of such buildings have been reflected in our valuation above.

3. We have valued the property by Depreciated Replacement Cost whereby we are of the opinion that as at the Valuation Date, the estimated market value of the land in its existing use is RMB40,400,000 and the replacement cost of the buildings and structures is RMB57,000,000, after the allowance provided for physical deterioration and all relevant forms of obsolescence and optimization on the new replacement cost.

4. We have been provided with a legal opinion by the Group's PRC legal advisor, ZhongLun Law Firm, regarding the legal title of the Property, which contains, *inter alia*, the followings:

    i. the real estate title certificate — Hu Fang Di Pu Zi (1999) No. 040181 obtained is legal and valid;

ii. the Property is legally held by Intel Nutrition;

iii. Intel Nutrition is entitled to transfer, lease, mortgage or dispose of the Property freely in the market; and

iv. the Property is free from any other mortgage or third parties' encumbrance.

永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

T +852 2730 6212
F +852 2736 9284

Room 1010, 10/F, Star House,
Tsimshatsui, Hong Kong

3 May 2016

The Board of Directors
Yashili International Holdings Ltd
Suites 801–2, 8th Floor, COFCO Tower,
262 Gloucester Road,
Causeway Bay,
Hong Kong

Dear Sirs,

Re: Business Valuation of 100% Equity Interest of Dumex Baby Food Co., Ltd. as at 31 October 2015

In accordance with the instructions from Yashili International Holdings Ltd (the "**Client**"), we have undertaken a valuation to determine the 100% equity value of Dumex Baby Food Co., Ltd. (the "**Company**") as at **31 October 2015** (the "**Valuation Date**") regarding the proposed acquisition of 100% of equity interest of the Company.

INTRODUCTION

This report has been prepared in accordance with the instructions from the Client to determine the fair value of 100% equity interest of the Company as at 31 October 2015.

This report outlines our latest findings and valuation conclusion.

BACKGROUND

Dumex Baby Food Co., Ltd. (the "Company")

The Company is a wholly foreign owned enterprise organized and established under the laws of the People's Republic of China (the "**PRC**") on 28 August 1992 and is principally engaged in the manufacture, sale and import of dairy products and other related nutrition products in the PRC.

Its products are principally sold under the Dumex brand (produced locally) and Dumex International brand (produced overseas and imported into the PRC). The Company operates a manufacturing plant located in Shanghai.

PURPOSE OF VALUATION

The purpose of this valuation is to express an independent opinion on the fair value of the Company as at the Valuation Date solely for the use of the management of the Client regarding the proposed acquisition of 100% of equity interest of the Company and we acknowledge that the report will be made available to the Client for public documentation purpose only.

BASIS OF VALUE

Our valuation was carried out on a fair value basis, according to the International Valuation Standards. Fair value is defined as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*"

BASIS OF OPINION

The valuation procedures include review of the economic condition of the subject asset, an assessment of key assumptions, estimates, and representations made by the management of the business. All matters essential to the proper understanding of the valuation are disclosed in the valuation report.

The following factors also form a considerable part of our basis of opinion:

- The business nature of the Company;
- Assumptions on the market and on the subject asset that are considered to be fair and reasonable;
- The micro-economic and macro-economic factors that affect the Company; and
- The leverage and liquidity of the subject business.

In arriving at our opinion, we have assumed and relied extensively upon the accuracy and completeness of the information provided to us by the management of the Company such as financial statements, documents, oral conversation through correspondences.

We also conducted research using various sources including government statistical releases and other publications to verify the information provided and we have no reason to doubt the accuracy of the data and information.

Our opinion is based upon economic, market, financial and other conditions as they exist and can be evaluated on the dates of this report and we assume no responsibility to update or revise our opinion based on events or circumstances occurring after the date of this report. In reaching our opinion, we have made assumptions with respect to such economic, market, financial and other conditions and other matters, many of which are highly uncertain and beyond our control or the control of any party involved in this valuation exercise.

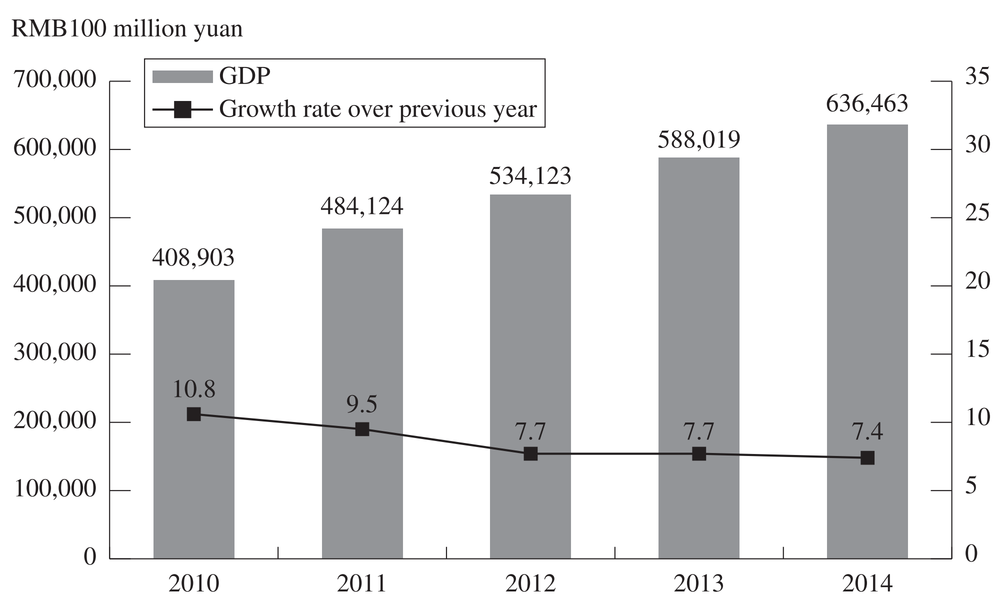
We have planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that our valuation provides a reasonable basis for our opinion.

