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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
2023 FEIHE MASTER AGREEMENT

THE 2023 FEIHE MASTER AGREEMENT

We refer to the Prospectus, the 2014 Announcement, the 2014 Circular, the 2015 Announcement, the 2015 Circular, the 2017 Announcement, the 2017 Circular, the 2019 Announcement, the 2019 Circular, the 2021 Announcement and the 2021 Circular, in relation to, among other matters, the continuing connected transactions under the Feihe Master Agreements.

The Board is pleased to announce that on 14 October 2022 (after trading hours), the Company entered into the 2023 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 2025 subject to the terms and conditions contained therein.

IMPLICATIONS UNDER 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 2023 Feihe Master Agreement constitute continuing 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 annual caps under the 2023 Feihe Master Agreement are expected to exceed 25%, the 2023 Feihe Master Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and 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 2023 Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto). Gram Capital has been appointed as the Independent Financial Adviser 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 2023 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 2023 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 Gram Capital, and (iv) the notice convening the SGM and the proxy form, will be dispatched to the shareholders on or before 4 November 2022.

BACKGROUND

We refer to the Prospectus, the 2014 Announcement, the 2014 Circular, the 2015 Announcement, the 2015 Circular, the 2017 Announcement, the 2017 Circular, the 2019 Announcement, the 2019 Circular, the 2021 Announcement and the 2021 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 14 October 2022 (after trading hours), the Company entered into the 2023 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 2025 subject to the terms and conditions contained therein.

PRINCIPAL TERMS OF THE 2023 FEIHE MASTER AGREEMENT

The principal terms of the 2023 Feihe Master Agreement are summarised as follows:

- Date: 14 October 2022 (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 2023 Feihe Master Agreement shall commence from the Commencement Date and shall end on 31 December 2025. The 2023 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 2023 Feihe Master Agreement shall become effective upon the approval of the 2023 Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto) by the Independent Shareholders in accordance with 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 2023 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 2023 Feihe Master Agreement, give the other party not less than three months' prior written notice to terminate the 2023 Feihe Master Agreement.

Pricing method and procedures

Under the 2023 Feihe Master Agreement, the Group will, by the end of each calendar year during the term, enter into an annual sales contract with 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 determined quarterly by Heilongjiang Fresh Milk Price Coordination Committee* (黑龍江省生鮮乳價格協調委員會) 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 2023 Feihe Master Agreement would be no less favourable than that offered by 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 that offered by 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 sold to 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 sold to 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 deputy general manager 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 deputy general manager 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 sold to 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 take into account the correlation between and trends of the historical selling prices of raw milk of comparable safety and quality standard sold to Feihe Dairy Group and the Group's other Independent Third Party customers. Subject to obtaining 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, namely deputy general manager in charge of sales department and general manager, will (i) 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, and (ii) review other trading terms of purchase orders received from Feihe Dairy Group and other Independent Third Party customers, to ensure that (a) the unit selling prices of raw milk for all of the Group's customers remain comparable, (b) other trading terms offered by Feihe Dairy Group, such as unit base price, adjustment factor, payment term and driving distance, are no less favourable to the Group than that offered by Independent Third Party customers; and (c) the contemplated transactions between 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 2023 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 2023 Feihe Master Agreement be conducted on normal commercial terms or on terms no less favourable to the Group than that offered by Independent Third Party customers.

Proposed annual caps and basis of determination

The 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 was, as disclosed in the 2019 Announcement, RMB1,300 million, RMB1,400 million and RMB1,500 million, respectively. As disclosed in the 2021 Announcement, 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 Company, the annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the two years ending 31 December 2022 were revised to RMB1,600 million and RMB2,000 million, respectively.

