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YuanShengTai Dairy Farm Limited

原 生 態 牧 業 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF EXISTING FEIHE MASTER AGREEMENT

THE NEW FEIHE MASTER AGREEMENT

Reference is made to the Prospectus, the 2014 Announcement and the 2014 Circular in relation to, among other matters, the continuing connected transactions under the Existing Feihe Master Agreement.

Since the Existing Feihe Master Agreement will expire on 31 December 2015, the Board is pleased to announce that the Group entered into the New Feihe Master Agreement on 14 December 2015 with Feihe Dairy Group, to continue the Group's supply of raw milk to Feihe Dairy Group for the three years ending 31 December 2018 subject to the terms and conditions contained therein.

IMPLICATIONS OF THE LISTING RULES

Feihe Dairy Group is deemed by the Stock Exchange as a connected person of the Company pursuant to Rule 14A.19 (or the then Rule 14A.06) of the Listing Rules, and as such, the Company agrees to undertake to comply with Chapter 14A of the Listing Rules' requirements in respect of the transactions with Feihe Dairy Group from the Listing Date. Given that the relevant applicable percentage ratios in respect of the proposed annual caps for transactions contemplated under the New Feihe Master Agreement are more than 25% and the annual consideration is not less than HK\$10 million, such transactions are subject to the reporting, announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders on the New Feihe Master Agreement and the continuing connected transactions under the New Feihe Master Agreement (including the proposed annual caps relating thereto). Quam Capital, Independent Financial Adviser, was appointed to advise the Independent Board Committee and the Independent Shareholders in this connection.

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of the New Feihe Master Agreement and the continuing connected transactions contemplated under the New Feihe Master Agreement (including the proposed annual caps relating thereto). A circular containing, among others, the details of the New Feihe Master Agreement, the transactions contemplated thereunder and the proposed annual caps relating thereto, a letter of recommendation from the Independent Board Committee to the Independent Shareholders; and the letter of advice from the Independent Financial Adviser will be dispatched to the shareholders on or before 31 December 2015.

BACKGROUND

Reference is made to the Prospectus, the 2014 Announcement and the 2014 Circular in relation to, among other matters, the continuing connected transactions under the Existing Feihe Master Agreement.

The Group has, since 1 November 2013, been selling raw milk to Feihe Dairy Group pursuant to the Existing Feihe Master Agreement. Given that the Existing Feihe Master Agreement will expire on 31 December 2015, the Board is pleased to announce that the Group entered into the New Feihe Master Agreement on 14 December 2015 with Feihe Dairy Group, to continue the Group's supply of raw milk to Feihe Dairy Group for the three years ending 31 December 2018 subject to the terms and conditions contained therein.

PRINCIPAL TERMS OF THE NEW FEIHE MASTER AGREEMENT

The principal terms of the New Feihe Master Agreement is summarised as follows:

Date: 14 December 2015

Parties: (a) Ruixinda and Ruixincheng (for themselves and on behalf of other members of the Group; and
(b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries).

Contract period: Three years from 1 January 2016 to 31 December 2018.

- Condition:** The New Feihe Master Agreement (including the proposed annual caps for the transactions contemplated thereunder) is conditional upon obtaining the approval from the Independent Shareholders in accordance with the provisions of the Listing Rules.
- Subject matter:** Supply of raw milk by the Group to Feihe Dairy Group.
- Pricing term:** For each order to be placed under the New Feihe Master Agreement, the purchase price or consideration, the quantity and quality of milk concerned, the time and place of delivery of the milk concerned and other relevant matters will be negotiated by the parties (on arm's length basis and in good faith) with reference to the then prevailing market prices of the raw milk, as well as (where applicable) prevailing market prices of similar products which may be sourced from other Independent Third Parties.
- Payment term:** Generally, to be settled on accrual basis, with a credit term of no more than one month, during which no interest will accrue.
- Early termination:** Both parties may, at any time during the contract term, give the other not less than three months' prior written notice to terminate the agreement.

