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YuanShengTai Dairy Farm Limited
原生态牧业有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

**CONTINUING CONNECTED TRANSACTIONS:
2017 FEIHE MASTER AGREEMENT**

THE 2017 FEIHE MASTER AGREEMENT

Reference is made to the Prospectus, the 2014 Announcement, the 2014 Circular, the 2015 Announcement and the 2015 Circular, in relation to, among other matters, the continuing connected transactions under the Feihe Master Agreements.

The Board is pleased to announce that on 12 May 2017 (after trading hours), the Company entered into the 2017 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group, to confirm the priority arrangement of the Group's supply of raw milk to Feihe Dairy Group for a term commencing from the Commencement Date and ending on 31 December 2019 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 ratio in respect of the transactions contemplated under the 2017 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 on the 2017 Feihe Master Agreement and the transactions contemplated under the 2017 Feihe Master Agreement (including the proposed annual caps relating thereto). Gram 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, among other matters, the 2017 Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto). A circular containing, among others, (i) the letter from the Board containing further information on the 2017 Feihe Master Agreement, the transactions contemplated thereunder and the proposed annual caps relating thereto, (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) the letter of advice from the Independent Financial Adviser, and (iv) the notice convening the SGM and the proxy form, will be dispatched to the shareholders on or before 5 June 2017.

BACKGROUND

Reference is made to the Prospectus, the 2014 Announcement, the 2014 Circular, the 2015 Announcement and the 2015 Circular in relation to, among other matters, the continuing connected transactions under the Feihe Master Agreements.

The Group has, since 1 November 2013, been selling raw milk to Feihe Dairy Group pursuant to the Feihe Master Agreements. The Board is pleased to announce that on 12 May 2017 (after trading hours), the Company entered into the 2017 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group, to confirm the priority arrangement of the Group's supply of raw milk to Feihe Dairy Group for a term commencing from the Commencement Date and ending on 31 December 2019 subject to the terms and conditions contained therein.

PRINCIPAL TERMS OF THE 2017 FEIHE MASTER AGREEMENT

The principal terms of the 2017 Feihe Master Agreement is summarised as follows:

- Date: 12 May 2017 (after trading hours)
- Parties: (a) the Company (for itself and on behalf of its subsidiaries);
and
(b) China Feihe (for itself and on behalf of its subsidiaries).
- Contract period: The initial term of the 2017 Feihe Master Agreement shall commence from the Commencement Date and shall end on 31 December 2019. The 2017 Feihe Master Agreement may be extended for a period of three years after the expiry of the initial term, subject to approval of such extension and the transactions contemplated thereunder (including the related annual caps) by the Independent Shareholders (if required) in accordance with the Listing Rules.
- Condition precedent: The 2017 Feihe Master Agreement shall become effective upon the approval of the 2017 Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto) by the Independent Shareholders in accordance with the provisions of the Listing Rules. Upon the satisfaction of the condition precedent, the 2017 Feihe Master Agreement will supersede the 2015 Feihe Master Agreement.

Subject matter:	Supply of raw milk by the Group to Feihe Dairy Group.
Pricing term:	For each calendar year during the term of the 2017 Feihe Master Agreement, the Group and Feihe Dairy Group will enter into an annual sale contract specifying, among others, the pricing mechanism, the quantity and quality of raw milk expected to be purchased by Feihe Dairy Group during the calendar year and payment terms. The unit selling price of raw milk generally comprises two elements, being (i) the unit base price; and (ii) certain price adjustment factors including, among others, the microbe count, the level of protein content and fat content and the freezing point of raw milk. The unit selling price of raw milk will be negotiated by the parties on arm's length basis and in good faith with reference to the Indicative Price, the aforesaid adjustment factors and the prevailing market prices offered by the Group to its Independent Third Parties customers for products of similar quality. The terms and purchase prices offered by the Group to Feihe Dairy Group shall be no more favourable than those available to other Independent Third Parties customers.
Priority:	In the event that the Group receives purchase orders from Feihe Dairy Group and other purchasers concurrently, the Group shall give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions no less favourable to the Group than that offered by the other purchasers.
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 continuance of the 2017 Feihe Master Agreement, give the other not less than three months' prior written notice to terminate the 2017 Feihe Master Agreement.

Pricing method and procedures

Under the 2017 Feihe Master Agreement, the Group will, by the end of each calendar year during the term, enter into an annual sales contract with the Feihe Dairy Group to agree on, among others, the pricing mechanism of raw milk for the next calendar year.

The Group generally negotiates the unit selling pricing for the raw milk with its customers (including both Feihe Dairy Group and its Independent Third Party customers) based on the latest Indicative Price published quarterly by the Heilongjiang Animal Husbandry & Veterinary Bureau (黑龍江省牧獸醫局) and taking into account certain adjustment factors as mentioned above. The Group's pricing mechanism with its customers (including Feihe Dairy Group and other Independent Third Party customers of the Group) are generally the same, and therefore the selling price of the raw milk contemplated under the 2017 Feihe Master Agreement would be comparable to that of the other Independent Third Party customers of the Group.

