

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1431)

**REVISION OF ANNUAL CAPS FOR
CONTINUING CONNECTED TRANSACTIONS
UNDER THE 2020 FEIHE MASTER AGREEMENT**

Reference is made to the Prospectus, the 2014 Announcement, the 2014 Circular, the 2015 Announcement, the 2015 Circular, the 2017 Announcement, the 2017 Circular, the 2019 Announcement and the 2019 Circular, in relation to, among others, the continuing connected transactions under the Feihe Master Agreements and the 2020 Feihe Master Agreement.

On 23 September 2019, the Company entered into the 2020 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group, to confirm the Group's supply of raw milk to Feihe Dairy Group for a term commencing from the Commencement Date and ending on 31 December 2022, subject to the terms and conditions contained therein.

The Company currently estimates that given the expected increase in the overall sales volume of Feihe Dairy Group and the expected increase in demand from Feihe Dairy Group in respect of the purchase of raw milk from the Group, the annual transaction amounts under the 2020 Feihe Master Agreement for the year ending 31 December 2021 and 31 December 2022 are expected to exceed the Original Annual Caps. As such, the Company intends to revise the annual caps for the year ending 31 December 2021 and 31 December 2022 under the 2020 Feihe Master Agreement in respect of the sale of raw milk by the Group to Feihe Dairy Group.

As of the date of this announcement, China Feihe holds approximately 71.26% of the total issued share capital of the Company. Therefore, China Feihe is the controlling shareholder of the Company and hence a connected person of the Company. Thus, the transactions contemplated under the 2020 Feihe Master Agreement constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the highest Proposed New Annual Caps under the 2020 Feihe Master Agreement will exceed 25%, the 2020 Feihe Master Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of the continuing connected transactions under the 2020 Feihe Master Agreement (including the Proposed New Annual Caps). A circular containing, among other things, the details of the 2020 Feihe Master Agreement, the transactions contemplated thereunder and the Proposed New 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 to the Independent Board Committee and the Independent Shareholders, will be dispatched to the shareholders on or before 24 November 2021 in accordance with the Listing Rules.

Reference is made to the Prospectus, the 2014 Announcement, the 2014 Circular, the 2015 Announcement, the 2015 Circular, the 2017 Announcement, the 2017 Circular, the 2019 Announcement and the 2019 Circular, in relation to, among others, the continuing connected transactions under the Feihe Master Agreements and the 2020 Feihe Master Agreement.

PRINCIPAL TERMS OF THE 2020 FEIHE MASTER AGREEMENT

On 23 September 2019, the Company entered into the 2020 Feihe Master Agreement with China Feihe, a member of Feihe Dairy Group, to confirm the Group's supply of raw milk to Feihe Dairy Group for a term commencing from the Commencement Date and ending on 31 December 2022, subject to the terms and conditions contained therein. Other than the Proposed New Annual Caps, the principal terms of the 2020 Feihe Master Agreement remain the same as those disclosed in the 2019 Circular, which are summarised as follows:

Date: 23 September 2019

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 2020 Feihe Master Agreement shall commence from the Commencement Date and shall end on 31 December 2022. The 2020 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 2020 Feihe Master Agreement has become effective upon the approval of the 2020 Feihe Master Agreement and the transactions contemplated thereunder (including the Original Annual Caps relating thereto) by 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 calendar year during the term of the 2020 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 2020 Feihe Master Agreement, give the other not less than three months' prior written notice to terminate the 2020 Feihe Master Agreement.

REVISION OF ANNUAL CAPS

The Company currently estimates that given the expected increase in the overall sales volume of Feihe Dairy Group and the expected increase in demand from Feihe Dairy Group in respect of the purchase of raw milk from the Group, the annual transaction amounts under the 2020 Feihe Master Agreement for the year ending 31 December 2021 and 31 December 2022 are expected to exceed the Original Annual Caps. As such, the Company intends to revise the annual caps for the year ending 31 December 2021 and 31 December 2022 under the 2020 Feihe Master Agreement in respect of the sale of raw milk by the Group to Feihe Dairy Group.

As of the date of this announcement, the transaction amounts of the continuing connected transactions under the 2020 Feihe Master Agreement have not exceeded the Original Annual Caps for the year ending 31 December 2021 as disclosed in the 2019 Circular.

The Original Annual Caps

The following table sets out the Original Annual Caps set out in the 2019 Circular and the historical transaction amount in respect of the transactions contemplated under the 2020 Feihe Master Agreement for the year ended 31 December 2020 and the six months ended 30 June 2021:

	Original annual caps (RMB million)	Historical transaction amount (RMB million)	Utilisation rate of original annual caps
Year ended 31 December 2020	1,300	1,299	99.9%
Year ending 31 December 2021	1,400	815 <i>(note)</i>	58.2%
Year ending 31 December 2022	1,500	–	–

Note: Unaudited figure for the six months ended 30 June 2021

The Proposed New Annual Caps

The following table sets out the Proposed New Annual Caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the two years ending 31 December 2022:

Year ending 31 December	Annual cap for the sales of raw milk to Feihe Dairy Group pursuant to the 2020 Feihe Master Agreement (RMB million)
2021	1,600
2022	2,000