INDUSTRY OVERVIEW

China Economic Overview

China's overall gross domestic product ("GDP") had increased sustainably from approximately RMB40,890 billion in 2010 to approximately RMB58,802 billion in 2013, representing a CAGR of approximately 12% in terms of real GDP during the period. Despite rapid economic development of China in the past years, China's GDP growth rate slipped to 7.4% in 2014, hitting its slowest pace in 24 years, as China is now shifting its focus from mere growth to incorporate quality of growth under its new development model "New Normal". According to National Bureau of Statistics of China ("NBS"), historical data of Gross Domestic Product and the Growth Rates from 2010 to 2014 are shown in Exhibit 1 below:

Exhibit 1: Gross Domestic Product and the Growth Rates 2010–2014



Source: National Bureau of Statistics of China

Since China is now moving to a "New Normal" development model, the Central Government of China is promoting a slower growing but of higher quality and sustainable economy. The International Monetary Fund ("IMF"), in its latest projections as shown in Exhibit 2 below, projects China's GDP growth to slow down to 6.8% in 2015 and 6.3% in 2016. In spite of such, China's economy is still one of fastest-growing economies in the world.

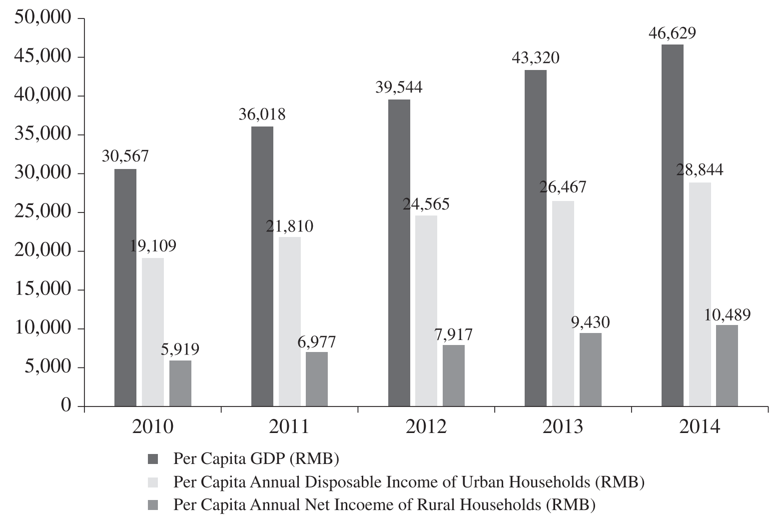
Exhibit 2: Extract of Overview of the World Economic Outlook Projections

	Year to Year (percent change)			
	2013	**2014**	**2015P**	**2016P**
World Output	3.4	3.4	3.3	3.8
United States	2.2	2.4	2.5	3.0
India	6.9	7.3	7.5	7.5
China	7.7	7.4	6.8	6.3
ASEAM-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam)	5.1	4.6	4.7	5.1
Nigeria	5.4	6.3	4.5	5.0
Spain	(1.2)	1.4	3.1	2.5
Saudi Arabia	2.7	3.5	2.8	2.4
United Kingdom	1.7	2.9	2.4	2.2
Mexico	1.4	2.1	2.4	3.0
South Africa	2.2	1.5	2.0	2.1
Germany	0.2	1.6	1.6	1.7

Source: International Monetary Fund, World Economic Outlook Update, July 2015

With the rapid economic growth of China in past few decades, the GDP per capita and the disposable income of urban and rural people has both been increasing. According to the NBS, the per capita GDP increased from RMB30,567 in 2010 to RMB46,629 in 2014, representing a compound annual growth rate of 11.1% for the period. The annual disposable and net income for urban and rural households both increased from RMB19,109 and RMB5,919 in 2010, respectively, to RMB28,844 and RMB10,489 respectively, in 2014, representing a compound annual growth rate of 10.8% and 15.4%, respectively, for the period. With the rising annual income level in China, it will enable Chinese people to have higher spending in their daily necessities and search for higher product qualities. The chart below sets out the per capita GDP and per capita disposable income in urban and rural households in China from 2010 to 2014:

Exhibit 3: Per Capita GDP and Per Capita Disposable Income in Urban and Rural Households in China from 2010 to 2014



Source: National Bureau of Statistics of China

Infant Formula Milk Industry Overview

From 2010 to 2014, the number of newborns was maintained relatively stable at around 16 million each year. With the implementation of one child policy in China, the birth rate stood at approximately 12% over the past five years. Based on the estimate by www.qianzhan.com (前瞻網), if the number of newborns is maintained at over 16 million or above each year, the number of 0–3 aged babies was estimated approximately at the level of 50 million. The table below sets out the total population and the number of newborns and their growths from 2010 to 2014:

Table 1: The total population and the number of newborns and their growths from 2010 to 2014

Year (Unit: 10,000 persons, except for percentages)	**2014**	**2013**	**2012**	**2011**	**2010**
Total Population	136,782	136,072	135,404	134,735	134,091
Change	0.52%	0.49%	0.50%	0.48%	0.48%
Population Aged 0–14	22,558	22,329	22,287	22,164	22,259
Change	1.03%	0.19%	0.55%	–0.43%	–9.73%
0–14 Aged Proportion	16.49%	16.41%	16.46%	16.45%	16.60%
Number of Newborns	1,688	1,640	1,634	1,604	1,592
Change	2.93%	0.33%	1.93%	0.73%	0.06%
Birth Rate	12.37%	12.08%	12.10%	11.93%	11.90%

Source: National Bureau of Statistics of China

In late October 2015, the Chinese government has announced that all couples would be allowed to have children with an intention to address the aging population and to improve the balanced development of population. The complete relaxation of the one child policy is expected to see more babies born in the coming future.

