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If you have sold or transferred all your shares in China Mengniu Dairy Company Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

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蒙牛

CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

STRUCTURE OF THE RELEVANT SCHEME

PROPOSED PLACING UNDER SPECIFIC MANDATE OF UP TO HK\$ EQUIVALENT OF RMB4,000,000,000 FIXED RATE 5-YEAR CONVERTIBLE BONDS

CONNECTED TRANSACTIONS

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



A letter from the Independent Board Committee with its recommendations to the Independent Shareholders of China Mengniu Dairy Company Limited is set out on pages 66 to 67 of this circular and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders of China Mengniu Dairy Company Limited is set out on pages 68 to 120 of this circular.

A notice convening an EGM of the Company, to be held at 10:00 a.m. on Tuesday, October 12, 2021 at A2-C6 Laijin Creative Industry Park, Chaoyang District, Beijing is set out on pages II-1 to II-3 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong share registrar of China Mengniu Dairy Company Limited, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), not less than 48 hours before the time for holding the EGM. The completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) if you wish.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of Shareholders and to prevent the spreading of the coronavirus disease 2019 (COVID-19), the following precautionary measures will be implemented at the EGM:

- (1) Compulsory body temperature checks
- (2) Mandatory health declaration
- (3) Wearing of surgical face mask for each attendee
- (4) No distribution of corporate gift or provision of refreshment

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person.

* For identification purpose only

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PRECAUTIONARY MEASURES FOR THE EGM

With the outbreak and spreading of the COVID-19 pandemic, to safeguard the health and safety of Shareholders who might be attending the EGM in person, the Company will implement the following precautionary measures at the EGM:

- (i) Compulsory body temperature checks will be conducted on every shareholder, proxy or other attendee at the entrance of the meeting venue. Any person with a body temperature above the reference range quoted by the Department of Health from time to time, or is exhibiting flu-like symptoms, or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue and be requested to leave the venue.
- (ii) Each attendee will be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.
- (iii) Every attendee will be required to wear a surgical face mask throughout the EGM and sit at a safe distance from other attendees. Please note that no masks will be provided at the EGM venue and attendees should bring and wear their own masks.
- (iv) No refreshment will be served, and there will be no corporate gift.

In light of the continuing risks posed by the COVID-19 pandemic, the Company strongly encourages Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy instead of attending the EGM in person, by completing and return the proxy form attached to this document. If any Shareholder chooses not to attend the meeting in person but has any question about any resolution or about the Company, or has any matter for communication with the Board of the Company, he/she is welcome to send such question or matter in writing to our principal office in Hong Kong or to our email at info@mengniu.com.

If any Shareholder has any question relating to the EGM, please contact Computershare Hong Kong Investor Services Limited, the Company's branch share registrar as follows:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Website: www.computershare.com/hk/contact
Tel: 2862 8555
Fax: 2865 0990

DEFINITIONS

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

“Agency Agreement”	the agency agreement in respect of the Convertible Bonds to be entered into between the Company, the trustee and the principal paying, transfer and exchange agent and registrar on or around the Closing Date
“Announcement”	the Company’s announcement dated January 24, 2021
“Asset Management Schemes”	qualified domestic institutional investor (QDII) asset management schemes established by the Assets Manager
“Assets Manager”	China Merchants Fund Management Co., Ltd, a qualified domestic institutional investor, acting as the Assets Manager of the Asset Management Schemes
“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Average Market Price”	in respect of a Share on a particular date, the average of the Closing Prices for one Share for the 60 consecutive Trading Days ending on the Trading Day immediately preceding such date
“Board”	the board of Directors of the Company
“CB Contracts”	the Placing Agreement, the Trust Deed and the Agency Agreement
“Charge”	the security interests to be created under the Security Deed
“Charged Assets”	the Convertible Bonds, the Charged Shares, the Securities Accounts and all related rights and interests therein
“Charged Shares”	Conversion Shares deposited into the Custodian Securities Account upon a Conversion
“Closing Date”	the date on which Completion takes place, being a date not later than December 31, 2021 or such later date as the Issuer and the Placing Agent may agree
“Closing Price”	of the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the Stock Exchange for such day
“Company” or “Issuer” or “Guarantor”	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319)

DEFINITIONS

“Company Secretary”	the company secretary of the Company
“Completion”	the completion of the Transactions
“connected person”	has the meaning ascribed to it in the Listing Rules
“Connected Selected Participants”	means Selected Participants who are connected persons of the Company
“Connected Transactions”	the connected transactions, details of which are set out in the section headed “Connected Transactions”
“Conversion Price”	the Initial Conversion Price, subject to the adjustments as described in this circular
“Conversion Shares”	the new Shares to be issued to the Notes Issuer upon the exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds” or “Bonds”	the fixed rate convertible bonds proposed to be issued by the Company in an aggregate principal amount of up to the HK\$ equivalent of RMB4,000,000,000 to be placed under the Placing
“Current Market Price”	<p>in respect of a Share on a particular date, the average of the Closing Prices for one Share (being a Share carrying full entitlement to dividend) for the 20 consecutive Trading Days ending on the Trading Day immediately preceding such date; provided that if at any time during the said 20 Trading Day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:</p> <p>(i) if the Shares to be issued in such circumstances do not rank for the dividend in question, the Closing Price on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that dividend per Share; or</p> <p>(ii) if the Shares to be issued in such circumstances rank for the dividend in question, the Closing Price on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by the Fair Market Value of that dividend per Share;</p>

DEFINITIONS

and provided further that if the Shares on each of the said 20 Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the Closing Price on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that dividend per Share

“Custodian”	CMB International Securities Limited, in its capacity as custodian of the Securities Accounts
“Custodian Securities Account”	the securities account(s) in the name of the Borrower held with the Custodian (and any renewal, redesignation, replacement, subdivision or subaccount of such account as agreed with the Security Trustee) as defined under the Security Deed
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the Transactions
“Facility Agreement”	the facility agreement in respect of the Loan entered into by the Borrower and the Lender on September 17, 2021
“Finance Documents”	the Facility Agreement, the Loan Guarantee, the Security Deed, any fee letter in respect of the Loan and any other document designated as a finance document in the Facility Agreement
“Finance Parties”	the Loan Agent, the Security Trustee, the Loan Arranger and the Lender(s)
“Floor Conversion Price”	HK\$32.80 per Share
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Incentives”	the returns that the relevant Selected Participants are entitled to receive under the Relevant Scheme determined by reference to the returns on the Structured Notes

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya and Mr. Yau Ka Chi
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Connected Transactions. Somerley Capital Limited 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)
“Independent Shareholder(s)”	Shareholders other than the Selected Participants and their associates
“Independent Third Party(ies)”	an independent third party, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, who is not connected with the Company and its connected persons
“Initial Conversion Price”	HK\$34.73 per Share, which represents 80% of the Reference Share Price
“Issue Deed”	the issue deed in respect of the Structured Notes
“Latest Practicable Date”	September 17, 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Lender”	China Merchants Bank Co., Ltd. (招商銀行股份有限公司), acting through its Offshore Banking Center, and any other entities specified in the Loan as the lender of the Loan
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	up to HK\$3,800,000,000 term loan facility made available to the Borrower under the Facility Agreement
“Loan Agent” and “Loan Arranger”	China Merchants Bank Co., Ltd. (招商銀行股份有限公司), acting through its Offshore Banking Center
“Loan Guarantee”	the guarantee to be entered into between the Company and the Loan Agent, pursuant to which the Company agrees to provide a guarantee in favour of the Lender to guarantee the Notes Issuer’s present and future liabilities and obligations under the Loan

DEFINITIONS

“Loan Secured Parties”	the Lender, Loan Agent, Loan Arranger, Security Trustee and its delegates and the receiver of any Charged Assets and its delegates in respect of the Loan
“Moody’s”	Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors
“NDRC”	the National Development and Reform Commission of the PRC
“Noteholders”	the registered holders of the Structured Notes, being the Asset Management Schemes and in certain cases, and the Offshore SPV established by some of the Selected Participants
“Noteholders Committee”	a committee designated by the Noteholders comprising five (5) individuals who are representatives of the Selected Participants but who are not connected persons of the Company
“Notes Agency Agreement”	the agency agreement in respect of the Structured Notes
“Notes Documents”	the Issue Deed, the Notes SPA, the Notes Security Deed and the Notes Agency Agreement
“Notes Issuer” or “Borrower”	Eaglets International Financial Products Limited (雛鷹國際金融產品有限公司), an exempted company incorporated with limited liability pursuant to the laws of the Cayman Islands
“Notes Secured Parties”	the persons entitled to the benefit of the payment obligations of the Notes Issuer under the Notes Security Deed, the Security Deed and each series of the Structured Notes
“Notes Security Deed”	the security deed in respect of the Structured Notes
“Notes SPA”	the sale and purchase agreements to be entered into between the Noteholders and CMB International Securities Limited, pursuant to which the dealer agrees to arrange the Notes Issuer to sell to the Noteholders the Structured Notes
“Offering Circular”	the offering circular to be prepared by the Company in connection with the issue of the Convertible Bonds and the listing of the Convertible Bonds on the Stock Exchange
“Offshore SPV”	an offshore special purpose vehicle established by some of the Selected Participants for the purpose of investing in the Structured Notes
“Placing”	the placing of the Convertible Bonds by the Company, through the Placing Agent, pursuant to the Placing Agreement

DEFINITIONS

“Placing Agent”	BOCI Asia Limited
“Placing Agreement”	the conditional placing agreement dated January 24, 2021 between the Company and the Placing Agent in relation to the Placing
“PRC” or “China”	the People’s Republic of China, (excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan for the purpose of this circular)
“Publication Date”	the publication date of the Offering Circular, which is to be dated no later than three business days prior to the Closing Date or such other date as may be agreed between the Issuer and the Placing Agent
“Rating Agencies”	S&P and Moody’s
“Rating Category”	(1) with respect to S&P, any of the following categories: “AAA”, “AA”, “A”, “BBB”, “BB”, “B”, “CCC”, “CC”, “C” and “D” (or equivalent successor categories) and (2) with respect to Moody’s, any of the following categories: of “Aaa”, “Aa”, “A”, “Baa”, “Ba”, “B”, “Caa”, “Ca”, “C” and “D” (or equivalent successor categories). In determining whether the rating of the Issuer has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P and “1”, “2” and “3” for Moody’s) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB”, as well as from “BB-” to “B+”, will constitute a decrease of one gradation)
“Rating Decline”	occurs when: <ul style="list-style-type: none">(i) the rating of the Issuer is or has been decreased by three or more gradations (including gradations within Rating Categories as well as between Rating Categories) from BBB+ by S&P;(ii) the rating of the Issuer is or has been decreased by three or more gradations (including gradations within Rating Categories as well as between Rating Categories) from Baa1 by Moody’s; or(iii) any one of the Rating Agencies publicly announces the withdrawal of its ratings of the Issuer

DEFINITIONS

“Reference Bond”	a publicly traded debt security issued by the Issuer, denominated in US dollars, ranking <i>pari passu</i> with the Bonds and which accrues interest at a fixed rate, which will be agreed between the Issuer and the Placing Agent prior to the Closing Date, and any replacement security as determined in accordance with the terms and conditions of the Bonds
“Reference Share Price”	HK\$43.41, the average of the Closing Prices for one Share as quoted on the Stock Exchange for the last 60 consecutive trading days up to but excluding January 22, 2021
“Relevant Exchange Rate”	the exchange rate of Renminbi to Hong Kong dollars as published by the People’s Bank of China, on the date on which the principal amount of the Convertible Bonds is agreed between the Issuer and the Placing Agent, or such other date as the Issuer and the Placing Agent may agree
“Reset Date”	the date falling on the third Trading Day immediately prior to the Closing Date
“RMB”	Renminbi, the lawful currency of the PRC
“RSA Scheme”	the restricted share award scheme adopted by the Company on March 26, 2013
“S&P”	Standard & Poor Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors
“Scheduled Trading Day”	a day when the Stock Exchange or, as the case may be an alternative stock exchange, is scheduled to be open for the business of dealing in securities, in any case as determined on the date of the Placing Agreement
“Scheme” or “Relevant Scheme”	has the meaning as ascribed to it under the section “The Relevant Scheme” of this circular
“Scheme Rules”	the rules relating to the proposed Relevant Scheme to be adopted by the Board, in its present or any amended form
“Secured Parties”	(i) prior to the discharge date of the Loan, each of the Loan Secured Parties and the Notes Secured Parties; and (ii) on and after the discharge date of the Loan, each of the Notes Secured Parties
“Securities Accounts”	the Securities Cash Account and the Custodian Securities Account

DEFINITIONS

“Securities Cash Account”	the cash account associated with the Custodian Securities Account (and any renewal, redesignation, replacement, subdivision or subaccount of such account agreed with the Security Trustee) as defined under the Security Deed
“Security Deed”	the security deed to be entered into among the Borrower, the Company, the Security Trustee and the Custodian in respect of the Loan and the Structured Notes
“Security Trustee”	CMB International Securities Limited, in its capacity as security trustee for the Secured Parties
“Selected Participant(s)”	the selected participants of the proposed Relevant Scheme in accordance with the Scheme Rules
“SFO”	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Share(s)”	the ordinary share(s) of par value HK\$0.1 each in the share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on June 3, 2016
“Share Options”	share options granted under the Share Option Scheme
“Shareholder(s)”	holder(s) of the Shares
“SPV(s)”	certain special purpose limited partnerships established for the purposes of the Relevant Scheme and whose (direct or indirect) limited partners include the Selected Participants
“SPV GP”	Tianjin Wanhong Enterprise Management Consulting Co., Ltd.* (天津萬弘企業管理諮詢有限公司), acting as the general partner of the SPVs
“Specific Mandate”	the specific mandate granted to the Board to allot, issue and deal with the Conversion Shares at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Notes” or “Notes”	collectively, Series A note due 2026, Series B note due 2026, Series C note due 2026 and Series D note due 2026, each to be issued by the Notes Issuer under and in accordance with the Notes Documents and with an initial aggregate nominal amount of HK\$ equivalent of approximately RMB1,000,000,000 and each a “Note” or a “Structured Note”

DEFINITIONS

“Trading Day”	a day when the Stock Exchange is open for the business of dealing in securities, provided that if no Closing Price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days
“Transactions”	the transactions contemplated under the Transaction Documents
“Transaction Documents”	the Placing Agreement, the Scheme Rules, the Facility Agreement, the Security Deed, the Notes Documents, the terms and conditions of the Convertible Bonds, the Loan Guarantee and any other documents entered into and/or to be entered into in connection with the Relevant Scheme and the Convertible Bonds
“Trust Deed”	the trust deed constituting the Convertible Bonds to be entered into between the Company and the trustee on or around the Closing Date
“%”	per cent



蒙牛

CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

Directors:

Mr. Jeffrey, Minfang Lu
(Chief Executive Officer)
Mr. Meng Fanjie
Mr. Chen Lang[#] *(Chairman)*
Mr. Niu Gensheng[#]
Mr. Simon Dominic Stevens[#]
Mr. Jiao Shuge (alias Jiao Zhen)*
(Vice-Chairman)
Mr. Julian Juul Wolhardt*
Mr. Zhang Xiaoya*
Mr. Yau Ka Chi*

Registered office:

Maples Corporate Services Limited
P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong:

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

Company Secretary:

Mr. Kwok Wai Cheong, Chris

[#] *Non-executive director*

* *Independent Non-executive director*

September 24, 2021

To the Shareholders of the Company

Dear Sir or Madam,

STRUCTURE OF THE RELEVANT SCHEME

**PROPOSED PLACING UNDER SPECIFIC MANDATE OF UP TO
HK\$ EQUIVALENT OF RMB4,000,000,000 FIXED RATE 5-YEAR
CONVERTIBLE BONDS**

CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the Announcement in relation to the subscription of financial products by Selected Participants under the Relevant Scheme, the proposed Placing under Specific Mandate of up to HK\$ equivalent of RMB4,000,000,000 fixed rate 5-year Convertible Bonds and potential connected transactions.

* *For identification purpose only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (1) further details of the financial products, the Relevant Scheme, the Placing and the Convertible Bonds, (2) the letter from the Independent Board Committee with its recommendations to the Independent Shareholders regarding the Connected Transactions, (3) a letter from Somerley Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Connected Transactions, and (4) a notice convening the EGM and other information as set out in the appendices to this circular.

BACKGROUND

On January 24, 2021, the Board announced that, subject to certain conditions being satisfied, certain financial products will be made available for subscription by the Selected Participants under the Relevant Scheme to be adopted by the Company, pursuant to which the Selected Participants are entitled to receive the Incentives. It is expected that the Selected Participants will (through certain special purpose vehicles), through investing in the Asset Management Schemes managed by the Assets Manager and the Offshore SPV, subscribe for the financial products. The Incentives to be received by the Selected Participants from time to time will be based on returns on the financial products derived from the performance of the Convertible Bonds and the Company's Share price.

The Board is pleased to announce that the financial products that the Selected Participants will subscribe for, through the Asset Management Schemes and the Offshore SPV, are the Structured Notes. The Structured Notes are issued by the Notes Issuer for a total principal amount of HK\$ equivalent of approximately RMB1,000,000,000, the terms of which are set out in detail in the section headed "The Asset Management Schemes, the Structured Notes, the Notes Issuer and the Loan — Key Terms of the Structured Notes". In addition, the Notes Issuer, as borrower, has entered into the Facility Agreement with the Lender to borrow a principal amount of up to HK\$3,800,000,000, being the Loan.

The net proceeds raised from the issuance of the Structured Notes and the drawdown of the Loan, being an aggregate amount of up to HK\$4,999,616,123 will be utilized by the Notes Issuer to subscribe for the Convertible Bonds. The Convertible Bonds will form the reference underlying assets of the Structured Notes such that the returns on the Convertible Bonds will form the basis for calculating the Noteholders' (i.e. the Asset Management Schemes and the Offshore SPV) returns on the Structured Notes, after taking into account the repayments of principal, interest and any other amounts due and payable in respect of the Loan and any other applicable costs, fees, commissions, duty and taxes in respect of the Structured Notes.

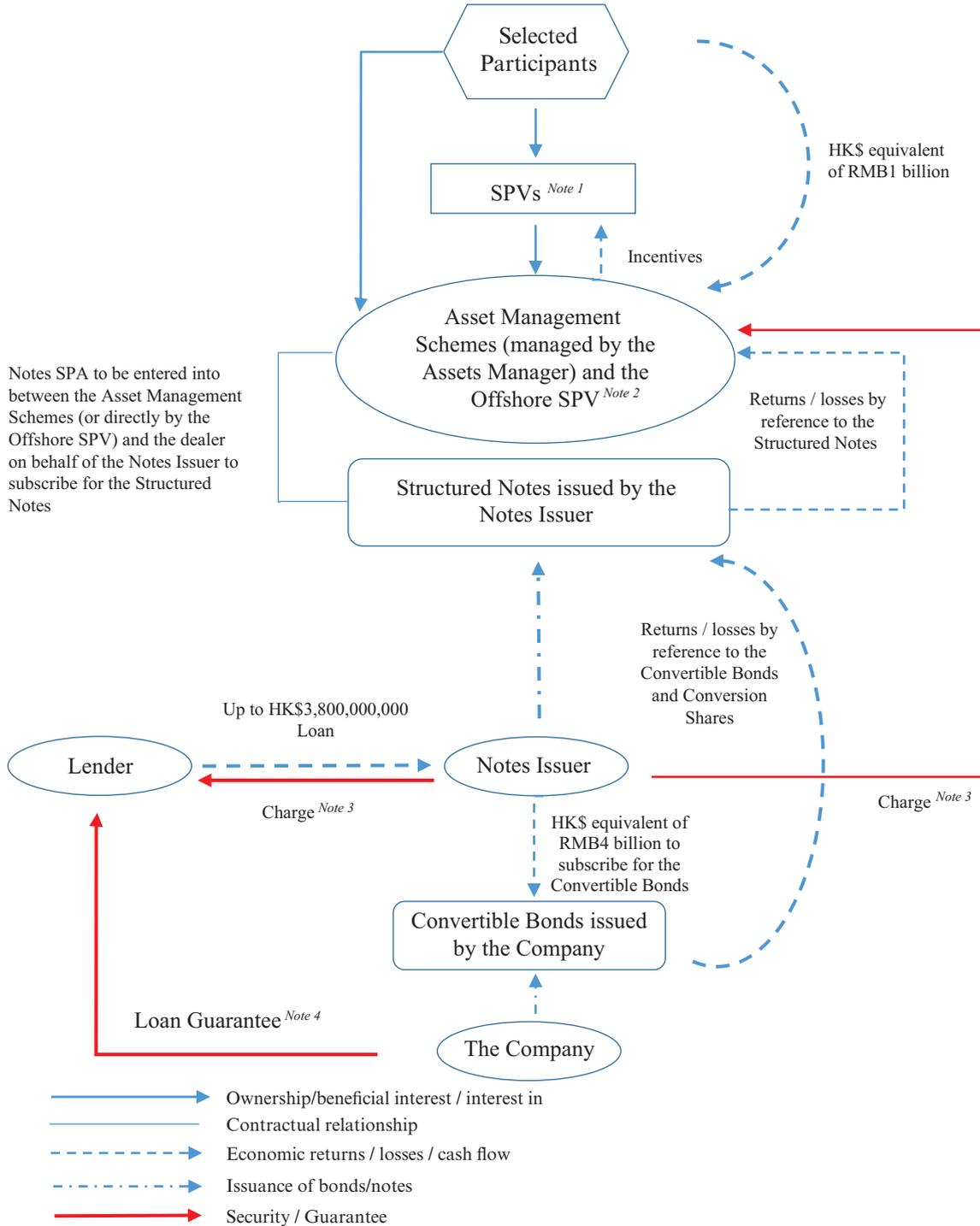
Charges and Guarantee

To secure the repayment of the Loan and the returns on the Structured Notes, the Notes Issuer has agreed to grant certain charges and mortgages over the Convertible Bonds and the Conversion Shares issued to the Notes Issuer upon a Conversion (including the Securities Accounts), among other things, to the Security Trustee.

The Company will provide a guarantee in favour of the Lender to guarantee the Notes Issuer's present and future liabilities and obligations under the Loan.

LETTER FROM THE BOARD

The diagram below illustrates the overall operation of the Structured Notes and the Relevant Scheme.



LETTER FROM THE BOARD

Notes:

1. These are special purpose limited partnerships established for the purposes of the Relevant Scheme and whose (direct and indirect) limited partners include the Selected Participants.
2. The Selected Participants will, directly or indirectly through SPVs, invest in the Structured Notes through (i) the Asset Management Schemes (for onshore Selected Participants) and (ii) the Offshore SPV (for offshore Selected Participants). The Asset Management Schemes are qualified domestic institutional investors (QDII) asset management schemes established by the Assets Manager. The Asset Management Schemes and the Offshore SPV will subscribe for the Structured Notes.
3. To secure the Notes Issuer's present and future liabilities and obligations in respect of the Loan and the Structured Notes, the Notes Issuer has granted to a charge in favour of the Security Trustee (for the Lender and the Noteholders) (a) by way of first mortgage or first fixed charge over, among other things, the Convertible Bonds and Conversion Shares held by the Notes Issuer upon a Conversion and (b) by way of a first fixed charge over the Securities Accounts.
4. The Company will provide a guarantee to the Lender to guarantee the Notes Issuer's payment obligations under the Loan.

THE RELEVANT SCHEME

The Board intends to adopt the Relevant Scheme (subject to certain conditions being satisfied) pursuant to which the Selected Participants are entitled to receive the Incentives. The Incentives to be received by the Selected Participants from time to time will be calculated by reference to the returns from the Structured Notes, which are in turn calculated by reference to the returns on the Convertible Bonds after taking into account the repayment of the principal, interest and any other amounts due and payable on the Loan and deductions of any applicable costs, fees, commissions, duty and taxes in respect of the Structured Notes.

The Relevant Scheme does not involve the grant of options over new shares or other new securities that may be issued by the Company (or any of its subsidiaries). The Convertible Bonds will be subscribed for partly using monies contributed by the Selected Participants. The Notes Issuer, as the legal and beneficial owner of the Convertible Bonds, may convert, transfer or redeem the Convertible Bonds. Neither the Selected Participants (by themselves or through the SPVs), the Asset Management Schemes, the Assets Manager, the Offshore SPV nor the Group will be the legal or beneficial owner of any Convertible Bonds or Conversion Shares. Accordingly, the Relevant Scheme does not fall within the ambit of, and is not subject to, the requirements under Chapter 17 of the Listing Rules. The Relevant Scheme is subject to approval from the Shareholders having been obtained at the EGM of the Company.

LETTER FROM THE BOARD

A summary of key terms of the Relevant Scheme is set out below.

Participation in the Relevant Scheme It is expected that the SPVs to be formed by the Selected Participants will invest in the Asset Management Schemes and the Offshore SPV. The Asset Management Schemes and the Offshore SPV as Noteholders, will subscribe for the Structured Notes. The Incentives to be received by the Selected Participants from time to time will be calculated by reference to the returns on the Structured Notes and subject to certain conditions having been satisfied. For details of the Structured Notes, please refer to the section headed “The Asset Management Schemes, The Structured Notes, The Notes Issuer and The Loan”.

Effective date of the Relevant Scheme The date on which the Transactions are approved by the Shareholders at the EGM

Effective period of the Relevant Scheme Until the Maturity Date of the Structured Notes

Conditions to the Relevant Scheme becoming effective

- (a) the Transactions having been approved by the Shareholders at the EGM;
- (b) the Selected Participants having formed and contributed funds to the SPVs to invest in the Structured Notes;
- (c) the Structured Notes having been issued by the Notes Issuer and purchased by and paid for by the Noteholders;
- (d) the Loan having been made available to the Notes Issuer; and
- (e) the Placing becoming unconditional and the Notes Issuer having subscribed and paid for the Convertible Bonds.

Each of the conditions set out in paragraphs (b), (c), (d) and (e) above is subject to Shareholders’ approval at the EGM and not waivable. As of the Latest Practicable Date, none of the abovementioned conditions has been fulfilled.

LETTER FROM THE BOARD

Selection Criteria of the Selected Participants

Selected Participants shall be person who meet, among others, the following selection criteria:

- (a) conform with the values of the Group and have shown passion and commitment to the Group;
- (b) hold a recognized key position in the Group or its associates; and
- (c) have achieved an individual performance appraisal rating of “B” or above and have not been subject to any discipline of level II warning or above in the preceding year.

For details of the exit arrangements when a Selected Participant ceases to be eligible under the Relevant Scheme, please refer to the paragraph headed “Exit Arrangements” below.

Rights and Risk Exposure of the Selected Participants

Under the Relevant Scheme, the Selected Participants shall have the right to receive incentives subject to fulfilment of the conditions to the relevant Selected Participant’s entitlements. For details, please refer to the paragraph headed “Conditions to the Selected Participant’s Entitlements” below.

The maximum risk exposure of each Selected Participant is the loss of the respective contribution of funds to the Relevant Scheme. For details, please refer to the section headed “Contribution of funds by the Selected Participants” of this circular.

Grant of Incentives to Selected Participants

As of the Latest Practicable Date, there is a total of 424 Selected Participants, all of which are either (A) employees of the Company; (B) employees of the subsidiaries of the Company; or (C) employees of the associates of the Company. No additional Selected Participants would be identified before the adoption of the Relevant Scheme.