The Proposed New Annual Caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement have been determined with reference to:

- a) the historical transaction amount and sales volume in respect of the sales of raw milk contemplated under the 2020 Feihe Master Agreement for the year ended 31 December 2020 and the six months ended 30 June 2021;
- b) the projected sales volume of raw milk by the Group to Feihe Dairy Group for the each of two years ending 31 December 2022;

- c) the prospect of the PRC domestic dairy industry following the introduction of the three-child policy by the PRC government and Action Plan for the Promotion of Domestic Infant Milk Formula (國產嬰幼兒配方乳粉提升行動方案) unveiled by the National Development and Reform Commission of China, aiming to increase the portion of domestically manufactured infant milk formula in China with a target to remain a 60% self-sufficient level in the industry, and to encourage the use of fresh milk in the production of infant milk formula;
- d) the prevailing and expected future market price of raw milk. The average Indicative Price increased by approximately 6.85% during the first two quarters of 2021 when compared to the corresponding period in 2020. According to the research reports issued by CICC in February 2021 and August 2021, it is expected that the shortage of raw milk supply will last till 2022 and the price of raw milk will continue to increase in 2022. Therefore, the Company expects that the price for raw milk will continue to increase steadily during the two years ending 31 December 2022; and
- e) a buffer of around 5% to cover any unforeseen circumstances, for instance, the unexpected increment of the market price of raw milk, the inflation rate in the PRC and unexpected substantial increase in demand of raw milk by Feihe Dairy Group.

Level of Contribution

Based on the Proposed New Annual Caps, it is expected that the revenue contribution from Feihe Dairy Group as a percentage of the Group's total revenue may reach around 90% for the two years ending 31 December 2021 and 2022. The Company undertakes not to generate more than 90% of its annual revenue in 2021 and 2022 from China Feihe (the “**90% Limit**”), such that this 90% Limit shall form part of the Proposed New Annual Caps in addition to the numerical figures.

The Company will closely monitor the transaction amounts in respect of the transactions contemplated under the 2020 Feihe Master Agreement through the following measures:

- a) the Company will have designated personnel from the relevant departments to monitor the actual transaction amounts and report to the management team on a monthly basis in relation to the transactions to ensure that the Proposed New Annual Caps are not exceeded;
- b) The finance department of the Company will perform half-yearly reporting of the actual transaction amounts; and
- c) The auditors and the independent non-executive Directors of the Company will conduct annual review on the connected transactions in accordance with the Listing Rules.

Meanwhile, the finance department of Company has also been collecting and preparing the management account of the Company on a monthly basis to keep track of its total revenue. The management team of the Company will compare the transaction amount with China Feihe with the total revenue of the Company every month to get to know the revenue contribution of China Feihe.

The Company also undertakes that if the actual revenue for 2021 and 2022 fail to reach the expected level, it will correspondingly reduce or suspend the transactions with China Feihe and supply the remaining raw milk to third party customers to ensure that the 90% Limited is fully complied with. As the sale amount of raw milk for the last quarter of each year could generally take up more than 20% of the total sale amount for each year, the Company plans to review the percentage of revenue contribution from China Feihe and the Group's actual revenue for the first three quarters in early October in each year. If the revenue contribution from China Feihe exceeds 90%, the Company will adjust its sale strategy for the last quarter and reduce or suspend the transactions with China Feihe to ensure that the 90% Limited is fully complied with.

REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

Feihe Dairy Group has been the Group's largest customer for five consecutive years since 2017, and it has experienced sustainable and fast growth in recent years. Along with Feihe Dairy Group's fast business growth, its demand for raw materials such as raw milk has also been increasing over the years and the Proposed New Annual Caps are in line with the fast business growth of Feihe Dairy Group. The Board believes that the sales of raw milk to Feihe Dairy Group is important to the business of the Group. It is expected that the long-term and continuing supply of raw milk products to 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 (excluding the independent non-executive Directors who will express their opinion in a separate letter to be included in a circular, Mr. Leng Youbin, Mr. Liu Hua, Mr. Cai Fangliang, Mr. Liu Gang and Ms. Liu Jinping) consider that the 2020 Feihe Master Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the shareholders as a whole, and that the Proposed New Annual Caps are fair and reasonable and in the interests of the Company and the shareholders as a whole.

Each of Mr. Leng Youbin, Mr. Liu Hua and Mr. Cai Fangliang has abstained from voting at the relevant Board meeting for the approval of the 2020 Feihe Master Agreement (including the Proposed New Annual Caps) due to their positions as executive director of China Feihe and their shareholding in China Feihe. Mr. Liu Gang, being a younger brother of Mr. Liu Hua, has abstained from voting at the relevant Board meeting for the approval of the 2020 Feihe Master Agreement (including the Proposed New Annual Caps) to avoid any potential conflicts of interest. Ms. Liu Jinping, being an independent non-executive Director, is also an independent non-executive director of China Feihe and has abstained from voting at the relevant Board meeting for the approval of the 2020 Feihe Master Agreement (including the Proposed New Annual Caps) to avoid any potential conflicts of interest. Save as disclosed above, none of the other Directors has a material interest in the transactions contemplated under the 2020 Feihe Master Agreement or is required to abstain from voting on the relevant resolutions of the Board.