When compared with other developed countries, the consumption of the dairy products in China still remains far below the global average and there are plenty rooms for the increase in the consumption of dairy products in China. The table below sets out the per capita consumption by country statistics released by CLAL.it[1]:

Table 2: The Per Capita Consumption by Country

Country	**2012**	**2013**	**2014**	**2015**	**Change on 2014**
			(Unit: Kg)		
Ukraine	122.73	117.51	123.23	123.12	–0.08%
Australia	115.79	106.98	109.69	115.55	5.34%
New Zealand	108.94	106.84	110.03	112.86	2.57%
United States	95.29	110.09	108.77	108.14	–0.58%
Canada	87.37	85.41	83.89	82.40	–1.78%
Russia	87.26	84.76	82.93	82.10	–1.00%
EU-27	66.45	66.31	66.70	66.45	–0.38%
Brazil	76.83	71.06	69.20	65.52	–5.32%
Argentina	51.91	49.82	48.90	49.20	0.62%
India	43.10	45.10	47.81	48.61	1.67%
Mexico	42.05	43.45	44.97	46.59	3.60%
Japan	34.49	34.01	33.85	33.74	–0.32%
Taiwan	31.79	31.26	30.80	30.91	0.37%
China	14.61	15.26	15.44	15.92	3.12%
Philippines	9.60	10.13	10.63	10.61	–0.22%

Source: CLAL.it

China has become one of the largest consumer markets for dairy products. According to a market analysis《2015–2020年中國嬰幼兒輔食市場監測及投資前景研究報告》(literally translated as 2015-2020 China's Infant Food Supplement Market Monitoring and Investment Outlook Study Report[#]) released by 中國產業信息網 (literally translated as China Industry Information Network[#]), the global baby food market size, including infant milk formula products, has reached USD 56.73 billion in 2014, and among which, the market share of China and the United States was 24.7% and 15.6%, respectively.

1 CLAL.it, founded in 1962, is an Italian dairy economic consulting firm that analyzes the dairy market, interprets trends and provides data, news and synthesis.

The English translation of Chinese name is included for identification purpose only and should not be regarded as the official English translation of such Chinese name.

It was also indicated that from 2006 to 2014, the infant formula milk market has experienced a high growth during the period with total market size increasing from RMB17.07 billion in 2006 to RMB70.00 billion in 2014, representing a compound annual growth rate of approximately 19.3%. However, a lower growth rate was observed in 2009 and 2013 due to the event of the melamine milk scandal in 2008 and wide scale product recall by Fonterra in 2013. The table below sets out the retails sales market size and annual growth rate of the infant formula milk in China from 2006 to 2014:

Table 3: The retails sales market size and annual growth rate of the infant formula milk in China from 2006–2014

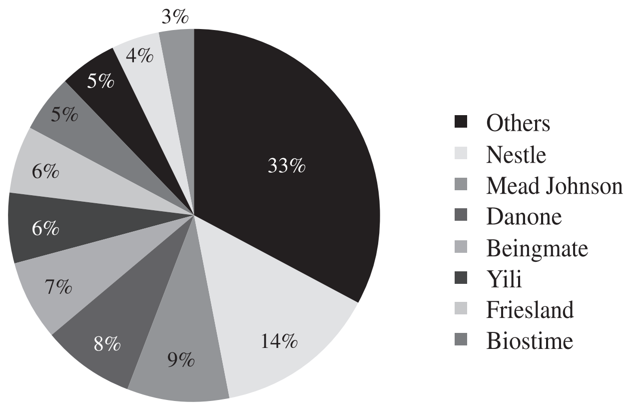
Year	RMB (in billion)	Annual growth rate
2006	17.07	—
2007	21.00	23.02%
2008	25.60	21.90%
2009	29.65	15.82%
2010	35.80	20.74%
2011	44.00	22.91%
2012	56.30	27.95%
2013	60.00	6.57%
2014	70.00	16.67%

Source: *2015–2020*年中國嬰幼兒輔食市場監測及投資前景研究報告 *(literally translated as 2015-2020 China's Infant Food Supplement Market Monitoring and Investment Outlook Study Report#),*中國產業信息網 *(literally translated as China Industry Information Network#)*

Even though the infant formula milk market is large and, in general, still growing, the competition among different market players are relatively intensive and the market is fragmented. According to the Industry Focus Report conducted by DBS Vickers Securities dated 24 July 2015, based on the retail sales size, the top 3 major market players are all international infant formula milk producers, namely Nestle, Mead Johnson Nutrition and Danone, which accounted for nearly over 31% of the total market share in China.

The English translation of Chinese name is included for identification purpose only and should not be regarded as the official English translation of such Chinese name.

Exhibit 4: Market Share of Major Infant Formula Milk Producers in China



Source: Euromonitor International, DBS Vickers Securities

Generally, the major distribution channels[1] for dairy products, including Infant formula milk are 1) Supermarket or hypermarket, 2) Retailer stores, convenience stores, specific department/floor in department stores (baby store), and 3) E-commerce retailing.

Supermarket or hypermarket is a major and popular channels to purchase infant formula milk products over the past few years. However, in recent years, the growth in online sales of infant formula milk products, especially for the sales demand for the imported branded infant formula milk products, has been increasing over other channels for better price information and comparison.

The development of the infant formula milk market in China should be expected to be benefited from the increasing urbanization rate, rising per capita disposal income, increasing number of working mothers, and potential effect of the relaxation of the one child policy. However, the competition of the infant formula milk market is also relatively keen due to the fragmented markets, the dominance of the international manufacturers, the possible rising imported raw material costs, and the increasing popularity of using lower cost of the online retailing platforms. Besides, food safety is another critical issue to domestic consumers to industry players. In order to regain public's confidence, a newly amended Food Safety Law came into effect on 1 October 2015 that requires infant formula milk manufacturers to register their infant milk formula with China Food and Drug Administration and also not to use one formula to produce different branded infant formula milk products. This increased regulation on the industry will intensify the competition among various infant formula milk manufacturers and enhance industry integration and consolidation to eliminate those irregular, inefficient and small sized manufacturers.

[1] The Food & Beverage Market in China, The EU SME Centre, July 2015

SOURCES OF INFORMATION

In conducting the valuation, we have considered, reviewed and relied upon the following key information provided by the management of the Client and the Company (together, the "**Management**") and other pertinent data of the Company which includes but not limited to the following:

- Client's joint announcement in relation to the proposed acquisition of the entire issued share capital of the Company dated 1 December 2015. (the "**Joint Announcement**")
- Copy of the business license of the Company dated 18 June 2015 provided by the management of the Company
- Copies of national manufacturing licenses of the Company dated 12 March 2015, 31 March 2012, and 30 January 2014 provided by the management of the Company
- Copy of the consolidated management accounts of the Company for the period ended on 31 October 2015 provided by the management of the Client
- Audited financial statements of the Company for the years ended on 31 December 2014, 2013 and 2012 provided by the management of the Client
- Details of fixed assets of the Company as at 31 July 2015 provided by the management of the Client
- Details of intangible assets of the Company as at 31 July 2015 provided by the management of the Client
- Financial projection of the Company for the period from 1 November 2015 to 31 December 2020 (the "**Financial Projection**") provided by the management of the Company
- Group structure chart of the Company
- The Company's background and products information provided by the Company
- Information related to the manufacturing plant and the manufacturing process provided by the Management
- Discussions with and representations made by the management of the Company

APPROACH AND METHODOLOGY

The fair value of the Company is conducted by one or more of the three generally accepted valuation approaches: asset approach, market approach and income approach.