LETTER FROM THE BOARD

Connected Selected Participants: Of such employees, three are Connected Selected Participants, details of which are as follows:

Name	Contribution of funds to the Relevant Scheme	Position(s) held within the Group	Connected person of the Company by reasons of
Mr. Lu Minfang	RMB75 million	Executive Director and chief executive officer of the Company; Director of certain subsidiaries of the Company	Being Director and chief executive officer of the Company and director of the Company's subsidiaries
Mr. Zhang Ping	RMB15 million	Senior management of the Company and director of certain subsidiaries of the Company	Being director of the Company's subsidiaries
Mr. Zhao Jiejun	RMB30 million	Senior management of the Company and director of certain subsidiaries of the Company	Being director of the Company's subsidiaries

The capital contribution of the Connected Selected Participants is determined with reference to their contributions to the Group (such as specific achievements, milestones and business opportunities brought to the Group). Each of the Connected Selected Participants has made significant contributions to the Group, details of which are set out below.

Mr. Lu Minfang

- leading the Group to achieve expansion in operation and increase in revenue, with the Group's consolidated revenue increased from approximately RMB53.8 billion in 2016 to approximately RMB76.0 billion in 2020; and
- overall management of the Group to maintain its business operation and performance in 2020 despite the COVID-19 pandemic.

LETTER FROM THE BOARD

Mr. Zhang Ping

- acting as part of the senior management of the Group to assist the chief executive officer to manage the Group and implement the Group's business strategies;
- leading the accounting department of the Group and at the same time involving in management of the Group's legal department, digital innovation department and investment management department;
- implementing restructuring and enhancement to the financial reporting system of the Group;
- leading the Group to improve its resources management systems to enhance the Group's operating efficiency; and
- assisting the Group to build account and finance sharing centers to improve the operating efficiency of the Group.

Mr. Zhao Jiejun

- acting as part of the senior management of the Group to assist the chief executive officer to manage the Group and implement the Group's business strategies;
- managing the milk sourcing process of the Group to enhance the Group's competitive advantages;
- securing the milk sources of the Group by coordinating suppliers within the PRC and around the world; and
- assisting the Group to build its own supply chain of milk.

LETTER FROM THE BOARD

As set out above, each of the Connected Selected Participants plays an important role to the management, operation and development of the Group. The role and responsibility of the Connected Selected Participants are directly affecting the performance of the Group. Each of them has made significant contributions to the Group in the past. The management of the Company is of the view that it is crucial to retain the Selected Participants including the Connected Selected Participants, through the grant of Incentives, to cater for the future strategic development of the Group.

Conditions to the Selected Participant's Entitlements

A Selected Participant will be entitled to the Incentives if during a year and before the date such entitlement is due, none of the following events, among others, have occurred:

- (a) termination of the Selected Participant's employment with the Group (or its associate) as a result of (i) resignation, (ii) non-renewal upon the expiration of the employment contract or (iii) unilateral termination by the Group (or its associates) according to relevant laws and regulations, in which case, such Selected Participant shall cease to have any entitlements to the Incentives from such time when the employment is terminated;
- (b) receiving an individual performance appraisal rating of "C" or "D" or being subject to a discipline of level II warning or above, in which case, such Selected Participant shall not be entitled to the Incentives in the following year;

LETTER FROM THE BOARD

- (c) holding an interest in any upstream or downstream companies within the industries in which the Group conducts its principal business, or any company which competes directly or indirectly with the Group (provided that this does not restrict a Selected Participant from holding less than 5% of the issued share capital of a listed company purchased through a secondary market trade but subject to such holding not resulting in the Selected Participant becoming the single largest shareholder of such listed company), in which case, such Selected Participant shall cease to have any entitlements to the Incentives from that year and may be required to reimburse the SPVs or the Offshore SPV for all Incentives he or she has received; and
- (d) holding the interests in the SPVs or the Offshore SPV on behalf of a non-Selected Participant, in which case, the Selected Participant shall cease to have any entitlements to the Incentives from that year and may be required to reimburse the SPVs or the Offshore SPV for all Incentives he or she has received.

For those Selected Participants who are no longer entitled to the Incentives, such Selected Participants will transfer their interests in the SPVs or the Offshore SPV to the SPV GP through the exit arrangements and therefore recoup the principal value of their investment, and the SPV GP will have the right to receive the respective Incentives going forward. For more details, please refer to the paragraph headed “Exit Arrangements” below.

LETTER FROM THE BOARD

As the Incentives will be calculated by reference to the returns from the Structured Notes, which are in turn calculated by reference to the returns on the Convertible Bonds, the distribution of the Incentives are linked to the monetization of the Convertible Bonds. Pursuant to the terms and conditions of the Convertible Bonds, the conversion right and redemption right attaching to the Convertible Bonds may be exercised at the option of the holder of the Convertible Bonds being the Notes Issuer (at the instruction of the Noteholders Committee and not subject to consent of the Company) annually, beginning in 2022. Accordingly, it is expected that the Incentives will be distributed to the Selected Participants annually, beginning in 2022. For more information on the terms and conditions of the Convertible Bonds, please refer to the section headed “Principal Terms of the Convertible Bonds” below.

SPV GP

SPV GP and/or its designated entities (which are or will be Independent Third Parties) will, directly or through SPVs, invest in the Asset Management Schemes and/or Offshore SPV (as applicable) at the adoption of the Relevant Scheme. The role of SPV GP and/or its designated entities in the Relevant Scheme mainly serve two purposes:

- (i) in contemplation that there might be newly joining Selected Participants during the term of the Relevant Scheme and in order to reserve some interests for such newly joining Selected Participants, SPV GP and/or its designated entities will, directly or through SPVs, invest in the Asset Management Schemes and/or Offshore SPV (as applicable) at the adoption of the Relevant Scheme and hold such interests on trust for newly joining Selected Participants. Such unallocated interests will be allocated and transferred to the newly joining Selected Participants in due course (“**Subsequent Transfers**”);

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- (ii) in the event that any existing Selected Participant ceases to be entitled to the Incentives as a result of any of the aforementioned circumstances, the SPV GP and/or its designated entities shall have the right to acquire all or part of such exiting Selected Participant's interests in the Asset Management Schemes or the Offshore SPV directly from such Selected Participant or indirectly by acquiring their interest in the SPVs ("**Exit Acquisitions**").

Tianjin Wanhong Enterprise Management Consulting Co., Ltd.* (天津萬弘企業管理諮詢有限公司) is an Independent Third Party, acting as general partner of the SPVs. It is a limited liability company established and owned by ten (10) senior management of the Company each of whom is a Selected Participant.

If during the term of the Relevant Scheme, the SPV GP and/or its designated entities enjoys any gains from such interests or on disposal of such interests, these gains are held on trust for the benefit of the Selected Participants as trust property. During the term of the Relevant Scheme, such trust property will be used to pay all costs, fees and expenses incurred by the relevant limited partnership and the SPV GP and/or its designated entities. Any such gains remaining at the expiry of the term of the Relevant Scheme (and therefore termination of the limited partnership) will be distributed in accordance with the limited partnership agreement following payment of all outstanding costs, fees and expenses.

LETTER FROM THE BOARD

Subsequent Transfers

Unallocated Interests: SPV GP and/or its designated entities will, directly or through the SPVs, make a total capital contribution of approximately RMB76 million to the Asset Management Schemes and/or Offshore SPV (as applicable) at the adoption of the Relevant Scheme. Such unallocated interests held by the SPV GP and/or its designated entities on trust will be allocated and transferred to the newly joining Selected Participants in due course. The capital contribution of approximately RMB76 million therefore represents the interests expected to be allocated to the newly joining Selected Participants during the term of the Relevant Scheme, and is calculated as approximately 7% (being the average turnover rate of the employees in the same banding of the existing Selected Participants during the period from 2017 to 2020) of the interests allocated to existing Selected Participants. In the event that there are still any unallocated interests held by the SPV GP and/or its designated entities at the expiry of the Relevant Scheme, the corresponding portion of the Structured Notes (and the underlying Convertible Bonds) will be monetized in accordance with the terms and conditions of the Structured Notes and the Convertible Bonds, and the proceeds will be distributed by the SPV GP and/or its designated entities in accordance with the limited partnership agreement.

LETTER FROM THE BOARD

Newly joining Selected Participants to acquire the unallocated interests: The potential recipients of the unallocated interests shall be (i) level N management (who directly report to the chief executive officer) and (ii) level N-1 management (who directly report to level N management) of the Group, who are either newly recruited employees of the Group after the adoption of the Relevant Scheme or existing employees newly promoted to such positions. Employees holding a position below level N-1 management can only receive the unallocated interests with special approval of the chief executive officer upon application made by the human resources department.

Allocation procedures: The maximum amount of interests available to be allocated to the newly joining Selected Participants will be determined by reference to the interests allocated to the existing Selected Participants holding similar position in 2021 and the remaining unallocated interests at that time.

After identifying the potential recipient and determining the maximum amount of interests available for allocation to him or her, the Company will make an offer to the potential recipient. The offer will specify the maximum amount of interests available to be allocated to such potential recipient. If the potential recipient accepts the offer, he or she may determine the actual amount of interests he or she would like to be allocated provided that it shall be not more than the maximum amount of available interests offered to him or her by the Company.

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The unallocated interests will be allocated and transferred to the newly joining Selected Participants (if any) during a fixed period immediately after the Conversion Period of the Convertible Bonds each year commencing from 2022. The newly joining Selected Participants will only be entitled to the Incentives to be distributed commencing from the following year but will not be entitled to the Incentives distributed in the year of joining.

Pricing of Subsequent Transfers. The consideration applicable to the Subsequent Transfers will be determined by the SPV GP having regard to multiple factors including, the remaining period in the Relevant Scheme, the then market price of the Shares and the market price of the Convertible Bonds, among other things.

Exit Arrangements

Compulsory exit: The SPV GP and/or its designated entities will also serve the role to acquire the interests of the Selected Participants (held by such Selected Participants directly or through their investment in the SPVs) in the Asset Management Schemes or the Offshore SPV when they exit. In the event that any Selected Participant ceases to be entitled to the Incentives as a result of any of the aforementioned circumstances, the SPV GP and/or its designated entities shall have the right to acquire all or part of such exiting Selected Participant's interests in the Asset Management Scheme or the Offshore SPV.

Pricing of Exit Acquisitions. The consideration applicable to the Exit Acquisitions will be determined with reference to the principal value of the Structured Notes.

LETTER FROM THE BOARD

THE CONVERTIBLE BONDS

The Placing Agreement

Date

January 24, 2021

Parties

The Issuer: The Company

The Placing Agent: BOCI Asia Limited

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Placing Agent is an Independent Third Party and is not a connected person of the Company.

Placing of the Convertible Bonds

Pursuant to the Placing Agreement, the Company agrees to issue and the Placing Agent agrees to procure, on a best effort basis, certain placee(s) to subscribe and pay for the Convertible Bonds of up to an aggregate principal amount of the HK\$ equivalent of RMB4,000,000,000 at the issue price of 100% of the principal amount of the Convertible Bonds.

Issue Date

Pursuant to the Placing Agreement, the Company agrees to issue the Convertible Bonds, on a date not later than December 31, 2021 or such later date as the Issuer and the Placing Agent may agree (the “**Closing Date**”).

Initial Conversion Price

Pursuant to the Placing Agreement, the Company and the Placing Agent have agreed that the Convertible Bonds will be convertible at the option of the holder thereof into fully paid Shares at the Initial Conversion Price, which represents 3.07 times of the net asset value per Share as of December 31, 2020.

The issuance of the Convertible Bonds is part of the Relevant Scheme, which is to retain and provide incentives to the Selected Participants to motivate them to further create value for the Company. The Initial Conversion Price has been determined with the main purpose to provide incentives to the Selected Participants. The Notes Issuer as the sole placee and sole subscriber of the Convertible Bonds shall exercise its conversion rights under the Convertible Bonds at the instruction of the Noteholders Committee (acting on behalf of the Selected Participants through the Noteholders) in a schedule over the five-year period. The Initial Conversion Price is considered acceptable taking into account the above and the potential benefits to be brought to the Company and the Shareholders as a whole

LETTER FROM THE BOARD

and for the long-term development of the Group. Having considered the above, the Board is of the view that the Initial Conversion Price is fair and reasonable to the Company and in the interests of the Company and its shareholders as a whole.

The Initial Conversion Price is subject to the following adjustments:

If the Average Market Price of the Shares on the Reset Date is less than the Reference Share Price, the Initial Conversion Price will be adjusted on the Reset Date in accordance with the below formula:

$$\text{Adjusted Conversion Price} = \text{Average Market Price} \times 0.8$$

Such Adjusted Conversion Price shall be rounded upwards, if necessary, to the nearest Hong Kong cent, provided that:

- (a) any such adjustment to the Initial Conversion Price shall be limited such that the Adjusted Conversion Price shall in no event be less than the Floor Conversion Price;
- (b) the Initial Conversion Price shall not be reduced below the nominal value of the Shares unless under applicable law then in effect the Convertible Bonds could be exchanged at such reduced Adjusted Conversion Price into legally issued, fully-paid and non-assessable Shares; and
- (c) any such adjustment to the Initial Conversion Price shall only be a downward adjustment.

Any such adjustments shall become effective as of the Reset Date and the Adjusted Conversion Price will be reflected in the final terms and conditions of the Convertible Bonds which will be set out in the Offering Circular and the schedule of the Trust Deed.

Principal Amount

The principal amount of the Bonds will be of an amount not exceeding the HK\$ equivalent of RMB4,000,000,000, translated into Hong Kong dollars at the Relevant Exchange Rate, to be agreed between the Issuer and the Placing Agent prior to the Closing Date. The agreed principal amount of the Bonds will be reflected in the final terms and conditions of the Convertible bonds which will be set out in the Offering Circular and the schedule of the Trust Deed.

Solely for illustration purposes only, based on the exchange rate of HK\$1.00 to RMB0.8336, the principal amount of the Bonds will be of an amount up to HK\$4,798,460,000.

LETTER FROM THE BOARD

Placee

The Placing Agent has confirmed that the Convertible Bonds will be placed to one placee, namely the Notes Issuer. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Notes Issuer is an Independent Third Party. The Notes Issuer will not become a substantial Shareholder (as defined under the Listing Rules) immediately following completion of the Placing.

The Notes Issuer as the sole placee and sole subscriber of the Convertible Bonds, undertakes to the Company as the issuer of the Convertible Bonds, that the Notes Issuer shall exercise its conversion rights under the Convertible Bonds in accordance with the terms and conditions of the Convertible Bonds and at the instruction of the Noteholders Committee (acting on behalf of the Noteholders) in accordance with the terms and conditions in the Notes Documents in the following schedule:

Year	Percentage of the Convertible Bonds to be converted
2022	10%
2023	15%
2024	20%
2025	25%
2026	30%

Under the circumstance where the price of the Shares is at an unfavourable level, the Noteholders Committee (acting on behalf of the Selected Participants and not subject to consent of the Company) may instruct the Notes Issuer that it shall not exercise its conversion right in accordance with the above pre-determined schedule.

Conditions precedent to the Placing

Completion of the Placing is conditional upon the satisfaction or fulfilment of the following conditions precedent:

- (a) the Placing Agent being reasonably satisfied with the results of its due diligence investigations (if any) with respect to the Issuer and its subsidiaries and the Offering Circular shall have been prepared in form and content satisfactory to the Placing Agent;
- (b) the execution and delivery (on or before the Closing Date) of the other CB Contracts, each in a form reasonably satisfactory to the Placing Agent, by the respective parties;
- (c) on or prior to the Closing Date, there having been delivered to the Placing Agent a copy of:
 - (i) the currently effective memorandum and articles of association of the Issuer; and

LETTER FROM THE BOARD

- (ii) the resolution(s) of the Board authorising the execution of the Placing Agreement and the other CB Contracts, the issue of the Convertible Bonds and the entry into and performance of the transactions contemplated;
- (d) on or prior to the Closing Date, there having been delivered to the Placing Agent a copy of the resolution(s) by the Shareholders at the EGM by the Issuer to approve, *inter alia*, the Transactions, including the adoption of the Relevant Scheme and the related transactions, the Placing and the grant of the Specific Mandate to the Board;
- (e) (i) the approval by the Stock Exchange of the Relevant Scheme and the related transactions as set out in this circular; and (ii) the satisfaction and/or waiver of the conditions precedent to the Relevant Scheme as set out in this circular;
- (f) on the Publication Date and on the Closing Date, there having been delivered to the Placing Agent letters, in form and substance satisfactory to the Placing Agent, dated the date hereof in the case of the first letter and dated the Closing Date in the case of the subsequent letter, and addressed to the Placing Agent from Ernst & Young, auditors to the Issuer;
- (g) at the Closing Date:
 - (i) the representations and warranties of the Issuer in the Placing Agreement being true and accurate at, and as if made on such date;
 - (ii) the Issuer having performed all of its obligations under the Placing Agreement to be performed on or before such date; and
 - (iii) there having been delivered to the Placing Agent a certificate in the form set out in the Placing Agreement, dated as of such date, of a duly authorised officer of the Issuer to such effect;
- (h) after the date of the Placing Agreement and up to and at the Closing Date, there shall not have occurred any change (nor any development or event involving a prospective change), in the financial condition, prospects, earnings, results of operations or business of the Issuer or of the Group, which, in the opinion of the Placing Agent, is material and adverse in the context of the issue and placement of the Convertible Bonds;
- (i) on or prior to the Closing Date there shall have been delivered to the Placing Agent copies of all consents and approvals required in relation to the issue of the Convertible Bonds and the performance of its obligations under the Trust Deed, the Agency Agreement and the Convertible Bonds (including the consents and approvals (if any) required from all lenders);
- (j) there having been delivered to the Placing Agent a certificate of no default in the form as set out in the Placing Agreement dated the Closing Date, of a duly authorised officer of the Issuer;

LETTER FROM THE BOARD

- (k) on or prior to the Closing Date, there having been delivered to the Placing Agent a copy of the pre-issuance registration certificate in respect of, among other things, the issue of the Convertible Bonds evidencing the registration of the issue of the Convertible Bonds with the NDRC;
- (l) the approval by the Stock Exchange of the listing of, and permission to deal, in the Conversion Shares and of the listing of the Convertible Bonds, in each case subject to any conditions reasonably satisfactory to the Placing Agent (or, in each case, the Placing Agent being reasonably satisfied that such listing will be granted);
- (m) on or before the Closing Date, there having been delivered to the Placing Agent opinions of PRC law, Cayman Islands law and English and Hong Kong law, in form and substance satisfactory to the Placing Agent, dated the Closing Date; and
- (n) such other resolutions, consents, authorities and documents relating to the issue of the Convertible Bonds, as the Placing Agent may reasonably require.

Except for conditions under paragraphs (k) and (l) which are not waivable, the other conditions set out above are waivable and the Placing Agent may, at its discretion and upon such terms as it thinks fit, waive compliance with the whole or any part of such conditions precedent.

As at the Latest Practicable Date, none of the above conditions has been satisfied or waived. The Company is working towards the satisfaction of all of the above conditions by the Closing Date.

Termination of the Placing Agreement

The Placing Agent may, by notice to the Company given at any time prior to payment of the net subscription monies for the Convertible Bonds to the Company, terminate the Placing Agreement in any of the following circumstances:

- (a) if there shall have come to the notice of the Placing Agent any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in the Placing Agreement or any failure to perform any of the Issuer's undertakings or agreements in the Placing Agreement;
- (b) if any of the conditions precedent in the Placing Agreement has not been satisfied or waived by the Placing Agent on or prior to the Closing Date;
- (c) if in the reasonable opinion of the Placing Agent, there shall have been, since the date of the Placing Agreement, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions (including any disruption to trading generally, or trading in any securities of the Issuer on any stock exchange or in any over the counter market) or currency exchange rates or foreign exchange controls such as would in

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the Placing Agent's reasonable opinion, be likely to prejudice materially the success of the placement and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market;

- (d) if, in the reasonable opinion of the Placing Agent, there shall have occurred any of the following events: (i) a suspension or a material limitation in trading in securities generally on the New York Stock Exchange, the London Stock Exchange plc, and/or the Stock Exchange; (ii) a suspension (to the extent such suspension is other than in the ordinary course of business of the Issuer) or a material limitation in trading in the Issuer's securities on the Stock Exchange; (iii) a general moratorium on commercial banking activities in the United States, Hong Kong and/or the United Kingdom declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States, Hong Kong or the United Kingdom; or (iv) a change in taxation affecting the Issuer, the Convertible Bonds and the Shares or the transfer thereof, which would in the Placing Agent's reasonable opinion be likely to prejudice materially the success of the placement and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market; or
- (e) if, in the reasonable opinion of the Placing Agent, since the date of the Placing Agreement, there shall have occurred any event or series of events (including the occurrence of any local, national or international outbreak or escalation of disaster, hostility, insurrection, armed conflict, act of terrorism, act of God or epidemic) as would in the Placing Agent's reasonable opinion be likely to prejudice materially the success of the placement and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market.

Completion of the Placing

Completion shall take place on the Closing Date.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Principal terms of the Convertible Bonds are summarized below.

Issuer	The Company
Principal Amount	Up to the HK\$ equivalent of RMB4,000,000,000
Denomination	HK\$500,000 per Convertible Bond and integral multiples of HK\$10,000 in excess thereof
Maturity Date	5 years from the Closing Date

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Interest Rate	<p>The Convertible Bonds will bear interest on their outstanding principal amount at a fixed rate of between (and including) 2.99 per cent. per annum to (and including) 3.18 per cent. per annum, to be agreed between the Issuer and the Placing Agent prior to the Closing Date.</p>
Conversion Price	<p>Initial Conversion Price of HK\$34.73 per Share, subject to the adjustments as summarized in the paragraph headed “Initial Conversion Price” above and the paragraphs headed “Initial Conversion Price Reset” and “Adjustments to the Conversion Price” below.</p> <p>The Initial Conversion Price of HK\$34.73 per Share represents (i) a discount of 20% to the Reference Share Price, (ii) a discount of 27.72% to the average Closing Prices of HK\$48.05 for one Share as quoted on the Stock Exchange for the five consecutive Trading Days up to and including January 22, 2021, and (iii) a discount of 30.54% to the Closing Price of HK\$50.00 for one Share as quoted on the Stock Exchange on the Latest Practicable Date.</p> <p>The Initial Conversion Price was arrived at after arm’s length negotiations between the parties with reference to, among others, the prevailing market performance of the Shares and the objectives underlying the Relevant Scheme. The Directors consider that the Conversion Price is fair and reasonable based on the current market conditions and in the interests of the Issuer and the Shareholders as a whole.</p>
Reference Share Price	<p>HK\$43.41, the average of the Closing Prices for one Share as quoted on the Stock Exchange for the last 60 consecutive Trading Days up to but excluding January 22, 2021.</p>
Initial Conversion Price Reset	<p>On the Reset Date, if the Average Market Price is less than Reference Share Price, the Initial Conversion Price will be reset downwards to 80% of the Average Market Price of the Shares on the Reset Date, subject to the floor of HK\$32.80. For the avoidance of doubt, any such adjustment to the conversion price shall only be a downward adjustment. The adjusted Initial Conversion Price will be reflected in the final terms and conditions of the Convertible Bonds.</p>

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Pursuant to the Placing Agreement, parties have agreed that the Initial Conversion Price will be adjusted in accordance with the formula as set out in the Placing Agreement. For more information on the adjustment to the Initial Conversion Price, please refer to the paragraph headed “Initial Conversion Price” above.

Adjustments to the Conversion Price

Standard anti-dilution adjustment provisions as follows. All capitalised terms used in this paragraph that are not defined will have the meanings given to them in the terms and conditions of the Convertible Bonds.

- (1) Alteration to the nominal value of the Shares as a result of consolidation, subdivision, redesignation or reclassification:

$$\frac{A}{B}$$

where:

- A is the nominal amount of one Share immediately after such alteration; and
- B is the nominal amount of one Share immediately before such alteration.

- (2) Company issuing any Shares credited as fully paid to the holders of Shares by way of capitalisation of profits or reserves:

$$\frac{A}{B}$$

where:

- A is the aggregate nominal amount of the issued Shares immediately before such issue; and
- B is the aggregate nominal amount of the issued Shares immediately after such issue.

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- (3) Company issuing Shares by way of a Scrip Dividend as determined by reference to the Current Market Price:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate nominal amount of the issued Shares immediately before such issue;
- B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend for which Shareholders have elected to receive as Shares issued by way of Scrip Dividend and (ii) the denominator is the aggregate value of such Shares issued by way of Scrip Dividend as determined by reference to the Current Market Price per Share; and
- C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend.
- (4) Company issuing Capital Distributions to existing shareholders (except to the extent that the Conversion Price is adjusted under (2) or (3) above):

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price per Share on the date on which the Capital Distribution is first publicly announced; and
- B is the Fair Market Value of the portion of the Capital Distribution attributable to one Share.

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- (5) Company issuing Shares by way of rights, options, warrants or other rights to acquire Shares, in each case at less than Current Market Price:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate consideration receivable for the Shares issued by way of rights or for the options or warrants or other rights issued or granted by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at such Current Market Price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.
- (6) Company issuing any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares):

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price per Share on the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value per Share on the date of such announcement of the portion of the rights attributable to one Share.

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- (7) Company issuing Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares at less than Current Market Price:

$$\frac{A + B}{C}$$

where:

- A is the aggregate number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares;
- B is the number of Shares which the aggregate consideration receivable for the issue of the maximum number of Shares to be issued or the exercise of such options, warrants or other rights would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares in issue immediately after the issue of such additional Shares.
- (8) Other securities issued carrying rights of acquisition of Shares less than Current Market Price:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Issuer for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and

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C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate on the issue date of such securities.

- (9) Modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in the paragraph right above so that following such modification the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is reduced and is less than the Current Market Price:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such modification;
- B is the maximum number of Shares which the aggregate consideration receivable by the Issuer for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Financial Advisor considers appropriate (if at all) for any previous adjustment under this paragraph or the paragraph right above.

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- (10) Any securities in connection with an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price per Share on the date on which such issue, sale or distribution is publicly announced; and
- B is the Fair Market Value of the portion of the rights attributable to one Share.

- (11) Company determining that an adjustment should be made as a result of one or more events or circumstances not specifically referred to in the terms and conditions of the Convertible Bonds, in accordance with the fair and reasonable adjustment (if any) determined by the Independent Financial Advisor.