IMPLICATIONS OF THE LISTING RULES

As of the date of this announcement, China Feihe holds approximately 71.26% of the total issued share capital of the Company. Therefore, China Feihe is the controlling shareholder of the Company and hence a connected person of the Company. Thus, the transactions contemplated under the 2020 Feihe Master Agreement constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the highest Proposed New Annual Caps under the 2020 Feihe Master Agreement will exceed 25%, the 2020 Feihe Master Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of the continuing connected transactions under the 2020 Feihe Master Agreement (including the Proposed New Annual Caps). An Independent Board Committee has been formed to advise the Independent Shareholders on the proposed revision of the annual caps. The Independent Board Committee has also approved the appointment of Gram Capital as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in accordance with the Listing Rules. A circular containing, among other things, the details of the 2020 Feihe Master Agreement, the transactions contemplated thereunder and the Proposed New 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 to the Independent Board Committee and the Independent Shareholders, will be dispatched to the shareholders on or before 24 November 2021 in accordance with the Listing Rules.

The Company will continue to monitor the Group's actual amount of sales to Feihe Dairy Group under the 2020 Feihe Master Agreement against the Original Annual Caps to ensure it will not be exceeded before the relevant Independent Shareholders' approval could be obtained at the proposed SGM.

GENERAL INFORMATION

The Company

The Company is a dairy farming company in the PRC dedicated to the production of super premium raw milk. The ordinary shares of the Company are listed on the main board of the Stock Exchange.

Feihe Dairy Group

Feihe Dairy Group is based in Heilongjiang province and is principally engaged in the production and sale of infant formula products in the PRC. The ordinary shares of China Feihe are listed on the main board of the Stock Exchange. As of the date of this announcement, China Feihe holds approximately 71.26% of the total issued share capital of the Company. Therefore, China Feihe is the controlling shareholder of the Company and hence a connected person of the Company.

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
“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
“2017 Announcement”	announcement of the Company dated 12 May 2017 in relation to, among others, the renewal of the 2015 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2017 Feihe Master Agreement
“2017 Circular”	circular of the Company dated 30 June 2017 in relation to, among others, the renewal of the 2015 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2017 Feihe Master Agreement

“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
“2019 Announcement”	announcement of the Company dated 23 September 2019 in relation to, among others, the entering into of the 2020 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2020 Feihe Master Agreement
“2019 Circular”	circular of the Company dated 16 October 2019 in relation to, among others, the entering into of the 2020 Feihe Master Agreement and the proposed annual caps for the transactions contemplated under the 2020 Feihe Master Agreement
“2020 Feihe Master Agreement”	a master agreement dated 23 September 2019 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), an exempted company incorporated in the Cayman Islands with limited liability on 26 October 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 2020 Feihe Master Agreement is satisfied
“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
“Director(s)”	the director(s) of the Company
“Feihe Dairy Group”	the group of companies comprising China Feihe and its subsidiaries
“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

“Feihe Master Agreements”	collectively, the 2013 Feihe Master Agreement, the 2015 Feihe Master Agreement and the 2017 Feihe Master Agreement
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2020 Feihe Master Agreement and the Proposed New Annual Caps
“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 2020 Feihe Master Agreement and the Proposed New Annual Caps
“Independent Shareholders”	shareholders who are not required to abstain from voting at the SGM to approve the continuing connected transactions
“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
“Indicative Price”	the latest indicative milk price determined quarterly by the Heilongjiang Fresh Milk Price Coordination Committee* (黑龍江省生鮮乳價格協調委員會)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Original Annual Caps”	original annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the three years ending 31 December 2022 as set out in the 2019 Circular
“PRC”	the People’s Republic of China, which for the purposes of this announcement only, excludes Hong Kong, Macao Special Administrative Region and Taiwan
“Proposed New Annual Caps”	proposed new annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the two years ending 31 December 2022 (including the 90% Limit)

“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
“SGM”	a special general meeting of the Company to be convened to consider and approve the transactions contemplated under the 2020 Feihe Master Agreement and the Proposed New Annual Caps
“shareholder(s)”	registered holder(s) of ordinary share(s) of HK\$0.01 each in the share 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

* For identification purposes only

For and on behalf of
YuanShengTai Dairy Farm Limited
Zhao Hongliang
Chairman

Hong Kong, 4 November 2021

As of the date of this announcement, the Board comprises four executive directors, namely Mr. Zhao Hongliang (Chairman), Mr. Fu Wenguo (Chief Executive Officer), Mr. Chen Xiangqing (Chief Financial Officer) and Mr. Liu Gang; three non-executive directors are Mr. Leng Youbin, Mr. Liu Hua and Mr. Cai Fangliang; and four independent non-executive directors, namely Mr. Meng Jingzong (alias Owens Meng), Mr. Zhang Yuezhou, Mr. Zhu Zhanbo and Ms. Liu Jinping.