Asset Approach

A means of estimating the value of a business and/or equity interest using methods based on the market value of individual business assets less liabilities. It is founded on the principle of substitution, i.e. an asset is worth no more than it would cost to replace all of its constituent parts.

Market Approach

A general way of estimating a value indication of an asset, the market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised asset relative to market comparables.

Income Approach

This approach focuses on the economic benefits generated by the income producing capability of an enterprise. The underlying theory of this approach is that the value of an enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Determination of the Valuation Approach

Among the three approaches, we consider that the Income Approach is more appropriate for valuing the Company.

The Asset Approach might not be able to capture the future economic benefits contributed by the subject assets and from the business operation easily, therefore, the Asset Approach is considered not appropriate for this case.

Market Approach might be difficult to apply since there are insufficient relevant comparable transactions in China around the Valuation Date and the status of the comparable transactions might not be directly comparable to the Company. We are unable to satisfy ourselves that the comparable transaction method of the Market Approach would be the most appropriate valuation approach. We have then further considered the guideline public company method of the Market Approach to use the valuation multiplies derived from the market prices and financial performance information of the public comparable companies in a similar business and industry to value a company. As discussed and learned from the Management, there is net liabilities value in the management accounts of the Company and the Company has suffered from net loss as at the Valuation Date and in financial years ended in 2013 and 2014. Those common valuation multiplies cannot be applied easily and directly to the Company without significant management and accounting adjustments. Hence, a reasonable and meaningful comparison and conclusion cannot be made from this method of the Market Approach. Besides, this method of the Market Approach might not capture the unique and specific aspects of a company valued. Therefore, the guideline public company method of the Market Approach is also considered not appropriate for this case.

In this regard, we rely on the Income approach in calculating the fair value of the Company.

The Income Approach focuses on the economic benefits generated by the income producing capability of an enterprise. The underlying theory of this approach is that the value of an enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Determination of Discount Rate

Discount rate is applied for calculation of the present value of cash flows. We can obtain the Company's cost of equity with reference to the public comparable companies, based on the Capital Asset Pricing Model (hereinafter referred to as "**CAPM**") using beta of its proxies.

As there are not sufficient and reliable publicly available financial data for the non-listed or private comparable companies, those companies are not able to be considered as comparable companies in the estimation of discount rate. In order to select the appropriate public comparable companies, we based on the following selection criteria:

- Companies listed in Hong Kong with actively trading in a reasonable period of time;
- Companies principally engaged in the manufacture and sale of infant formula milk products, pediatric nutritional and baby food products, and other milk products in China;
- The business of the manufacture and sale of infant formula milk products, pediatric nutritional and baby food products, and other milk products represents a major source of the total revenues to the overall business and this business operation will continue in the coming future;
- Sufficient financial information are available from the Thomson Reuters Terminal or other publicly available sources.

Based on the above selection criteria, four public comparable companies have been selected as follows:

Stock Ticker	Name of the Comparable Company
1230.HK	Yashili International Holdings Ltd
1112.HK	Biostime International Holdings Ltd
6863.HK	China Huishan Dairy Holdings Company Ltd
2319.HK	China Mengniu Dairy Co Ltd

To the best of our knowledge, information and belief, and on a best effort basis, the above list of comparable listed companies are fair, representative and exhaustive.

The CAPM only measures the systematic risk component, however, disregards the unsystematic risk component. To compensate for the unsystematic risk of the investment, we have included other risk adjustments such as size risk premium and Company specific risk.

The computation of the estimated cost of equity is shown as follows:

$$K_e = R_f + \beta_{eg} \times ERP + SP + CSR$$

where K_e = cost of equity
R_f = risk free return
β_{eg} = geared equity beta
ERP = equity risk premium
SP = size premium
CSR = company specific risk

Then we calculated the **Weighted Average Cost of Capital** (hereinafter referred to as "**WACC**") by weighting the rate of returns required by equity and debt holders using the proportions of the firm's value attributed from each source of capital (equity and debt).

$$WACC = K_e \times W_e + K_d \times (1 - T) \times W_d$$

where K_e = cost of equity
K_d = cost of debt
W_e = percentage of equity to total capital
W_d = percentage of debt to total capital
T = tax rate

Risk-free rate (R_f): The risk-free rate based on the yield of 30-year China Government Bond, which was the longest term of the government bond in the market, as at the Valuation Date provided by Thomson Reuters, 3.78%, was used.

Equity beta (β_{eg}): The average geared equity beta of comparable companies of the Company as at the Valuation Date, 0.90, was taken as the beta for the Company.

Equity risk premium (ERP): Equity risk premium for China of 11.08% was calculated with reference to the equity risk premium US and adjusted by the volatility of US and China Indices obtained from Thomson Reuters. The equity risk premium of US was extracted from 2015 Ibbotson SBBI Valuation Yearbook.

Size premium (SP): Size premium of 5.78% was adopted, with reference to the size premium for the 10th deciles, based on the market capitalization, of NYSE/AMEX/NASDAQ in the US, as per 2015 Ibbotson SBBI Valuation Yearbook. It served as a proxy for estimating the size premium for the Company, as there is no available study on size premium specifically conducted for companies in China.

Company specific risk (CSR): Taking into consideration the current operation stage of the Company, the lower profitability level of the Company compared to the comparable companies and the uncertainty of the realization of future cash flow, a risk premium of 1% was added based on our internal assessment.

Cost of equity (K_e): The cost of equity as at the Valuation Date per calculation from the formula above, 20.56%, was used.