The following table sets out the historical annual caps and the historical transaction amount in respect of the transactions contemplated under the 2020 Feihe Master Agreement for each of the three years ending 31 December 2022:

	Historical annual caps <i>(RMB million)</i>	Historical transaction amount <i>(RMB million)</i>	% of total revenue	Utilisation rate of historical annual caps
Year ended 31 December 2020	1,300	1,299	83.6%	99.9%
Year ended 31 December 2021	1,600	1,545	87.0%	96.6%
Year ending 31 December 2022	2,000	858 ^(note)	N/A	N/A

Note: Unaudited figure for the six months ended 30 June 2022

As far as the Directors are aware, the annual caps in respect of the transactions contemplated under the 2020 Feihe Master Agreement for the three years ending 31 December 2022 have 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 2023 Feihe Master Agreement for each of the three years ending 31 December 2025:

Year ending 31 December	Sales of raw milk to Feihe Dairy Group pursuant to the 2023 Feihe Master Agreement <i>(RMB million)</i>
2023	2,500
2024	3,000
2025	3,400

The proposed annual caps in respect of the transactions contemplated under the 2023 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 each of the two years ended 31 December 2021 and for the six months ended 30 June 2022;
- b) the projected quantities of sales volume of raw milk by the Group to Feihe Dairy Group for each of the three years ending 31 December 2025;
- c) the Group's construction of two new farms in Heilongjiang province to increase its raw milk production capacity;

- d) 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;
- e) the prevailing and expected future market price of raw milk. The average Indicative Price increased by approximately 3.4% during the first three quarters of 2022 when compared to the corresponding period in 2021. Due to the strong market demand for high-quality raw milk and rise in the price of feed for dairy herds, the Company expects that the price for raw milk will continue to remain at relatively high level during the three years ending 31 December 2025; and
- f) a buffer of 5% to cover any unforeseen circumstances, for instance, the unexpected increment of the market price of raw milk and unexpected substantial increase in demand of raw milk by Feihe Dairy Group.

REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

Feihe Dairy Group has been the Group's largest customer for six consecutive years since 2017. 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 proposed grant of priority in favour of Feihe Dairy Group in the supply of raw milk (the “**Priority Rights**”) and the extension of the existing term of the 2020 Feihe Master Agreement to beyond 31 December 2022 were initially proposed and requested by Feihe Dairy Group. 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 Independent Third Party customers; 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 2023 Feihe Master Agreement (including the Priority Rights) are on normal commercial terms and are fair and reasonable, and the transactions contemplated under the 2023 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 2023 Feihe Master Agreement for each of the three years ending 31 December 2025 are fair and reasonable.

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 2023 Feihe Master Agreement constitute continuing 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 annual caps under the 2023 Feihe Master Agreement are expected to exceed 25%, the 2023 Feihe Master Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and 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 2023 Feihe Master Agreement and the transactions contemplated thereunder (including the proposed annual caps relating thereto). Gram Capital has been appointed as the Independent Financial Adviser 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 2023 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 2023 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 Gram Capital, and (iv) the notice convening the SGM and the proxy form, will be dispatched to the shareholders on or before 4 November 2022.

GENERAL INFORMATION

The Company

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

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.

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
“2021 Announcement”	announcement of the Company dated 4 November 2021 in relation to, among others, the revision of the original annual caps for the continuing connected transactions under the 2020 Feihe Master Agreement
“2021 Circular”	circular of the Company dated 25 November 2021 in relation to, among others, the revision of the original annual caps for the continuing connected transactions under the 2020 Feihe Master Agreement
“2023 Feihe Master Agreement”	a master agreement dated 14 October 2022 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”	1 January 2023

“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 (as the context may require, excluding the Group)
“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, the 2017 Feihe Master Agreement and the 2020 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 2023 Feihe Master Agreement and the proposed annual caps relating thereto
“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 2023 Feihe Master Agreement and the proposed annual caps relating thereto
“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 a connected person
“Indicative Price”	the 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
“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
“SGM”	a special general meeting of the Company to be convened to consider and approve the transactions contemplated under the 2023 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

* For identification purposes only

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

Hong Kong, 14 October 2022

As at 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, namely 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.