Conversion Ratio

287.9355 Shares per HK\$10,000 in the principal amount of the Convertible Bonds, based on the Initial Conversion Price

304.8780 Shares per HK\$10,000 in the principal amount of the Convertible Bonds, based on the Floor Conversion Price

Conversion Shares

In the case of the conversion rights having been exercised in full, a maximum of 138,164,697 (based on the Initial Conversion Price) and 146,294,488 (based on the Floor Conversion Price) new Shares is to be allotted and issued by the Company, representing:

- a) (with respect to the Initial Conversion Price) approximately 3.50% of the aggregated number of the issued Shares as at the Latest Practicable Date; and

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- b) (with respect to the Initial Conversion Price) approximately 3.36% of the aggregated number of the issued Shares as enlarged by the issue of 138,164,697 Conversion Shares (assuming the exercise of the outstanding Share Options in full and there is no other change in the issued share capital of the Company between the Latest Practicable Date and the full conversion of the Convertible Bonds);
- c) (with respect to the Floor Conversion Price) approximately 3.70% of the aggregated number of the issued Shares as at the Latest Practicable Date; and
- d) (with respect to the Floor Conversion Price) approximately 3.55% of the aggregated number of the issued Shares as enlarged by the issue of 146,294,488 Conversion Shares (assuming the exercise of the outstanding Share Options in full and there is no other change in the issued share capital of the Company between the Latest Practicable Date and the full conversion of the Convertible Bonds);

Assuming 138,164,697 Conversion Shares are issued based on the Initial Conversion Price, the Conversion Shares have a nominal value of HK\$0.10 each share and a total market value of approximately HK\$5,997,729,000, based on the Reference Share Price.

Assuming 146,294,488 Conversion Shares are issued based on the Floor Conversion Price, the Conversion Shares have a nominal value of HK\$0.10 each share and a total market value of approximately HK\$6,350,644,000, based on the Reference Share Price.

The Conversion Shares will be fully paid and will rank *pari passu* in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares.

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Conversion Period	Subject to and upon compliance with the terms and conditions of the Convertible Bonds, the conversion right attaching to any Convertible Bond may be exercised, at the option of the holder thereof (x) at any time in each period from (and including) the 25th Scheduled Trading Day to (and including) the 5th Scheduled Trading Day immediately prior to the anniversary of the Closing Date in each year, beginning in 2022 (subject to exceptions), or (y) if notice requiring redemption has been given by the holder of such Bond pursuant to the terms set out in terms and conditions of the Convertible Bonds then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice.
Conversion Rights	At any time during the Conversion Period, the holder(s) of the Convertible Bonds have the right to convert the Convertible Bonds into the Conversion Shares at the prevailing Conversion Price.
Transferability	Freely transferable in accordance with the rules and procedures of the clearing systems.
Listing	Application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange. Application will also be made by the Company for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange to be issued upon the exercise of the conversion rights attached to the Convertible Bonds.
Net Price per Share	<p>The net price of each Conversion Share to the Company based on the estimated net proceeds of approximately HK\$4,797.22 million and 138,164,697 Conversion Shares (based on the Initial Conversion Price) resulting from the conversion of the Convertible Bonds, is estimated to be approximately HK\$34.72.</p> <p>The net price of each Conversion Share to the Company based on the estimated net proceeds of approximately HK\$4,797.22 million and 146,294,488 Conversion Shares (based on the Floor Conversion Price) resulting from the conversion of the Convertible Bonds, is estimated to be approximately HK\$32.79.</p>

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Ranking of Conversion Shares	The Shares issued upon exercise of the conversion rights will be fully paid and will in all respects rank <i>pari passu</i> with the fully paid Shares in issue on the relevant registration date except for any right excluded by mandatory provisions of applicable law and except that such Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant registration date.
Redemption at Maturity	Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Convertible Bond at its principal amount together with accrued and unpaid interest thereon on the Maturity Date (as defined above).
Redemption at the Option of the Bondholders	The Issuer will, at the option of the holder of any Convertible Bonds, redeem all or some only of such holder's Convertible Bonds on the 5th Scheduled Trading Day immediately prior to the anniversary of the Closing Date of each year, beginning in 2022 (each, a " Put Option Date ") at their principal amount, together with interest accrued but unpaid up to but excluding such Put Option Date. Such put notice, once delivered by the bond holder, shall be irrevocable (and may not be withdrawn unless the Issuer consents in writing to such withdrawal).
No redemption right at the Option of the Issuer	The Issuer has no right to redeem the Convertible Bonds at its own option before the Maturity Date.
Redemption for a Relevant Event	<p>Following the occurrence of a Relevant Event, the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of such holder's Convertible Bonds at their principal amount, together with interest accrued but unpaid up to but excluding the relevant redemption date.</p> <p>a "Relevant Event" occurs:</p> <p>(a) when the Shares cease to be listed or admitted to trading or are suspended for trading for a period equal to or exceeding 30 consecutive Trading Days on the Stock Exchange or, if applicable, the alternative stock exchange;</p>

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- (b) when the Current Market Price of a Share is, on any date of determination, less than a figure to be agreed between the Issuer and the Placing Agent prior to the Closing Date and such figure shall be not less than 30% and not more than 60% of the Reference Share Price;
- (c) when the quote for the Reference Bond is, on any date of determination, less than a figure to be agreed between the Issuer and the Placing Agent prior to the Closing Date and such figure shall be not less than 60% and not more than 85% of an amount equal to 100 per cent. of the minimum denomination of principal amount of the Reference Bond;
- (d) when there is a change of control of the Company; or
- (e) when there is a Rating Decline.

**Redemption at the
Option of the Issuer**

None

Negative Pledge

The Bonds will be subject to a customary negative pledge covenant.

Specific Mandate

The Conversion Shares will be allotted and issued pursuant to the Specific Mandate which is subject to Shareholders' approval at the EGM. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

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THE ASSET MANAGEMENT SCHEMES, THE STRUCTURED NOTES, THE NOTES ISSUER AND THE LOAN

The Asset Management Schemes through which the SPVs have invested on behalf of the Selected Participants, and the Offshore SPV, shall subscribe for the Structured Notes issued by the Notes Issuer. The Notes Issuer will use the proceeds from the subscription of the Structured Notes as part payment for the subscription of the Convertible Bonds, which will form the reference underlying assets of the Structured Notes.

The Asset Management Schemes

The key terms of the Asset Management Schemes are set out below.

Beneficiaries	The SPVs
Assets Manager	China Merchants Fund Management Co., Ltd
Type	Qualified domestic institutional investor (QDII) asset management schemes
Investment Scope	The Structured Notes issued by the Notes Issuer whose returns are tied to the Convertible Bonds. The scope of investment may be adjusted as the Assets Manager and the beneficiaries may agree, subject to applicable laws and regulations.
Term	The term of the Asset Management Schemes is 64 months.
Termination	<p>The Asset Management Schemes may be terminated upon the occurrence of any of the following events:</p> <ul style="list-style-type: none">• The term of the Asset Management Schemes expires and is not extended;• The parties have unanimously agreed to terminate the Asset Management Schemes;• The Assets Manager is disqualified, dissolved, revoked or wound up and the Asset Management Schemes are not taken over by any new assets manager within six months;

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- The assets custodian's qualification for securities investment and fund custody is revoked in accordance with the law or the assets custodian is dissolved, revoked, or declared bankrupt in accordance with the law, and no new custodian has taken over within six months;
- The Asset Management Schemes fail to complete filing with the Asset Management Association of China or the filing is rejected;
- The Structured Notes in which the Asset Management Schemes invest are fully liquidated;
- The Assets Manager exercises its right of early termination as a result of changes in laws, regulations or regulatory policies or instructions from the regulatory authorities causing restrictions on the carrying out of the businesses contemplated under the Asset Management Schemes;
- The Assets Manager exercises its right of early termination in the event that the Structured Notes and the Convertible Bonds are not issued within 8 months from the establishment of the Asset Management Schemes; and
- Other circumstances stipulated under the applicable laws, regulations, rules of the China Securities Regulatory Commission or the terms and conditions of the Asset Management Schemes.

Upon termination of the Assets Management Schemes, a team of liquidators appointed by the Assets Manager, including the Assets Manager itself, will be responsible for the custody, liquidation, valuation, realization and distribution of the remaining assets of the Asset Management Schemes. Net proceeds from the liquidation process will be distributed to the Selected Participants through the SPVs.

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Contribution of funds by the Selected Participants

The Selected Participants (together with the SPV GP and/or its designated entities) will, directly or indirectly through SPVs, contribute an aggregate amount of approximately RMB1,000,000,000 to invest in the Asset Management Schemes and the Offshore SPV, who will in turn subscribe for the Structured Notes issued by the Notes Issuer. The Notes Issuer will utilize such monies contributed by the Selected Participants, together with the proceeds of the Loan provided by the Lender, to subscribe for the Convertible Bonds issued by the Company. In the event that the Notes Issuer fails to perform its obligations under the Notes Documents, there are potential risks that the Selected Participants may not be able to recover all or part of the subscription monies of Structured Notes they have contributed through the Asset Management Schemes and the Offshore SPV. Such risks are mitigated by the following security and guarantee arrangements.

To secure the Notes Issuer's liabilities and obligations under the Facility Agreement in respect of the Loan and under the Notes Documents, the Notes Issuer will enter into the Security Deed to grant certain charges and mortgages over the Convertible Bonds and the Conversion Shares, amongst others, in favour of the Security Trustee for the benefits of the Lender and the Noteholders. The Company will also grant the Loan Guarantee in favour of the Lender to guarantee all obligations of the Notes Issuer under the Facility Agreement of the Loan. For details of Security Deed and the Loan Guarantee, please refer to the sections headed "Key terms of the Structured Notes" and "The Loan Guarantee" below.

In the event that there is an event of default under the Notes Documents or the Finance Documents, the Security Trustee may enforce the security interests to be created pursuant to the Security Deed and dispose of all or part of the Charged Assets (including the Convertible Bonds and/or the Charged Shares) in accordance with the terms of the Security Deed. The amounts recovered from the realisation or enforcement of the Charged Assets will be applied for repayment of the balance of the Loan and the Notes. The Loan rank senior to the Notes. The Finance Parties may also enforce the Loan Guarantee against the Company (as the guarantor) for repayment of the principal, interests and all associated costs arising from the Loan in accordance with the terms of the Loan Guarantee.

In the event that the amounts recovered from the realisation or enforcement of the Charged Assets (including the Convertible Bonds and/or the Charged Shares), after considering the Loan Guarantee provided by the Company, are not sufficient to fully discharge the Notes Issuer's liabilities and obligations under the Finance Documents and the Notes Documents, there are potential risks for the Selected Participants that they might not be able to recover all or part of the subscription monies of Structured Notes they have contributed through the Asset Management Schemes and the Offshore SPV.

The Assets Manager

The Assets Manager of the Asset Management Schemes is China Merchants Fund Management Co., Ltd. Its principal business includes establishment of funds, funds management and other business approved by China Securities Regulatory Commission. The controlling shareholder of the Assets Manager is China Merchants Bank Co., Ltd.. To the

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best of the knowledge, information and belief of the Directors having made all reasonable enquiries, both the Assets Manager and China Merchants Bank Co., Ltd. are Independent Third Parties.

The Notes Issuer

The Notes Issuer is an exempted company incorporated in the Cayman Islands, a special purpose vehicle incorporated for the purpose of issuing the Structured Notes and is held under a trust, the legal and registered owner of whom is MaplesFS Limited (“**MaplesFS**”), a regulated and licensed trust company in the Cayman Islands. The ultimate beneficial owner of MaplesFS is the partners (but not any individual partner) of the Maples Group Partnership, no individual partner of which has a partnership interest of 10% or more. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Notes Issuer, MaplesFS (being the share trustee) and the ultimate beneficial owner of MaplesFS are Independent Third Parties. The Notes Issuer shall not engage in any business activities other than the issuance of the Notes, acquisition, holding and sale of the Convertible Bonds and Conversion Shares, entry into the Loan, the Finance Documents and the Notes Documents and other acts incidental thereto or necessary in connection with the Relevant Scheme. The Notes Issuer merely serves as a channel to facilitate the operation of the Relevant Scheme and is not entitled to any benefit under the Relevant Scheme.

The board of directors of the Notes Issuer currently comprises three individuals, which consist of two employees of MaplesFS and a representative of the Selected Participants who is not a connected person of the Company. Save as disclosed above, neither the Notes Issuer nor MaplesFS are affiliated, controlled or managed by any other party directly involved in the Relevant Scheme.

Noteholders Committee

A Noteholders Committee will be established by the Noteholders which shall comprise a maximum of five (5) members. Such members shall not be connected persons of the Company or its subsidiaries. The members of the Noteholders Committee shall act in the interest of the Noteholders and the Selected Participants in all respects without regard to the interest of others.

Members of the Noteholders Committee are nominated by the SPV GP and elected and appointed by all the Selected Participants.

Members of the Noteholders Committee may resign by giving prior written notice to the SPV GP and will be removed automatically upon the occurrence of, among others, any of the following events:

- He or she is no longer an employee of the Group or its affiliates;
- He or she is no longer qualified as a Selected Participant;

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- A majority of the members of the Noteholders Committee (excluding himself or herself) determines that he or she is no longer suitable to serve as a member.

A new member will be appointed from the Selected Participants to replace the aforementioned removed member with the approval of a majority of the remaining members of the Noteholders Committee.

The duties and responsibilities of the Noteholders Committee towards the Noteholders shall include the following:

- a. to ensure that the Notes Issuer complies with its obligations under all agreements entered into by it including among others, the Facility Agreement, the Security Deed, the Notes Documents, the Convertible Bonds, and the Loan Guarantee, including but not limited to overseeing the management and operation of the Notes Issuer for such compliance;
- b. to determine the appropriate time to exercise the conversion rights under the Convertible Bonds and to monetize the Conversion Shares and the corresponding amounts to be converted or monetized, as the case may be;
- c. to take any action to hedge or any other strategies to reduce any risks in respect of any long or short position in respect of the Convertible Bonds and Conversion Shares held by the Notes Issuer from time to time; and
- d. to perform all such duties and all such acts in relation to paragraphs above pursuant to the Notes Issuer's articles of association and all applicable statutory rules and regulations in force from time to time.

For the avoidance of doubt, the performance of the above duties by the Noteholders Committee is subject to any limitations and restrictions in the Transaction Documents. The Noteholders Committee's ability to perform such duties and responsibilities may be negatively affected by contractual restrictions set out in the Transaction Documents. Exercise of duties and responsibilities of the Noteholders Committees as set out in the paragraphs above would require consent and/or cooperation from other parties involved in the Transaction Documents (in particular the Notes Issuer and the Lender) at the time. In particular, exercise of duties and responsibilities of the Noteholders Committee as set out in paragraph (b) above are subject to the following key limitations and restrictions under the Transaction Documents:

- *Exercise of conversion rights under the Convertible Bonds:* the Noteholders Committee may instruct the Notes Issuer to convert all or part only of the Convertible Bonds into Conversion Shares. If the Loan is outstanding, such conversion will be subject to the Loan Agent's written consent;
- *Monetize the Conversion Shares:* the Noteholders Committee may instruct the Notes Issuer to liquidate a number of Conversion Shares within a period of time and at a range of price. The Security Trustee (acting on behalf of the Notes Issuer as instructed by the Noteholders Committee) shall monetize the Conversion

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Shares at a time as the Noteholders Committee considers commercially favourable and feasible and in accordance with the terms and conditions of the Transaction Documents. If the Loan is outstanding, such liquidation will be subject to the Loan Agent's written consent.

Key terms of the Structured Notes

The key terms and conditions of the Structured Notes are set out below.

Notes Issuer	Eaglets International Financial Products Limited (鵝鷹國際金融產品有限公司)
Security Trustee	The Security Trustee
Issue Date	On or around the Closing Date
Scheduled Maturity Date	The final repayment date of the Loan and one calendar month after the maturity date of the Convertible Bonds
Aggregate Nominal Amount	HK\$ equivalent of approximately RMB1,000,000,000 in total for all four series of the Notes as of the Issue Date
Issue Price	100% of the aggregate nominal amount
Use of Proceeds	The proceeds from the issuance of the Structured Notes, after deduction of any applicable costs, fees, commissions, duty and taxes, will be used to subscribe for the Convertible Bonds
The Charge	<p>(a) The Security Deed</p> <p>To secure the Notes Issuer's present and future liabilities and obligations under the Facility Agreement and the Notes Documents for all four series of the Structured Notes, the Notes Issuer will grant a charge in favour of the Security Trustee (for the Secured Parties) (a) by way of first mortgage or first fixed charge, over the Convertible Bonds and the Charged Shares, among other things; and (b) by way of assignment or first fixed charge the Securities Accounts and the Notes Issuer's rights, title and interest in and to any account opening documents in respect of the Charged Assets and all related rights. The Loan Secured Parties rank senior to the Notes Secured Parties.</p>

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At any time after the security interests become enforceable in accordance with the Security Deed, the Security Trustee may dispose any or part of the Charged Assets provided that:

- i. the Security Trustee shall not dispose of any Convertible Bond at a consideration which is lower than its principal amount; and
- ii. if the Security Trustee wishes to dispose of the Convertible Bonds, it may only do so after it gives the Company the first right to buy back the Convertible Bonds, and only if the Company does not buy back the Convertible Bonds pursuant to the terms of the Security Deed would the Security Trustee be permitted to sell to a third party provided that the Security Trustee shall not dispose of any Convertible Bonds at a consideration lower than its principal amount.

(b) The Notes Security Deed

To secure the Notes Issuer's present and future liabilities and obligations under the Notes Documents for all four series of Structured Notes, the Notes Issuer will further grant a charge in favour of the Security Trustee by way of assignment (a) the Notes Issuer's rights and interest in and under the Facility Agreement, the Security Deed and the Loan Guarantee and the rights, title and interest of the Notes Issuer in all property, assets and sums derived from the Facility Agreement; and (b) the Notes Issuer's rights and interest in and under the Notes Agency Agreement and the rights, title and interest of the Notes Issuer in all property, assets and sums derived from such agreement to the extent that they relate to the Structured Notes.

Conversion

- (a) During the Conversion Period, if Conversion takes place, the Noteholders Committee shall instruct the Notes Issuer to monetize such number of Conversion Shares sufficient to repay the corresponding portion of the Loan in accordance with the terms of the Facility Agreement.

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- (b) Other than as prescribed under (a) above, the Noteholders Committee may determine from time to time to further monetize some or all of the Conversion Shares held by the Notes Issuer within a period of time and at a range of price, subject to the Loan Agent's consent to be given in accordance with the Lender's instruction and subject to the terms and conditions of the Structured Notes.
- (c) The cash proceeds from the monetization of the remaining Conversion Shares (if any) will be paid to the Securities Accounts.

Cash Distribution

- (a) Cash distributed from the Convertible Bonds and the monetization of the Conversion Shares and cash dividends of Conversion Shares (if any) and received by the Notes Issuer shall be deposited into the Securities Accounts in accordance with the terms of the Security Deed, as security for the Loan and the Structured Notes.
- (b) Any such cash distribution shall be used to firstly repay any interest payable under the Facility Agreement and pay for any applicable costs, fees, commissions, duty and taxes in respect of the loan; secondly, pay for any fees, costs, charge and expenses and liabilities incurred by the Security Trustee; thirdly, pay for any amounts due and payable to the agents and the arranger of the Structured Notes, *pari passu* and rateably; and fourthly pay for any amounts owing to the Noteholders *pari passu* and rateably.

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Noteholders Put Option The Notes Issuer will, at the option of the Noteholders Committee, redeem all or a portion of the Structured Notes on the date falling on the 20th Business Days following the Put Option Date of the Convertible Bonds, beginning in 2022, at their principal amount or a portion of the principal amount (where only a portion of the Structured Notes is to be early redeemed), subject to the application of proceeds conditions as described in the section headed “Cash Distribution” above. Payment of such early redemption amount will be subject to the Lender’s consent and payment waterfall set out in the Notes Documents. To exercise such option, the Noteholders Committee must deliver to the Notes Issuer a duly completed and signed put notice, not more than 60 days and not less than 35 days prior to each Put Option Date. Such put notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Notes Issuer consents in writing to such withdrawal).

The Notes Issuer will, at the option of the Noteholders Committee, upon (A) the Noteholders Committee giving prior notice in accordance with Notes Documents and (B) if any of the Issuer’s obligations under the Finance Documents is outstanding, the Security Trustee has received written consent from the Loan Agent on the conditions as set out in such notice from the Noteholders Committee, redeem each Structured Note in whole or in part on the date as specified in the notice from the Noteholders Committee at its principal amount or a portion of the principal amount (where only a portion of the Structured Notes is to be early redeemed), subject to the application of proceeds conditions as described in the section headed “Cash Distribution” above. Payment of such early redemption amount will be subject to the Lender’s consent and payment waterfall set out in the Notes Documents.

Events of Default

- (a) The Notes Issuer fails to make any early redemption amount in relation to a Noteholders Put Option (with a 14-day grace period);
- (b) The Notes Issuer fails to perform other obligations under the Structured Notes (with a 30-day grace period);

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- (c) The Notes Issuer fails to pay CMB International Securities Limited, as arranger of the Structured Notes, the arranger fee on the relevant arranger fee payment date and such failure is not remedied by the earliest of (x) six calendar months after the due date, (y) an early redemption date of the Structured Notes falling immediately after such due date, and (z) the occurrence of default of the Loan or the Convertible Bonds or bankruptcy of the Company; and
- (d) Winding-up of the Notes Issuer.

Early Redemption Events

- (a) a default or early redemption of the Convertible Bonds;
- (b) the Notes Issuer's obligation under or in connection with the Structured Notes becomes unlawful for any reason;
- (c) default under the Finance Documents; and
- (d) a notice is given that all the Convertible Bonds are called for redemption or repayment (in whole but not in part and for whatever reasons) prior to its scheduled maturity date.

Report in relation to Excess Proceeds

- To the extent:
- (a) any Loan is outstanding;
 - (b) the Issuer is required to perform any of its payment obligations under the Notes Documents or the Structured Notes;
 - (c) a report (however named) setting out the calculations in respect of the relevant amount of excess proceeds is required from the Notes Issuer under the Finance Document; and

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(d) the Noteholders Committee shall provide the Issuer with such report as soon as reasonably practicable. For the avoidance of doubt, the Notes Issuer will not be required to perform any of its payment obligations under the Notes Documents or the Structured Notes before its receipt of such required report under the Structured Notes and any necessary consent from the Loan Agent in accordance with the Finance Documents.

Key terms of the Loan

The Notes Issuer has entered into the Facility Agreement with the Lender in respect of the Loan, which will be applied, together with the funds received from the Noteholders for the subscription of the Structured Notes, to subscribe for the Convertible Bonds. Key terms of the Facility Agreement are set out below.

Borrower	The Notes Issuer, acting as the Borrower
Lender	The Lender
Date	September 17, 2021
Principal Amount	Up to HK\$3,800,000,000
Interest Rate	A fixed rate of 2.38% per annum, to be borne by the Borrower
Purpose	The Borrower shall apply all amounts borrowed by it under this Facility Agreement towards payment for subscription of the Convertible Bonds.

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Term

61 months

The Loan shall be repaid on the date which is 61 months from the first utilisation date under the Facility Agreement. Voluntary prepayment of the Loan (in full or partially) is also allowed under the Facility Agreement provided that the Borrower gives the Loan Agent not less than five (5) Business Days' prior written notice and the availability period of the Loan has elapsed (or, if earlier, the day on which the total commitment under the Facility Agreement becomes zero). All or part of the Loan shall be mandatorily repaid upon a Conversion or Early Redemption, which is more specifically set out in the sections headed "Mandatory Prepayment — Conversion" and "Mandatory Prepayment — Early Redemption" below.

Security

The Security Deed.

To secure the Borrower's present and future liabilities and obligations under the Facility Agreement and the Notes Documents for all four series of the Structured Notes, the Borrower will grant in the Security Deed a charge in favour of the Security Trustee (for the Secured Parties) (a) by way of first mortgage or first fixed charge, over the Convertible Bonds and the Shares, among other things; and (b) by way of assignment or first fixed charge the Securities Accounts and the Borrower's rights, title and interest in and to any account opening documents in respect of the Charged Assets and all related rights. The Loan Secured Parties rank senior to the Notes Secured Parties.

**Mandatory Prepayment
— Conversion**

- (a) The Borrower shall promptly, but in any event within three Business Days, after having any intent to exercise any conversion rights in respect of all or any part of the Convertible Bonds (in each case, a "**Conversion**"), or having any intent to enter into any agreement in relation thereto, notify the Loan Agent of the details of such Conversion.
- (b) If a Conversion is in respect of all of the Convertible Bonds, the Borrower shall, within 20 Business Days of such Conversion, effect a full prepayment of the outstanding amount of the Loan together with all other sums due and payable under the Finance Documents.

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- (c) If a Conversion is in respect of any part of the Convertible Bonds:
- i. the Borrower shall procure and ensure that the Conversion Shares in respect of such Conversion are promptly deposited into the Custodian Securities Account to become the Charged Shares; and
 - ii. within 20 Business Days of such Conversion effect a prepayment of the Loan or any part thereof together with payment of accrued interest and fees thereon and all other sums due and payable under the Finance Documents in respect of the amount prepaid so as to ensure that immediately after the making of such prepayment, the LTV Ratio (as defined below) will be not more than the Maximum LTV Ratio (as defined below).

“**LTV Ratio**” means, at any time, the ratio of: (a) the outstanding amount of the Loan, to (b) the aggregate principal amount of all the outstanding Convertible Bonds at that time, expressed as a percentage, as determined by the Loan Agent.

“**Maximum LTV Ratio**” means (a) the amount actually drawn under the Loan to (b) the aggregate principal amount of all the Convertible Bonds actually issued by the Company and successfully subscribed by the Borrower, which shall be no more than 75%.

**Mandatory Prepayment
— Early Redemption**

- (a) The Borrower shall promptly, but in any event within three Business Days, having any intent to exercise any early redemption rights in respect of all or any part of the Convertible Bonds (in each case, an “**Early Redemption**”), or having any intent to enter into any agreement in relation thereto, notify the Loan Agent of the details of such Early Redemption.
- (b) The Borrower shall ensure that each Early Redemption shall be for cash consideration in HK\$ only.

LETTER FROM THE BOARD

- (c) If an Early Redemption is in respect of all the Convertible Bonds, the Borrower shall within five Business Days of receipt of the relevant proceeds from such Early Redemption effect a full prepayment of the outstanding amount of the Loan together with payment of accrued interest and fees thereon and all other sums due and payable under the Finance Documents.
- (d) If an Early Redemption is in respect of part of the Convertible Bonds and in the event that the LTV Ratio immediately after such Early Redemption is higher than the Maximum LTV Ratio, the Loan Agent shall notify the Borrower in writing the minimum amount of prepayment of the Loan that the Borrower will need to make to ensure that the LTV Ratio will not be more than the Maximum LTV Ratio. The Borrower shall effect a prepayment of the Loan so as to ensure that immediately after the making of such prepayment, the LTV Ratio will be not more than the Maximum LTV Ratio.

Excess Proceeds

Any excess proceeds after deductions for repayment of the Loan together with the interest and fees which have or may become payable under the Finance Documents as prescribed above shall be deposited into the Securities Accounts. Subject to certain conditions, the Borrower may withdraw such excess proceeds from the Securities Accounts to make distributions to the Notes Secured Parties pursuant to the Notes Documents.

Representations and Undertakings

Customary representations and undertakings.

Event of Default

Customary events of default.

In the event of default, the Company will be liable as guarantor for all obligations of the Notes Issuer under the Facility Agreement in accordance with the terms of the Loan Guarantee. The Security Trustee may also enforce the security interests to be created pursuant to the Security Deed and dispose of all or part of the Charged Assets (including the Convertible Bonds and/or the Charged Shares) that are available in the Securities Accounts in accordance with the terms of the Security Deed.