Proposed new annual caps

The initial annual caps in respect of the transactions contemplated under the Existing Feihe Master Agreement for each of the three years ending 31 December 2015 was, as disclosed in the Prospectus, RMB320 million, RMB520 million and RMB660 million, respectively. On 8 December 2014, the revision of the annual caps for each of the two years ending 31 December 2015 was approved by the then Independent Shareholders at the Company's special general meeting to RMB660 million and RMB838 million, respectively.

The historical transaction amount in respect of the transactions contemplated under the Existing Feihe Master Arrangement for each of the two years ended 31 December 2014 and nine months ended 30 September 2015 was approximately RMB319 million, RMB606 million and RMB346 million, respectively.

As far as the Directors are aware, the annual caps in respect of the transactions contemplated under the Existing Feihe Master Agreement for the year ending 31 December 2015 has not been exceeded as at the date of this announcement.

The following table sets out the proposed annual caps in respect of the transactions contemplated under the New Feihe Master Agreement for each of the three years ending 31 December 2018:

| | Year ending 31 December 2016 | Year ending 31 December 2017 | Year ending 31 December 2018 |
|---|---|---|---|
| | <i>RMB (million)</i> | <i>RMB (million)</i> | <i>RMB (million)</i> |
| Purchase of raw milk by Feihe Dairy Group from our Group pursuant to the New Feihe Master Agreement | 766 | 881 | 970 |

The proposed new annual caps in respect of the transactions contemplated under the New Feihe Master Agreement have been determined with reference to:

- (a) the historical transaction amount in respect of the sales of raw milk contemplated under the Existing Feihe Master Agreement for the two years ended 31 December 2014 and nine months ended 30 September 2015;
- (b) the projected quantities of sales of raw milk by the Group to the Feihe Dairy Group for the three years ending 31 December 2018 (taking into account the Group's expansion plan for raw milk production);
- (c) the prospect of the PRC dairy industry following the introduction of the two-child policy by the PRC government lately; and
- (d) the prevailing market price of raw milk.

REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

As at the date of this announcement, Feihe Dairy Group is one of the Group's top five customers. The Board believes the sales of raw milk to the Feihe Dairy Group is important to the business of the Group. It is expected that the continuing supply of raw milk products to the Feihe Dairy Group will further enhance the stability of the Group's customer base and ensure future demand for the Group's raw milk product.

The Directors, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in a circular, consider that the continuing connected transactions contemplated under the New Feihe Master Agreement have been conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and its shareholders as a whole, and that the proposed annual caps for the continuing connected transactions contemplated under the New Feihe Master Agreement are fair and reasonable.

IMPLICATIONS OF THE LISTING RULES

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

In respect of the sales of raw milk by the Group under the New Feihe Master Agreement, the proposed annual caps for each of the three years ending 31 December 2018 would not exceed RMB766 million, RMB881 million and RMB970 million, respectively. For each of the three years ending 31 December 2018, given that the highest applicable percentage ratio of the transactions contemplated under the New Feihe Master Agreement is expected to be more than 25% and the annual consideration is not less than HK\$10 million, such transactions are subject to the reporting, announcement and the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

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

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of, among other matters, the New Feihe Master Agreement and the continuing connected transactions under the New Feihe Master Agreement (including the proposed annual caps). A circular containing, among others, the details of the New Feihe Master Agreement, the transactions contemplated thereunder and the proposed annual caps, a letter of recommendation from the Independent Board Committee to the Independent Shareholders; and the letter of advice from the Independent Financial Adviser will be dispatched to the shareholders on or before 31 December 2015.

Each of the members of the Independent Board Committee has confirmed that he has no material interest in the transactions contemplated under the New Feihe Master Agreement.

GENERAL INFORMATION

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

Feihe Dairy Group is based in Heilongjiang and is principally engaged in the production and distribution of milk powders and other dairy products in China.