Cost of debt (K_d): The People's Bank of China lending rate above 5 years as at Valuation Date, 4.90%, was used as a proxy for the cost of debt of the Company, where it is assumed that the Company will be able to borrow at the market lending rate.

Percentage of equity to total capital (W_e): The percentage of equity to total capital calculated by average debt-to-equity ratio of the comparable companies of the Group, 81.77%, was taken for the Company.

Percentage of debt to total capital (W_d): The percentage of debt to total capital calculated by average debt-to-equity ratio of the comparable companies of the Group, 18.23%, was taken for the Company.

The average debt-to-equity ratio of the comparable companies was adopted, based on the assumption that the Company will approach the average capital structure of the industry over time to remain its competitiveness in the industry.

Tax rate (T): The China Corporate Tax rate, 25%, was adopted based on the information from the Company.

Taking account of the above, we suggested an appropriate weighted average cost of capital was determined at 17.48% as at the Valuation Date.

Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The discount for lack of marketability reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

As there is no available empirical study on marketability discount for the companies in China, the marketability discount is estimated with reference to the "Determining discounts for lack of marketability, a companion guide to the FMV restricted stock study, 2015 Edition" published by Business Valuation Resources LLC. The overall average discount for lack of marketability for all the relevant private placement transactions from July 1980 to September 2014 in the FMV Study is estimated as 19.33%. The estimated discount is further crosschecked with put option model. Therefore, for the purpose of this valuation, a discount for lack of marketability of 20% is adopted to the indicated fair value of the Company derived by the income approach.

VALIDATION OF ASSUMPTIONS AND NOTES

Assumptions considered having significant sensitivity effects in this valuation have been evaluated and validated in arriving at our assessed values.

General Assumptions

- We assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business.
- In arriving at our opinion, we have assumed and relied extensively upon the accuracy and completeness of the information provided to us by the Management such as financial statements, documents, oral conversation through correspondences and interviews.
- The financial information of the Company was prepared in accordance to the applicable accounting standard. We did not independently investigate or otherwise verify the data provided and do not express an opinion or offer any form of assurance regarding its accuracy and completeness.
- There will be no material changes in inflation, interest rates and exchange rates from those prevailing as at the Valuation Date.
- The availability of finance will not materially constrain the forecasted growth of the Company.
- The Company will be able to procure and retain component key personnel and operating staffs.
- The Company will be able to obtain all relevant necessary approvals and business operation licenses for the normal course of the business operations with no additional costs and fees, and the patent license agreement, the trademark assignment agreement and the trademark license agreement shall have been duly executed by relevant parties to complete the proposed transaction.
- The market condition for the industry operated by the Company will not materially deviate from the economic forecast.

Key Assumptions

Income approach is used to measure the value the Company. In using the income approach, we relied on the financial projection which are provided by the Management and are based on reasonable assumptions that represent the Management's best estimate of the economic conditions and the Company's operation. These assumptions includes the revenue, expenses forecasts, working capital projections and capital expenditure requirements. The nature of these assumptions will be discussed as follows:

1. *Revenues*

Revenues mainly represent the sales of various product series of the dairy products and other related nutrition products manufactured or purchased overseas by the Company.

2. *Cost of Revenues*

Cost of revenues mainly represent the costs of the raw materials, direct and transportation expenses, labor cost and other expenses related to the production of the products.

3. *Operating Expenses*

Operating expenses mainly consist of the selling expenses and administration expenses required to generate the forecasted revenues and to support the daily business activities of the Company.

4. *Capital Expenditures*

Capital expenditures mainly represent those expenditures to maintain the manufacturing plant and building, to acquire or replace those manufacturing machineries or equipment, and to purchase new or upgrade office equipment to support the normal daily business activities of the Company.

5. *Working Capital Projection*

Working capital projection mainly include account receivables, inventories, other current assets including prepayments and other receivables, account payables and other current liabilities including other payables and accruals. The projection of the working capital arising from the normal business is assumed to be based on the Management's experience and best estimation.

Besides, as advised by the Management, in accordance with the Equity Transfer Agreement in relation to the proposed acquisition, it is required that on the date of the completion of the proposed acquisition, the net working capital amount shall not be inferior to negative RMB36 million, and therefore, it is assumed that the net working capital of the Company as at the Valuation Date and on the 2015 year end date shall be maintained at negative RMB36 million in the valuation.

6. *Other Non-operating Cash Inflow or Outflow*

As estimated by the Management, the Company will dispose one production line in 2016 and the Management has forecasted the proceeds of the disposal which is adopted in the valuation.

7. *Net Debt Requirement*

As advised by the Management, in accordance with the Equity Transfer Agreement in relation to the proposed acquisition, it is assumed that the Company has no net debt amount as at the date of the completion of the proposed acquisition and this requirement was adopted in the valuation.

8. *Terminal Growth Rate*

The terminal growth rate, 3%, was used in the valuation, which was based on the estimation of the long-term inflation rate in China.

VALUATION COMMENTS

As part of our analysis, we have reviewed information, documentation and other pertinent data concerning the Company and as has been made available to us. Such information has been provided by the Company. We have assumed the accuracy of, and have relied on, such information to a considerable extent in arriving at our opinion of value.

We confirm that we have made relevant searches and enquiries and obtained such further information as is considered necessary for the purposes of this valuation exercise.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The assumptions made in our valuation are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and RHL Appraisal Limited.

RISK FACTORS

The following factors may affect the result of this valuation.

Economic, political and social considerations

Political and economic policies of the local governments may affect the Company's operational results and may result in their inability to sustain their growth.

Risks relating to the industry

The competition of the infant milk formula and dairy product industry in China is keen. Any future epidemic or outbreak or occurrence of other unpredictable events may change the demand or costs which may adversely affect the Company's operational results.

Risks relating to infant milk formula products

Any product contamination may harm the business and reputation which might results in product liability claims and regulatory action which may adversely affect the Target Company's business operation and valuation.

Risks relating to the operation

The operations and expansion plans rely on the ability to obtain sufficient funds on commercially acceptable terms. Due to the capital requirement of the Company operations, a substantial amount of capital as well as ongoing funding is required to support the growth.