LETTER FROM THE BOARD

CONNECTED TRANSACTIONS

The Issuance and Subscription of the Convertible Bonds

As mentioned above, the Selected Participants will include connected persons, being one Director and two directors of members of the Group. These Connected Selected Participants will, through making capital contribution to the Asset Management Schemes and the Offshore SPV, have an effective interest in not more than a total principal value of RMB120,000,000 of the Structured Notes which references to a total principal value of not more than HK\$ equivalent of RMB480,000,000 of the Convertible Bonds, representing an underlying approximately 16,579,614 Conversion Shares, having regard to the Conversion Price.

Given the returns on the Structured Notes that the Selected Participants will enjoy (i.e. the Incentives) will be calculated by reference to the returns on the Convertible Bonds and as the Connected Selected Participants are connected persons, the issuance of the Convertible Bonds (including the terms and conditions of the Convertible Bonds) will be deemed to constitute a connected transaction and is therefore subject to the reporting, announcement requirements and independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The Convertible Bonds are therefore issued subject to the Specific Mandate.

The Loan Guarantee

The Company will provide a loan guarantee in favour of the Finance Parties (for the Lender) to guarantee all obligations of the Notes Issuer under the Facility Agreement.

The Loan Guarantee will be provided by the Company in respect of the Loan which will be utilized for the Convertible Bonds that are referenced assets underlying the Structured Notes. Accordingly, the Loan Guarantee may be considered financial assistance provided for the benefit of the Connected Selected Participants. As such, the Loan Guarantee constitutes a connected transaction for the purpose of Chapter 14A of the Listing Rules, and are subject to the reporting, announcement requirements and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Key terms of the Loan Guarantee are set out below.

Guarantor	The Company
Agent	The Loan Agent
Obligors/Borrower	The Borrower

LETTER FROM THE BOARD

Guarantee and Indemnity

The Guarantor, irrevocably and unconditionally:

- (a) guarantees to each Finance Party punctual performance by the Borrower of all of that Borrower's obligations under the Finance Documents;
- (b) undertakes with each Finance Party that whenever the Borrower does not pay any amount when due under or in connection with the Finance Documents, that Guarantor shall within 10 Business Days after the date of demand pay that amount as if it were the principal obligor in respect of that amount;
- (c) undertakes with each Finance Party that whenever such amount referred in the foregoing paragraph (b) is for any reason not recoverable from the Guarantor on the basis of the guarantee in paragraph (a) above, the Guarantor shall within 10 Business Days after the date of demand pay that amount as if it were the sole principal debtor and not merely a surety in respect of that amount; and
- (d) agrees with each Finance Party that if (i) any obligation guaranteed by it is or becomes unenforceable, invalid or illegal, or (ii) the Borrower does not pay any amount which would have been payable by it under the Finance Documents on the date when it would have been due, it will, as a separate, independent and primary obligation indemnify the Finance Parties immediately on demand against any cost, loss or liability it incurs therefrom. The amount payable by the Guarantor under this indemnity will not exceed the amount it would have had to pay under this clause if the amount claimed had been recoverable on the basis of a guarantee.

Continuing Guarantee

This Loan Guarantee is a continuing guarantee and will extend to the ultimate balance of all sums payable by the Borrower under the Facility Agreement, regardless of any intermediate payment or discharge in whole or in part.

Waiver of Defences

Customary waiver of defences

Representations and Undertakings

Customary representations and undertakings

LETTER FROM THE BOARD

Assignment and Transfer

Assignments and transfers by the Guarantor: The Guarantor may not assign or transfer any of its rights and obligations under this Loan Guarantee, except with the prior written consent of the Loan Agent.

Assignments and transfers by the Lenders: A Lender may not assign any of its rights or transfer by novation any of its rights and obligations under this Loan Guarantee to a new lender, or make any change to its facility office without consent of the Company provided that such consent shall not be unreasonably withheld and no default under the Facility Agreement has occurred.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not conduct any fund raising activities from the issue of equity securities in the twelve-month period immediately preceding the Latest Practicable Date.

EFFECT ON THE SHAREHOLDING STRUCTURE

Assuming there is no change in the share capital of the Company from the Latest Practicable Date up to the Closing Date, set out below are the shareholding structure of the Company (a) as at the Latest Practicable Date, (b) as a result of full conversion of the Convertible Bonds of principal amount of HK\$4,798,460,000 assuming no adjustment to the Initial Conversion Price of HK\$34.73 and full exercise of all outstanding Share Options, and (c) as a result of full conversion of the Convertible Bonds of principal amount of HK\$4,798,460,000 assuming an Floor Conversion Price of HK\$32.80 and full exercise of all outstanding Share Options:

Name of Shareholders	As at the Latest Practicable Date		Immediately after completion of the Placing and assuming full conversion of the Convertible Bonds at the Initial Conversion Price and exercise of the outstanding Share Options in full		Immediately after completion of the Placing and assuming full conversion of the Convertible Bonds at the Floor Conversion Price and exercise of the outstanding Share Options in full	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
COFCO Corporation	915,266,304	23.17	915,266,304	22.24	915,266,304	22.19
Notes Issuer	0	0.00	138,164,697	3.36	146,294,488	3.55
Other Shareholders	3,035,422,963	76.83	3,062,625,771	74.40	3,062,625,771	74.26
Total	<u>3,950,689,267</u>	<u>100</u>	<u>4,116,056,772</u>	<u>100</u>	<u>4,124,186,563</u>	<u>100</u>

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE STRUCTURED NOTES, THE RELEVANT SCHEME AND THE PLACING, AND USE OF PROCEEDS OF THE PLACING

The Group is one of the leading dairy product manufacturers in the PRC and is principally engaged in the manufacture and distribution of quality dairy products. The Directors highly appreciate and recognize the performance of the Group's employees and management team in light of the growth of the Company in the past three years. The Directors believe the Group's development is closely tied to the contributions of its employees. Accordingly, the Board has proposed the Relevant Scheme with a view to share with the Group's employees the fruits of its future development.

The Directors believe that by allowing employees to share in the Company's development, this will motivate employees to further create value for the Company, thereby promoting the Company's high quality development and continuing growth in profitability. The Directors believe that the Relevant Scheme will be conducive to motivating the Group's employees and will help the Group maintain a stable team of talent, facilitating the achievement of the Group's 2025 strategic target of "Creating A New Mengniu In Five Years".

The Directors believe the terms and arrangements under the Relevant Scheme will serve the purpose of the Relevant Scheme to motivate the employees of the Group and to facilitate the achievement of the Group's 2025 strategic target of "Creating A New Mengniu in Five Years", and are in the interests of the Company and its shareholders as a whole.

Under the Relevant Scheme, the Lender will provide the Loan to the Notes Issuer for its subscription of the Convertible Bonds issued by the Company. The Selected Participants will indirectly subscribe for the Structured Notes issued by the Notes Issuer whose returns are tied to that of the Convertible Bonds. Compared to a direct incentive distribution, the structure of the Relevant Scheme would enable the Selected Participants to enjoy the benefits of leveraged financing provided by the Lender given the scale of the Relevant Scheme (which would not otherwise be available if each individual Selected Participant were to seek financing from their own lending institutions) and utilise such leveraged financing provided by the Lender to indirectly invest in convertible securities offered by the Company (which, given the non-professional investor nature of most of the Selected Participants, would also not otherwise be available to them if they were to individually invest in convertible securities issued by the Company) and maximize their returns from the Relevant Scheme. It is reasonable for the proceeds from sale of the assets or instruments which were purchased using the proceeds of a loan be used to firstly repay the principal, interests and all associated costs arising from such loan. Accordingly, the arrangement for the proceeds under the Relevant Scheme to firstly be applied for the repayment of the principal and interests of the Loan and other costs and expenses under the Relevant Scheme before distribution to the Selected Participants via the Noteholders, is a reasonable arrangement. Further, given the leveraged financing made available to the Selected Participants, the Directors believe the structure of the Relevant Scheme will provide the Selected Participants greater absolute returns than what they would receive if they participate in a direct incentive distribution.

LETTER FROM THE BOARD

The Directors also believe that the structure of the Relevant Scheme, in particular, the Convertible Bonds under the Relevant Scheme, will better tie the returns earned by the Selected Participants with the performance of the Company as the Selected Participants will have to make a meaningful contribution of their own funds upfront to the Relevant Scheme thereby each Selected Participant has to bear some personal risk to achieve the collective objective. In particular, whereas the participants of the Share Option Scheme pay for the exercise price of the share option only at the time of exercise (and when the share option is already “in the money”) and the participants of the RSA Scheme are granted the share award for free, the Selected Participants under the Relevant Scheme will contribute upfront cash to indirectly subscribe for the Structured Notes and indirectly hold the Structured Notes during the 5-year term of the Relevant Scheme (subject to the conditions to their entitlements). The Directors believe that this will encourage greater motivation from each Selected Participant compared with the existing Share Option Scheme and RSA Scheme of the Company which does not require a selected participant to provide an upfront meaningful contributions of their own funds. Since the returns on the Convertible Bonds are tied to the performance of the Shares, the structure of the Relevant Scheme aligns the interests of the Selected Participants with that of the Company and the Shareholders. As such, the interests of the Selected Participants are highly tied to the interests of the Company and the Shareholders for five years, stimulating greater commitment by the Selected Participants to the Company thus facilitating the achievement of the Group’s strategic target of “Creating A New Mengniu in Five Years”.

The Relevant Scheme will also help achieve mutual benefit and a win-win outcome for the Selected Participants on one hand, and the Company and its Shareholders on the other hand. The subscription monies for the Convertible Bonds, comprising of the cash contribution of the Selected Participants and the Loan, will, after deducting the relevant costs and expenses, all be received by the Company and be utilised for its general working capital.

Assuming all the Convertible Bonds are successfully placed by the Placing Agent, the net proceeds from the Placing will be approximately HK\$4,797.22 million and the Company intends to use all the net proceeds from the Placing for general working capital purposes. The net proceeds will be fully utilised within twelve months and are expected to be allocated in the following manner:

- 55% for payment of raw milk supply;
- 30% for payment of raw materials cost;
- 10% for payment of wages and salaries; and
- 5% for payment of tax expenses.

The Placing will strengthen the financial position of the Group for its business development and enhance the Group’s flexibility in dealing with economic and epidemic uncertainties.

LETTER FROM THE BOARD

Having considered the above, the Board concluded that the Transactions, including the terms and conditions of the Relevant Scheme, the Convertible Bonds and the Placing are fair and reasonable and in the interests of the Company and Shareholders as a whole.

LISTING RULES IMPLICATIONS

The proposed Relevant Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules and is a discretionary scheme of the Company. The Convertible Bonds will be subscribed for partly using monies contributed by the Selected Participants. The Notes Issuer, may convert, transfer or redeem the Convertible Bonds. Neither the Selected Participants (by themselves or through the SPVs), the Asset Management Schemes, the Assets Manager, the Offshore SPV nor the Group will be the legal or beneficial owner of any Convertible Bonds, or Conversion Shares.

As mentioned above, the Selected Participants will include three Connected Persons, being one Director and two directors of other members of the Group. Accordingly, the following transactions will be deemed or constitute connected transactions for the Company for the purpose of Chapter 14A of the Listing Rules and are therefore subject to the reporting, announcement requirements and independent shareholders' approval requirement under Chapter 14A of the Listing Rules:

- (1) the issuance of the Convertible Bonds (including the terms and conditions of the Convertible Bonds) which will form the reference assets to determine the level of returns on the Structured Notes and the Incentives that the Selected Participants will enjoy will be deemed connected transactions of the Company; and
- (2) the Loan Guarantee will constitute a connected transaction of the Company.

Further, as the Initial Conversion Price of the Convertible Bonds may be subject to a downward adjustment on or prior to the date of their issuance, the Conversion Shares to be issued upon conversion of the Convertible Bonds are to be issued under the Specific Mandate. The issuance of the Convertible Bonds (including the terms and conditions of the Convertible Bonds) and the Conversion Shares are therefore subject to the approval of the Shareholders.

The Company will apply to the Stock Exchange for the listing of the Convertible Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Listing Rules and in the SFO) only and for the listing of and permission to deal in the Conversion Shares.

GENERAL

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to make recommendation to the Independent Shareholders regarding the Connected Transactions. Somerley has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

In accordance with the Listing Rules, any Selected Participants who hold the Shares and their respective associates will be required to abstain from voting on the resolution(s) in respect of the above. In this regard, 319 Selected Participants (including one Director) and their associates will abstain from voting at the EGM on the resolution(s) in respect of the above. As at the Latest Practicable Date, such 319 Selected Participants held 5,705,240 Shares, representing approximately 0.14% of the entire issued share capital of the Company. As at the Latest Practicable Date, such Director, being Mr. Lu Minfang, is interested in (i) 10,867,409 share options granted to him under Company's Share Option Scheme and (ii) 783,831 Shares granted under the RSA Scheme, of which 528,580 Shares has been vested and 255,251 Shares remain unvested. Accordingly, Mr. Lu Minfang will abstain from voting at the EGM in respect of the 528,580 vested Shares, representing approximately 0.01% of the entire issued share capital of the Company.

Save as disclosed above, and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no Director or other Shareholder has any material interest in the Transactions and is required to abstain from voting on the resolution(s) to approve the Transactions at the EGM.

To the best of Directors' knowledge, information and belief, after making all reasonable enquiries, as at the Latest Practicable Date:

- there were no voting trusts or other agreements or arrangements or understandings (other than outright sale) entered into by or binding upon the aforementioned Shareholders who are interested or involved in the Transactions and are required to abstain from voting;
- there were no obligations or entitlements of the aforementioned Shareholders who are interested or involved in the Transactions and are required to abstain from voting, whereby such persons had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares to third parties, either generally or on a case-by-case basis; and
- there were no discrepancies between the beneficial shareholding interests of the aforementioned Shareholders who are interested or involved in the Transactions and are required to abstain from voting and the number of Shares in respect of which they would control or would be entitled to exercise control over the voting right at the EGM.

EGM

The EGM will be held at 10:00 a.m. on Tuesday, October 12, 2021 at A2-C6 Laijin Creative Industry Park, Chaoyang District, Beijing to consider and, if thought fit, approve by way of poll the Transactions, including the grant of the Specific Mandate and the Placing. The Transactions will be presented to the EGM as one ordinary resolution for the Independent Shareholders to approve.

LETTER FROM THE BOARD

Notice of the EGM is set out on pages II-1 to II-3 of this circular. A form of proxy at the EGM is enclosed herewith. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy and return it to the office of the Company's Hong Kong share registrar, 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 holding the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish.

According to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Therefore, the resolution put to the vote at the EGM will be taken by way of poll. An announcement on the poll vote results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, October 7, 2021 to Tuesday, October 12, 2021 (both days inclusive) during which period no transfer of Shares will be effected, in order to determine the identity of the Shareholders who are entitled to attend and vote at the EGM. To be entitled to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, October 6, 2021.

RECOMMENDATIONS

Your attention is drawn to:

- (a) the letter from the Independent Board Committee, the text of which is set out on pages 66 to 67 of this circular; and
- (b) the letter from Somerley to advise the Independent Shareholders and the Independent Board Committee with respect to the Connected Transactions, the text of which is set out on pages 68 to 120 of this circular.

The Independent Shareholders are advised to read the aforesaid letters before deciding how to vote at the EGM.

The Independent Board Committee, having taken into account the advice of Somerley, considers that the Connected Transactions, though not in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and the terms of the Connected Transactions are fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Transactions.

LETTER FROM THE BOARD

Taking into account the letter from the Independent Board Committee and all other factors stated above as a whole, the Directors (including the independent non-executive Directors) are of the view that the terms of the Connected Transactions are on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Shareholders taken as a whole although it is not conducted in the ordinary and usual course of business of the Company. As such, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Transactions.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in appendix I to this circular.

Shareholders and potential investors of the Company should note that completion of the Transactions are subject to the fulfilment of the conditions precedent under the Transaction Documents. As the Transactions (including the Placing) may or may not proceed, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

Yours faithfully
By order of the Board
China Mengniu Dairy Company Limited
Kwok Wai Cheong, Chris
Company Secretary



CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

September 24, 2021

To the Independent Shareholders of the Company

Dear Sir or Madam,

STRUCTURE OF THE RELEVANT SCHEME

**PROPOSED PLACING UNDER SPECIFIC MANDATE OF UP TO
HK\$ EQUIVALENT OF RMB4,000,000,000 FIXED RATE 5-YEAR
CONVERTIBLE BONDS**

CONNECTED TRANSACTIONS

We have been appointed as the Independent Board Committee to give a recommendation to the Independent Shareholders of the Company in connection with the Connected Transactions contained in the circular to the Shareholders dated September 24, 2021 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Your attention is drawn to the letter of advice from Somerley, the Independent Financial Adviser, as set out on pages 68 to 120 of the Circular, which contains its advice and recommendations to us and the Independent Shareholders in respect of the Connected Transactions.

Having considered the terms of the Transaction Documents, and the advice and opinion of the Independent Financial Adviser in relation thereto, we are of the opinion that the Connected Transactions, though not in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Shareholders as a whole and the terms of the Connected Transactions are fair and reasonable. We therefore recommend that the Independent Shareholders of the Company vote in favor of the resolution(s) to be proposed at the EGM in respect of the Transactions.

Yours faithfully,
For and on behalf of the Independent Board Committee

Jiao Shuge
(alias Jiao Zhen)
Independent
Non-executive
Director

Julian Juul Wolhardt
Independent
Non-executive
Director

Zhang Xiaoya
Independent
Non-executive
Director

Yau Ka Chi
Independent
Non-executive
Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

24 September 2021

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**CONNECTED TRANSACTIONS IN RELATION TO
THE RELEVANT SCHEME AND
PROPOSED PLACING UNDER SPECIFIC MANDATE OF UP TO
HK\$ EQUIVALENT OF RMB4,000,000,000 FIXED RATE
5-YEAR CONVERTIBLE BONDS**

INTRODUCTION

We refer to our appointment by China Mengniu Dairy Company Limited (the “**Company**”) as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company in relation to the connected transactions arising from the employee incentive scheme through investing in the financial products (the “**Relevant Scheme**”). Details of the Relevant Scheme are set out in the “Letter from the Board” contained in the circular of the Company to its shareholders dated 24 September 2021 (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 unless otherwise defined herein.

As set out in the “Letter from the Board” contained in the Circular, under the Relevant Scheme, the Structured Notes will be made available for subscription by the Selected Participants through the Asset Management Schemes and the Offshore SPV, pursuant to which the Selected Participants, including connected persons of the Company as defined under the Listing Rules, are entitled to receive the Incentives. Given that the returns on the Structured Notes that the Selected Participants will enjoy (i.e. the Incentives) will be calculated with reference to the returns on the Convertible Bonds and that the Connected Selected Participants are connected persons of the Company, the issuance of the Convertible Bonds (the “**CB Issue**”) will be deemed to constitute a connected transaction of the Company. The Company will also provide a Loan Guarantee in respect of the Loan which will be utilised by the Notes Issuer to subscribe for the Convertible Bonds that are referenced assets underlying the Structured Notes, and the Loan Guarantee may be

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

considered as financial assistance provided for the benefit of the Connected Selected Participants. Accordingly, the Loan Guarantee will also constitute a connected transaction of the Company. Each of the CB Issue and the Loan Guarantee (all together, the Connected Transactions) is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya and Mr. Yau Ka Chi, has been formed to advise the Independent Shareholders in respect of the Connected Transactions. We, Somerley Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard (the "**Engagement**").

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company or the Connected Selected Participants that could reasonably be regarded as a hindrance to the independence of Somerley Capital Limited 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 Engagement. In the past two years, Somerley Capital Limited has acted as the independent financial adviser to certain companies which are associated with the Company in relation to other engagements (the "**Past Engagements**"). Such Past Engagements, all of which are limited to the role of independent financial adviser, include (a) acting as the independent financial adviser to Yashili International Holdings Ltd ("**Yashili**"), a subsidiary of the Company, in relation to certain continuing connected transactions, details of which are set out in the circulars of Yashili dated 12 December 2019 and 4 December 2020; (b) acting as the independent financial adviser to China Modern Dairy Holdings Ltd. (the "**CMD**"), an associate of the Company, in relation to a major and connected transaction involving issue of consideration shares and application for whitewash waiver, details of which are set out in the circular of CMD dated 14 May 2021; and (c) acting as the independent financial adviser to China Agri-Industries Holdings Limited ("**China Agri**"), a subsidiary of COFCO Corporation which is a substantial shareholder of the Company, in relation to a proposal for privatisation, details of which are set out in the scheme document of China Agri dated 14 February 2020. Save for the Engagement, there has been no other engagement between the Company and Somerley Capital Limited during the past two years. In the past two years and up to the Latest Practicable Date, apart from normal professional fees paid or payable to us in connection with the Engagement, no arrangement exists whereby we will receive any fees or benefits from the Company.

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group (the "**Management**"), and have assumed that they are true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

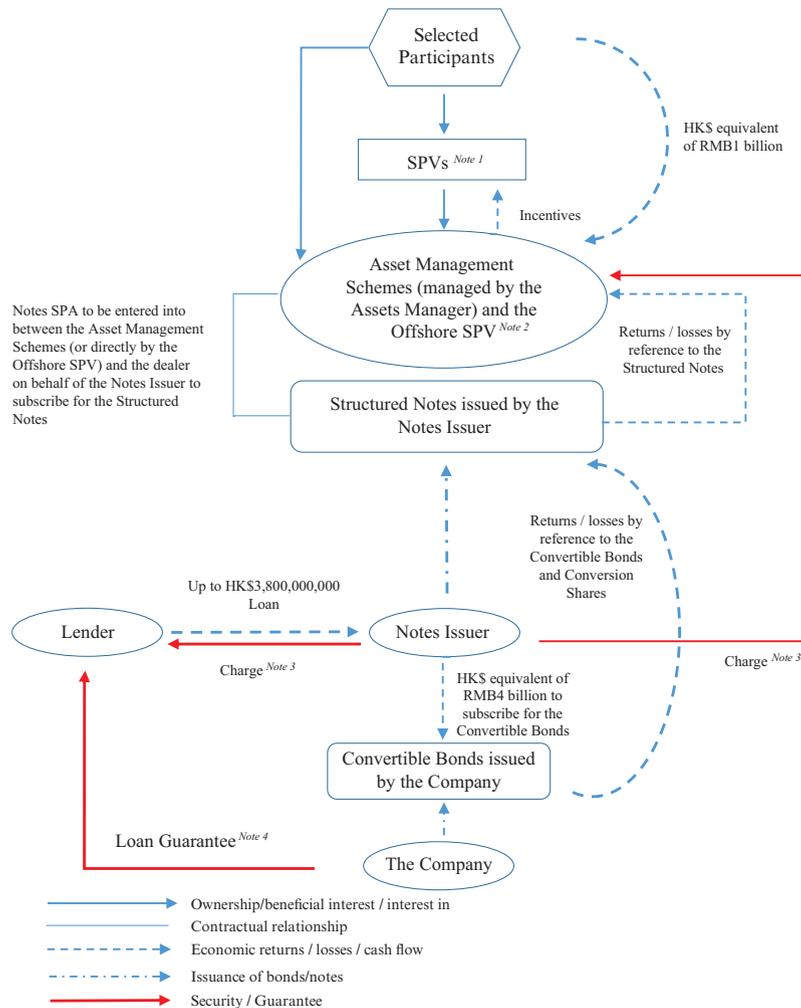
material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Connected Transactions, we have taken into account the principal factors and reasons set out below.

1. Overall background and structure of the Relevant Scheme

As set out in the “Letter from the Board” contained in the Circular, the Board intends to adopt the Relevant Scheme (subject to certain conditions being satisfied) pursuant to which the Selected Participants are entitled to receive the Incentives. Set out below is a diagram illustrating the overall operation of the Structured Notes and the Relevant Scheme:

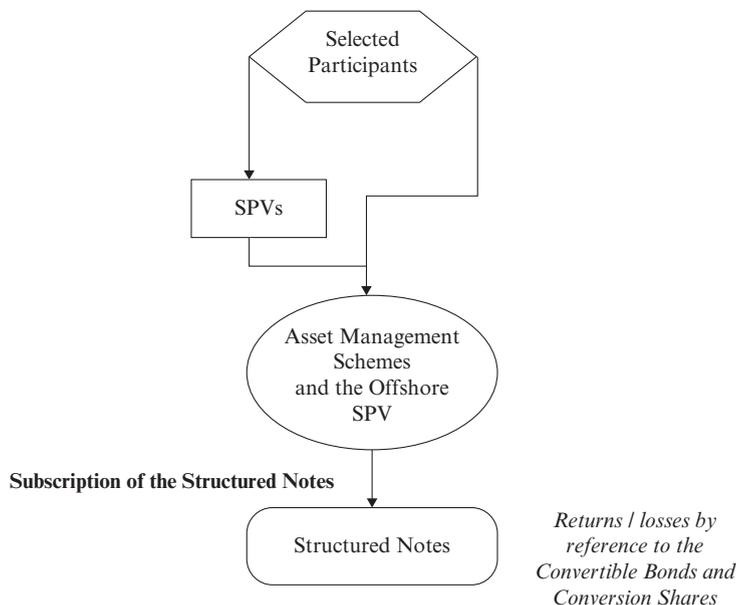


LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

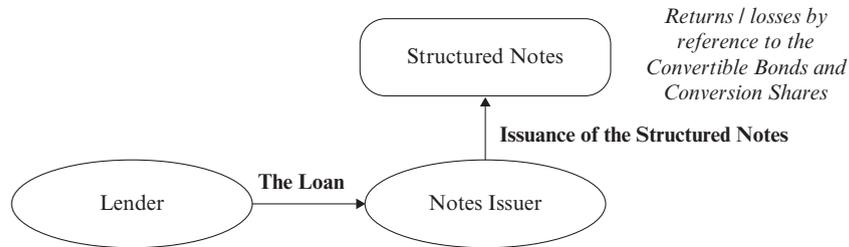
1. These are special purpose limited partnerships established for the purposes of the Relevant Scheme and whose (direct and indirect) limited partners include the Selected Participants.
2. The Selected Participants will, directly or indirectly through SPVs, invest in the Structured Notes through (i) the Asset Management Schemes (for onshore Selected Participants) and (ii) the Offshore SPV (for offshore Selected Participants). The Asset Management Schemes are qualified domestic institutional investors (QDII) asset management schemes established by the Assets Manager. The Asset Management Schemes and the Offshore SPV will subscribe for the Structured Notes.
3. To secure the Notes Issuer's present and future liabilities and obligations in respect of the Loan and the Structured Notes, the Notes Issuer will grant a charge in favour of the Security Trustee (for the Lender and the Noteholders) (a) by way of first mortgage or first fixed charge over, among other things, the Convertible Bonds and Conversion Shares held by the Notes Issuer upon a Conversion and (b) by way of a first fixed charge over the Securities Accounts.
4. The Company will provide a guarantee to the Lender to guarantee the Notes Issuer's payment obligations under the Loan.

As set out in the chart above and as set out in the "Letter from the Board" contained in the Circular, it is expected that the Selected Participants will, through investing in the Asset Management Schemes (as managed by the Assets Manager) (through certain special purpose vehicles), or through the Offshore SPV, subscribe for the Structured Notes. The Incentives to be received by the Selected Participants from time to time will be calculated by reference to the returns from the Structured Notes, which are derived from the performance of the Convertible Bonds and the Company's Share price.