DEFINITIONS

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

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| “2014 Announcement” | announcement of the Company dated 31 October 2014 in relation to, among others, the revision of the annual caps for continuing connected transactions contemplated under the Existing Feihe Master Agreement |
| “2014 Circular” | circular of the Company dated 21 November 2014 in relation to, among others, the revision of the annual caps for continuing connected transactions contemplated under the Existing Feihe Master Agreement |
| “associate(s)” | has the same meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors of the Company |
| “Company” | YuanShengTai Dairy Farm Limited (原生態牧業有限公司), an exempted company incorporated with limited liability under Bermuda Law on 1 May 2012, the ordinary shares of which are listed on the Main Board of the Stock Exchange |
| “connected person” | has the same meaning ascribed to it under the Listing Rules |
| “controlling shareholder” | has the same meaning ascribed to it under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Existing Feihe Master Agreement” | a master agreement dated 1 November 2013 entered into between (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk and for the purpose of complying with the then Rule 14A.35 of the Listing Rules |
| “Feihe Dairy Group” | the group of companies comprising Feihe Dairy International and Feihe Dairy HLJ and its subsidiaries, being one of our customers, and an Independent Third Party (but deemed by the Stock Exchange to be our connected person after Listing for the purpose of the Listing Rules) |
| “Feihe Dairy HLJ” | Heilongjiang Feihe Dairy Co., Ltd.* (黑龍江飛鶴乳業有限公司), a company incorporated in the PRC, which is one of our customers, an Independent Third Party and also a former owner of YST Heping and Ruixinda Gannan, whose ultimate beneficial owner is Feihe Dairy International |
| “Feihe Dairy International” | Feihe International, Inc., an Independent Third Party and a company incorporated in the United States, whose securities were previously listed on the New York Stock Exchange |

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| “Group” | The Company together with its subsidiaries |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the independent board committee of the Company formed to consider the transactions contemplated under the New Feihe Master Agreement and the proposed annual caps relating thereto |
| “Independent Financial Adviser” | Quam Capital, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the New Feihe Master Agreement |
| “Independent Third Parties” | an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any Directors, chief executive or substantial Shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associate(s) |
| “Independent Shareholders” | shareholders who are not required to abstain from voting at the SGM to approve the continuing connected transactions |
| “Listing Date” | 26 November 2013, being the date where dealings in the Shares first commence on the Main Board of the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “New Feihe Master Agreement” | a master agreement dated 14 December 2015 entered into between (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk and for the purpose of complying with Rules 14A.51 and 14A.52 of the Listing Rules |
| “PRC” | the People’s Republic of China, which for the purposes of this announcement only, excludes Hong Kong, Macao Special Administrative Region and Taiwan |
| “Prospectus” | prospectus of the Company dated 14 November 2013 |
| “Quam Capital” | Quam Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, being the Independent Financial Adviser |

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| “Ruixincheng” | Harbin Ruixincheng Commercial Trade Co., Ltd.* (哈爾濱市瑞信誠商貿有限公司), a wholly foreign owned enterprise incorporated in the PRC on 3 May 2013 and an indirect wholly owned subsidiary of the Company |
| “Ruixinda” | Harbin Ruixinda Dairy Farming Co., Ltd.* (哈爾濱市瑞信達牧業有限公司), a wholly foreign owned enterprise incorporated in the PRC on 9 December 2010 and an indirect wholly owned subsidiary of the Company |
| “Ruixinda Gannan” | Heilongjiang Gannan Ruixinda Dairy Farming Co., Ltd.* (黑龍江甘南瑞信達原生態牧業有限公司), a company incorporated in the PRC on 9 July 2007 and since September 2011 an indirect wholly owned subsidiary of the Company |
| “SGM” | a special general meeting of the Company to be convened to consider and approve the transactions contemplated under the New Feihe Master Agreement and the proposed annual caps relating thereto |
| “shareholder(s)” | registered holder(s) of ordinary share(s) of HK\$0.01 each in the capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the same meaning ascribed to it under the Listing Rules |
| “YST Heping” | Heilongjiang Kedong Heping YuanShengTai Dairy Farming Co., Ltd. (黑龍江克東和平原生態牧業有限公司), a company incorporated in the PRC on 3 July 2007 that became an indirect wholly owned subsidiary of the Company in September 2011, and which currently operates Kedong Oumei Farm |

* For identification purposes only

By Order of the Board
YuanShengTai Dairy Farm Limited
Zhao Hongliang
Chairman

Hong Kong, 14 December 2015

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zhao Hongliang, Mr. Wang Shaogang, Mr. Fu Wenguo and Mr. Chen Xiangqing; two non-executive Directors, namely Mr. Sun Wei and Mr. Lau Ho Fung; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.