

TIANJIN, China--([BUSINESS WIRE](#))--Yayi International Inc. today released the following open letter to investors:

“Opinions on further strengthening the quality of infant formula”

Dear Investors:

Thank you for your kind support for Yayi International Inc. (the “Company”, “Yayi” or “we”) in the past several years.

Both our manufacturing base and consumer market are in the mainland China. Chinese government has enhanced supervision of infant products, especially infant formula products. Many new “market entry” regulations have been established to further increase the requirement on milk powder manufacturers in terms of production environment, equipment, technology, quality and source control over raw milk.

Yayi has always treated quality as our number one principle and priority. We closely monitor the quality from the minute we start collecting raw milk from its source. We have set up proprietary dairy goat breeding farms in Shaanxi Province to ensure high quality control of milk sources. At the same time, we have our own raw powder manufacturing and processing plants to ensure the high quality of our raw powder. Currently in order to meet the Chinese government’s stricter requirements towards milk powder industry, the largest raw goat milk powder manufacturing base, with access to the most advanced technology and equipment in China, is under construction in Shaanxi Province. The provincial government of Shaanxi Province is in full support behind the goat milk industry and is one of the major industries the provincial government is focusing on. In addition, a new goat milk powder, tablet and liquid milk manufacturing base is being constructed in Jinghai Industry Zone of Tianjin, China. This new facility will implement world-leading dairy manufacturing equipment and will help Yayi to become the industry leader of providing wide spectrum of various goat milk products. Upon the completion of this project, the tangible asset of Yayi is expected to be about 300 million RMBs.

Yayi has always been the leading goat dairy brand in China. Since we have consistently pursued the principle of quality first, we have won good reputation among consumers in China. In brand promotion, since 2009 Yayi has successively invested several tens of millions RMBs in advertising on core television media in China – CCTV1, CCTV2, CCTV3 and CCTV8. As a result, Yayi has become a well-known national brand in southern China. In sales and marketing, Yayi has established its own distribution channel of large amounts of infant and toddler stores, supermarkets (especially Wal-Mart), shopping malls and pharmacy stores covering 23 provinces in China. In the aspect of brand integration, we have adopted news marketing, online marketing, Baidu marketing (Baidu Encyclopedia, Baidu Knowledge, Baidu BBS), blog and micro-blog marketing, forum marketing and many other marketing ways to complement each other. As a result, our brand can influence wider audience and the promotion helps to enhance our brand awareness and reputation.

Yayi has always emphasized on building up our brand with a goal to become the number one famous and reliable Chinese goat milk brand. In 2005, authority estimated that the brand value of Yayi had reached 320 million RMBs. After recent years of development, our brand value has been consistently increasing with an estimated brand value of 500-600 million RMBs.

Chinese government will launch a series of consolidation policies regarding the key enterprises in the dairy industry. Recently in “Opinions on further strengthening the quality of infant formula”, Food and Drug Administration, Ministry of Industry and Information Technology, Ministry of Public Security, Ministry of Agriculture, Ministry of Commerce, Health and Family Planning Commission, General Administration of Customs, State Administration for Industry and Commerce, and State Quality Inspection Administration have stressed “the need to tighten the approval standards on new and expansion projects of infant formula. Infant formula manufacturers must have self-established and self-controlled milk sources and implement batch inspection on raw milk/powder and whey powder to ensure quality. Manufacturers should make efforts to strengthen dairy farming standardization and technical training, and to promote large scale dairy breeding. Governments should increase support for manufacturers to implement technology innovation and to upgrade inspection abilities through financial subsidies, tax incentives and other preferential policies. Governments should also encourage and support corporate mergers and acquisitions, increase industrial consolidation and promote standardized, scalable and modernized enterprise developments and practices. Governments should provide the funding for technology supporting the infant formula inspection and electronic information management.”

Policies discussed above should help to consolidate and stabilize the leading position

of Yayi in the goat milk industry in China and help Yayi in capital raising, integration and consolidation.

Based on the current situation on the goat milk industry in China and the market sentiment on Chinese stocks publicly listed in the U.S. stock market, our board has considered to adopt a strategy of delisting from U.S. and turning to stock exchange of Hong Kong or mainland China in the future. Based on our own developmental plan, the operating environment in mainland China and the level of support from local government, Yayi plans to gradually go private in due course. At the moment, Yayi is actively getting in touch with international and domestic related companies and looking for mergers and acquisition possibilities to sustain the development of the Yayi brand.

Chinese dairy industry has experienced a very tough time and is now in its consolidation phase. As a result, sales of our goat milk deteriorated all the way. In order to re-invent our business, we continue to invest in industrial bases and high-tech equipments, expecting to lay a solid foundation for future development of our operation, business and brand. We believe that our efforts will finally pay off. For that reason, we are trying to reach a mutually beneficial, reasonable and practical agreement with SAIF Partners who is holding \$15 million preferred stocks of Yayi. We believe that we will survive from this bad time and do our best to protect Yayi's business and our investors.

In light of Chinese dairy industry being in consolidation, significant reduction in our sales, investment projects under construction, the cash flow has been on the verge of breaking; therefore we are in urgent need of large cash support. As a result, we want to apologize for not being able to repay principle in full at maturity in September, 2013 and interest payments due since March 2013. However, in order to show good faith to honor our obligations and to protect the interest of investors the best we can, we plan to pay an amount of \$30,000 indicated from the last press release, and in addition, we are willing to consider issuing 669,000 common stock shares currently in the escrow account to our convertible note holders, pending our discussion with SAIF Partners and after receiving final written confirmation from SAIF Partners.

We believe that with your long term support and continued efforts of our own, we together will overcome current difficulties and walk out of this slump. We promise we will do our best to meet our obligations and to the utmost to protect the interest of our investors.

Thank you all again for your kind support.

Yayi International Inc.