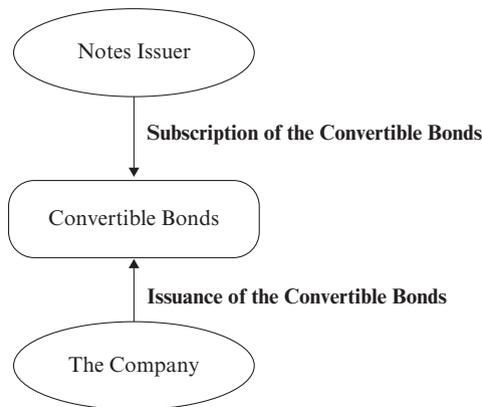


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The Structured Notes are issued by the Notes Issuer for a total principal amount of HK\$ equivalent of approximately RMB1,000,000,000 (equivalent to approximately HK\$1.2 billion at an exchange rate of HK\$1.00 to RMB0.8336). The Notes Issuer, as borrower, has entered into the Facility Agreement with the Lender to borrow the Loan with a principal amount of up to HK\$3,800,000,000.

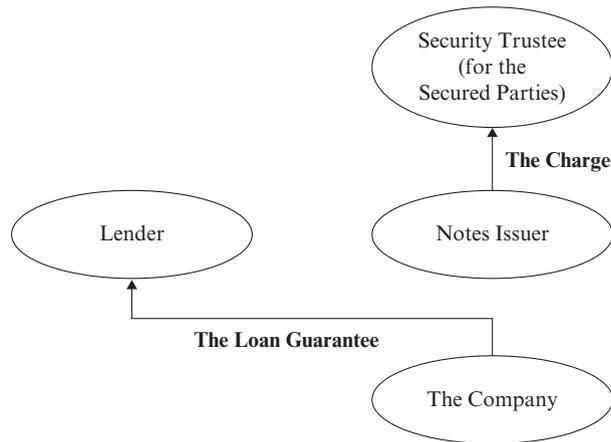


The net proceeds raised from the issuance of the Structured Notes and the drawdown of the Loan, being an aggregate amount of up to approximately HK\$5.0 billion will be utilised by the Notes Issuer to subscribe for the Convertible Bonds. The Convertible Bonds will form the reference underlying assets of the Structured Notes such that the returns on the Convertible Bonds will form the basis for calculating the Noteholders' (i.e. the Asset Management Schemes and the Offshore SPV) returns on the Structured Notes, after taking into account the repayments of principal, interest and any other amounts due and payable in respect of the Loan and any other applicable costs, fees, commissions, duty and taxes in respect of the Structured Notes.



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To secure the repayment of the Loan and the returns on the Structured Notes, the Notes Issuer has agreed to grant certain charges and mortgages over the Convertible Bonds and the Conversion Shares issued to the Notes Issuer upon a Conversion (including the Securities Accounts), among other things, to the Security Trustee (for the Secured Parties). The Company will also provide a guarantee in favour of the Lender to guarantee the Notes Issuer's present and future liabilities and obligations under the Loan.



As set out above, the Notes Issuer will subscribe into the Convertible Bonds (at an amount of up to HK\$ equivalent of RMB4,000,000,000) with about one-fourth of the amount from the net proceeds from the issuance of the Structured Notes (to be subscribed by the Asset Management Schemes and the Offshore SPV as invested by the Selected Participants) (at an amount of HK\$ equivalent of approximately RMB1,000,000,000), and about three-fourths of the amount from the proceeds from the Loan (at an amount of up to HK\$3,800,000,000). We have discussed with the Management and understand that the Relevant Scheme will allow the Selected Participants to receive the Incentives through the Structured Notes where the returns of the Selected Participants will be linked to the returns of the Convertible Bonds and the Conversion Shares on an approximate one to one basis, net of the repayments of principal, interest and any other amounts due and payable in respect of the Loan and any other applicable costs, fees, commissions, duty and taxes in respect of the Structured Notes. The Selected Participants will be entitled to enjoy the benefits of the Incentives on a basis of the entire amount of the Convertible Bonds by contributing about one-fourth of the amount to invest into the Structured Notes. The Selected Participants (together with the SPV GP and/or its designated entities) will, directly or indirectly through SPVs, contribute an aggregate amount of approximately RMB1,000,000,000 to invest in the Asset Management Schemes and the Offshore SPV, who will in turn subscribe for the Structured Notes issued by the Notes Issuer. In the event that the Notes Issuer fails to perform its obligations under the Notes Documents, there are potential risks that the Selected Participants may not be able to recover all or part of the subscription monies of the Structured Notes they have contributed through the Asset Management Schemes and the Offshore SPV. Further

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details of such risks and the security and guarantee arrangements are set out in the section headed “The Asset Management Schemes, the Structured Notes, the Notes Issuer and the Loan” of the “Letter from the Board” contained in the Circular.

Set out below are other details of the Relevant Scheme which are set out in further detail in the section headed “The Relevant Scheme” in the “Letter from the Board” contained in the Circular:

Effective date of the Relevant Scheme: The date on which the Transactions are approved by the Shareholders at the EGM

Effective period of the Relevant Scheme: Until the Maturity Date of the Structured Notes

Conditions to the Relevant Scheme becoming effective: (a) the Transactions having been approved by the Shareholders at the EGM;

(b) the Selected Participants having formed and contributed funds to the SPVs to invest in the Structured Notes;

(c) the Structured Notes having been issued by the Notes Issuer and purchased by and paid for by the Noteholders;

(d) the Loan having been made available to the Notes Issuer; and

(e) the Placing becoming unconditional and the Notes Issuer having subscribed and paid for the Convertible Bonds.

Each of the conditions set out in paragraphs (b), (c), (d) and (e) above is subject to Shareholders’ approval at the EGM and not waivable. As of the Latest Practicable Date, none of the abovementioned conditions has been fulfilled.

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- Selection criteria of the Selected Participants:** Selected Participants shall be person who meet, among others, the following selection criteria:
- (a) conform with the values of the Group and have shown passion and commitment to the Group;
 - (b) hold a recognised key position in the Group or its associates; and
 - (c) have achieved an individual performance appraisal rating of “B” or above and have not been subject to any discipline of level II warning or above in the preceding year.
- Rights and risk exposure of the Selected Participants:** Under the Relevant Scheme, the Selected Participants shall have the right to receive incentives subject to fulfilment of the conditions to the relevant Selected Participant’s entitlements. The maximum risk exposure of each Selected Participant is the loss of the respective contribution of funds to the Relevant Scheme.
- Grant of Incentives to Selected Participants:** As of the Latest Practicable Date, there is a total of 424 Selected Participants, all of which are either (A) employees of the Company; (B) employees of the subsidiaries of the Company; or (C) employees of the associates of the Company. No additional Selected Participants would be identified before the adoption of the Relevant Scheme.

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Of such employees, three are Connected Selected Participants, details of which are as follows:

Name	Contribution of funds to the Relevant Scheme	Position(s) held within the Group	Connected person of the Company by reasons of
Mr. Lu Minfang	RMB75 million	Executive Director and chief executive officer of the Company; Director of certain subsidiaries of the Company	Being Director and chief executive officer of the Company and director of the Company's subsidiaries
Mr. Zhang Ping	RMB15 million	Senior management of the Company and director of certain subsidiaries of the Company	Being director of the Company's subsidiaries
Mr. Zhao Jiejun	RMB30 million	Senior management of the Company and director of certain subsidiaries of the Company	Being director of the Company's subsidiaries

The capital contribution amounts of the Connected Selected Participants are determined with reference to their contributions to the Group (such as specific achievements, milestones and business opportunities brought to the Group). Further details of the Connected Selected Participants, including their contributions to the Group, are set out in the section headed "4. Information on the Connected Selected Participants" of this letter below.

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**Conditions to the
Selected Participant's
Entitlements:**

A Selected Participant will be entitled to the Incentives if during a year and before the date such entitlement is due, none of the following events, among others, have occurred:

- (a) termination of the Selected Participant's employment with the Group (or its associate) as a result of (i) resignation; (ii) non-renewal upon the expiration of the employment contract; or (iii) unilateral termination by the Group (or its associates) according to relevant laws and regulations, in which case, such Selected Participant shall cease to have any entitlements to the Incentives from such time when the employment is terminated;
- (b) receiving an individual performance appraisal rating of "C" or "D" or being subject to a discipline of level II warning or above, in which case, such Selected Participant shall not be entitled to the Incentives in the following year;
- (c) holding an interest in any upstream or downstream companies within the industries in which the Group conducts its principal business, or any company which competes directly or indirectly with the Group (provided that this does not restrict a Selected Participant from holding less than 5% of the issued share capital of a listed company purchased through a secondary market trade but subject to such holding not resulting in the Selected Participant becoming the single largest shareholder of such listed company), in which case, such Selected Participant shall cease to have any entitlements to the Incentives from that year and may be required to reimburse SPVs or the Offshore SPV for all Incentives he or she has received; and

- (d) holding the interests in the SPVs or the Offshore SPV on behalf of a non-Selected Participant, in which case, the Selected Participant shall cease to have any entitlements to the Incentives from that year and may be required to reimburse the SPVs or the Offshore SPV for all Incentives he or she has received.

For those Selected Participants who are no longer entitled to the Incentives, such Selected Participants will transfer their interests in the SPVs or the Offshore SPV to the SPV GP through the exit arrangements and therefore recoup the principal value of their investment, and the SPV GP will have the right to receive the respective Incentives going forward.

As the Incentives will be calculated by reference to the returns from the Structured Notes, which are in turn calculated by reference to the returns on the Convertible Bonds, the distribution of the Incentives is linked to the monetisation of the Convertible Bonds. Pursuant to the terms and conditions of the Convertible bonds, the conversion right and redemption right attaching to the Convertible Bonds may be exercised at the option of the holder of the Convertible Bonds, being the Notes Issuer (at the instruction of the Noteholders Committee and not subject to consent of the Company) annually, beginning in 2022. Accordingly, it is expected that the Incentives will be distributed to the Selected Participants annually, beginning in 2022.

SPV GP:

The SPV GP and/or its designated entities (which are or will be Independent Third Parties) will, directly or through SPVs, invest in the Asset Management Schemes and/or the Offshore SPV (as applicable) at the adoption of the Relevant Scheme. The role of the SPV GP and/or its designated entities in the Relevant Scheme mainly serve two purposes:

- (i) in contemplation that there might be newly joining Selected Participants during the term of the Relevant Scheme and in order to reserve some interests for such newly joining Selected Participants, the SPV GP and/or its designated entities will, directly or through SPVs, invest in the Asset Management Schemes and/or the Offshore SPV (as applicable) at the adoption of the Relevant Scheme and hold such interests on trust for newly joining Selected Participants. Such unallocated interests will be allocated and transferred to the newly joining Selected Participants in due course (the “**Subsequent Transfers**”);
- (ii) in the event that any existing Selected Participants ceases to be entitled to the Incentives as a result of any of the aforementioned circumstances, the SPV GP and/or its designated entities shall have the right to acquire all or part of such exiting Selected Participant’s interests in the Asset Management Schemes or the Offshore SPV directly from such Selected Participants or indirectly by acquiring their interest in the SPVs (the “**Exit Acquisitions**”).

If during the term of the Relevant Scheme, the SPV GP and/or its designated entities enjoy any gains from such interests or on disposal of such interests, these gains are held on trust for the benefit of the Selected Participants as trust property. During the term of the Relevant Scheme, such trust property will be used to pay all costs, fees and expenses incurred by the relevant limited partnership and the SPV GP and/or its designated entities. Any such gains remaining at the expiry of the term of the Relevant Scheme (and therefore termination of the limited partnership) will be distributed in accordance with the limited partnership agreement following payment of all outstanding costs, fees and expenses.

Subsequent Transfers: **Unallocated interests:** the SPV GP and/or its designated entities will, directly or through the SPVs, make a total capital contribution of approximately RMB76 million to the Asset Management Schemes and/or the Offshore SPV (as applicable) at the adoption of the Relevant Scheme. Such unallocated interests held by the SPV GP and/or its designated entities on trust will be allocated and transferred to the newly joining Selected Participants in due course. The capital contribution of approximately RMB76 million therefore represents the interests expected to be allocated to the newly joining Selected Participants during the term of the Relevant Scheme, and is calculated as approximately 7% (being the average turnover rate of the employees in the same banding of the existing Selected Participants during the period from 2017 to 2020) of the interests allocated to existing Selected Participants. In the event that there are still any unallocated interests held by the SPV GP and/or its designated entities at the expiry of the Relevant Scheme, the corresponding portion of the Structured Notes (and the underlying Convertible Bonds) will be monetised in accordance with the terms and conditions of the Structured Notes and the Convertible Bonds, and the proceeds will be distributed by the SPV GP and/or its designated entities in accordance with the limited partnership agreement.

Newly joining qualified Selected Participants to acquire the unallocated interests: The potential recipients of the unallocated interests shall be (i) level N management (who directly report to the chief executive officer) and (ii) level N-1 management (who directly report to level N management) of the Group, who are either newly recruited employees of the Group after the adoption of the Relevant Scheme or existing employees newly promoted to such positions. Employees holding a position below level N-1 management can only receive the unallocated interests with special approval of the chief executive officer upon application made by the human resources department.

Allocation procedures: The maximum amount of interests available to be allocated to the newly joining Selected Participants will be determined by reference to the interests allocated to the existing Selected Participants holding similar position in 2021 and the remaining unallocated interests at that time. After identifying the potential recipient and determining the maximum amount of interests available for allocation to him or her, the Company will make an offer to the potential recipient. The offer will specify the maximum amount of interests available to be allocated to such potential recipient. If the potential recipient accepts the offer, he or she may determine the actual amount of interests he or she would like to be allocated provided that it shall be not more than the maximum amount of available interests offered to him or her by the Company. The unallocated interests will be allocated and transferred to the newly joining Selected Participants (if any) during a fixed period immediately after the Conversion Period of the Convertible Bonds each year commencing from 2022. The newly joining Selected Participants will only be entitled to the Incentives to be distributed commencing from the following year but will not be entitled to the Incentives distributed in the year of joining.

Pricing of Subsequent Transfers: The consideration applicable to the Subsequent Transfers will be determined by the SPV GP having regard to multiple factors including, among other things, the remaining period in the Relevant Scheme, the then market price of the Shares and the market price of the Convertible Bonds.

Exit Arrangements: **Compulsory exit:** The SPV GP and/or its designated entities will also serve the role to acquire the interests of the Selected Participants (held by such Selected Participants directly or through their investment in the SPVs) in the Asset Management Schemes or the Offshore SPV when they exit. In the event that any Selected Participant ceases to be entitled to the Incentives as a result of any of the aforementioned circumstances, the SPV GP and/or its designated entities shall have the right to acquire all or part of such exiting Selected Participant's interest in the Asset Management Schemes or the Offshore SPV. The consideration applicable to the aforesaid Exit Acquisitions will be determined with reference to the principal value of the Structured Notes.

2. Recent performance of the Group

(a) Business

As set out in the Company's 2020 annual report, the Group mainly manufactures and distributes quality dairy products in China. It is one of the leading dairy product manufacturers in China, with MENGNIU as its core brand. The Group's diversified products include liquid milk, ice cream, milk formula and other products such as cheese. The Group is principally engaged in the following business segments:

- (i) Liquid milk products segment — manufacture and distribution of ultra-high temperature milk;
- (ii) Ice cream products segment — manufacture and distribution of ice cream;
- (iii) Milk powder products segment — manufacture and distribution of milk powder; and
- (iv) Others — principally the Group's cheese, plant-based nutrition products and trading business.

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(b) Financial information

Set out below is a summary of financial information of the Group for the three years ended 31 December 2018, 2019 and 2020 as extracted from the Company's 2019 and 2020 annual reports:

	2020	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(audited)
Revenue (note)	76,034,844	79,029,856	68,977,066
<i>Comprised of:</i>			
<i>Liquid milk products</i>	<i>67,750,993</i>	<i>67,877,807</i>	<i>59,388,601</i>
<i>Ice cream products</i>	<i>2,633,731</i>	<i>2,561,406</i>	<i>2,723,407</i>
<i>Milk powder products</i>	<i>4,572,975</i>	<i>7,869,685</i>	<i>6,017,417</i>
<i>Others</i>	<i>1,077,145</i>	<i>720,958</i>	<i>847,641</i>
Gross profit	28,629,280	29,678,614	25,783,626
Profit for the year	3,501,593	4,295,915	3,203,721

Note: only external sales are included

As set out in the table above, the liquid milk products segment has contributed to majority of the Group's revenue in each year of 2018 to 2020, accounting for over 85% of the Group's total revenue during each year. In general, the Group's revenue increased from 2018 to 2019, and revenue level dropped in 2020 as compared to 2019. The increase in 2019 was mainly due to product innovation, proactive brand marketing and excellent sales execution. The drop of revenue in 2020 was mainly due to the combined effect of acquisition and disposal of subsidiaries in late 2019. As stated in the Company's 2020 annual report, Shijiazhuang Junlebao Dairy Co., Ltd. ("**Junlebao**") was disposed of in 2019 and Bellamy's Australia Limited ("**Bellamy**") was acquired in 2019. Excluding the revenue of Junlebao and Bellamy, revenue of comparable businesses of the Group has increased by approximately 10.6%. The Group's business was affected by the COVID-19 pandemic in the first quarter of 2020 and started to rebound in the second quarter of 2020, followed by a further growth in the second half of the year. In particular, market share of the Group's high-end room temperature products continued to increase, claiming the top spot in the industry. The Group managed to resume operation and production quickly, and actively developed new retail channels, including e-commerce platforms, O2O home delivery service, community group purchase and WeChat social groups, to speed up integration of on-and off-line sales networks, leading to an improvement in revenue during the year.

In terms of profit, the Group's profit also surged from approximately RMB3.2 billion in 2018 to approximately RMB4.3 billion in 2019, representing a growth of approximately 34.1%. As advised by the Management, there were several one-off financial impacts in 2019, which included the recognition of a pre-tax gain on disposal of Junlebao of approximately RMB3.3 billion, income tax expense for the gain on disposal of Junlebao of approximately RMB0.5 billion, and provision for impairment of goodwill and other intangible assets of approximately RMB2.6 billion. We note from the Company's annual reports and understand from the Management that, excluding the aforesaid one-off items, the growth in the Group's profits was mainly due to the increase in revenue, the effect from product structure optimisation, enhancement of operational efficiency as well as economies of scale, together with the gain arising from disposal of a subsidiary during the year. Profit for the year ended 31 December 2020 decreased by approximately 18.5% from 2019 to approximately RMB3.5 billion. Such decrease, excluding the impacts of the aforesaid one-off items in 2019, was mainly attributable to (i) additional expenses incurred by the Group for epidemic prevention to safeguard the health and safety of its employees and to ensure the resumption of work and production; (ii) additional marketing and sales expenses incurred to reduce inventories in its distribution channels in order to accelerate on the resumption of normal sales; and (iii) the fact that the Group had actively fulfilled its corporate social responsibilities and had made cash and dairy product donations to those in need, leading to higher donation expenses during the year.

(c) Prospects

As set out in the Company's 2020 annual report and advised by the Management, the Group flexibly adjusted its business strategy, allowing it to seize the new market opportunities brought by changes in the trends of the consumption habits and sales channels in the PRC after the COVID-19 pandemic. Regarding product strategies, the Group will pay close attention to the needs of health-conscious consumers and the increasing demand for dairy products. It will continue to focus on developing product categories which are in demand in the market and have high growth potential. The Group will also work hard to create high-end star products that are organic, and low in fat and sugar in the nutritional and healthy food categories.

In the future, the Group intends to restructure its supply chain, industrial chain, as well as its organizational and operation model, and also business model. Such efforts will equip the Group with digital intelligence, facilitating its brand, products and services to reach target consumers. They will also give the Group's industrial chain the ability to evolve and improve on its own and empower the Group to upgrade and become a platform-based ecological enterprise that affords high-quality development.

As for channel strategies, the Group will vigorously develop online sales channels including traditional e-commerce, O2O home delivery, WeChat sales and community group marketing. Moving forward, the Group will continue to walk

the quality development path in steadfast strides, at its best effort to ensure product and service quality, working by the management philosophy of no compromise on product quality, value and execution. It is committed to providing world-class products and services to consumers around the world. The Group will continue to develop a responsible supply chain and produce dairy products in an environmental-friendly manner.

In view of the Group's future plans and development in the long run, it is of utmost importance for the Group to attract and retain valuable management and employees for execution of the plans by offering attractive incentives. By aligning employees' interests with that of the Shareholders, employees shall be motivated to work towards the business growth of the Group, achieving the long-term business objectives of the Group. Further details of the reasons for and benefits of the Relevant Scheme are set out in this letter below.

3. Reasons for and benefits of the Relevant Scheme

As set out in the "Letter from the Board" contained in the Circular and as advised by the Management, the Directors highly appreciate and recognise the performance of the Group's employees and management team in light of the growth of the Company in the past three years, including the success in maintaining the Group's business despite the COVID-19 pandemic. The Directors believe the Group's development is closely tied to the contributions of its employees. Accordingly, the Board has proposed the Relevant Scheme with a view to share with the Group's employees the fruits of its future development. The Directors believe the terms and arrangements under the Relevant Scheme will serve the purpose of the Relevant Scheme to motivate the employees of the Group and to facilitate the achievement of the Group's 2025 strategic target of "Creating A New Mengniu in Five Years", and are in the interests of the Company and its shareholders as a whole (the "**Objectives**"). The Selected Participants will indirectly subscribe for the Structured Notes whose returns are tied to that of the Convertible Bonds, thereby further aligning the interests of the Selected Participants with that of the Company and the Shareholders. The Directors consider that as compared to a direct incentive distribution, the structure of the Relevant Scheme would enable the Selected Participants to enjoy the benefits of leveraged financing provided by the Lender given the scale of the Relevant Scheme (which would not otherwise be available if each individual Selected Participant were to seek financing from their own lending institutions) and utilise such leveraged financing provided by the Lender to indirectly invest in convertible securities offered by the Company (which, given the non-professional investor nature of most of the Selected Participants, would also not otherwise be available to them if they were to individually invest in convertible securities issued by the Company) and maximize their returns from the Relevant Scheme. The Directors also believe that the structure of the Relevant Scheme, in particular, the Convertible Bonds under the Relevant Scheme, will better tie the returns earned by the Selected Participants with the performance of the Company as the Selected Participants will have to make a meaningful contribution of their own funds upfront to the Relevant Scheme thereby each Selected Participant has to bear some personal risk to achieve the collective objective. The Selected Participants under

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the Relevant Scheme will contribute upfront cash to indirectly subscribe for the Structured Notes and indirectly hold the Structured Notes during the 5-year term of the Relevant Scheme (subject to the conditions to their entitlements). The Directors believe that this will encourage greater motivation from each Selected Participant compared with the existing Share Option Scheme and RSA Scheme of the Company which does not require a selected participant to provide an upfront meaningful contributions of their own funds. Since the returns on the Convertible Bonds are tied to the performance of the Shares, the structure of the Relevant Scheme aligns the interests of the Selected Participants with that of the Company and the Shareholders. As such, the interests of the Selected Participants are highly tied to the interests of the Company and the Shareholders for five years, stimulating greater commitment by the Selected Participants to the Company thus facilitating the achievement of the Group's target of "Creating A New Mengniu in Five Years".

We have also discussed with the Management regarding further reasons and benefits of the Relevant Scheme. We understand from the Management that majority of the Selected Participants are PRC citizens and that the administrative procedures involved for employees (who are PRC citizens) in the PRC to hold the Shares directly are complicated with substantive administrative costs and fees involved, and therefore allotting shares directly to them may not be effective in providing incentives for them to achieve better results for the Group. The Relevant Scheme allows the Group's employees in the PRC to participate in the employee incentive scheme through joining the SPVs and/or the Offshore SPV as limited partners and receiving incentives indirectly based on the performance of the Shares, details of overall operation of the Relevant Scheme are set out in the section headed "1. Overall background and structure of the Relevant Scheme" in this letter above.

We have also discussed with the Management and understand that the Management has considered other forms of remuneration such as additional cash compensation. Considering that the participation in the Relevant Scheme will provide an additional incentive for the Selected Participants to achieve performance goals to enhance the value of the Company and align the interests of the Selected Participants directly to the Shareholders through linking up of returns to the performance of the Shares, and the Relevant Scheme presents arrangement with a longer term (as compared to cash compensation), the Management considers that the Relevant Scheme would be more effective in retaining the Selected Participants in the Group and offering a clearer vision to work together for the Group's development in coming years, which the Management considers to be beneficial to the Company and the Shareholders.

As set out in the "Letter from the Board" contained in the Circular, the Connected Selected Participants are Mr. Lu Minfang, Mr. Zhang Ping and Mr. Zhao Jiejun. Mr. Lu is the chief executive officer of the Company; Mr. Zhang is the vice president and chief financial officer of the Group; and Mr. Zhao is the vice president and the head of milk sourcing and supply chain business unit of the Group. All three Connected Selected Participants have held senior positions in the Group and are responsible for the overall management of the Group. Further details of the

biographies of the Connected Selected Participants and their contribution to the Group are set out in the section headed “4. Information on the Connected Selected Participants” of this letter below.

The Relevant Scheme involves the issuance of the Convertible Bonds. As stated in the “Letter from the Board” contained in the Circular, assuming all the Convertible Bonds are successfully placed by the Placing Agent, the net proceeds from the CB Issue will be approximately HK\$4,797.22 million and the Company intends to use all the net proceeds from the CB Issue for general working capital purposes. It is expected that the CB Issue will strengthen the financial position of the Group for its business development and enhance the Group’s flexibility in dealing with economic and epidemic uncertainties.

In view of the above, in particular, (i) the importance of retaining key staff and management for continuing operation and medium to long-term development of the Group, especially in view of the uncertainties in the Group’s business environment as further discussed in the section headed “2. Recent performance of the Group”; (ii) the expected benefits of enhancing the value of the Company through aligning the interests of the Selected Participants and the Shareholders; and (iii) the Relevant Scheme provides a clearer vision for the Selected Participants and the Group to achieve business growth, the Board (excluding the independent non-executive Directors) considers, and we concur, that it is in the interests of the Company and the Shareholders as a whole to conduct the Connected Transactions.

4. Information on the Connected Selected Participants

Biographies

There are three Connected Selected Participants and further details of them are set out below.

Mr. Lu Minfang

Mr. Lu obtained a bachelor’s degree from Fudan University in Shanghai. He has been an executive Director of the Company and the chief executive officer of the Company since September 2016 and served as a member of the strategy and development committee and sustainability committee. He is the chairman and a non-executive director of Yashili (stock code: 1230), a subsidiary of the Company listed in Hong Kong and the chairman and a non-executive director of CMD (stock code: 1117), an associate of the Company listed in Hong Kong. Mr. Lu is also a director of International Dairy Federation. He was the chief executive officer and an executive director of Yashili before his appointment as chairman of the board of directors of Yashili, he was also a director of the several subsidiaries of Yashili. Mr. Lu was the Vice President (Greater China) of Danone Early Life Nutrition Greater China and had been with Danone Group and Dumex Baby Food Co. Ltd. for over 10 years. During his tenure at Danone Group, he demonstrated strong strategic business and market planning capabilities. With strong leadership, management skills and in-depth market knowledge, Mr. Lu had

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contributed significantly to the success of Danone Group's baby nutrition business in China. Prior to joining Danone Group, Mr. Lu spent 9 years with Johnson & Johnson (China) Company Limited and almost 4 years with General Electric Company (China). Mr. Lu has over 18 years of experience in sales and marketing and has been in general manager or senior executive roles for over 7 years. Mr. Lu has extensive experience in the management of fast moving consumer products and dairy companies and has an excellent grasp and in-depth knowledge of the PRC market.