In order to ensure that the terms of sales of raw milk to Feihe Dairy Group (including the unit selling price) would be on normal commercial terms or on terms no less favourable to the Group than those offered to Independent Third Party customers, the Group has adopted the following pricing procedures:

- (1) the Group will from time to time check the latest Indicative Price;
- (2) due to the super premium quality of the Group's raw milk and the resulting demand from the Group's customers for the production of their high-end dairy products, the Group has been able to charge raw milk prices that are higher than the Indicative Price. In determining the unit base price of the raw milk to be sold, the Group will take into account the correlation between and trends of the historical and latest Indicative Prices and unit base prices of raw milk to the Feihe Dairy Group and the Group's other Independent Third Party customers;
- (3) the Group will check with laboratories of the Group to ascertain the actual safety and quality standard of the raw milk of the Group to be sold, such as the microbe count, the level of protein content and fat content and the freezing point of raw milk. In determining the extent of adjustment to the unit base price attributable to these adjustment factors, the Group will take into account the correlation between and trends of the historical selling prices of raw milk of comparable safety and quality standard to the Feihe Dairy Group and the Group's other Independent Third Party customers;
- (4) similar to other customers of the Group, Feihe Dairy Group may, from time to time after noting any change in the market conditions and the demand and supply of raw milk, issue a price adjustment notice to the sales department of the Group to request for adjustment to the unit selling price of raw milk. Upon receiving such notice, the sales department of the Group shall seek approval from both of the vice president in charge and the general manager of the Group for the relevant price adjustment. For the purpose of determining whether the price adjustment request is justifiable, the vice president in charge and the general manager of the Group, who are experienced in the dairy farming industry, will, among others, (i) take into account the correlation between and trends of the historical and latest Indicative Prices and selling prices of raw milk to the Feihe Dairy Group and Independent Third Party customers; and (ii) check with laboratories of the Group to ascertain the actual quality of the raw milk of the Group to be supplied, and will take into account the correlation between and trends of the historical selling prices of raw milk of comparable safety and quality standard to the Feihe Dairy Group and the Group's other Independent Third Party customers. Subject to obtaining of such approval, the price of the raw milk sold by the Group to Feihe Dairy Group may be adjusted.

Apart from the price adjustment controls as stated above, designated members of the Group's senior management will from time to time review the raw milk price agreed between the Group and Feihe Dairy Group, and compare it with the raw milk prices (of similar quality and during the same period of time) being agreed between the Group and other Independent Third Party customers, to ensure that the unit selling prices of raw milk for all of the Group's customers remain comparable, and the contemplated transactions between the Feihe Dairy Group and our Group are conducted on normal commercial terms.

Taking into account that (i) the Group's pricing mechanism with its customers (including Feihe Dairy Group and other Independent Third Party customers of the Group) are generally the same, and that the selling price of the raw milk contemplated under the 2017 Feihe Master Agreement would be comparable to that of the other Independent Third Party customers of the Group; and (ii) the Group's policy on review of raw milk prices agreed between the Group and its customers (including Feihe Dairy Group) as mentioned above, the Directors consider such pricing mechanism will be able to ensure the transactions contemplated under the 2017 Feihe Master Agreement be conducted on normal commercial terms or on terms no less favourable to the Company than terms available to Independent Third Parties.

Proposed new annual caps

The annual caps (which was revised and approved by the then Independent Shareholders at the Company's special general meeting in 2014) in respect of the transactions contemplated under the 2013 Feihe Master Agreement for each of the three years ending 31 December 2015 was, as disclosed in the Prospectus and the 2014 Announcement, RMB320 million, RMB660 million and RMB838 million, respectively. The annual caps in respect of the transactions contemplated under the 2015 Feihe Master Agreement for each of the three years ending 31 December 2018 was, as disclosed in the 2015 Announcement, RMB766 million, RMB881 million and RMB970 million, respectively.

The historical transaction amount in respect of the transactions contemplated under the Feihe Master Arrangements for each of the four years ended 31 December 2016 was approximately RMB319 million, RMB606 million, RMB441 million and RMB456 million, respectively.

As far as the Directors are aware, the annual caps in respect of the transactions contemplated under the 2015 Feihe Master Agreement for the year ended 31 December 2017 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 2017 Feihe Master Agreement for each of the three years ending 31 December 2019:

Year ending 31 December	Sales of raw milk to Feihe Dairy Group pursuant to the 2017 Feihe Master Agreement (RMB million)
2017	812
2018	902
2019	1,015

The proposed new annual caps in respect of the transactions contemplated under the 2017 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 2015 Feihe Master Agreement for the year ended 31 December 2016;
- (b) the projected quantities of sales of raw milk by the Group to the Feihe Dairy Group for each of the three years ending 31 December 2019 (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;

- (d) the prevailing market price of raw milk; and
- (e) an estimated increment of the market price of raw milk at the annual rate of 10%, taking into account the selling price trend of raw milk of the Group and the inflation rate in the PRC in the past.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