Information bias

Research and information from the Company or research database are subject to bias or may not meet with the actual future results. Besides, there may be a discrepancy between projection and the actual revenue.

SENSITIVITY ANALYSIS

The sensitivity analysis has been prepared to determine the impact of changes in the terminal growth rate, discount rate and discount for lack of marketability on the value of the Company. The following tables summarize the resulting values of the Company:

Terminal growth rate sensitivity

Change in terminal growth rate	Terminal growth rate	Indicated fair value (Euro)	Change in value
–2.00%	1.00%	136,328,000	–6%
–1.00%	2.00%	140,187,000	–4%
0.00%	3.00%	145,389,000	0%
1.00%	4.00%	151,722,000	5%
2.00%	5.00%	159,484,000	10%

Discount rate sensitivity

Change in discount rate	Discount rate	Indicated fair value (Euro)	Change in value
–2.00%	15.48%	171,363,000	18%
–1.00%	16.48%	157,396,000	8%
0.00%	17.48%	145,389,000	0%
1.00%	18.48%	134,962,000	–7%
2.00%	19.48%	125,825,000	–14%

Discount for lack of marketability sensitivity

Change in Discount for lack of marketability	Discount for lack of marketability	Indicated fair value (Euro)	Change in value
–10.00%	10.00%	163,563,000	13%
–5.00%	15.00%	154,476,000	6%
0.00%	20.00%	145,389,000	0%
5.00%	25.00%	136,302,000	–6%
10.00%	30.00%	127,216,000	–13%

OPINION OF VALUE

Based on the results of our investigations and analysis outlined in this report, we are of the opinion that the fair value of the Company's equity as at the Valuation Date, free from any encumbrances, is reasonably stated as **EURO DOLLARS ONE HUNDRED FORTY-FIVE MILLION THREE HUNDRED EIGHTY-NINE THOUSAND (EURO 145,389,000)**.

Yours faithfully,
For and on behalf of
RHL Appraisal Limited
Kenneth H. W. Lam
ACCA, FRM
Associate Director

Mr. Kenneth Lam is a Chartered Accountant and Financial Risk Manager with 5 years of experience in valuations for private and listed companies in the Asia-Pacific and America region.

Deutsche Bank

3 May 2016

The Board of Directors
Yashili International Holdings Ltd
Suites 801-2, 8th Floor
COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

Dear Sirs,

We refer to the circular (the "**Circular**") of Yashili International Holdings Ltd ("**Yashili**") published on 3 May 2016 in relation to the acquisition of a 100% equity interest in Dumex Baby Food Co., Ltd. (the "**Target Company**"). Unless otherwise stated, capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular.

For the purposes of preparing the Business Valuation of the Target Company, RHL Appraisal Ltd (the "**Valuer**") has applied the Income Approach as the valuation methodology. We note that the underlying financials applied in the Income Approach in the Valuation Report (the "**Valuation Report**") are regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") (the "**Forecasts**").

We have discussed with the Directors of Yashili, the Valuer, the management of the Target Company and the reporting accountant, Ernst & Young, regarding the bases and assumptions adopted under which the Valuation Report have been prepared, and reviewed the Valuation Report for which the Valuer is responsible. We have also considered the letter from the reporting accountant set out in Appendix VIII to the Circular regarding the calculations upon which the Forecasts have been made.

Solely on the basis of the foregoing inquires and pursuant to Rule 14.62(3) of the Listing Rules, we are of the opinion that the Forecasts for which the Directors of Yashili are solely responsible, have been made after due and careful enquiry.

We have not independently verified the computations leading to the Valuer's determination of the fair values of the business of the Target Company. We have had no role or involvement and have not provided and will not provide any assessment of the fair values of the business of the Target Company. Accordingly, we take no responsibility for and express no views, whether expressly or implicitly, on the fair values of the business of the Target Company as determined by the Valuer and set out in the Valuation Report issued by the Valuer or otherwise.

The consideration, review and discussion carried out by us as described above are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter. We have, in arriving at our views, relied on information and materials supplied to us by the Valuer, Yashili and the Target Company and opinions expressed by, and representations of, the employees and/or management of the Valuer, Yashili and the Target Company. We have assumed that all information, materials and representations were true, accurate, complete and not misleading at the time they were supplied or made and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our respective assessment and review. Further, the qualifications, bases and assumptions adopted by the Valuer are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Yashili and the Valuer.

Yours faithfully,
For and on behalf of
Deutsche Bank AG, Hong Kong Branch

Mayooran Elalingam
Managing Director
Head of Mergers & Acquisitions, Asia-Pacific

Rohit Satsangi
Director
Mergers & Acquisitions, Asia-Pacific

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

3 May 2016

REPORT ON THE PROFIT FORECAST IN CONNECTION WITH THE VALUATION OF 100% EQUITY VALUE OF DUMEX BABY FOOD CO., LTD.

To the board of directors of Yashili International Holdings Ltd

We have performed the work described below, in respect of the arithmetical accuracy of the calculations of the profit forecast (hereinafter referred to as the "Underlying Forecast") on which the valuation (the "Valuation") dated 3 May 2016 prepared by RHL Appraisal Ltd in respect of the appraisal of the 100% equity value of Dumex Baby Food Ltd. (the "Target Company") as at 31 October 2015. The Valuation is prepared based on the Underlying Forecast and are regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors (the "Directors") of Yashili International Holdings Ltd (the "Company") to prepare the Underlying Forecast. The Underlying Forecast for the Valuation has been prepared using a set of assumptions (the "Assumptions"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors.

It is our responsibility to draw a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast on which the Valuation is based and to present our conclusion solely to you, as a body, for the purpose of reporting under paragraph 14.62(2) of the Listing Rules and for no other purpose. We are not reporting on the appropriateness and validity of the bases and Assumptions on which the Underlying Forecast are based and our work does not constitute any valuation of the equity value. The Underlying Forecast does not involve the adoption of accounting policies. The Assumptions used in the preparation of the Underlying Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. We have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the Assumptions and thus express no opinion whatsoever thereon. Our work is more limited than that for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. We also accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

BASIS OF CONCLUSION

We conducted our work in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of checking the arithmetical accuracy of the calculations, of the Underlying Forecast prepared based on the Assumptions made by the Directors. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the 100% equity value as at 31 October 2015.