Mr. Zhang Ping

Mr. Zhang graduated from the Beijing Information Science and Technology University with a Master's Degree in Management Engineering. Mr. Zhang, who joined the Group in 2014, is currently a vice president and the chief financial officer of the Group. He has over 25 years of experience in the fast-moving consumer goods industry, specializing in management of operation, finance and audit, as well as risk control. Mr. Zhang worked in Swire Beverages group companies as manager responsible for internal audit and system development, finance director, general manager of bottler manufacturing company and chief executive officer of Coca-Cola Bottlers Manufacturing Holdings Limited. Mr. Zhang is also a non-executive director of Yashili, CMD and China Shengmu Organic Milk Limited respectively, all companies listed in Hong Kong.

Mr. Zhao Jiejun

Mr. Zhao joined the Group in 2000 and is currently a vice president and the head of milk sourcing and supply chain business unit of the Group. Mr. Zhao graduated from the Beijing University of Aeronautics and Astronautics with a postgraduate qualification. Mr. Zhao has served successively as greater regional sales manager, sales director, general manager of operation and general manager of planning and logistics of the Group. Mr. Zhao has over 19 years of experience in dairy industry, with extensive experiences in sales management of ice cream and liquid milk, as well as capabilities of total-chain conceptualization for supply chain management. He is visionary with keen market insight towards dairy industry in China. Mr. Zhao is also a non-executive director of CMD.

Contributions to the Group

As advised by the Company, each of the Connected Selected Participants has made significant contributions to the Group, details of which are set out below.

Mr. Lu Minfang

- leading the Group to achieve expansion in operation and increase in revenue, with the Group's consolidated revenue increased from approximately RMB53.8 billion in 2016 to approximately RMB76.0 billion in 2020; and

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- overall management of the Group to maintain its business operation and performance in 2020 despite the COVID-19 pandemic

Mr. Zhang Ping

- acting as part of the senior management of the Group to assist the chief executive officer to manage the Group and implement the Group's business strategies;
- leading the accounting department of the Group and at the same time involving in management of the Group's legal department, digital innovation department and investment management department;
- implementing restructuring and enhancement to the financial reporting system of the Group;
- leading the Group to improve its resources management systems to enhance the Group's operating efficiency; and
- assisting the Group to build account and finance sharing centres to improve the operating efficiency of the Group

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- acting as part of the senior management of the Group to assist the chief executive officer to manage the Group and implement the Group's business strategies;
- managing the milk sourcing process of the Group to enhance the Group's competitive advantages;
- securing the milk sources of the Group by coordinating suppliers within the PRC and around the world; and
- assisting the Group to build its own supply chain of milk

As set out above, each of the Connected Selected Participants plays an important role to the management, operation and development of the Group, and each of them has substantial years of experience in the food and beverage industry. The role and responsibility of the Connected Selected Participants are directly affecting the performance of the Group. Each of them has made significant contributions to the Group in the past. Besides, the Management is of the view that it is crucial to retain the Selected Participants, including the Connected Selected Participants, to cater for the future strategic development of the Group. Having considering (i) the biographies of the Connected Selected Participants who have extensive experience in the relevant industry; (ii) the role and responsibilities of the Connected Selected Participants; (iii) the past contribution by the Connected Selected Participants; and (iv) the recent

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development of the Group's business and financial performance, the Management considers, and we concur, that the participation of the Connected Selected Participants in the Relevant Scheme to retain the Connected Selected Participants is suitable so that the Connected Selected Participants would continue to contribute to the Group's future development.

5. Principal terms of the Convertible Bonds

The Convertible Bonds will be placed by the Company to the Placee pursuant to the Placing Agreement. Details of the Placing Agreement and the Convertible Bonds are set out in the "Letter from the Board" contained in the Circular. In formulating our opinion as regards, among other things, the CB Issue, we have reviewed the terms of the Convertible Bonds as set out in the "Letter from the Board" contained in the Circular. Set out below is a summary of the key terms of the Convertible Bonds.

Issuer	The Company
Principal Amount	Up to HK\$ equivalent of RMB4,000,000,000
Denomination	HK\$500,000 per Convertible Bond and integral multiples of HK\$10,000 in excess thereof
Maturity Date	5 years from the Closing Date
Interest Rate	The Convertible Bonds will bear interest on their outstanding principal amount at a fixed rate of between (and including) 2.99 per cent. per annum to (and including) 3.18 per cent. per annum, to be agreed between the Issuer and the Placing Agent prior to the Closing Date.
Conversion Price	Initial Conversion Price of HK\$34.73 per Share, subject to the adjustments as summarised in the paragraphs headed "Initial Conversion Price Reset" and "Adjustments to the Conversion Price" below.

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The Initial Conversion Price of HK\$34.73 per Share represents (i) a discount of approximately 20% to the Reference Share Price; (ii) a discount of approximately 27.72% to the average Closing Prices of HK\$48.05 for one Share as quoted on the Stock Exchange for the five consecutive Trading Days up to and including 22 January 2021; (iii) a discount of approximately 30.54% to the Closing Price of HK\$50.00 for one Share as quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a premium of approximately 207% over the consolidated net assets value per Share of the Group as at 31 December 2020 at an exchange rate of HK\$1.00 to RMB0.8336.

The Initial Conversion Price was arrived at after arm's length negotiations between the parties with reference to, among others, the prevailing market performance of the Shares and the Objectives underlying the Relevant Scheme.

Reference Share Price HK\$43.41, the average of the Closing Prices for one Share as quoted on the Stock Exchange for the last 60 consecutive Trading Days up to but excluding 22 January 2021.

Initial Conversion Price Reset On the Reset Date, if the Average Market Price is less than the Reference Share Price, the Initial Conversion Price will be reset downwards to 80% of the Average Market Price of the Shares on the Reset Date, subject to the Floor Conversion Price of HK\$32.80 per Share.

For the avoidance of doubt, any such adjustment to the conversion price shall only be a downward adjustment. Any such adjustments shall become effective as of the Reset Date and the adjusted Initial Conversion Price will be reflected in the final terms and conditions of the Convertible Bonds.

Adjustments to the Conversion Price Standard anti-dilution adjustment provisions as detailed in the terms and conditions of the Convertible Bonds, further details of which are set out in the section headed "Principal terms of the Convertible Bonds" of the "Letter from the Board" contained in the Circular.

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Conversion ratio 287.9355 Shares per HK\$10,000 in the principal amount of the Convertible Bonds, based on the Initial Conversion Price

304.8780 Shares per HK\$10,000 in the principal amount of the Convertible Bonds, based on the Floor Conversion Price

Conversion Shares In the case of the conversion rights having been exercised in full, a maximum of 138,164,697 (based on the Initial Conversion Price) or 146,294,488 (based on the Floor Conversion Price) new Shares will be allotted and issued by the Company, representing:

With respect to the Initial Conversion price —

- a) approximately 3.50% of the aggregated number of the issued Shares as at the Latest Practicable Date; and
- b) approximately 3.36% of the aggregated number of the issued Shares as enlarged by the issue of 138,164,697 Conversion Shares (assuming the exercise of the outstanding Share Options in full and there is no other change in the issued share capital of the Company between the Latest Practicable Date and the full conversion of the Convertible Bonds).

With respect to the Floor Conversion Price —

- c) approximately 3.70% of the aggregated number of the issued Shares as at the Latest Practicable Date; and
- d) approximately 3.55% of the aggregated number of the issued Shares as enlarged by the issue of 146,294,488 Conversion Shares (assuming the exercise of the outstanding Share Options in full and there is no other change in the issued share capital of the Company between the Latest Practicable Date and the full conversion of the Convertible Bonds);

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Assuming 138,164,697 Conversion Shares are issued based on the Initial Conversion Price, the Conversion Shares have a total market value of approximately HK\$5,997,729,000, based on the Reference Share Price.

Assuming 146,294,488 Conversion Shares are issued based on the Floor Conversion Price, the Conversion Shares have a total market value of approximately HK\$6,350,644,000, based on the Reference Share Price.

The Conversion Shares will be fully paid and will rank *pari passu* in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares.

Conversion Period

Subject to and upon compliance with the terms and conditions of the Convertible Bonds, the conversion right attaching to any Convertible Bond may be exercised, at the option of the holder thereof (a) at any time in each period from (and including) the 25th Scheduled Trading Day to (and including) the 5th Scheduled Trading Day immediately prior to the anniversary of the Closing Date in each year, beginning in 2022 (subject to exceptions), or (b) if notice requiring redemption has been given by the holder of such Convertible Bond pursuant to the terms set out in terms and conditions of the Convertible Bonds then up to the close of business on the day prior to the giving of such notice.

Transferability

Freely transferable in accordance with the relevant rules and procedures of the clearing systems.

Listing

Application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange. Application will also be made by the Company for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange to be issued upon the exercise of the conversion rights attached to the Convertible Bonds.

Redemption at Maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Convertible Bond at its principal amount together with accrued and unpaid interest thereon on the Maturity Date (as defined above).

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**Redemption at the
Option of the
Bondholders**

The Issuer (i.e. the Company) will, at the option of the holder of any Convertible Bonds, redeem all or some only of such holder's Convertible Bonds on the 5th Scheduled Trading Day immediately prior to the anniversary of the Closing Date of each year, beginning in 2022 (each, a "**Put Option Date**") at their principal amount, together with interest accrued but unpaid up to but excluding such Put Option Date. Such put notice, once delivered by the bond holder, shall be irrevocable (and may not be withdrawn unless the Issuer consents in writing to such withdrawal).

**No redemption right at
the Option of the
Issuer**

The Issuer has no right to redeem the Convertible Bonds at its own option before the Maturity Date.

**Redemption for a
Relevant Event**

Following the occurrence of a Relevant Event (as defined below), the holder of each Convertible Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of such holder's Convertible Bonds at their principal amount, together with interest accrued but unpaid up to but excluding the relevant redemption date.

a "**Relevant Event**" occurs:

- (a) when the Shares cease to be listed or admitted to trading or are suspended for trading for a period equal to or exceeding 30 consecutive Trading Days on the Stock Exchange or, if applicable, the alternative stock exchange;
- (b) when the Current Market Price of a Share is, on any date of determination, less than a figure to be agreed between the Issuer and the Placing Agent prior to the Closing Date and such figure shall be not less than 30% and not more than 60% of the Reference Share Price;

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- (c) when the quote for the Reference Bond is, on any date of determination, less than a figure to be agreed between the Issuer and the Placing Agent prior to the Closing Date and such figure shall be not less than 60% and not more than 85% of an amount equal to 100 per cent. of the minimum denomination of principal amount of the Reference Bond;
- (d) when there is a change of control of the Company;
or
- (e) when there is a Rating Decline.

The Notes Issuer as the sole placee and sole subscriber of the Convertible Bonds, undertakes to the Company, as the issuer of the Convertible Bonds, that the Notes Issuer shall exercise its conversion rights under the Convertible Bonds in accordance with the terms and conditions of the Convertible Bonds and at the instruction of the Noteholders Committee in the following schedule:

Year	Percentage of the Convertible Bonds to be converted
2022	10%
2023	15%
2024	20%
2025	25%
2026	30%

Under the circumstance where the price of the Shares is at an unfavourable level, the Noteholders Committee (acting on behalf of the Selected Participants and not subject to consent of the Company) may instruct the Notes Issuer that it shall not exercise its conversion right in accordance with the above pre-determined schedule.

We have discussed with the Management and understand that the above schedule has been determined mainly based on discussions between the Company and the Notes Issuer. The Company has mainly taken into account the following factors during the discussions with the Notes Issuer: (i) the purpose of the Relevant Scheme is to incentivise the Selected Participants to make further contribution to the Group to facilitate the achievement of the Group's 2025 strategic target of "Creating A New Mengniu In Five Years"; (ii) a larger portion of the Convertible Bonds will only be converted in the later stage of the Relevant Scheme such that the Selected Participants will be more motivated to achieve longer-term benefits for the Group; and (iii) it is necessary to allow the Selected Participants to enjoy appropriate level of cash returns in the near term through the monetisation of the Conversion Shares from conversion of the Convertible Bonds.

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6. Principal terms of the Loan Guarantee

The key terms of the Loan Guarantee are set out in the “Letter from the Board” contained in the Circular. Set out below is a summary of the key terms of the Loan Guarantee:

Guarantor	The Company
Agent	The Loan Agent
Obligors/Borrower	The Borrower
Guarantee and Indemnity	<p>The Guarantor, irrevocably and unconditionally:</p> <ul style="list-style-type: none">(a) guarantees to each Finance Party punctual performance by the Borrower of all of that Borrower’s obligations under the Finance Documents;(b) undertakes with each Finance Party that whenever the Borrower does not pay any amount when due under or in connection with the Finance Documents, that Guarantor shall within 10 Business Days after the date of demand pay that amount as if it were the principal obligor in respect of that amount;(c) undertakes with each Finance Party that whenever such amount referred in the foregoing paragraph (b) is for any reason not recoverable from the Guarantor on the basis of the guarantee in paragraph (a) above, the Guarantor shall within 10 Business Days after the date of demand pay that amount as if it were the sole principal debtor and not merely a surety in respect of that amount; and

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(d) agrees with each Finance Party that if (i) any obligation guaranteed by it is or becomes unenforceable, invalid or illegal, or (ii) the Borrower does not pay any amount which would have been payable by it under the Finance Documents on the date when it would have been due, it will, as a separate, independent and primary obligation indemnify the Finance Parties immediately on demand against any cost, loss or liability it incurs therefrom. The amount payable by the Guarantor under this indemnity will not exceed the amount it would have had to pay under this clause if the amount claimed had been recoverable on the basis of a guarantee.

Continuing Guarantee The Loan Guarantee is a continuing guarantee and will extend to the ultimate balance of all sums payable by the Borrower under the Facility Agreement, regardless of any intermediate payment or discharge in whole or in part.

Waiver of Defences Customary waiver of defences

Representations and Undertakings Customary representations and undertakings

Assignment and Transfer **Assignments and transfers by the Guarantor:** The Guarantor may not assign or transfer any of its rights and obligations under the Loan Guarantee, except with the prior written consent of the Loan Agent.

Assignments and transfers by the Lenders: A Lender may not assign any of its rights or transfer by novation any of its rights and obligations under the Loan Guarantee to a new lender, or make any change to its facility office without consent of the Company provided that such consent shall not be unreasonably withheld and no default under the Facility Agreement has occurred.

7. Assessment of the Relevant Scheme

The Relevant Scheme is an employee incentive scheme through which the Selected Participants (including three Connected Selected Participants who are directors and/or senior management of the Group) will be able to receive Incentives. In analysing the Relevant Scheme, we consider it meaningful to review any similar grants of award shares to directors and/or senior management by companies comparable to the Company. The Company is one of the leading dairy product manufacturers in China with a closing market capitalisation of approximately HK\$197 billion as at the Latest Practicable Date. For the purpose of our analysis, we have conducted a search on Bloomberg to identify other listed companies which (i) are principally engaged in manufacturing of dairy products in the PRC based on the information available on the website of the respective listed companies and/or their respective annual reports up to the date prior to the Latest Practicable Date; and (ii) had a market capitalisation of HK\$100 billion or above as at the Latest Practicable Date. Based on the aforesaid criteria, we have identified one comparable company, namely Inner Mongolia Yili Industrial Group Co., Ltd. (listed on the Shanghai Stock Exchange) (the “**Comparable Company**”). Each of the Company and the Comparable Company has sizeable operation scale and recorded a consolidated revenue of approximately RMB76.0 billion and RMB96.5 billion respectively during 2020 as set out in their respective 2020 annual report. We have reviewed the annual report of the Comparable Company for the year ended 31 December 2020 and noted that the Comparable Company had granted award shares to its directors, senior management and other employees under the share incentive scheme adopted on 30 September 2019 (the “**Comparable Scheme**”), and such scheme is considered appropriate for our analysis purpose as it would illustrate the arrangements for share incentive scheme to directors and senior management (the same as the case of the Relevant Scheme) carried out by a similar industry player.

Independent Shareholders shall note that the Comparable Scheme represents the only one scheme identified under the above selection criteria. Nevertheless, we consider the Comparable Scheme to be an appropriate and meaningful comparison for the Independent Shareholders’ assessment of the Relevant Scheme after considering the following factors: (a) the Comparable Company is closely comparable to the Company as they are both leading dairy product manufacturers in China; (b) both the Comparable Company and the Company have large operation scale and significant revenue base, which set the foundation for our analysis as companies with different scale (e.g. companies with much lower level of operation and revenue base) are likely to have different considerations in setting up the structure and terms of an employee incentive scheme; (c) both the Comparable Company and the Company have their main operations in China with employees subject to similar working environment, culture and legal protection and/or restrictions; (d) share option schemes by other companies listed on the Stock Exchange are considered inappropriate due to the fact that there are certain restrictions in determining the terms of the share option schemes as required under the Listing Rules and having taking into account the structure of the Relevant Scheme to provide, among other things, a higher level of commitment of the employees through the leveraged financing arrangement; (e) the Comparable Company

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is an Independent Third Party; and (f) since the Comparable Company is an independent industry player closely comparable to the Company in terms of, among other things, business activities, operation, scale, revenue base and employees' location, the Comparable Scheme provides an appropriate and meaningful reference of the market practice of an industry player for assessment of the Relevant Scheme. On the other hand, comparisons to the employee incentive schemes of companies less comparable to the Company (e.g. companies operating in industry other than dairy product manufacturing, companies with much lower level of operation and revenue base, or companies with main operation and employee base outside China) may provide the Independent Shareholders misleading information as a result of all those differences, and the detailed analysis of all those differences may not be practical and meaningful.

Set out below is the comparison of the Relevant Scheme with the Comparable Scheme:

	Duration	No. of participants	Total size (approximate)	No. of shares granted	Value of benefits (approximate)	Average value of annualised benefits per participant (approximate)
The Comparable Scheme <i>(Note 1)</i>	6 years	473	RMB4.34 billion <i>(Note 2)</i>	152,200,000	RMB1,988 million <i>(Note 3)</i>	RMB700,000 <i>(Note 4)</i>
The Relevant Scheme	5 years	424	RMB4.0 billion <i>(Note 2)</i>	138,164,697 <i>(Note 5)</i>	RMB1,000 million <i>(Note 5)</i>	RMB472,000 <i>(Note 4)</i>

Notes:

- Based on information of the grants results as set out in the relevant announcement of the Comparable Company.
- Total size of the Comparable Scheme is calculated based on the closing share price of the Comparable Company of RMB28.52 on the grant date (i.e. 30 September 2019) and the number of shares granted.

Total size of the Relevant Scheme represents the aggregate principal value of the Convertible Bonds.

- As set out in the announcements of the Comparable Company dated 30 September 2019 and 26 November 2019, shares are awarded to the grantees at a granting price of RMB15.46 per share on 30 September 2019. The closing share price of the Comparable Company was RMB28.52 on the grant date (i.e. 30 September 2019). We have calculated the value of benefits of the Comparable Scheme with reference to the difference between the closing share price and the granting price.
- Calculated by dividing the total benefits by number of participants and then by the duration of the scheme.

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5. Based on the Initial Conversion Price of HK\$34.73 and the principal amount of RMB4,000,000,000 (equivalent to approximately HK\$4,798,460,000 based on the exchange rate of HK\$1.00 to RMB0.8336) of the Convertible Bonds, 138,164,697 conversion shares will be issued. This represents 27,626,573 more shares to be issued if the Convertible Bonds were converted based on the Reference Share Price of HK\$43.41. Such additional number of conversion shares will have a value of approximately HK\$1.2 billion based on the Reference Share Price. The value of benefits is calculated based on the aforesaid value of additional number of conversion shares, converted at an exchange rate of HK\$1.00 to RMB0.8336.

As set out in the table above, the Relevant Scheme and the Comparable Scheme are similar in terms of duration, scale and number of participants involved. The value of benefits and the average annualised value of benefits of the Relevant Scheme are both lower than those of the Comparable Scheme, indicating that the value of benefits to be granted to the Selected Participants in the Relevant Scheme are in line with the market practice.

The Selected Participants include employees of the Group, including connected persons (i.e. the Connected Selected Participants) and also non-connected persons (i.e. other employees other than the Connected Selected Participants). In assessing the Relevant Scheme, we have also considered and reviewed the following points as far as the Independent Shareholders are concerned:

- (a) How long time will the Connected Selected Participants be entitled to receive the Incentives?
- (b) What are the costs to be borne by the Group for the benefits of the Connected Selected Participants?
- (c) How is the Conversion Price of the Convertible Bonds, being one of the main components affecting the Incentives, determined?

Further details of the above are discussed in different sub-sections below, which include, among other things, comparison of the details of the Relevant Scheme to the Comparable Scheme and the grants of award shares to directors and senior management of the Comparable Company under the Comparable Scheme (the “**Comparable Grants**”) as set out in the announcements of the Comparable Company dated 30 September 2019 and 26 November 2019.

(a) How long time will the Connected Selected Participants be entitled to receive the Incentives?

The period of the Relevant Scheme is from the effective date up to the Maturity Date of the Structured Notes, which is 5 years. In assessing the duration of the Relevant Scheme, we have considered (i) the reasons and background of the Relevant Scheme; and (ii) comparison of the duration of the Relevant Scheme to the Comparable Scheme.

As set out in the section headed “3. Reasons for and benefits of the Relevant Scheme” of this letter above, the Board has proposed the Relevant Scheme with a view to share with the Group’s employees the potential success of its future development, and at the same time to retain the Selected Participants in the Group for continuous contribution to the Group’s development. Through the Relevant Scheme, the interests of the Selected Participants are highly tied to the interests of the Company and the Shareholders for five years, stimulating greater commitment by the Selected Participants to the Company thus facilitating the achievement of the Group’s target of “Creating A New Mengniu in Five Years”. Taking into account (i) the Relevant Scheme is a long term incentive scheme and hence the duration is set for five years; and (ii) the Relevant Scheme would bring long term employment and commitment to the Company for the long term success of the Company, we consider that it is reasonable for the Relevant Scheme to have a duration of five years for incentivising the Selected Participants to facilitate the Group’s development target.

The three Connected Selected Participants are among those 424 Selected Participants at the commencement of the Relevant Scheme. They have the right of entitlement to the Incentives, subject to the terms of the Relevant Scheme, for the same duration as those non-connected Selected Participants. We have also compared the duration of the Relevant Scheme to other similar scheme. For this purpose, we consider the Comparable Scheme to be a meaningful reference as it is also an employee incentive scheme adopted by the Comparable Company (being the company we consider to be comparable to the Company in terms of size and operating activities). The duration of the Relevant Scheme of 5 years is comparable to the duration of the Comparable Scheme of 6 years. Accordingly, we consider the duration of the Relevant Scheme to be fair and reasonable.

(b) What are the costs to be borne by the Group for the benefits of the Connected Selected Participants?

There are costs to be borne by the Group as a result of the Relevant Scheme. Since there are connected persons (i.e. the three Connected Selected Participants) among the Selected Participants, we consider it meaningful to analyse the amounts of costs to be borne by the Group for the benefits of the Connected Selected Participants as far as the Independent Shareholders are concerned. As discussed with the Management, the costs of the Relevant Scheme mainly include the followings:

- (1) Interest for the Convertible Bonds;
- (2) Possible repayment obligation of the Loan under the Loan Guarantee; and
- (3) Value of the difference in conversion shares as a result of the difference in the conversion price and the reference share price.

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Further details of the above three items and the analysis of the costs to be borne by the Group for the benefits of the Connected Selected Participants are set out in this sub-section below.

(i) Interest for the Convertible Bonds

As set out in the section headed “5. Principal terms of the Convertible Bonds” of this letter above, the Convertible Bonds will bear interest on their outstanding principal amount at a fixed rate of between (and including) 2.99 per cent. per annum to (and including) 3.18 per cent. per annum, to be agreed between the Issuer and the Placing Agent prior to the Closing Date. As set out in the section headed “5. Principal terms of the Convertible Bonds” of this letter above, the Notes Issuer shall exercise its conversion rights under the Convertible Bonds in accordance with the terms and conditions of the Convertible Bonds in the following schedule:

Year	Percentage of the Convertible Bonds to be converted
2022	10%
2023	15%
2024	20%
2025	25%
2026	30%

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Based on the above conversion schedule of the Convertible Bonds, the principal amount of the Convertible Bonds subject to interest will be as follows:

Year (from the effective date/anniversary date of the year to the anniversary date in next year)	Accumulated percentage of the Convertible Bonds converted at beginning of year (being the effective date/anniversary date of the year)	Amount of Convertible Bonds subject to interest during the year (from the effective date/anniversary date of the year to the anniversary date in next year)
2021 to 2022	0%	RMB4,000,000,000
2022 to 2023	10%	RMB3,600,000,000
2023 to 2024	25% (10% + 15%)	RMB3,000,000,000
2024 to 2025	45% (25% + 20%)	RMB2,200,000,000
2025 to 2026	70% (45% + 25%)	RMB1,200,000,000

Accordingly, on the assumption that the Convertible Bonds will be converted in accordance with the aforesaid schedule, the interests of the Convertible Bonds will be charged as follows:

Year (from the effective date/anniversary date of the year to the anniversary date in next year)	Amount of Convertible Bonds subject to interest during the year (from the effective date/anniversary date of the year to the anniversary date in next year)	Interests for the year based on the lower end of the interest range of 2.99%	Interests for the year based on the upper end of the interest range of 3.18%
2021 to 2022	RMB4,000,000,000	RMB119,600,000	RMB127,200,000
2022 to 2023	RMB3,600,000,000	RMB107,640,000	RMB114,480,000
2023 to 2024	RMB3,000,000,000	RMB89,700,000	RMB95,400,000
2024 to 2025	RMB2,200,000,000	RMB65,780,000	RMB69,960,000
2025 to 2026	<u>RMB1,200,000,000</u>	<u>RMB35,880,000</u>	<u>RMB38,160,000</u>
Total		<u>RMB418,600,000</u>	<u>RMB445,200,000</u>

As set out in the table above, the total amount of interests of the Convertible Bonds would range from RMB418.6 million (equivalent to approximately HK\$502 million based on an exchange rate of HK\$1.00 to RMB0.8336) to RMB445.2 million (equivalent to approximately HK\$534 million based on an exchange rate of HK\$1.00 to RMB0.8336).