Feihe Dairy Group was one of the Group's top five customers for each of four years ended 31 December 2016. 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 long term, 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 Company has been in discussion with Feihe Dairy Group regarding the priority in the supply of raw milk (the "**Priority Rights**"). Having considered (i) the background of Feihe Dairy Group; (ii) long-term business relationship between the Group and Feihe Dairy Group; (iii) that the Group will give priority to Feihe Dairy Group for purchase of raw milk on terms and conditions being no less favourable to the Group than that offered by the other purchasers; and (iv) the Group's annual capacity of raw milk, 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 terms and conditions of the 2017 Feihe Master Agreement (including the Priority Rights) are on normal commercial terms and are fair and reasonable, and the transactions contemplated under the 2017 Feihe Master Agreement will be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

The Directors, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in a circular, are also of the view that the proposed annual caps for the transactions contemplated under the 2017 Feihe Master Agreement for each of the three years ending 31 December 2019 are fair and reasonable.

IMPLICATIONS OF THE LISTING RULES

Feihe Dairy Group (comprising China Feihe 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.

Based on the proposed annual caps for each of the three years ending 31 December 2019, given that the relevant applicable percentage ratio in respect of the transactions contemplated under the 2017 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 2017 Feihe Master Agreement, the transactions contemplated thereunder and the proposed annual caps. Gram 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 2017 Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto). A circular containing, among others, (i) the letter from the Board containing further information on the 2017 Feihe Master Agreement, the transactions contemplated thereunder and the proposed annual caps relating thereto, (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) the letter of advice from the Independent Financial Adviser, and (iv) the notice convening the SGM and the proxy form, will be dispatched to the shareholders on or before 5 June 2017. Each of the members of the Independent Board Committee has confirmed that he has no material interest in the transactions contemplated under the 2017 Feihe Master Agreement.

GENERAL INFORMATION

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

Feihe Dairy Group is based in Heilongjiang province and is principally engaged in the production and sale of infant formula products in the PRC.

DEFINITIONS

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

“2013 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
“2014 Announcement”	announcement of the Company dated 31 October 2014 in relation to, among others, the revision of the annual caps for the transactions contemplated under the 2013 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 the transactions contemplated under the 2013 Feihe Master Agreement
“2015 Announcement”	announcement of the Company dated 14 December 2015 in relation to, among others, the renewal of the 2013 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2015 Feihe Master Agreement
“2015 Circular”	circular of the Company dated 31 December 2015 in relation to, among others, the renewal of the 2013 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2015 Feihe Master Agreement

“2015 Feihe Master Agreement”	a master agreement dated 14 December 2015 entered into between (a) Ruixinda and Ruixincheng (for themselves and on behalf of their subsidiaries) on the one part and (b) Feihe Dairy HLJ and Feihe Gannan (for themselves and on behalf of their 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
“2017 Feihe Master Agreement”	a master agreement dated 12 May 2017 entered into between (a) the Company (for itself and on behalf of its subsidiaries) and (b) China Feihe (for itself and on behalf of its subsidiaries) in relation to the supply of raw milk
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“China Feihe”	China Feihe Limited (中國飛鶴有限公司) (formerly known as Platinum Infant Formula Holding Limited), an exempted company incorporated with limited liability in the Cayman Islands on 26 October 2012
“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
“Commencement Date”	the date on which the condition precedent to the 2017 Feihe Master Agreement is satisfied
“connected person”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Feihe Dairy Group”	the group of companies comprising China Feihe and its subsidiaries, including Feihe Dairy International and Feihe Dairy HLJ, 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 a wholly-owned subsidiary of China Feihe, an Independent Third Party and also a former owner of YST Heping and Ruixinda Gannan
“Feihe Dairy International”	Feihe International, Inc. currently known as Flying Crane 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

“Feihe Gannan”	Feihe (Gannan) Dairy Farm Limited* (飛鶴(甘南)乳品有限公司), a company incorporated in the PRC, which is a member of Feihe Dairy Group
“Feihe Master Agreements”	collectively, the 2013 Feihe Master Agreement and the 2015 Feihe Master Agreement
“Gram Capital”	Gram 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 to the Independent Board Committee and the Independent Shareholders in respect of the 2017 Feihe Master Agreement
“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 2017 Feihe Master Agreement and the proposed annual caps relating thereto
“Independent Financial Adviser”	Gram Capital, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the 2017 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 associates
“Independent Shareholders”	shareholders who are not required to abstain from voting at the SGM to approve the continuing connected transactions
“Indicative Price”	the latest indicative milk price published quarterly by the Heilongjiang Animal Husbandry & Veterinary Bureau (黑龍江省牧獸醫局)
“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
“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
“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 2017 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, 12 May 2017

As at the date of this announcement, the Board comprises four executive directors of the Company, namely Mr. Zhao Hongliang (Chairman), Mr. Wang Shaogang (Vice-Chairman), Mr. Fu Wenguo (Chief Executive Officer) and Mr. Chen Xiangqing (Chief Financial Officer); one non-executive director of the Company, namely Mr. Lau Ho Fung; and three independent non-executive directors of the Company, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.