CONCLUSION

Based on our work described above, nothing has come to our attention that causes us to believe that the Underlying Forecast in respect of the valuations of 100% equity value of the Target Company, so far as the arithmetical accuracy of the calculations of the Underlying Forecast is concerned, has not been properly compiled on the basis of the Assumptions made by the Directors.

Yours faithfully,

Ernst & Young
Certified Public Accountant
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Yashili 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 Yashili. The Yashili 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' INTERESTS

As of the Latest Practicable Date, the interests and short positions, if any, of each Yashili Directors and the chief executive of Yashili in the shares, underlying shares or debentures of Yashili and any of its associated corporations (within the meaning of the SFO) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or were required to be notified to Yashili and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which he was taken or deemed to have under such provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Listing Rules were as follows:

Yashili/Name of associated corporation	Name of director	Capacity/Nature of interest	Number of shares	Approximate percentage of the issued share capital
Mengniu Dairy	Sun Yiping	Beneficial owner	16,811,204*(Note 1)*	0.43%*(Note 2)*

Notes:

(1) It represents (i) 15,256,132 restricted stocks granted to Ms. Sun Yiping under the restricted stock award scheme of Mengniu Dairy adopted by the board of Mengniu Dairy on 26 March 2013; and (ii) 1,555,072 share awards granted to Ms. Sun Yiping under the key management retention plan adopted by the board of Mengniu Dairy in April 2016.

(2) The calculation is based on the number of shares as a percentage of the total number of issued shares of Mengniu Dairy (i.e. 3,919,266,402 shares) as of the Latest Practicable Date.

Save as disclosed above, none of the Yashili Directors or chief executive of Yashili had, as of the Latest Practicable Date, any interests or short positions in the shares, underlying shares or debentures of Yashili and any of its associated corporations (within the meaning of the SFO) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or were required to be notified to Yashili and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which he was taken or deemed to have under such provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Issuers set out 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 Yashili, the following persons (other than a Director or chief executive of Yashili or their respective associates) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to Yashili 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 Yashili:

Name of substantial Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate percentage of the issued share capital
Mengniu Dairy *(Note 1)*	Interests in a controlled corporation	2,422,150,437	51.04%
Mengniu International *(Note 1)*	Beneficial owner	2,422,150,437	51.04%
Danone SA *(Note 2)*	Interests in a controlled corporation	1,186,390,074	25.00%
Danone Baby and Medical Holdings *(Note 2)*	Interests in a controlled corporation	1,186,390,074	25.00%
Danone Baby and Medical Nutrition BV *(Note 2)*	Interests in a controlled corporation	1,186,390,074	25.00%
Nutricia International BV *(Note 2)*	Interests in a controlled corporation	1,186,390,074	25.00%
Danone Asia *(Note 2)*	Beneficial owner	1,186,390,074	25.00%
Zhang International Investment Ltd. *(Note 3)*	Beneficial owner	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 by Mr. Zhang Lihui, Mr. Zhang Likun, Mr. Zhang Liming, Mr. Zhang Lidian, Mr. Zhang Libo and Ms. She Lifang as their wholly-owned investment holding company to hold their shares in Yashili.

Save as disclosed above, as of the Latest Practicable Date, the Yashili Directors and chief executive of Yashili were not aware of any other persons (not being a Director or chief executive of Yashili) who had an interest or short position in the Shares or underlying shares of Yashili which would fall to be disclosed to Yashili 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 Yashili 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 Yashili Group which does not expire or is not determinable by the Yashili 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 Yashili Directors or the experts described in paragraph 9 of this Appendix had any direct or indirect interest in any assets which had been, since 31 December 2015, being the date to which the latest published audited accounts of Yashili 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 Enlarged Group.

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

6. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As of the Latest Practicable Date, in so far as the Yashili Directors are aware, none of the Yashili 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 Yashili Group.

7. LITIGATION

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

8. MATERIAL ADVERSE CHANGES

As of the Latest Practicable Date, the Yashili Directors were not aware of any material adverse change in the financial or trading position of the Yashili Group since 31 December 2015, being the date to which the latest published audited accounts of the Yashili Group were made up.

9. EXPERTS AND CONSENT

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

Name	Qualification
Ernst & Young	Certified Public Accountants
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
RHL Appraisal Limited	Independent property valuer
Zhong Lun Law Firm	PRC legal adviser
Deutsche Securities Asia Limited	A corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), and Type 7 (providing automated trading services) regulated activities under the SFO

Each of the above experts 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 they appear respectively.

As of the Latest Practicable Date, each of the above experts was not beneficially interested in the share capital of any member of the Yashili 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 Yashili Group.

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

As of the Latest Practicable Date, save as disclosed below, none of the Yashili 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 Yashili 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
Sun Yiping	Mengniu Dairy	Executive director
Zhang Ping	Mengniu Dairy	Chief financial officer
	Mengniu International	Director

11. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Enlarged Group within two years immediately preceding the date of this circular which are or may be material:

(a) the supplemental loan agreement dated 16 May 2014 and entered into among Yashili (Guangdong), 艾思博投資有限公司 (Aspen Ventures Ltd.*) and 雅士利(鄭州)營養品有限公司 (Yashili (Zhengzhou) Nourishment Co., Ltd.*) ("**Yashili (Zhengzhou)**") for the purpose of amending the terms of the shareholder loans provided by Yashili (Guangdong) to Yashili (Zhengzhou). The aggregate principal amount of the shareholder loans was RMB127.47 million;

(b) the equity transfer agreement dated 19 September 2014 and entered into between Yashili International Ltd. (雅士利國際有限公司) ("**Yashili (BVI)**") and Zhang International Investment Ltd. (張氏國際投資有限公司) ("**Zhang International**") relating to the sale of 100% of the equity interests in Yashili International Investment Limited (雅士利國際投資有限公司(香港)) by Yashili (BVI) to Zhang International at a consideration of RMB213.4 million;

(c) the subscription agreement dated 30 October 2014 and entered into between Yashili, Mengniu International and Danone Asia Baby Nutrition Pte. Ltd. ("**Danone Asia**") relating to the subscription of 1,186,390,074 Shares by Danone Asia at a consideration of HK$4,389,643,273.80;