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(ii) *The Loan Guarantee*

As set out in the section headed “6. Principal terms of the Loan Guarantee” of this letter above, the Company (as the Guarantor) has agreed to, among other things, guarantee to each Finance Party the punctual performance by the Borrower of all of the Borrower’s obligations under the Finance Documents, and that whenever the Borrower does not pay any amount under or in connection with the Finance Documents, the Company (as the Guarantor) shall pay that amount as if it were the principal obligor in respect of that amount. The Finance Documents include, among other things, the Facility Agreement, the Loan Guarantee, the Security Deed and the Notes Security Deed. We have discussed with the Management regarding the Borrower’s main obligations under the Finance Documents, details of which are set out below:

Finance Document	Borrower’s main obligations to the Finance Parties
The Facility Agreement	Repayment of the Loan
The Loan Guarantee	Not applicable as the Loan Guarantee is given by the Company (as the Guarantor) to the Finance Parties and the Borrower has no additional obligation as a result of the Loan Guarantee
The Security Deed	Mortgage and charge over the Convertible Bonds and the Charged Shares, and assignment of or first fixed charge the Securities Accounts
The Notes Security Deed	Assignment of the Notes Issuer’s rights and interests in and under, among other things, the Facility Agreement, the Security Deed and the Loan Guarantee

As set out above, the key payment obligation of the Borrower (i.e. the Notes Issuer) under the Finance Documents is the repayment of the Loan. The Borrower also has obligations to enforce the mortgage and charge over the Convertible Bonds and the Charged Shares under the Security Deed, and the assignment of the Notes Issuer’s rights and interests in and under, among other things, the Facility Agreement, the Security Deed and the Loan

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Guarantee. Regarding the Borrower (Notes Issuer)'s performance under the Finance Documents, there will be a Noteholders Committee to, among other things, ensure that the Notes Issuer complies with its obligations under all agreements entered into by it including among others, the Facility Agreement, the Security Deed, the Notes Documents, the Convertible Bonds, and the Loan Guarantee, including but not limited to overseeing the management and operation of the Notes Issuer for such compliance. Further details of the duties and responsibilities of the Noteholders Committee are set out in the section headed "The Asset Management Schemes, the Structured Notes, the Notes Issuer and the Loan" in the "Letter from the Board" contained in the Circular.

In assessing the obligation of the Company (as the Guarantor) to repay the Loan under the Loan Guarantee, we have discussed with the Management the Borrower's ability to repay the Loan. The Borrower (i.e. the Notes Issuer) will utilise the proceeds from the drawdown of the Loan, together with the net proceeds from the issuance of the Structured Notes, to subscribe for the Convertible Bonds. The Convertible Bonds will be fully redeemed by the Company at the principal amount together with any accrued and unpaid interests upon maturity. There are also other events leading to an early redemption of the Convertible Bonds, and if such redemption happens, the Convertible Bonds will be fully redeemed by the Company at the principal amount together with any accrued and unpaid interests. Accordingly, the Notes Issuer will have sufficient cash to repay the Loan if the Convertible Bonds are redeemed.

The Convertible Bonds can be transferred to other parties. As set out in the section headed "The Asset Management Schemes, the Structured Notes, the Notes Issuer and the Loan" of the "Letter from the Board" contained in the Circular, pursuant to the terms of the Structured Notes, the Security Trustee (to which the Notes Issuer will grant a charge) shall not dispose of the Convertible Bonds at a consideration lower than the principal amount. This would allow the Notes Issuer to obtain sufficient proceeds from the sales of the Convertible Bonds to repay the Loan.

We understand that the Convertible Bonds can be converted into Conversion Shares pursuant to the terms of the Convertible Bonds. As set out in the aforesaid section in the "Letter from the Board" contained in the Circular, if conversion takes place during the Conversion Period, the Noteholders Committee (subject to certain restrictions as set out in the sub-section headed "Noteholders Committee" in the "Letter from the Board" contained in the Circular) shall instruct the Notes Issuer to monetise such number of Conversion Shares sufficient to repay the corresponding portion of the Loan in accordance with the terms of the Facility Agreement. The cash proceeds from the monetisation of the remaining Conversion Shares (if any) will be paid to the Securities Accounts. Accordingly, if the proceeds from the monetisation of the Conversion Shares are sufficient to repay the

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corresponding portion of the Loan, the Company will not need to repay any amount of the Loan under the Loan Guarantee. Also, the Security Trustee (acting on behalf of the Notes Issuer as instructed by the Noteholders Committee) shall monetise the Conversion Shares at a time as the Noteholders Committee considers commercially favourable and feasible and in accordance with the terms and conditions of the Transaction Documents. The Initial Conversion Price of the Convertible Bonds is HK\$34.73 per Share which is subject to downward adjustments with a Floor Conversion Price of HK\$32.80 per Share. Assuming all the Convertible Bonds will be converted, a minimum number of 138,164,697 Conversion Shares will be issued based on the Initial Conversion Price, with a total market value of approximately HK\$6.0 billion based on the Reference Share Price of HK\$43.41 per Share. As at the Latest Practicable Date, the closing price of the Company's Shares is HK\$50.00 per Share, representing a premium of approximately 15.2% over the Reference Share Price. The principal amount of the Loan is up to HK\$3.8 billion, which is approximately 63.4% of the market value of a total of 138,164,697 Conversion Shares of approximately HK\$6.0 billion based on the Reference Share Price.

In addition, the Floor Conversion Price is HK\$32.80 per Share. Assuming the Notes Issuer will act logically to retain its benefits in the Relevant Scheme, it is unlikely that the Notes Issuer will convert the Convertible Bonds into Conversion Shares when the price of the Shares falls below the Floor Conversion Price, because in such case the Notes Issuer will pay more money to convert the Convertible Bonds than the value of the Conversion Shares it obtains. In the scenario that the price of the Shares falls to a price equal to (but not lower than) the Floor Conversion Price and the Notes Issuer convert the Convertible Bonds at the Floor Conversion Price, 146,294,488 Conversion Shares will be issued with an aggregate market value of approximately HK\$4.8 billion (based on the Floor Conversion Price). Such amount will be sufficient for repayment of the full amount of the Loan of up to HK\$3.8 billion. The Management considers that the proceeds from monetisation of all the Conversion Shares (assuming all the Convertible Bonds are fully converted) will be sufficient to repay the Loan given that the monetisation of the Conversion Shares will only be made when the Noteholders Committee considers commercially favourable and feasible. As a result, the Management considers that there will not be any costs to the Relevant Scheme arising from the repayment obligation under the Loan Guarantee.

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(iii) Value of the difference in conversion shares as a result of difference in the conversion price and the reference share price

As an employee incentive scheme, the Initial Conversion Price has been set at a discount to the Reference Share Price. The Initial Conversion Price is HK\$34.73 per Share which represented a discount of approximately 20% to the Reference Share Price of HK\$43.41. As such, the Selected Participants will enjoy benefits as a result of the discount in the Initial Conversion Price. The possible benefits enjoyed by the Connected Selected Participants will be calculated in this sub-section below.

(iv) Costs for the benefits of the Connected Selected Participants

As set out above, since the Management considers that there will not be any costs to the Relevant Scheme arising from the repaying obligation under the Loan Guarantee, and as such the costs of the Relevant Scheme will include the interests for the Convertible Bonds as discussed in paragraph headed “(i) Interest for the Convertible Bonds” and the value of the difference in conversion shares as a result of difference in the conversion price and the reference share price. It shall be noted that although the Convertible Bonds are part of the Relevant Scheme, the Company (as the issuer of the Convertible Bonds) will receive the principal amount of up to the HK\$ equivalent of RMB4,000,000,000 which will be utilised for its general working capital. The interests for the Convertible Bonds will be paid as part of the Relevant Scheme on one hand, and will also be paid as borrowing costs for the Company on the other hand. For the information of the Independent Shareholders, we have enquired the Management and understand that the Company’s latest borrowing rate for a similar size debt (e.g. United States Dollars (“US\$”) bonds) will be about 2.0% to 2.5% per annum. We also note that the Company has issued five-year US\$500,000,000 bonds in 2019 and 2020 with an interest rate of 3.0% and 1.875% respectively, with a simple average of 2.4375%. Given the costs of the Relevant Scheme comprise, among other things, all of the interests charged under the Convertible Bonds, we believe that it is appropriate to include the whole amount of the interests for the Convertible Bonds as part of our analysis of the costs of the Relevant Scheme.

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The Connected Selected Participants will, through the Asset Management Schemes and the Offshore SPV, subscribe up to a total principal value of HK\$ equivalent of RMB120,000,000 of Structured Notes, which references to a total principal value of up to HK\$ equivalent of RMB480,000,000 of the Convertible Bonds. Such amount represents 12% of the entire interests of the Selected Participants in the Relevant Scheme. Based on the contribution amount of each of the three Connected Selected Participants, we have therefore calculated the costs for the benefits of the Connected Selected Participants as follows:

	Mr. Lu Minfang	Mr. Zhang Ping	Mr. Zhao Jiejun
Contribution of funds to the Relevant Scheme	RMB75 million	RMB15 million	RMB30 million
Proportion of Connected Selected Participants' interests in the Relevant Scheme	7.5%	1.5%	3.0%
Proportionate interests for the Convertible Bonds relevant to the Connected Selected Participants	RMB31,395,000	RMB6,279,000	RMB12,558,000
(Note 1)	to RMB33,390,000	to RMB6,678,000	to RMB13,356,000
Value of the difference in conversion shares as a result of difference in the conversion price and the reference share price (approximate)			
(Note 2)	<u>RMB74,978,000</u>	<u>RMB14,996,000</u>	<u>RMB29,991,000</u>
Total benefits for the Connected Selected Participants (approximate)	RMB106,373,000	RMB21,275,000	RMB42,549,000
	to	to	to
	<u>RMB108,368,000</u>	<u>RMB21,674,000</u>	<u>RMB43,347,000</u>

Notes:

1. Calculated with reference to the interests for the Convertible Bonds based on (a) the range of interest during the duration of the Relevant Scheme of RMB418,600,000 to RMB445,200,000; and (b) the proportion of the Connected Selected Participants' interests in the Relevant Scheme.
2. Based on the Initial Conversion Price of HK\$34.73 and the principal amount of RMB4,000,000,000 (equivalent to approximately HK\$4,798,460,000 based on the exchange rate of HK\$1.00 to RMB0.8336) of the Convertible Bonds, 138,164,697 conversion shares will be issued. This represents 27,626,573 more shares to be issued if the Convertible Bonds were converted based on the Reference Share Price of HK\$43.41. Such additional number of conversion shares will have a value of approximately HK\$1.2 billion based on the Reference Share Price. The value of

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difference in conversion shares as a result of the difference in the conversion price and reference share price attributable to each of the Connected Selected Participants is calculated based on the aforesaid value of additional number of conversion shares and the proportion of the Connected Selected Participants' interests in the Relevant Scheme, converted at an exchange rate of HK\$1.00 to RMB0.8336.

In assessing the costs to be borne by the Group for the benefits of the Connected Selected Participants, we have compared such costs to the costs for the Comparable Grants, details are set out in the table below.

	Role of each individual grantee	Vesting period (unlocking period) for the particular grantee	Cost for the Comparable Grants (RMB) <i>(Note 1)</i>
1.	Chairman and President of the Comparable Company	20% from the first trading day upon 1 year from the grant date until the last trading date upon 2 years from the grant date; 20% from the first trading day upon 2 years from the grant date until the last trading date upon 3 years from the grant date;	661,619,600
2.	Director and Vice-President of the Comparable Company	20% from the first trading day upon 2 years from the grant date until the last trading date upon 3 years from the grant date; 20% from the first trading day upon 3 years from the grant date until the last trading date upon 4 years from the grant date; 20% from the first trading day upon 4 years from the grant date until the last trading date upon 5 years from the grant date;	108,789,800
3.	Director, Vice President and responsible person of finance department of the Comparable Company	20% from the first trading day upon 3 years from the grant date until the last trading date upon 4 years from the grant date; 20% from the first trading day upon 4 years from the grant date until the last trading date upon 5 years from the grant date; and 20% from the first trading day upon 5 years from the grant date until the last trading date upon 6 years from the grant date	108,789,800
4.	Director of the Comparable Company	20% from the first trading day upon 5 years from the grant date until the last trading date upon 6 years from the grant date	5,446,020
5.	Board secretary (senior management) of the Comparable Company	20% from the first trading day upon 5 years from the grant date until the last trading date upon 6 years from the grant date	4,309,800

The Relevant Scheme

Mr. Lu Minfang (Chief executive officer)	10% at the end of first year; further 15% at the end of second year; further 20% at the end of third year; further 25% at the end of fourth year; and further 30% at the end of fifth year <i>(Note 2)</i>	106,373,000 to 108,368,000
Mr. Zhang Ping (Vice president)		21,275,000 to 21,674,000
Mr. Zhao Jiejun (Vice president)		42,549,000 to 43,347,000

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Notes:

1. As set out in the announcements of the Comparable Company dated 30 September 2019 and 26 November 2019, shares are awarded to the grantees at a granting price of RMB15.46 per share on 30 September 2019. The closing share price of the Comparable Company was RMB28.52 on the grant date (i.e. 30 September 2019). We have taken the value of benefits of the Comparable Scheme as the costs of the relevant grants which are calculated with reference to the difference between the closing share price and the granting price.
2. The vesting period of the Relevant Scheme is based on the assumption that the Notes Issuer will exercise its conversion right under the Convertible Bonds in accordance with the prescribed schedule.

As set out in the table above, the Comparable Grants involve granting of reward shares to directors and/or senior management of the Comparable Company, which we consider appropriate for providing a reference of the market practice of employee incentive scheme arrangement made by companies similar to the Company. The costs for the benefits of each of the Connected Selected Participants are generally in line and much lower than higher end of the value of the Comparable Grants. In particular, the costs for Mr. Lu Minfang, being the chief executive officer of the Group, of approximately RMB106.4 million to RMB108.4 million are much lower than the costs for Comparable Grants to chairman of approximately RMB661.6 million, while the costs for Mr. Zhang Ping, being a vice president of the Group, of approximately RMB21.3 million to RMB21.7 million and Mr. Zhao Jiejun, being a vice president of the Group, of approximately RMB42.5 million to RMB43.3 million are also much lower than the costs for Comparable Grants to vice president of approximately RMB108.8 million. We note that the Comparable Company recorded a larger revenue amount (approximately 27% higher) compared to the Company during 2020. It is possible that a company with a larger operation scale or revenue base will allow a higher staff benefit cost, nevertheless, the respective costs of the Comparable Grants are still much larger than the proportional costs of the Relevant Scheme for the benefits of the Connected Selected Participants even if the differences in revenue base are taken into account. In addition, as discussed above, the latest borrowing rate of the Company for a similar size debt will be about 2.0% to 2.5% and the interest rates of the Company's five-year US\$500,000,000 bonds in 2019 and 2020 are 3.0% and 1.875% respectively, with a simple average of 2.4375%. The interest rate of the Convertible Bonds of 2.99% to 3.18% is higher than the Company's recent borrowing rates but is considered reasonable as (i) the Convertible Bonds are part of the Relevant Scheme which is an employee incentive scheme; (ii) higher costs are incurred as employee benefits which are acceptable given all reasons and benefits of the Relevant Scheme to be brought to the Group; and (iii) the costs for the benefits of each of the Connected Selected Participants are generally in line and much lower than higher end of the value of the

Comparable Grants. Taking into account the factors above, the costs incurred by the Company for the benefits of the Connected Selected Participants are considered to be fair and reasonable.

(c) How is the Conversion Price of the Convertible Bonds, being one of the main components affecting the Incentives, determined?

(i) Implied value of benefits for all Selected Participants

We have compared the Relevant Scheme to the Comparable Scheme in assessing the implied value of benefits for all Selected Participants. As set out in this section above, the value of benefits as implied by the discount in the Conversion Price amounts to approximately RMB1 billion, which represents an average annualised value per Selected Participant of approximately RMB472,000. These amounts are lower than those of the Comparable Scheme. From the point of view of an employee incentive scheme, we consider value of benefits to the Selected Participants as implied by the discount in the Conversion Price to be in line with the market practice.

(ii) Basis of determining the Conversion Price

As set out in the “Letter from the Board” contained in the Circular, the Initial Conversion Price was arrived at after arm’s length negotiations between the parties with reference to, among others, the prevailing market performance of the Shares and the Objectives underlying the Relevant Scheme. The Initial Conversion Price of HK\$34.73 represents (i) a discount of approximately 20% to the Reference Share Price; and (ii) a discount of approximately 27.72% to the average Closing Prices of HK\$48.05 per Share as quoted on the Stock Exchange for the five consecutive Trading Days up to and including 22 January 2021 (the last trading day before the date of the Announcement).

The Initial Conversion Price is also subject to a reset mechanism. On the Reset Date, if the Average Market Price is less than Reference Share Price, the Initial Conversion Price will be reset downwards to 80% of the Average Market Price of the Shares on the Reset Date, subject to the floor of HK\$32.80. For the avoidance of doubt, any such adjustment to the conversion price shall only be a downward adjustment. The adjusted Initial Conversion Price will be reflected in the final terms and conditions of the Convertible Bonds. Given that (i) the objective of the Relevant Scheme is to allow the Selected Participants to receive incentives through the subscription of the Structured Notes and obtain returns which would be calculated by reference to the Company’s share price at the relevant time; (ii) there are benefits from the Relevant Scheme on the future development of the Group by aligning the interests of the Selected Participants with that of the Shareholders; (iii) there is a time gap between the date of the Announcement and the Closing Date, period of which the Share price may fluctuate; and (iv) it was the intention of the Company to determine the conversion price at a

20% discount in the first place in view of the underlying purpose of the CB Issue (i.e. being part of the Relevant Scheme), it is reasonable to incorporate a reset mechanism in case when the Share price drops below the Reference Share Price on the Closing Date in order to allow that the Selected Participants are offered with similar level of incentives as at the Closing Date.

(iii) Discount in the Conversion Price

As discussed in the section headed “1. Overall background and structure of the Relevant Scheme” of this letter above, the issuance of Convertible Bonds is part of the Relevant Scheme, which is to retain and provide incentives to the Selected Participants to motivate them to further create value for the Company. The Conversion Price has been determined with the purpose of, among other things, allowing a sufficient buffer for the Notes Issuer to monetise the Conversion Shares from the conversion of the Convertible Bonds to repay the amount of the Loan and the Structured Notes, such that the Selected Participants will be able to receive the Incentives. It is neither the intention of the Company nor the main purpose of the Relevant Scheme to allow the Notes Issuer to convert the Convertible Bonds simply based on its own circumstances. The Notes Issuer as the sole placee and sole subscriber of the Convertible Bonds has undertaken to the Company that, among other things, it shall exercise its conversion rights under the Convertible Bonds at the instruction of the Noteholders Committee (acting on behalf of the Noteholders) in a schedule over the five-year period, which is set out in the section headed “5. Principal terms of the Convertible Bonds” of this letter above. For the purpose of analysis of the conversion price of the Convertible Bonds, we consider it meaningful to compare to the premium or discount of other listed companies with similar arrangement, and we have identified the Comparable Grants for comparison. The Comparable Grants involved granting of shares to directors and/or senior management at a discount of approximately 45.8% to the closing share price on the grant day. In addition, the CB Issue is part of the Relevant Scheme in which the initial Selected participants, whether connected or non-connected Selected Participants, are subject to the same terms, such that the Connected Selected Participants will not enjoy any terms which are more favourable as compared to those non-connected Selected Participants. The discount represented by the Initial Conversion Price is considered acceptable taking into account the above and the potential benefits to be brought to the Company and the Shareholders as a whole and for the long-term development of the Group as discussed in the section headed “3. Reasons for and benefits of the Relevant Scheme” of this letter above.

8. Effects of the Relevant Scheme on the Group

(a) Financial effects

As advised by the Management, the Convertible Bonds will be recognised as both a liability and an equity of the Company in the Group’s consolidated financial statements. The interests of the Convertible Bonds will be recognised as finance costs for the liability portion and administrative expenses for the equity portion in the Group’s consolidated financial statements.

(b) Dilution of interests of the existing Shareholders

Set out below are the shareholding structures of the Company (a) as at the Latest Practicable Date; (b) as a result of full conversion of the Convertible Bonds of principal amount of HK\$4,798,460,000 assuming no adjustment to the Initial Conversion Price of HK\$34.73 and full exercise of all outstanding Share Options; and (c) as a result of full conversion of the Convertible Bonds of principal amount of HK\$4,798,460,000 assuming an Floor Conversion Price of HK\$32.80 and full exercise of all outstanding Share Options:

Name of Shareholders	As at the Latest Practicable Date		Immediately after completion of the Placing and assuming full conversion of the Convertible Bonds at the Initial Conversion Price and exercise of the outstanding Share Options in full		Immediately after completion of the Placing and assuming full conversion of the Convertible Bonds at the Floor Conversion Price and exercise of the outstanding Share Options in full	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
	COFCO Corporation	915,266,304	23.17	915,266,304	22.24	915,266,304
Notes Issuer	0	0.00	138,164,697	3.36	146,294,488	3.55
Other Shareholders	<u>3,035,422,963</u>	<u>76.83</u>	<u>3,062,625,771</u>	<u>74.40</u>	<u>3,062,625,771</u>	<u>74.26</u>
Total	<u>3,950,689,267</u>	<u>100</u>	<u>4,116,056,772</u>	<u>100</u>	<u>4,124,186,563</u>	<u>100</u>

Note: Subject to rounding differences.

As set out in the table above, there will be dilution effects on the interests of the existing public Shareholders upon completion of the CB Issue and assuming full conversion of the Convertible Bonds. In our opinion, such dilution is not material and is acceptable to the Independent Shareholders taking into account the reasons and benefits of the Relevant Scheme as discussed in the section headed “3. Reasons for and benefits of the Relevant Scheme” of this letter above.

9. The Connected Transactions

The Connected Transactions include the CB Issue and the Loan Guarantee which form parts of the Relevant Scheme. Independent Shareholders shall note that each of the CB Issue and the Loan Guarantee is not a stand-alone arrangement made by the Company. Indeed, as we discussed above, the CB Issue and the Loan Guarantee are parts of the Relevant Scheme and the terms and conditions of the CB Issue and the Loan Guarantee are agreed as part of the Relevant Scheme and after taking into account the structure and all other arrangements of the Relevant Scheme. As such, there are certain restrictions and conditions of the Convertible Bonds and the Loan Guarantee that are normally absent in convertible bonds issue for fund raising and/or loan guarantee provided for simple debt financing. For instance, (a) the holder of the Convertible Bonds (i.e. the Notes Issuer) will only convert the Convertible Bonds at the instruction of the Noteholders Committee; (b) pursuant to the terms of the Structured Notes, the Notes Issuer shall not dispose of the Convertible Bonds at a consideration lower than the principal amount; (c) the Security Deed imposes requirements for the Notes Issuer to mortgage and charge its interests in the Convertible Bonds and the Charged Shares; and (d) the determination of the terms of the Relevant Scheme allows a buffer for the Notes Issuer to monetise the Conversion Shares from the conversion of the Convertible Bonds to repay the amount of the Loan and the Structured Notes. Accordingly, we do not assess the CB Issue and the Loan Guarantee by comparing to usual issue of convertible bonds and/or provision of loan guarantee in the market. In addition, the Independent Shareholders shall note that the CB Issue and the Loan Guarantee constitute connected transactions of the Company as the three Connected Selected Participants participate in the Relevant Scheme. However, the Connected Selected Participants' interests in the Relevant Scheme aggregate to only 12% of the entire interests of all Selected Participants in the Relevant Scheme. The terms of the Relevant Scheme are determined by the Company for all the Selected Participants in the Relevant Scheme. Further, the Connected Selected Participants and other non-connected Selected Participants are subject to the same terms, such that the Connected Selected Participants will not enjoy any terms which are more favourable as compared to those non-connected Selected Participants, implying that the Connected Selected Participants are indeed subject to the same terms that other Independent Third Parties (i.e. the non-connected Selected Participants) have. We consider it more appropriate to assess the CB Issue and the Loan Guarantee as part of the employee incentive scheme.

Assessment of different parts of the Connected Transactions are set out in this letter above as set out in the section headed "7. Assessment of the Relevant Scheme" and are summarised below.

(a) The CB Issue

(i) Principal amount

The principal amount is up to HK\$ equivalent of RMB4,000,000,000. This represents the total size of the Relevant Scheme as an employee incentive scheme. We have compared it to the Comparable Scheme and the scale of the Relevant Scheme is comparable to that of the Comparable Scheme.

(ii) Interest rate

The Convertible Bonds will bear interest on their outstanding principal amount at a fixed rate of between (and including) 2.99 per cent. per annum to (and including) 3.18 per cent. per annum, to be agreed between the Issuer and the Placing Agent prior to the Closing Date. The interests of the Convertible Bonds are indeed part of the costs of the Relevant Scheme. The interest rate of the Convertible Bonds of 2.99% to 3.18% is higher than the Company's recent borrowing rates but is considered reasonable as (i) the Convertible Bonds are part of the Relevant Scheme which is an employee incentive scheme; (ii) higher costs are incurred as employee benefits which are acceptable given all reasons and benefits of the Relevant Scheme to be brought to the Group; and (iii) the costs for the benefits of each of the Connected Selected Participants are generally in line and much lower than higher end of the value of the Comparable Grants, further details are discussed in the paragraph headed "(iv) Conversion price" below.

(iii) Duration

The maturity date of the Convertible Bonds will be 5 years from the Closing Date. The duration of 5 years of the Convertible Bonds represents the duration of the Relevant Scheme. We have compared it to the Comparable Scheme and the duration of the Relevant Scheme is comparable to that of the Comparable Scheme.

(iv) Conversion price

The Initial Conversion Price is HK\$34.73 per Share which is subject to the possible downward reset adjustments that on the Reset Date, if the Average Market Price is less than the Reference Share Price, the Initial Conversion Price will be reset downwards to 80% of the Average Market Price of the Shares on the Reset Date, subject to the Floor Conversion Price of HK\$32.80 per Share. The Initial Conversion Price of HK\$34.73 represents (i) a discount of approximately 20% to the Reference Share Price; and (ii) a discount of approximately 27.72% to the average Closing Prices of HK\$48.05 per Share as quoted on the Stock Exchange for the five consecutive Trading Days up to and including 22 January 2021 (the last trading day before the date of the Announcement).

We have analysed the value of benefits as implied by the discount in the Conversion Price by comparing to the Comparable Scheme. The value of benefits as implied by the discount in the Conversion Price amount to approximately RMB1 billion, which represents an average annualised value per Selected Participant of approximately RMB472,000. These amounts are lower than those of the Comparable Scheme. From the point of view of an employee incentive scheme, we consider the value of benefits to the Selected Participants as implied by the discount in the Conversion Price to be in line with the market practice. The discount represented by the Initial Conversion Price is also lower than the discount of approximately 45.8% to the closing share price as in the case of the Comparable Grants.

We have also considered interest rate and the Conversion Price of the Convertible Bonds when assessing the benefits of the Connected Selected Participants. The costs for the benefits of each of the Connected Selected Participants are generally in line and much lower than higher end of the value of the Comparable Grants, in particular they are much lower than the costs for the Comparable Grants made to similar level of employees. The costs incurred by the Company for the benefits of the Connected Selected Participants are considered to be fair and reasonable.

(b) The Loan Guarantee

As set out in the section headed “6. Principal terms of the Loan Guarantee” of this letter above, the Company (as the Guarantor) has agreed to, among other things, guarantee to each Finance Party the punctual performance by the Borrower of all of the Borrower’s obligations under the Finance Documents, and that whenever the Borrower does not pay any amount under or in connection with the Finance Documents, the Company (as the Guarantor) shall pay that amount as if it were the principal obligor in respect of that amount. The Loan Guarantee is provided by the Company as part of the Relevant Scheme.

In assessing the Loan Guarantee, we have reviewed the key obligations of the Borrower under the Finance Documents. Regarding the Borrower (Notes Issuer)’s performance under the Finance Documents, there will be a Noteholders Committee to, among other things, ensure that the Notes Issuer complies with its obligations under all agreements entered into by it including among others, the Facility Agreement, the Security Deed, the Notes Documents, the Convertible Bonds, and the Loan Guarantee, including but not limited to overseeing the management and operation of the Notes Issuer for such compliance.

Regarding the repayment obligation, the Notes Issuer will have sufficient cash to repay the Loan if the Convertible Bonds are redeemed. There is also arrangement that the Security Trustee (to which the Notes Issuer will grant a charge) shall not dispose of the Convertible Bonds at a consideration lower than the principal amount, which would allow the Notes Issuer to obtain sufficient proceeds from the sales of the Convertible Bonds to repay the Loan. The

Convertible Bonds can also be converted into Conversion Shares for monetisation, and the Management considers that the proceeds from monetisation of all the Conversion Shares (assuming all the Convertible Bonds are fully converted) will be sufficient to repay the Loan given that the monetisation of the Conversion Shares will only be made when the Noteholders Committee considers commercially favourable and feasible. As a result, the Management considers that there will not be any costs to the Relevant Scheme arising from the repayment obligation under the Loan Guarantee.

DISCUSSION

Independent Shareholders should consider the Connected Transactions based on the principal factors and reasons set out in detail above and summarised below. **Independent Shareholders shall also bear in mind that each of the CB Issue and the Loan Guarantee is part of the Relevant Scheme, and assessment shall be made based on the Relevant Scheme as a whole, including, among other things, the reasons and benefits of the Relevant Scheme.**

1. What is the Relevant Scheme about?

One of the key parts of the Relevant Scheme is the subscription for the Structured Notes by the Selected Participants through their investments in the Asset Management Schemes or the Offshore SPV. The Selected Participants will receive Incentives from their participation in the Relevant Scheme, which will be calculated by reference to the returns from the Structured Notes and such returns will be derived from the performance of the Convertible Bonds and the Company's Share price. The Relevant Scheme will allow the Selected Participants to receive the Incentives through the Structured Notes where the returns of the Selected Participants will be linked to the returns of the Convertible Bonds and the Conversion Shares on an approximate one to one basis. The Selected Participants will be entitled to enjoy the benefits of the Incentives on a basis of the entire amount of the Convertible Bonds by contributing about one-fourth of the amount to invest into the Structured Notes.

2. The reasons for the Relevant Scheme

The Group has experienced growth in recent years and has succeeded in maintaining its business despite the COVID-19 pandemic in 2020. The Directors believe the Group's development is closely tied to the contributions of its employees. The Relevant Scheme will help to further align the interests of the Selected Participants with that of the Company and the Shareholders, and will help motivate employees to further create value for the Company. We understand from the Management that the administrative procedures involved for employees (who are PRC citizens) in the PRC to hold the Shares directly are complicated with substantive administrative costs and fees involved, and therefore allotting shares directly to them may not be effective in providing incentives for them to achieve better results for the Group. The Relevant Scheme allows the Group's employees in the PRC to participate in the employee incentive scheme through joining the SPVs as limited partners and receiving incentives indirectly based on the performance of the Shares. Also, the structure of the Relevant Scheme would enable the Selected Participants to enjoy the benefits of leveraged

financing provided by the Lender given the scale of the Relevant Scheme, and the Relevant Scheme will better tie the returns earned by the Selected Participants with the performance of the Company as the Selected Participants will have to make a meaningful contribution of their own funds upfront to the Relevant Scheme thereby each Selected Participant has to bear some personal risk to achieve the collective objective. The Directors believe that this will encourage greater motivation from each Selected Participant compared with the existing Share Option Scheme and RSA Scheme of the Company.

3. Who are the Connected Selected Participants?

The Connected Selected Participants are Mr. Lu Minfang, Mr. Zhang Ping and Mr. Zhao Jiejun. Mr. Lu is the chief executive officer of the Company and both Mr. Zhang and Mr. Zhao are senior management of the Company. All the three Connected Selected Participants have held senior positions in the Group and are responsible for the overall management of the Group. Details of the profile, duties and contribution to the Group of each of the Connected Selected Participants are set out in the section headed “4. Information on the Connected Selected Participants” of this letter above.

4. The CB Issue

As part of the Relevant Scheme, the Company will issue the Convertible Bonds to the Placee pursuant to the Placing Agreement. The terms of the Convertible Bonds, including the interest rate, the total size, the conversion price, and the duration of the Convertible Bonds are included as part of the Relevant Scheme, details of which are set out in the paragraph headed “6. Assessment of the Relevant Scheme” below.

5. The Loan Guarantee

The Company (as the Guarantor) has agreed to, among other things, guarantee to each Finance Party the punctual performance by the Borrower (i.e. the Notes Issuer) of all of the Borrower’s obligations under the Finance Documents. We have discussed with the Management the possible obligations of the Company under the Loan Guarantee. A Noteholders Committee will be set up to, among other things, ensure that the Notes Issuer complies with its obligations under all agreements entered into by it including among others, the Facility Agreement, the Security Deed, the Notes Documents, the Convertible Bonds, and the Loan Guarantee, including but not limited to overseeing the management and operation of the Notes Issuer for such compliance. The obligation of the Company to repay the Loan under the Loan Guarantee will possibly arise if the proceeds from the monetisation of the Conversion Shares are not sufficient to repay the corresponding portion of the Loan. Nevertheless, the Management considers that the proceeds from monetisation of all the Conversion Shares (assuming all the Convertible Bonds are fully converted) will be sufficient to repay the Loan given that the monetisation of the Conversion Shares will only be made when the Noteholders Committee considers commercially favourable and feasible.

6. Assessment of the Relevant Scheme

We have compared the Relevant Scheme to the Comparable Scheme, and noted that the Relevant Scheme and the Comparable Scheme are similar in terms of duration, scale and number of participants involved. The value of benefits and the average annualised value of benefits of the Relevant Scheme are both lower than those of the Comparable Scheme, indicating that the value of benefits to be granted to the Selected Participants in the Relevant Scheme are in line with the market practice.

We have also discussed in detail different parts of the Relevant Scheme, in particular the following three items so far as the Independent Shareholders are concerned:

- (a) How long time will the Connected Selected Participants be entitled to receive the Incentives?

The period of the Relevant Scheme is 5 years. Such period is considered appropriate for incentivising the Selected Participants to facilitate the Group's development target. We have also compared the duration of the Relevant Scheme to the Comparable Scheme which are comparable.

- (b) What are the costs to be borne by the Group for the benefits of the Connected Selected Participants?

We have discussed with the Management and assessed the costs for the benefits of the Connected Selected Participants, which include the interests for the Convertible Bonds and the value of the difference in conversion shares as a result of the difference in the Conversion Price and the Reference Share Price. We have compared such costs to the costs of the Comparable Grants. The costs for the benefits of each of the Connected Selected Participants are lower than the costs of the Comparable Grants to similar level employees.

- (c) How is the Conversion Price of the Convertible Bonds, being one of the main components affecting the Incentives, determined?

The Initial Conversion Price was arrived at after arm's length negotiations between the parties with reference to, among others, the prevailing market performance of the Shares and the Objectives underlying the Relevant Scheme. For the purpose of analysis, we have compared to the Comparable Grants. The Comparable Grants involved granting of shares to directors and/or senior management at a discount of approximately 45.8% to the closing share price on the grant day. The discount represented by the Initial Conversion Price is considered acceptable taking into account the above and the potential benefits to be brought to the Company and the Shareholders as a whole and for the long-term development of the Group as discussed in the section headed "3. Reasons for and benefits of the Relevant Scheme" of this letter above.

7. Effects of the Relevant Scheme

The interests of the Convertible Bonds will be recognised as finance costs for the liability portion and administrative expenses for the equity portion in the Group's consolidated financial statements. There will be dilution effects on the interests of the existing public Shareholders upon completion of the Placing and assuming full conversion of the Convertible Bonds. Such dilution is not material and is considered acceptable to the Independent Shareholders taking into account the reasons and benefits of the Relevant Scheme.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors as set out in the section headed "Principal factors and reasons considered" of this letter above, we consider that the Connected Transactions are on normal commercial terms and the terms of the Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Connected Transactions, albeit not in the ordinary and usual course of business of the Company, are in the interests of the Company and its 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 resolution(s) in relation to the Connected Transactions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission 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. He has over ten years of experience in the corporate finance industry.

A. RESPONSIBILITY STATEMENT

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

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statements in this circular misleading.

B. SHARE CAPITAL**Share capital of the Company**

The number of issued Shares (i) as at the Latest Practicable Date; and (ii) upon full exercise of the Conversion Rights attaching to the Convertible Bonds (assuming there will be no other change in the number of issued Shares between the Latest Practicable Date and the full conversion of the Convertible Bonds) as follows:

(i) Number of issued Shares as at the Latest Practicable Date	3,950,689,267
(ii) Number of issued shares immediately upon full exercise of the conversion rights attaching to the Convertible Bonds	
Conversion Shares to be allotted and issued upon full exercise of the conversion rights attaching to the Convertible Bonds (based on the Initial Conversion Price)	138,164,697
Shares in issue upon full exercise of the conversion rights attaching to the Convertible Bonds (based on the Initial Conversion Price)	4,088,853,964

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

The Conversion Shares to be allotted and issued will, when issued, rank *pari passu* in all respects with the Shares then in issue. Bondholders will be entitled to receive all dividends and distributions which may be declared, made or paid on or after the date of issue of Conversion Shares. As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

The issued Shares are listed on the Stock Exchange. None of the securities of the Company is listed or dealt in, and no listing or permission to deal in the securities of the Company is being or is proposed to be sought on any other stock exchange.

Share Options

The Share Option Scheme of the Company was adopted on June 3, 2016, with options to be granted to any director or employee of the Group or other parties at the discretion of the Board. As at the Latest Practicable Date, 27,202,808 Share Options remained outstanding.

Save as disclosed above, the Company did not have any outstanding convertible securities, options or warrants in issue or similar rights which confer any right to subscribe for, convert or exchange into the Shares or any agreement or arrangement to issue Shares.

C. DISCLOSURE OF INTERESTS

Directors' interests and short positions in the Shares, underlying shares and debentures of the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of each of the directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (the “**Associated Corporations**”) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required

to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules were as follows:

Long position in the Shares

Name of Director	The Company/ Name of Associated Corporation	Nature of interest	Total number of ordinary shares	Percentage of the Company’s/the Associated Corporation’s issued share capital ^(Note 2)
LU Minfang	the Company	personal interest	11,651,240 (L) <i>(Note 1)</i>	0.295%
MENG Fanjie	Yashili International Holdings Ltd	personal interest	100,000 (L)	0.002%

Notes:

- (1) It represents 783,831 shares granted to Mr. Lu Minfang in which 255,251 shares remain unvested under the restricted share award scheme of the Company and 10,867,409 underlying shares in respect of the share options granted under the Company’s share option scheme.
 - (2) The calculation is based on the number of shares as a percentage of the total number of issued shares of the Company (i.e. 3,950,689,267 shares) and that of Yashili International Holdings Ltd (i.e. 4,745,560,296 shares) as at the Latest Practicable Date.
- (L) Indicates a long position.

Save as disclosed above, as at the Latest Practicable Date, none of the directors nor the chief executives of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, the Directors were not aware of any other Director who was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial Shareholders' and other persons' interests

As at the Latest Practicable Date, other than the interests disclosed above in respect of certain directors and chief executive of the Company, the interests and short positions of persons in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Number of Shares	Percentage of the Company's issued share capital <i>(Note 10)</i>
COFCO Corporation	915,266,304 (L) <i>(Note 1)</i>	23.17%
COFCO (Hong Kong) Limited	914,203,304 (L) <i>(Note 2)</i> <i>(Note 3)</i>	23.14%
China Foods (Holdings) Limited	846,174,304 (L) <i>(Note 4)</i>	21.42%
Farwill Limited	914,203,304 (L) <i>(Note 2)</i> <i>(Note 5)</i>	23.14%
Colour Spring Limited	914,203,304 (L) <i>(Note 2)</i>	23.14%
COFCO Dairy Holdings Limited	914,203,304 (L) <i>(Note 2)</i> <i>(Note 6)</i>	23.14%
COFCO Dairy Investments Limited	914,203,304 (L) <i>(Note 2)</i> <i>(Note 7)</i>	23.14%
Prominent Achiever Limited	914,203,304 (L) <i>(Note 2)</i> <i>(Note 8)</i>	23.14%
Arla Foods amba	914,203,304 (L) <i>(Note 2)</i>	23.14%
FIL Limited	359,189,748 (L) <i>(Note 9)</i> 885,000 (S) <i>(Note 9)</i>	9.09% 0.02%
Pandanus Associates Inc.	359,189,748 (L) <i>(Note 9)</i> 885,000 (S) <i>(Note 9)</i>	9.09% 0.02%
Pandanus Partners L.P.	359,189,748 (L) <i>(Note 9)</i> 885,000 (S) <i>(Note 9)</i>	9.09% 0.02%
Brown Brothers Harriman & Co.	288,366,808 (L) 288,366,808 (P)	7.30% 7.30%
Schroders Plc	237,553,370 (L)	6.01%
BlackRock, Inc.	203,439,429 (L) 24,000 (S)	5.15% —

Notes:

- (1) COFCO Corporation is deemed interested in an aggregate of 915,266,304 shares in the Company through its controlled corporations, being COFCO (Hong Kong) Limited (which is wholly-owned by COFCO Corporation), China Foods (Holdings) Limited (which is wholly-owned by COFCO (Hong Kong) Limited), Farwill Limited (which is wholly-owned by China Foods (Holdings) Limited), COFCO Dairy Holdings Limited (which is owned by Farwill Limited as to 70%), COFCO Dairy Investments Limited (which is owned by COFCO

Dairy Holdings Limited as to 82.16%), Prominent Achiever Limited (which is wholly-owned by COFCO Dairy Investments Limited) and WDF Investment Co., Ltd. (which is wholly-owned by COFCO Corporation).

- (2) COFCO (Hong Kong) Limited, Farwill Limited, Colour Spring Limited, COFCO Dairy Holdings Limited, COFCO Dairy Investments Limited, Prominent Achiever Limited and Arla Foods amba are deemed interested in an aggregate of 914,203,304 shares in the Company under section 317 of the SFO.
 - (3) COFCO (Hong Kong) Limited is a beneficial owner of 68,029,000 shares in the Company and is deemed interested in another 846,174,304 shares in the Company through its controlled corporations, being China Foods (Holdings) Limited, Farwill Limited, COFCO Dairy Holdings Limited, COFCO Dairy Investments Limited and Prominent Achiever Limited.
 - (4) China Foods (Holdings) Limited is deemed interested in an aggregate of 846,174,304 shares in the Company through its controlled corporations, being Farwill Limited, COFCO Dairy Holdings Limited, COFCO Dairy Investments Limited and Prominent Achiever Limited.
 - (5) Farwill Limited is deemed interested in an aggregate of 846,174,304 shares in the Company through its controlled corporations, being COFCO Dairy Holdings Limited, COFCO Dairy Investments Limited and Prominent Achiever Limited.
 - (6) COFCO Dairy Holdings Limited is deemed interested in an aggregate of 846,174,304 shares in the Company through its controlled corporations, being COFCO Dairy Investments Limited and Prominent Achiever Limited.
 - (7) COFCO Dairy Investments Limited is a beneficial owner of 550,146,260 shares in the Company and is deemed interested in another 296,028,044 shares in the Company through its controlled corporation, being Prominent Achiever Limited.
 - (8) Prominent Achiever Limited is a beneficial owner of 296,028,044 shares in the Company.
 - (9) Based on the disclosure of interest filed by Pandanus Associates Inc., FIL Limited is a controlled corporation of Pandanus Partners L.P., which is in turn a controlled corporation of Pandanus Associates Inc.
 - (10) The total issued shares of the Company as at the Latest Practicable Date was 3,950,689,267.
- (L) Indicates a long position.
- (S) Indicates a short position.
- (P) Indicates a lending pool.

Saved as disclosed above, as at Latest Practicable Date, no other interests or short position in the shares or underlying shares of the Company were recorded in the register maintained under Section 336 of the SFO.

D. DIRECTORS' SERVICE CONTRACTS

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

E. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

F. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any assets which have been, since December 31, 2020 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

There is no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors are materially interested and which is significant to the business of the Group.

G. MATERIAL ADVERSE CHANGE

In view of the outbreak of Coronavirus disease (COVID-19) (the “**Outbreak**”) since January 2020, the Board has been paying close attention to the development of the Outbreak and has been making efforts to prevent and control the spread of the virus. As of the Latest Practicable Date, all production bases of the Group have resumed normal operation and production. The cash flows and inventory levels of the Group have resumed to a healthy level. The recovery of the overall operations of the Group has been continuously improving. Save as disclosed above and in the interim results announcement of the Company dated August 25, 2021, the Directors are not aware of any material adverse change in the financial or trading position of the Group since December 31, 2020, the date to which the latest published audited accounts of the Company are made up.

H. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no member of the Group was engaged in any litigation or arbitration or claim of material importance and the Directors were not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

I. QUALIFICATION AND CONSENT OF EXPERT

The name and qualification of the professional adviser who has been named in this circular or given its opinion or advice which is contained in this circular is set forth below:

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

As at the Latest Practicable Date, the professional adviser above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, the professional adviser above does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the professional adviser above did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since December 31, 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

J. MATERIAL CONTRACTS

Save as disclosed below, there were no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Group within the two years immediately preceding the date of this circular:

- (a) the facility agreement of HK\$2,300,000,000 among the Company (as the borrower), Bank of China (Hong Kong) Limited, Citigroup Global Markets Asia Limited, DBS Bank Ltd. dated 5 May 2021;
- (b) the sale and purchase agreement among China Modern Dairy Holdings Ltd. (stock code: 1117), Inner Mongolia Mengniu (as one of the sellers), 內蒙古富源國際實業(集團)有限公司 (Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd.*) and other sellers dated 22 March 2021 as disclosed in China Modern Dairy Holdings Ltd.'s announcement posted onto the website of the Stock Exchange on 22 March 2021;
- (c) the Placing Agreement between the Company and the Placing Agent dated 24 January 2021 as disclosed in the Announcement;

- (d) the trust deed between the Company and Citicorp International Limited dated 24 June 2020 in relation to US\$100,000,000 1.50 per cent. exchangeable bonds issued by the Company due 2023 exchangeable for ordinary shares of China Modern Dairy Holdings Ltd;
- (e) the agency agreement among the Company, Citibank, N.A., London Branch, Citigroup Global Markets Europe AG and Citicorp International Limited dated 24 June 2020 in relation to US\$100,000,000 1.50 per cent. exchangeable bonds issued by the Company due 2023 exchangeable for ordinary shares of China Modern Dairy Holdings Ltd;
- (f) the subscription agreement among the Company, BOCI Asia Limited and Guotai Junan International dated 17 June 2020 as disclosed in the Company's announcement posted onto the website of the Stock Exchange on 17 June 2020;
- (g) the fiscal agency agreement between the Company, Citicorp International Limited and Citibank, N.A., London Branch dated 17 June 2020 in relation to U.S.\$500,000,000 1.875 per cent. bonds due 2025 issued by the Company;
- (h) the fiscal agency agreement between the Company, Citicorp International Limited and Citibank, N.A., London Branch dated 17 June 2020 in relation to U.S.\$300,000,000 2.500 per cent. bonds due 2030 issued by the Company;
- (i) the deed of covenant executed by the Company dated 17 June 2020 in relation to U.S.\$500,000,000 1.875 per cent. bonds due 2025 issued by the Company;
- (j) the deed of covenant executed by the Company dated 17 June 2020 in relation to U.S.\$300,000,000 2.500 per cent. bonds due 2030 issued by the Company;
- (k) the subscription agreement among the Company, Bank of China (Hong Kong) Limited, Barclays Bank PLC, Citigroup Global Markets Limited, DBS Bank Ltd., Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities plc, Mizuho Securities Asia Limited, Societe Generale and Standard Chartered Bank dated 11 June 2020 as disclosed in the Company's announcement posted onto the website of the Stock Exchange on 11 June 2020;
- (l) the securities lending agreement dated 18 May 2017, as amended and restated on 5 June 2020, between the Company as lender and BOCI Financial Products Limited as borrower for the lending of up to 613,877,227 ordinary shares of China Modern Dairy Holdings Ltd in aggregate;
- (m) the fiscal agency agreement between the Company, Citicorp International Limited and Citibank, N.A., London Branch dated 18 July 2019 in relation to U.S.\$500,000,000 3.000 per cent. bonds due 2024 issued by the Company;
- (n) the deed of covenant executed by the Company dated 18 July 2019 in relation to U.S.\$500,000,000 3.000 per cent. bonds due 2024 issued by the Company;

- (o) the subscription agreement among the Company, BOCI Asia Limited, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, Société Générale, DBS Bank Ltd., and Bank of China (Hong Kong) Limited dated 11 July 2019 as disclosed in the Company's announcement posted onto the website of the Stock Exchange on 12 July 2019.

K. GENERAL

- (a) The address of the registered office of the Company is at Maples Corporate Services Limited P.O. Box 309, Uglund House, Grand Cayman KY1-1104, Cayman Islands.
- (b) The company secretary of the Company is Mr. Kwok Wai Cheong, Chris, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.
- (c) The Hong Kong Share Registrar is at Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

L. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the principal place of business of the Company in Hong Kong at 32nd Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong, from the date of this circular and up to and including the date of the EGM:

- (a) the letter from the Independent Board Committee, the text of which is set out in pages 66 to 67 of this circular;
- (b) the letter from the Independent Financial Adviser, the text of which is set out in pages 68 to 120 of this circular;
- (c) the written consent referred to under the paragraph headed "General Information — Qualification and Consent of Expert" in this Appendix I;
- (d) the memorandum and articles of association of the Company;
- (e) the annual reports of the Company for the three financial years ended 31 December 2018, 2019 and 2020 and the interim report of the Company for the six months ended 30 June 2020;
- (f) each of the material contracts referred to under the paragraph headed "General Information — Material Contracts" in this Appendix I;
- (g) the Placing Agreement;

- (h) the Scheme Rules;
- (i) the Facility Agreement;
- (j) the Loan Guarantee;
- (k) the Security Deed; and
- (l) this circular.



CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (“EGM”) of China Mengniu Dairy Company Limited (the “**Company**”) will be held at 10:00 a.m. on Tuesday, October 12, 2021 at A2-C6 Laijin Creative Industry Park, Chaoyang District, Beijing for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company.

Unless otherwise defined, capitalised terms used herein shall have the same meanings as ascribed to them in the circular of the Company dated September 24, 2021, a copy of which having been produced to the EGM marked “A” and signed by the chairman of the EGM for identification purpose.

ORDINARY RESOLUTION(S)

“THAT:

- (a) the proposed Relevant Scheme (including but not limited to the issuance and subscription of the Convertible Bonds, the Loan Guarantee and the Security Deed) be and is hereby approved, confirmed and ratified;
- (b) the Placing Agreement dated January 24, 2021 entered into between the Company and the Placing Agent in relation to the placing of the Convertible Bonds in the aggregate principal amount of up to HK\$ equivalent of RMB4,000,000,000, a copy of the Placing Agreement having been produced to the EGM marked “B” and signed by the chairman of the EGM for identification purpose, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (c) the terms and conditions of the Convertible Bonds to be executed by the Company in relation to the issue by the Company of the Convertible Bonds under the Specific Mandate (a copy of which has been produced to the EGM marked “C”

* *For identification purpose only*

and signed by the chairman of the EGM for identification purpose), subject to completion, which are convertible at an Initial Conversion Price of HK\$34.73 per Share (subject to adjustments) be and is hereby approved;

- (d) the grant of the Specific Mandate to the Directors to issue the Convertible Bond subject to completion of the Placing and to issue and allot the Conversion Shares to the Notes Issuer be and is hereby approved, confirmed and ratified. The Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the Shareholders prior to the passing of this resolution;
- (e) any other documents entered into and/or to be entered into in connection with the Relevant Scheme and the Convertible Bonds, including but not limited to (i) the Facility Agreement, (ii) the Security Deed, (iii) the Loan Guarantee, (iv) the Trust Deed and (v) the Agency Agreement, a copy of which having been produced to the EGM marked “D”, “E”, “F”, “G” and “H”, respectively, and signed by the chairman of the EGM for identification purpose, and the Transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (f) each of the Directors and the Company Secretary be and is hereby authorised to do all such acts and things and sign, ratify or execute (with or without affixation of seal) all such documents and take all such steps as such Director and/or the Company Secretary in his/her discretion may consider necessary, appropriate, desirable and expedient to implement, give effect to or in connection with the Transactions; and
- (g) any and all actions heretofore taken by any Director, officer, the Company Secretary and/or share registrars of the Company, in connection with the foregoing resolutions, be and are hereby ratified, confirmed and approved in all respects.”

By order of the Board
China Mengniu Dairy Company Limited
Kwok Wai Cheong, Chris
Company Secretary

Hong Kong, September 24, 2021

Notes:

- (1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. All proxies, together with powers of attorney or other authorities, if any, under which they are signed or notarially certified copies thereof, must be deposited with the Company’s branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 48 hours before the time of the EGM. Completion and delivery of the proxy form will not preclude a member from attending and voting in person at the meeting if he so wishes.

- (2) The register of members of the Company will be closed from Thursday, October 7, 2021 to Tuesday, October 12, 2021 both days inclusive, for the purpose of ascertaining shareholders' eligibility 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 for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, October 6, 2021.
- (3) Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders are present at any meeting personally or by proxy, that the more senior shall alone be entitled to vote in respect of such Share and, for this purpose, seniority shall be determined by the order in which the names of the joint holders stand on the register of the relevant joint holding.
- (4) References to time and dates in this notice are to Hong Kong time and dates.
- (5) Taking into account of the recent development of the epidemic caused by coronavirus disease 2019 (COVID-19), the Company will implement the following prevention and control measures at the EGM against the epidemic to protect the Shareholders from the risk of infection:
 - Compulsory body temperature checks
 - Mandatory health declaration
 - Wearing of surgical face mask for each attendee
 - No distribution of corporate gift or provision of refreshment

Details are set out on page 1 of the circular dated September 24, 2021.

The Company reminds all Shareholders that any person who is subject to any quarantine order prescribed by the Hong Kong Government will be denied entry into the EGM venue in order to ensure the health and safety of all attendees at the EGM. Additionally, the Company reminds all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights and would like to encourage Shareholders to appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM, instead of attending the EGM in person.

As at the date of this circular, the Board comprises: Mr. Jeffrey, Minfang Lu and Mr. Meng Fanjie as executive directors; Mr. Chen Lang, Mr. Niu Gensheng and Mr. Simon Dominic Stevens as non-executive directors; and Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya and Mr. Yau Ka Chi as independent non-executive directors.