(d) the equity transfer agreement dated 21 September 2015 and entered into between Inner Mongolia Mengniu Dairy (Group) Company Limited ("**Inner Mongolia Mengniu**") and 雅士利國際集團有限公司 (Yashili International Group Limited*) ("**Yashili (Guangdong)**") relating to the acquisition of 100% of the equity interests in Oushi

Mengniu (Inner Mongolia) Dairy Products Co., Ltd (內蒙古歐世蒙牛乳製品有限責任公司) by Yashili (Guangdong) from Inner Mongolia Mengniu at a consideration of RMB 1,050 million;

(e) the assets transfer agreement dated 12 November 2015 and entered into between Yashili (Guangdong) and Guangdong Yashili Investment Co., Ltd. (廣東雅士利投資有限公司) ("**Guangdong Investment**") relating to the disposal of property interests, land parcels, equipment and construction in progress of Yashili (Guangdong)by Yashili (Guangdong) to Guangdong Investment at a consideration of RMB72,085,900;

(f) the Equity Transfer Agreement;

(g) the Trademark Licensing Agreement;

(h) the Patent Licensing Agreement;

(i) the Trademark Assignment Agreement;

(j) the memorandum of understanding (the "**MOU**") dated 23 January 2016 and entered into between Scient International Group Limited (the "**Proposed Vendor**") and Ausnutria Dairy (China) Co., Ltd. (the "**Proposed Purchaser**") relating to the proposed disposal of the entire equity interests in 施恩(中國)嬰幼兒營養品有限公司 (Scient (China) Baby Nourishment Co., Ltd.*) by the Proposed Vendor to the Proposed Purchaser; and

(k) the supplemental MOU dated 29 February 2016 and entered into between the Proposed Vendor and the Proposed Purchaser relating to, among other things, amending certain terms of the MOU.

12. 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 Yashili in Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of Yashili;

(b) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(c) the annual results announcement of Yashili for the year ended 31 December 2015 and the annual reports of Yashili for the two years ended 31 December 2013 and 2014;

(d) the letter of recommendation from the Independent Board Committee dated 3 May 2016;

(e) the letter of advice issued by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders dated 3 May 2016;

(f) the accountants' report of the Dumex China Group, the text of which is set out in Appendix II to this circular;

(g) the report from Ernst & Young on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(h) the property valuation report prepared by RHL Appraisal Limited as set out in Appendix V to this circular;

(i) the business valuation report prepared by RHL Appraisal Limited as set out in Appendix VI to this circular;

(j) the letter from Deutsche Securities Asia Limited pursuant to Rule 14.62 of the Listing Rules in relation to the discounted cash flow forecast in connection with the valuation of Dumex China as set out in Appendix VII to this circular;

(k) the report from Ernst & Young pursuant to Rule 14.62 of the Listing Rules in relation to discounted cash flow forecast in connection with the valuation of Dumex China as set out in Appendix VIII to this circular;

(l) the letters of consent referred to in the paragraph headed "Experts and Consent" in this Appendix;

(m) the circular of Yashili dated 29 October 2015; and

(n) this circular.

13. MISCELLANEOUS

(a) Yashili's company secretary is Ms. Ho Siu Pik, who is a fellow member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

(b) The Cayman Islands principal share registrar and transfer office is Butterfield Fulcrum Group (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 609, Grand Cayman KY1-1107, Cayman Islands.

(c) The Hong Kong branch share registrar and transfer is Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th 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.

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: 01230)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Yashili International Holdings Ltd ("**Yashili**") will be held at Taishan Room, 5/F, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Thursday, 19 May 2016 at 10:00 a.m. for the following purposes:

ORDINARY RESOLUTION

To consider and, if thought fit, pass the following resolution as an ordinary resolution of Yashili:

"**THAT:**

(a) the Equity Transfer Agreement dated 1 December 2015 entered into between 雅士利國際集團有限公司 (Yashili International Group Limited) ("**Purchaser**") as the purchaser and Danone Asia Pacific Holdings Pte. Ltd. ("**Seller**") as the seller (a copy of which has been produced to the EGM marked "A" and initialled by the chairman of the EGM for the purpose of identification) (the "**Equity Transfer Agreement**"), pursuant to which the Purchaser conditionally agreed to purchase and the Seller conditionally agreed to sell the entire equity interest in 多美滋嬰幼兒食品有限公司 Dumex Baby Food Co., Ltd. (the "**Proposed Acquisition**"), and all transactions, matters and amendments contemplated under the Equity Transfer Agreement, and the execution, performance and implementation of the Equity Transfer Agreement and all ancillary matters and documents contemplated under the Equity Transfer Agreement be and are hereby generally and unconditionally approved, confirmed and ratified;

(b) the Proposed Acquisition and all other documents that are necessary to effect the Proposed Acquisition are hereby generally and unconditionally approved, confirmed and ratified; and

(c) any one director of Yashili or any two directors of Yashili, if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of Yashili to do all such things and exercise all powers which he/they consider(s) necessary, desirable or expedient in connection with the Equity Transfer Agreement and the Proposed Acquisition, and otherwise in connection with the implementation of the transactions contemplated therein including without limitation the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements."

On behalf of the Yashili Board
Yashili International Holdings Ltd
雅士利國際控股有限公司
Sun Yiping
Chairman

Hong Kong, 3 May 2016

Notes:

(i) Resolution at the meeting will be taken by poll pursuant to the Yashili's articles of association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Yashili in accordance with the Listing Rules.

(ii) Any member of the Yashili 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 member 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 member of the Yashili. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.

(iii) In order to be valid, the duly completed and signed 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 Yashili'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 not less than 48 hours before the time appointed for the holding of the above meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Yashili from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(iv) The register of members of Yashili will be closed from Monday, 16 May 2016 to Thursday, 19 May 2016, both days inclusive and during which period no share transfer will be effected for the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Yashili'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, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 13 May 2016. The record date for determining eligibility to attend and vote at the EGM will be Thursday, 19 May 2016.

(v) A form of proxy for use at the EGM is enclosed herewith.

(vi) English names of the PRC entities are the literal translation of their Chinese names and are included for identification purposes only.